

# CUSTOMER AT OUR HEART

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WEDNESDAY



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#98

COMPANIES HOUSE

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Thomas Cook  
Group

THOMAS COOK IS ONE OF THE  
WORLD'S LEADING TRAVEL GROUPS  
WITH SALES OF £9BN. THOMAS COOK  
IS SUPPORTED BY 22,000 COLLEAGUES  
AND OPERATES FROM 17 COUNTRIES.

**190**

OWN-BRAND HOTELS  
AND RESORTS

Graphics removed

**93**

AIRCRAFT

Graphic removed

**22,000**  
EMPLOYEES

Graphics removed

**20m**  
CUSTOMERS

Graphics removed

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# THE GROUP AT A GLANCE

## GROUP TOUR OPERATOR

Graphic removed **NECKERMANN** Graphic removed **Thomas Cook** Graphic removed **SPIES  
TJÄREBORG  
VING**

	2017	2016
Revenue*	<b>£7,122m</b>	£6,646m
Gross margin %**	<b>15.4%</b>	16.9%
Underlying EBIT**	<b>£250m</b>	£255m
Underlying EBIT %**	<b>3.5%</b>	3.8%

**11M**  
CUSTOMERS\*\*\*

**190**  
OWN-BRAND HOTELS

## GROUP AIRLINE

Graphic removed **Condor** Graphic removed **Thomas Cook Airlines**

	2017	2016
Revenue*	<b>£3,185m</b>	£2,825m
EBITDAR margin %**	<b>13.3%</b>	12.7%
Underlying EBIT**	<b>£115m</b>	£83m
Underlying EBIT %**	<b>3.6%</b>	2.9%

**18.5M**  
CUSTOMERS\*\*\*

**93**  
AIRCRAFT

\* Segmental revenue of £10,307m does not include £(1,300)m of internal revenue which results in Group revenue of £9,007m

\*\* The term underlying refers to trading results that are adjusted 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 Group financial statements. This applies to all references of underlying in this report. Underlying segmental EBIT of £365m does not include corporate costs of £(35)m which results in Group underlying EBIT of £330m

\*\*\* Segmental customers of 29.5m does not include 9.3m of internal customers resulting in Group customers of 20.2m

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# CUSTOMER AT OUR HEART MAKES US WHO WE ARE...

In 2015, we launched a pledge to put our customer back at the heart of everything we do. Our aim is to ensure we do all that we can to give our customers great holidays which inspire them to come back to Thomas Cook.

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## NET PROMOTER SCORE

Net Promoter Score is our primary KPI and is explicitly linked to measuring Group and Director performance.

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**+9pts\***

Overall Group NPS measure  
2017: 45.2 (2015: 36.7)

\* Increase from 2015

Image removed

**+7pts\***

Own-Brand Hotels and  
Resorts NPS measure  
2017: 38.7 (2015: 31.5)

Image removed

**+3pts\***

Group Airline NPS measure  
2017: 26.6 (2015: 23.8)

## OUR CULTURE HELPS TO MAKE US DIFFERENT...

In 2016, we launched our three Customer Promises: Quality, Service, Reliability. These promises shape everything we do as a business and determine the values against which the performance of all of our 22,000 colleagues is measured. We believe our promises are what set us apart from the competition.

### QUALITY

We are passionate travel experts & have been creating great holiday memories since 1841.

We share customer reviews before you book to help you choose the perfect trip for you.

We listen & act on your feedback.

Our teams & the partners we work with *are always looking to improve to make your next holiday even better.*

Logo removed

### SERVICE

We'll be there whenever you need us. Our teams are available around the world, 24/7.

We are happy to make you happy & we promise to put you at the heart of everything we do.

Your holiday means the world to us.

We'd love to welcome you *again & are committed to sending you home with great memories of your holiday.*

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### RELIABILITY

We care. You can trust us to always be open and honest with you.

We always give you all the information you need to make your time away stress-free.

Your money's safe when booking with us.

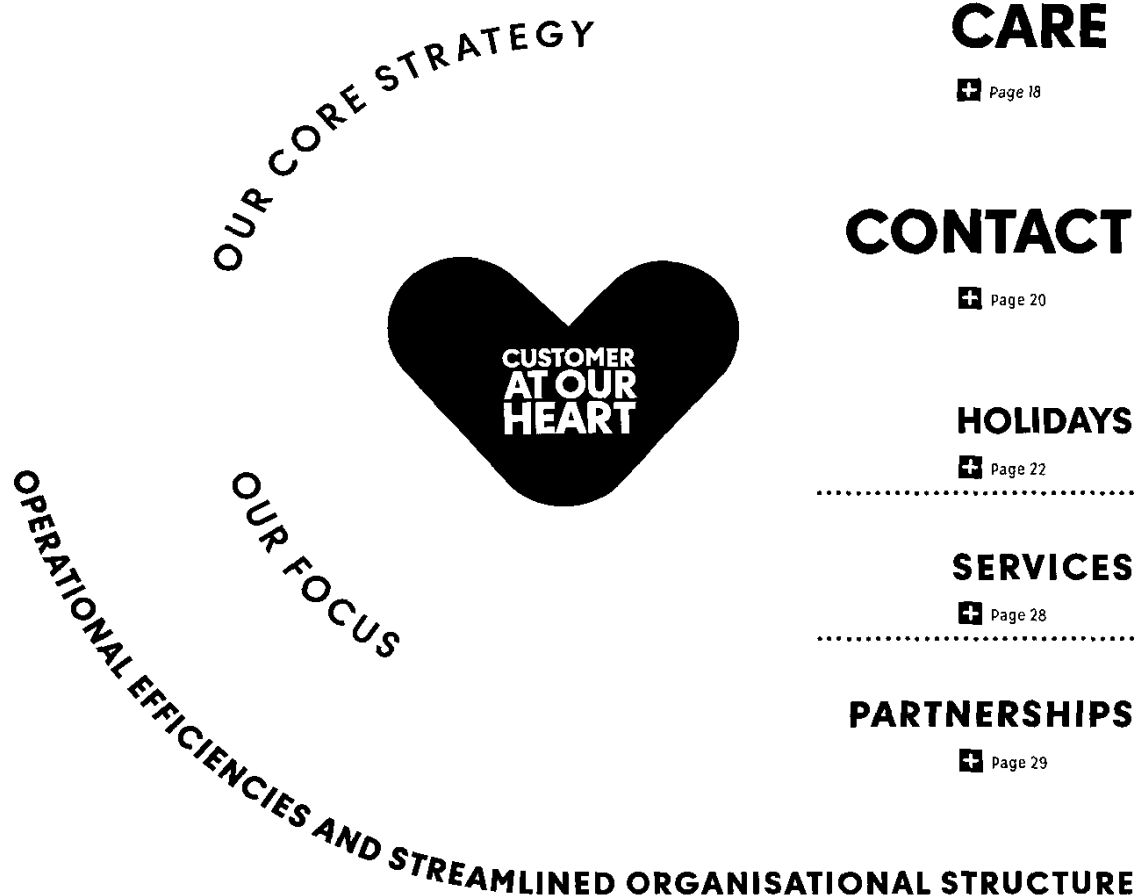
We're ATOL protected *for peace of mind.*

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## AND OUR STRATEGY IS DRIVING PROFITABLE GROWTH...

The mantra of 'Customer at our Heart' sits firmly at the centre of our strategy for sustainable growth and our vision to be the most loved holiday company.





### OUR PROGRESS IN 2017

- › 24-hour quality promise
- › In-resort resolution for carefree holidays
- › *Expert crisis management*
- › High health & safety standards
- › Group Net Promoter Score up by nine points since 2015
- › 24-Hour Hotel Satisfaction Promise extended to reach 80% of sun & beach customers in core hotels
- › Annual health and safety audits on all core hotels

- › Direct personal engagement
- › Web penetration
- › Seamless CRM
- › Rich content
- › Controlled distribution now 68%
- › Webshare up 3 percentage points to 46%
- › UK web sales up 27% and Germany up 22%
- › 1.7 million companion app downloads
- › Richer online content for greater inspiration with 112,000 new images, 1,200 new room plans and 520 new hotel videos

- › Thomas Cook Hotels & Resorts for unique experience
- › Selected high-quality partner hotels
- › Own Airline
- › Own-brand hotels sales up 10% for the summer
- › Moving towards fewer, better quality differentiated hotels – a further 310 removed for summer 2018
- › Airline seat-only sales up by 16%

- › Personalised added-extras & ancillaries
- › Thomas Cook Money
- › Ancillary sales up a further 10%, reflecting more personalised offers
- › Launch of Thomas Cook Money to expand financial services offering

- › Thomas Cook China with Fosun
- › Strategic partnerships
- › Leveraging our brand
- › Strong first year for Thomas Cook China, growth targets on track
- › Completed complementary hotel strategy with Expedia alliance and Webjet partnership

**+** See more on page 30

### THE RESULT

**Increasing customer loyalty and attracting new customers**

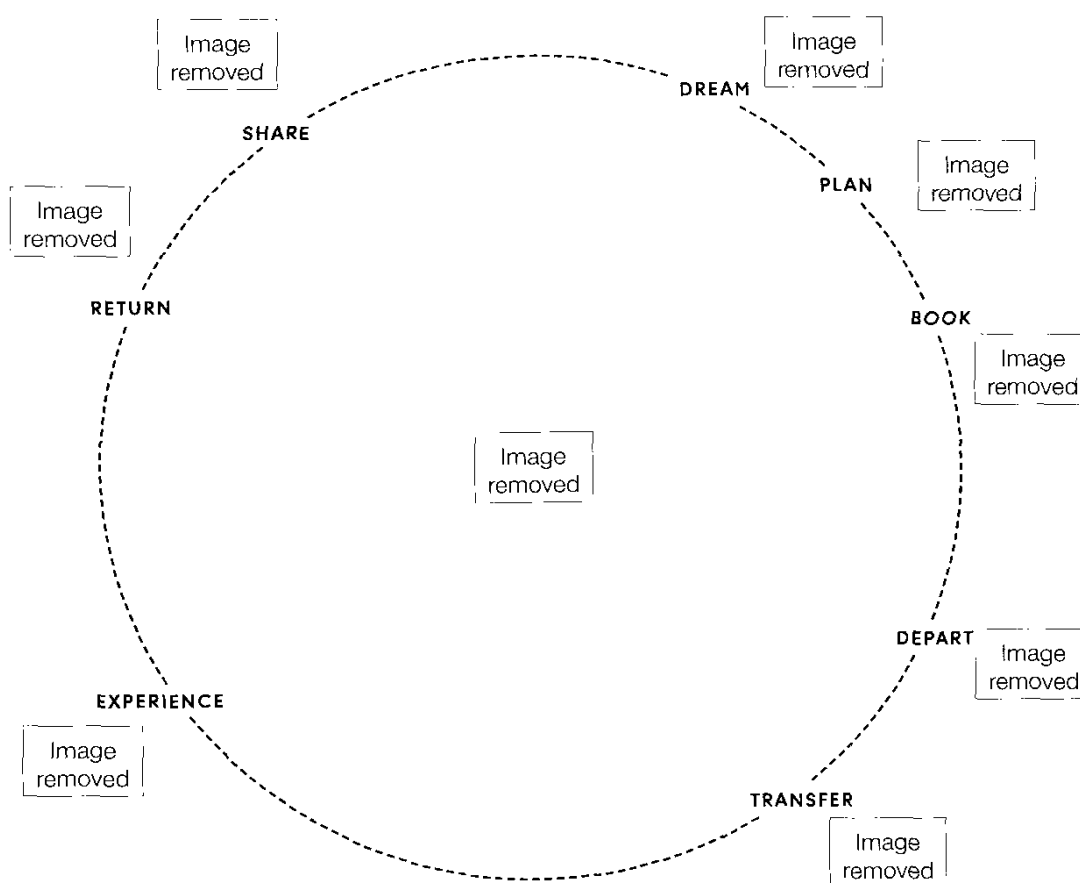
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### OUR VISION

**To be the most loved holiday company**

# WITH A BUSINESS MODEL FOCUSED ON **THE CUSTOMER JOURNEY**

Our business model reflects the customer journey from dream to experience.



## PEOPLE

Attracting, retaining and developing our people is critical to putting customers at the heart of what we do.

[+ See more on page 37](#)

## TECHNOLOGY

Technology underpins all of our processes and is key to how we create value, from our IT, our customer digital channels or our airline efficiency.

[+ See more on page 35](#)

## ENVIRONMENTAL RESOURCES

How we manage our operations and its use of environmental resources is important to both our financial success and our impact on the environment.

[+ See more on page 33](#)

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### THE CUSTOMER JOURNEY

Our customers' journey doesn't start in the airport. It begins with the first holiday inspiration online or in a store, through to planning and booking their time away, to the experience on holiday with us and then the memories they carry with them afterwards. We are building closer relationships with our customers throughout this cycle to increase loyalty and inspire more customers to holiday with Thomas Cook.

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### IN-DESTINATION MANAGEMENT AND CUSTOMER RELATIONS

Our customer teams are integral to our business and the holiday experience that we give our customers. We believe that the strength of the relationship we build with the customer is what sets us apart in a crowded market. Customer Relations and In-Destination Services – our teams on the ground in resort – build and maintain relationships so that our customers enjoy the best of Thomas Cook.

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### OUR CUSTOMER CHANNELS

Putting the customer at the heart of our business also means building direct contact with customers, whenever and wherever they want to interact with us. This includes developing our websites to offer a better online experience, as well as maintaining a network of profitable stores to attract, inspire and engage our customers. The customer insight we have built up over the years, along with the trust there is in the best brand in travel, shapes the approach we take to every customer contact.

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### OUR OWN-BRAND AND SELECTED PARTNER HOTELS

It is through our holiday offering that we generate, preserve and capture value. We focus our holiday offering on our own-brand hotels and resorts, supplemented by a defined portfolio of selected partner hotels. By concentrating on a streamlined portfolio of hotels, we are able to have a greater influence on the customer experience, driving better customer loyalty and recommendations while delivering higher margins.

### OUR AIRLINE

We recognise that the flight to and from the destination is an integral part of the holiday experience. Control of our own Airline gives us influence over the on-board experience and enables us to create value through sale of additional in-flight services. The sale of seat-only airline tickets maximises revenue from the assets that we control.

### ADDED-VALUE SERVICES

To supplement the value that we create through our holidays, we offer a choice of additional travel-related services to our customers, including airline seat sales, meals on board, transfers and excursions, as well as holiday-related financial services. Sales of these services give customers the opportunity to personalise the holiday experience and create additional returns for the business.

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### STRATEGIC PARTNERSHIPS

We will enter into strategic partnerships where we have the opportunity to streamline our business while also tapping into new markets or widening our offer to customers. Our strategic partnerships also enable us to leverage the trust and heritage of the Thomas Cook brand.

### OUR PARTNER AIRLINES

We partner with other airlines to maximise the choice for our customers, increase flexibility in our operations, and manage our fleet more effectively.

### OUR COMPLEMENTARY HOTEL PARTNERSHIPS

Partnerships with Expedia and Webjet to outsource the production of our complementary hotel offering allow us to provide our customers with a broad choice of hotels at the lowest possible cost. This approach means we can focus on creating maximum value in the holidays to our directly-contracted own-brand and selected partner hotels.

# HIGHLIGHTS OF THE YEAR

## FINANCIAL HIGHLIGHTS

**9.3p<sup>\*\*</sup>**

Underlying EPS

**£330m<sup>\*\*</sup>**

Underlying EBIT

**22.1%<sup>\*\*</sup>**

Underlying gross margin

**£12m**

Profit after tax

## BUSINESS HIGHLIGHTS

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Our second Casa Cook hotel in Kos

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A strong recovery in Condor our German airline

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Strategic partnerships which transform our opportunity for growth

## OUR BUSINESS BY SEGMENTS

- Group Tour Operator
- Group Airline

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# CHAIRMAN'S STATEMENT

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2017 has been a year of considerable strategic progress at Thomas Cook. In what remains a highly competitive environment – one that has contributed to the collapse of a number of competitors in the last 12 months – Management's focus on executing its strategy for profitable growth has delivered good results for the year, and set the business on a clear path for sustainable growth in the years to come.

**“We are at an exciting point in the development of this company as we pursue our unique strategy to focus on our core holidays and streamline the business, while at the same time partnering with the best in the industry to offer customers a greater choice.”**

After five years of hard work to reposition Thomas Cook, there is a real sense of energy and momentum in the business – and tangible evidence of execution.

Despite the competitive backdrop, the Group delivered an £28 million increase in underlying operating profit to £330 million, an eight per cent increase year-on-year, and net profit of £12 million, the third consecutive year of positive net profit after tax. We also took further steps to strengthen the balance sheet. Debt was reduced by another £89 million in the year, and the business has signed new financing arrangements amounting to £975 million. This builds on the work the Group has done over the last five years to progressively improve the terms and maturity of its debt to provide it with greater flexibility and a more robust capital structure over the medium term.

The progress the business made operationally should be seen alongside a number of very significant steps the Group took in 2017 to better position the business for the future.

In September, the business secured what promises to be a ground-breaking alliance with Expedia. Meanwhile, a new strategic partnership with Swiss hotel property development company, LMEY Investments, establishes the launch pad to develop and grow Thomas Cook's portfolio of own-brand hotels, key to the successful delivery of the Group's profitable growth strategy.

Reflecting the Board's support for the progress that has been made in the last year and its confidence in the strategy, the Board has recommended that we pay a dividend to Shareholders of 0.6 pence per share.

Moving onto the business of the Board, we were pleased to welcome two new Non-Executive Directors in July. Jurgen Schreiber and Paul Edgecliffe-Johnson. Jurgen brings a breadth of international experience across retail and consumer goods including Chief Executive roles in both a publicly-listed company and large private companies. Paul, meanwhile, as CFO of InterContinental Hotels Group (IHG), brings deep experience of the global hotel industry to the Board.

In January 2018, we will also welcome a new Executive Director to the Board when Bill Scott takes over from Michael Healy as CFO following Michael's decision to retire. I look forward to Bill supporting us through the next phase of the Group's development and would like to thank Michael for the very significant contribution he has made to the financial health of the Group in his six years with the business. I am pleased that he has agreed to continue his involvement in the business through non-executive leadership roles in Thomas Cook China and Thomas Cook Money, two important areas of potential growth for the Group.

We are at an exciting point in the development of this company as we pursue our unique strategy to focus on our core holidays and streamline the business, while at the same time partnering with the best in the industry to offer customers a greater choice. On behalf of the Board, I would like to thank Peter Fankhauser, CEO, and every one of the 22,000 colleagues across the business for their commitment and hard work in the past year. I would also like to thank all of our Shareholders for their continued support as we transform Thomas Cook for the future.

**FRANK MEYSMAN**  
CHAIRMAN

21 November 2017

# CHIEF EXECUTIVE'S REVIEW

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**“Our focus on the customer drives every decision that we take in the business, from the hotels that we sell every season and the service promises that we make, through to the destinations we fly to. But it also determines the big decisions that we take about the business we want to be in the future.”**

**PETER FANKHAUSER**  
CEO

2017 has been a good year for Thomas Cook. The actions we took on strategy in the last 12 months have transformed the scale of the opportunity ahead for the Group while at the same time *delivering strong growth in demand*, as more customers from across our markets chose our modern package and flight offer for their hard-earned weeks in the sun.

The very deliberate decision that we made two years ago to put the customer back at the heart of our business is now bearing fruit. Strong customer demand for our improved holiday offering helped increase revenues by 9 per cent in the year. This combined with an improved performance in our German Airline, Condor, to deliver an underlying operating profit of £330 million, an 8 per cent increase year-on-year. That we achieved this growth in a highly competitive environment shows how much more resilient we are as a business than even a few years ago.

Most importantly, we know that customers' experience of their holidays with Thomas Cook is getting better all the time. Our Net Promoter Score – or NPS – which is the primary indicator of customer satisfaction and the metric we look at before anything else, has increased by nine points over the last two years. This reflects continued growth in every one of our significant markets in 2017.

Our focus on the customer drives every decision that we take in the business, from the hotels that we sell every season and the service promises that we make, through to the destinations we fly to. But it also determines the big decisions that we take about the business we want to be in the future. It is perhaps there that we have made the most progress in the past 12 months.

## TRANSFORMING OUR OPPORTUNITY FOR GROWTH

The strategic alliance that we signed in September with Expedia, outsourcing our city and domestic hotels business and using Expedia technology, will transform the way in which we work. By attracting one of the best operators in the travel industry, we will be able to offer a much greater choice to customers, at lower cost and complexity to us. This, in turn, will allow us to focus on holidays to our own-brand and selected partner hotels in sun & beach destinations where we know we can really set ourselves apart from the competition.

Our partnership with LMEY reinforces that strategy, paving the way for the creation of a joint hotel investment platform which will enable us to super-charge our portfolio of own-brand hotels and resorts.

This will give customers an even greater choice of high-quality hotels to suit their needs, hotels that are unique to Thomas Cook, and achieve higher levels of customer satisfaction and earn better margins than the portfolio average.

Another example of a successful partnership is Thomas Cook China, our joint venture with Fosun, which is growing fast in a rapidly expanding market, taking 20,000 bookings in its first year of operations. Our focus on developing strong partnerships with big technology-led players in the Chinese market, like Alibaba, gives us access to a big customer base, while our tailored holiday offering means we can differentiate ourselves in a competitive environment.

Meanwhile, the launch of Thomas Cook Money builds on our long heritage in financial services to offer customers across our source markets new and simpler ways to plan, save, borrow and spend their holiday money, all supported by innovative, easy-to-use technology.

Each of these developments represent an important step forward in delivering our strategy for profitable growth. Taken together, they transform the opportunity ahead for the Group.

## CARE

Of course, the big strategic moves are only relevant if we continue to do all we can to ensure that every customer has the best experience on holiday with Thomas Cook. It is here where I believe that we have the biggest opportunity to differentiate our holidays from the competition – in the care and the reassurance that we provide.

In the last year, we have extended our 24-Hour Hotel Satisfaction Promise to more than 2,000 hotels, giving 80% of customers who book a sun & beach holiday with Thomas Cook the reassurance that if a hotel is not as we described it, we will sort out the issue or offer to move the customer to another hotel of the same standard within 24 hours. This represented a bold move when we introduced it for summer 2016, one which is now paying off with customer satisfaction on average 12 points higher in those hotels with the 24-Hour Hotel Satisfaction Promise than the rest of the portfolio.

We continue to innovate to broaden our appeal – and increase customers' ability to personalise their holiday – with the launch of a 'Choose Your Room' option. Available in 300 of our core hotels for summer 2018, this is another industry first for a 'traditional' tour operating business and shows how we are evolving to capture greater opportunities.

Another area where we have made big changes is in the way in which we talk about risk to customers. We operate in a market where disruption, whether from natural disaster, political changes or terror attacks, can affect many of our customers and our operations. We are not a security company but we know that what we can do is to be as transparent as possible about potential risks – whether that's through customer-friendly blogs or clear links to the latest government advice – so that the customer can make up their own mind about whether to travel. I am proud of how far we have come.

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## CHIEF EXECUTIVE'S REVIEW CONTINUED

We have also taken a leading role in bringing the industry together on the issue of health and safety. In September, the Safer Tourism Foundation, the independent charity we set up with Sharon Wood, the mother of Christi and Bobby Shepherd, launched a pledge which articulates a new approach to customer health and safety within the industry. This has already been signed by seven major travel companies in a move that we believe will promote greater collaboration to achieve practical change for the benefit of all customers.

In our UK business, we have faced a specific issue this year related to a dramatic surge in illness compensation claims, many of which we believe to be fraudulent. Our presence in destination through our resort teams and our rigorous focus on hotel quality means we are continually improving standards and can take care of those who fall ill, but we must also protect our customers from dishonest illness claims which threaten the price and availability of all-inclusive holidays. We have made good progress highlighting these false claims in the courts, in the media and to government, which we hope will lead to substantive changes in legislation, including the way the claims industry is regulated, in time for summer next year.

We know that our approach to care needs also to encompass the wider environment in which we operate, at home and abroad. To this end, this year we introduced a new animal welfare policy, becoming the first major travel company to commit to remove from sale any animal attraction that is found not to be fully compliant with the ABTA Global Welfare Guidance for Animals in Tourism. This is a bold step which demonstrates our commitment to change.

### CONTACT

Our customer focus also extends to developing direct contact with customers in order to strengthen our relationships and provide more personalised services. This starts with providing rich, inspirational content on our websites and this year we've added over 110,000 images and 1,200 room plans to better engage our customers.

The investment we've made in our websites has helped grow our online bookings with the strongest growth in the UK, up 27 per cent in 2017. Across the Group, we now achieve 46 per cent of all sales via the web, up three percentage points on last year.

In this context, we continue to reshape our retail store network to ensure we are well-positioned to meet the changing customer needs. In the UK, the Co-operative's exit from our retail joint venture has enabled us to take full control of our store portfolio and in Germany, we've signed 92 new agency agreements to increase the proportion of direct sales.

### OWN-BRAND HOTELS AND RESORTS AND SELECTED PARTNER HOTELS

Of course, the other area where we can genuinely differentiate ourselves is in the holidays we offer and, most importantly, our ability to provide customers with holidays that are unique to Thomas Cook. To this end, we have gradually been streamlining our portfolio of hotels to focus the majority of our business on 3,000 properties where we know we can have a higher degree of influence over the quality and service standards.

Our own-brand hotels and resorts are central to the success of this strategy. These enable us to provide customers with a consistent and high-quality holiday, whatever their needs, delivering higher satisfaction scores and higher margins than the portfolio average. With the arrival this year of Ingo Burmester, who ran the successful Robinson brand for TUI, we are now building a hotel management company inside Thomas Cook under his leadership, with the aim of growing the size of the portfolio and strengthening our brands.

We made further progress in the year with 11 new openings in summer 2017, including our second Casa Cook in Kos and a new Sunwing Ocean Beach Club in Cyprus. We also added a seventh brand to the portfolio in the form of Aldiana, the premium club-based activity format, through an acquisition of a 42 per cent stake in the business as part of a wider partnership agreement with LMEY. At the same time, we have continued to rigorously manage the portfolio for quality, removing hotels where they don't meet our standards. I feel very optimistic about the future growth prospects for this part of our business in the coming year as we work to identify new properties and build up our pipeline.

### AIRLINE

Another element of our holiday offering where I feel optimistic is our airline. Over the last four years, and in a very competitive market, we've transformed it from four essentially separate airlines whose primary task was to transport our tour operator customers, to one airline group with an increasingly successful seat-only business, particularly on long-haul routes and its own distribution channels. In doing so, we have created Europe's third-largest airline to sun & beach destinations which competes wing-to-wing with the low-cost carriers, and Europe's sixth-largest long-haul carrier with an expanding range of destinations and a compelling customer offer.

We have now formalised the work Management has undertaken to create one Group airline, by separating its reporting and legal structure. This is the logical next step which reflects the way we think about the airline business within the Group, from our airline being the primary transport for the tour operator to becoming a leisure airline in its own right, with its own commercial relationships, distribution channels and growth targets – while sharing the Group's absolute focus on giving our customers the best possible experience of Thomas Cook.

### PARTNERSHIPS

We are very clear in our strategy for profitable growth that we will focus our attention and resources on a number of key areas where we can genuinely be different from the competition. This approach is complemented by a series of partnerships which enable us to streamline our operations, while also tapping into opportunities for growth.

The strategic alliance with Expedia agreed at the end of this year to outsource our city and domestic hotel business, while harnessing their technology for our hotel-only offering, is the most significant of those partnerships agreed during the year. This, combined with the deal we agreed in 2016 to outsource the sun & beach hotels which sit outside of our core portfolio to Webjet, completes our complementary hotel strategy and positions us for growth in this area of the business at the lowest possible cost.

However, we also made good progress in Thomas Cook China, a joint venture with Fosun launched September 2016. A full-service travel company, in a fast-expanding market, our China business booked 20,000 customers in its first year. Our ambition in 2018 is to grow that number tenfold.



## OPERATIONAL EFFICIENCIES

The strategy we are executing sets out a clear path to profitable growth. But it also results in a business which is much simpler with a leaner organisational structure. We're working to remove duplication from across the business and to align processes to fit the new shape of Thomas Cook.

In this respect, the new strategic alliance with Expedia, and the execution of the Webjet agreement, effectively outsourcing our complementary business, is a catalyst for the next stage in the transformation of the business. I believe it will enable us to realise significant cost savings and remove further layers of complexity in our systems and processes.

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## THE SAFER TOURISM FOUNDATION PLEDGE

- › We are fully committed to the aim of the Safer Tourism Foundation to improve the health and safety of tourists when they are on holiday
- › We will do all we reasonably can to provide a safe and healthy environment for our customers when they go on holiday with us
- › We will use our influence on our partners overseas to improve health and safety standards for our customers
- › We will engage with our customers throughout their customer journey to ensure they have access to the information they need to help keep themselves and their families safe and well
- › We will encourage our customers to be aware of the health and safety risks that they may face on holiday and how they can reduce the risks to themselves
- › We will act promptly when customers raise genuine health and safety concerns, to reduce the risks to them and to future travellers
- › We will share our expertise and anonymised data with other organisations that want to work with us to improve the health and safety of tourists

## CONCLUSION

In summary, Thomas Cook has made significant progress in 2017. We operate in an industry that is constantly changing, impacted by events that are often unpredictable and regularly beyond our control. The companies that succeed are those that are operationally flexible and which can anticipate shifts in customer demand.

The fact that we have successfully managed through a competitive environment while at the same time taking big decisions that will strengthen our position for the future is testament to the hard work and engagement of our 22 000 people around the globe. They are the ones that make this company different, focusing on every detail to make our customers' experience of our holidays even better

Looking across the Group, I see real momentum behind our strategy for profitable growth. The actions we have taken in the last 12 months accelerate the transformation of Thomas Cook into a truly modern, streamlined travel company with the customer at the heart of everything that we do – for the benefit of our customers, our people and our Shareholders

**PETER FANKHAUSER**  
CEO

21 November 2017

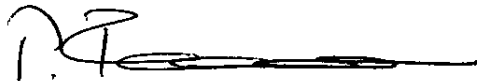


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# OUR MARKETS TODAY

## ECONOMIC ENVIRONMENT

For six consecutive years, the Travel & Tourism sector has outperformed the global economy. The 10-year forecast from the World Travel and Tourism Council anticipates this trend to continue, with average growth of 3.9 per cent per year, versus a forecast of GDP growth of 3.8 per cent.

In addition, package holiday bookings are forecast to outgrow independent travel over the next four years as consumers look for ways to make their leisure spend go further. Mintel estimates that package travel in the UK will grow by 28.5 per cent by 2021, compared with independent travel which is forecast to grow by 17 per cent. *International tourist arrivals increased* by six per cent in the first half of 2017 compared with the same period in 2016 and significantly above the four per cent annual growth since 2010. According to the UNWTO, Mediterranean destinations reported particularly strong growth in international tourist arrivals in the first half of 2017. This trend is driven by the continued strength of many destinations in the area, combined with a significant rebound in destinations that suffered decreases in previous years, such as Turkey, Egypt and Tunisia. The rebound is thanks in part to a more stable geopolitical environment in these countries in 2017 versus the disruption of 2016.

Overseas visitors to Turkey and Egypt increased by 25 per cent and 51 per cent respectively compared with 2016. The UK Government's decision to lift its *recommendation against travel to Tunisia* in July 2017 is a further sign of positive development in the region. Overall, countries within Europe saw an eight per cent rise in international tourism arrivals in the first six months of the year.

Within our source markets, the OECD estimates that the Eurozone will grow by 1.9 per cent over 2018, with Germany, our largest Eurozone source market, just ahead at 2.1 per cent. UK GDP is expected to rise by one per cent, while Sweden, Denmark and Norway are forecast at 2.3, 2.1 and 1.5 per cent respectively.

## POLITICAL AND REGULATORY ENVIRONMENT

We expect Brexit to impact the regulatory framework in which we operate for both our UK business and our wider Group operations, and we are actively planning and preparing for this. Most importantly, the UK's current membership of Europe's Single Aviation Market will change upon the UK's withdrawal from the EU, as will the UK's access to EU employment markets, including the country's ability to place temporary workers in EU Member States without additional barriers.

With regards to maintaining access to the Single Aviation Market, we continue to make the case for the extension of existing aviation arrangements through *a transitional agreement that retains the current framework*. This would provide welcome certainty for customers and businesses alike. Having already begun the sale of flights and holidays in the post-Brexit era, we now require urgent clarity from the UK Government and EU institutions on a transitional agreement. We continue to make the case for a comprehensive EUUK air transport agreement in the longer-term.

We are working with UK and EU governments to highlight the benefits of the Posted Workers Directive and to advocate that these benefits are replicated in a future trade agreement, or bilateral arrangements between the UK and EU Member States.

Within the UK, the issue of fraudulent holiday sickness compensation claims threatens both the cost and availability of all inclusive holidays for our UK customers. We have worked with the government to highlight the prevalence of fraud within the sickness claims industry, both directly and through the media, as well as pressing the case for effective regulation of the claims management companies which encourage customers to make claims – and in many cases encourage fraudulent activity.

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Source: UNWTO Tourism highlights 2017 Edition

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Source: Office of National Statistics

We welcome the UK government's call for evidence on the topic in October 2017 and the passage of the Financial Guidance and Claims Bill, both of which we are monitoring closely and contributing to where appropriate

The European Package Travel Directive will be implemented across the EU from 1 January 2018, with full compliance by 1 July 2018. We welcome that the implementation of the Directive will help to bring a level playing field for travel businesses selling 'linked trips' incorporating a flight and a hotel booking

We are working with the EU to make sure that the measures are implemented consistently across our markets and that customers have clarity on the protections that the Directive brings.

In February 2017, the European Union Competition Commission launched an investigation into the travel industry regarding hotel accommodation agreements with a focus on the availability of hotel bookings and pricing between member states. Thomas Cook is committed to fair and open competition and will cooperate fully with the Commission through the process.

Since current data protection legislation was introduced, our use of technology has changed the way we use and process personal data. In May 2018, the General Data Protection Regulation (GDPR) will come into effect. This will bring legislation up to date with the new, previously unforeseen ways that data is now used and will harmonise data protection rules and requirements across the EU. We are implementing changes to ensure that the personal data of our customers and employees is protected effectively and consistently across the business and that both our customers and employees have transparency on how their data may be used by Thomas Cook and the protections that the GDPR brings

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# CUSTOMER AT OUR HEART

'Customer at our Heart' is the cornerstone of our strategy for profitable growth. Our desire to create a genuinely customer-centric organisation shapes the way in which we think about the culture of the business and the values by which we work. It continues to act as a powerful catalyst for change and we believe it is where we have the biggest opportunity to differentiate ourselves from the competition.

We know that happy customers are more likely to come back to Thomas Cook and to recommend us to their friends. As customer loyalty increases, our cost of sale goes down as customers choose Thomas Cook because of our reputation rather than our marketing. We also know that on average customers that return to Thomas Cook spend more with us than new customers, reflecting their increased trust in our holiday offering.

Operationally, we focus our Customer at our Heart strategy in two areas: *the care and reassurance* we provide to our customers, set out in our three Customer Promises of Quality, Service and Reliability; and the contact we maintain with customers, ensuring that we are accessible however they choose to interact with us and forming long-lasting relationships throughout the year.

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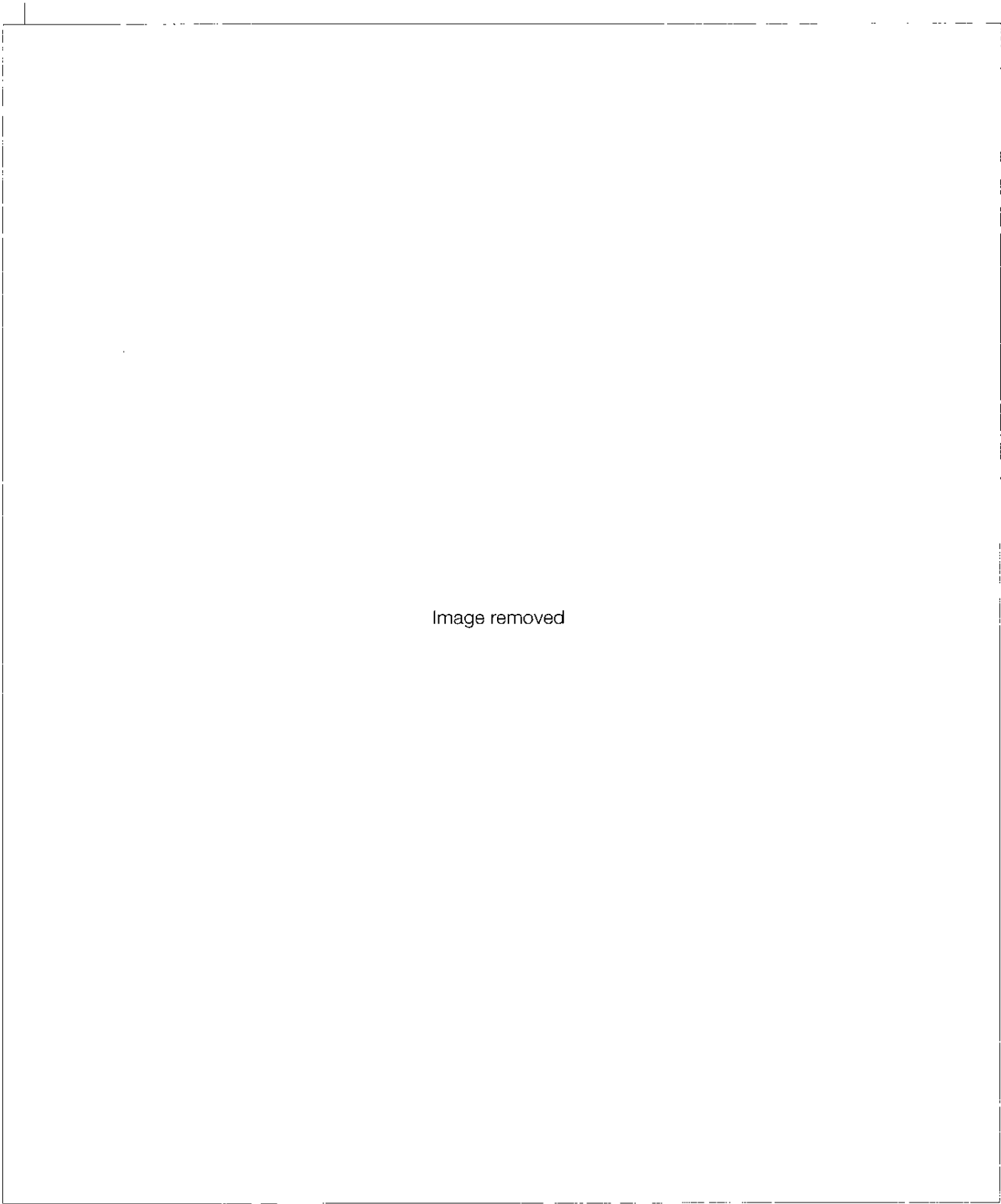


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## PROGRESS AGAINST STRATEGY

# CARE

We believe that the biggest opportunity we have to differentiate a Thomas Cook holiday from the competition is in the level of care and reassurance that we provide to our customers.

That principle of customer care informs the approach that we take across the business: our colleagues who offer advice and customer service before, during and after their holidays; the quality assurance that our teams in resort provide through the formation of deep, long-lasting relationships with our hotel partners; and the assistance we offer if something goes wrong – from individual incidents of hotel snags right through to emergency evacuations in crisis situations

In a sign of our commitment to drive meaningful change in customer satisfaction across the business, we created a Group Customer Experience Team in 2015. Bringing expertise from across our source markets and in-resort teams, the team drew up a structured four-year plan with the objective of delivering outstanding customer experience and differentiating Thomas Cook as the most loved holiday company.

In year one, their focus was on fixing the basics by identifying the key drivers of customer satisfaction and implementing NPS as the single KPI for customer satisfaction and one of the key metrics of business performance across the Group.

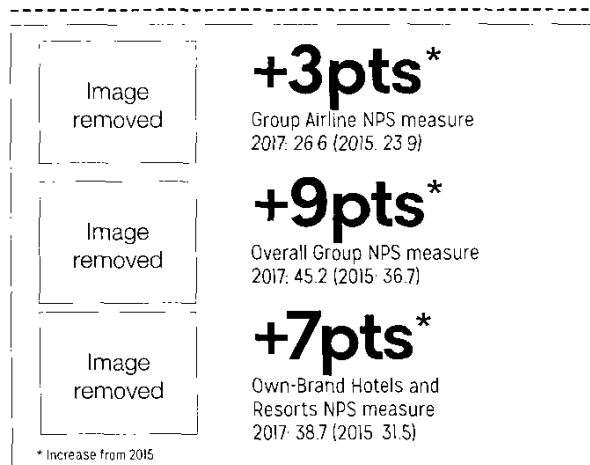
Year two involved delivering the priority improvements identified, and introducing the voice of the customer via customer feedback into our plans for the future.

We are now in year three of our plan, which is all about leveraging customer care as a genuine differentiator for our business. We have introduced new organisational values across the Group which properly reflect our priorities as a holiday company: 'We put our heart into it', 'Wear their flip flops' and 'We're one Thomas Cook'. These are directly linked to our Customer Promises of Quality, Service and Reliability respectively. See overleaf for more details.

### OUR PROGRESS IN 2017

We are now seeing evidence of the direct link between NPS uplift and rebooking rate. Our data demonstrates that the hotels which score highest in NPS achieve not only a higher rebooking rate, but also attract more new customers to Thomas Cook, showing that customer advocacy is playing an increasingly important role in the growth of our business.

## NET PROMOTER SCORE



Our Academy of Excellence, established to work with our hotel partners to help them maintain the highest standards of customer service and quality at our hotels, is now in its third year. In 2017, it helped implement over 650 quality improvement plans with hoteliers, contributing to a rise in NPS across our core hotel portfolio this year.

For summer 2017 we extended our 24-Hotel Satisfaction Promise to cover 2,000 hotels in our core portfolio of own-brand and selected partner hotels, giving 80 per cent of our core sun & beach holiday customers additional reassurance of quality and service. We plan to increase the roll out to cover 100 per cent of customers on holiday in our core portfolio of 3,170 hotels in 2018.

We have also succeeded in increasing the proportion of complaints that we have been able to resolve in resort before customers come home. The result is that customers come home happier, while we spend less on customer relations in our source markets.

There is more to come as we introduce new ways to increase loyalty and attract new customers to Thomas Cook. New innovations for summer 2018 include the ability to pre-book a specific hotel room based on detailed floor plans and imagery.

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## CASE STUDY

**GAMBIA  
EVACUATION**

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**PAUL HUTCHINGS**MANAGING DIRECTOR OPERATIONS  
THOMAS COOK AIRLINES UK AND GROUP  
DIRECTOR OF FLIGHT OPERATIONS

January is a popular time for holidays to the Gambia, which offers reliable winter sun in a beautiful African setting. Unfortunately, political instability following a disputed election caused the UK Foreign Office in January 2017 to change its travel advice for this small West-African nation, recommending against all but essential travel.

We had been monitoring the situation for some weeks and maintaining close contact with the Foreign Office to understand what impact the escalating tension could have on civil stability. With just one airport and an unfavourable mountainous geography, we knew that we had to act early to position aircraft and crew in the region so we had the operational flexibility to evacuate our customers at short notice should the situation deteriorate.

Before the UK Government changed the travel advice, we had already drawn up a logistics plan in anticipation of the situation escalating. Aircraft capacity and crew availability were earmarked for a potential full evacuation, as were Special Assistance Team members willing to travel to the Gambia in support of a potential ground operation. That meant that when the change in advice came, we were ready, sending extra flights directly from the UK, on top of the existing scheduled flights which we sent in empty. We also operated reserve aircraft based in the Canary Islands and used Las Palmas in Gran Canaria as a bridgehead, switching crew and refueling as necessary. This shorter flight time from Banjul to the Canary Islands allowed for an increased number of rotations and an accelerated evacuation process.

We provided all of our package holidaymakers and our seat-only airline customers with a seat on a rescue flight home, in total repatriating 3,500 customers in three days with 16 rescue flights.

Our Airline gives us the responsiveness to evacuate our customers when they most need us, while our world-class In-Destination Management teams, supported by our trained Special Assistance Team, offer support to our customers on the ground. We believe that it is this ability to offer our customers the reassurance that we will be there when things go wrong which differentiates us from the competition.

## PROGRESS AGAINST STRATEGY

# CONTACT

Putting our customers at the heart of the business means building a closer relationship throughout the year, wherever and whenever our customers want to engage with us.

From the way we persuade our customers to come to us first, how we sell them our flights and holidays, through to how we retain and strengthen that relationship, we are building seamless contact with our customers throughout their holiday journey

This includes developing rich, inspirational content that stands out in a crowded online marketplace and will *grab customers' attention to drive higher conversion*. By investing in our websites we can grow our online presence and reshape our retail estate to create a true omni-channel approach to how we sell our holidays

To stay close to our customers, we are building world-class customer relationship management, including improving our personalised interaction with customers in the period running up to their holiday through a holiday companion app

This direct contact with customers through the channel of their choice, be that in-store, through our customer contact centres or online, means we can drive loyalty and increase sales of tailor-made services which add value to our customers' holidays and increase satisfaction scores, while at the same time lowering cost of sale and achieving higher margins.

### INSPIRING OUR CUSTOMERS



**112,000**  
IMAGES ADDED TO  
THE WEBSITE



**1.7m**  
DOWNLOADS OF  
OUR MOBILE APP

### OUR PROGRESS IN 2017

Over the course of the year, we added more than 112,000 images to our website, 1,200 room plans and 520 hotel and destination videos to further enrich our websites and inspire our customers

We also created a single content hub to better distribute our content across all of our online channels and leverage the Group's marketing assets on a larger scale.

These investments in our websites have led to strong growth in online bookings for our major markets. Overall, the share of sales generated through the web increased by another 3 per cent across the Group, meaning we now take 46 per cent of bookings online.

In Germany we grew web bookings by 21 per cent, in the UK by 27 per cent and in Scandinavia, by a further 7 per cent so that 81 per cent of sales are now made online. We have also made progress in mobile with 45 per cent of online bookings in the UK accounted for by mobile devices split equally between mobile and tablet

As online grows we have further reshaped our retail network in the UK, introducing nine 'Discovery stores', larger stores in higher footfall areas, to broaden our reach as we continue to reduce the number of stores which this year fell from 790 to 692 outlets.

Our mobile companion app, now live in Germany, Northern Europe and the UK, has been downloaded 17 million times, strengthening the direct relationships with our customers, improving their holiday experience and generating increased sales of added services.

This focus on improved customer contact has increased direct distribution across the Group by one percentage point to 68 per cent



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## CASE STUDY

## RESHAPING OUR CONTACT WITH CUSTOMERS IN THE UK

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**KATHRYN DARBANDI**  
DIRECTOR OF RETAIL AND CUSTOMER  
EXPERIENCE AT THOMAS COOK UK & I

This year we've seen a big increase in mobile bookings from our UK customers, which now account for 45 per cent of online bookings up from 40 per cent last year. It's part of a clear shift in the way our customers research and book their holidays which has helped increase online bookings from 43 per cent of our Group sales to 46 per cent this year.

We are adapting to this changing behaviour by investing in our websites and the way we attract customers online, and this year UK digital sales overall increased by a further 27 per cent on top of the 9 per cent growth we achieved in 2016. While we're pleased with the progress we're making, we also need to make sure we're giving customers a seamless experience of Thomas Cook wherever they choose to interact with us – be that in person or online.

It's clear that our shops remain an important channel through which we can showcase the best of our holiday offering, as well as provide the expertise and reassurance that many customers value as part of their largest annual purchase. Our 2017 UK Holiday Report showed that two-thirds of customers still come into stores to speak to our experts before booking their holiday, while 47 per cent of our holidays are still booked in our shops.

At the start of this financial year we took two important steps to meet those changing customer needs. First, we took full control of our all our UK stores after announcing that we would buy the Co-op out of our retail joint venture, allowing us to move to one single Thomas Cook brand.

Second, we took the decision to refocus our store network into two key formats to make sure we're offering our customers the best of a 21st Century travel company:

larger stores in higher footfall areas like shopping centres and retail parks, and smaller stores in traditional high street locations. Over the past 12 months, we've refurbished or rebranded 51 stores and closed 101 stores meaning we've now cut the size of our network by 45 per cent in the past five years to 692 stores, with many of the closures in areas where there was a geographic overlap between the Thomas Cook-branded shops and Co-operative Travel branded shops.

In this financial year we've increased revenue in the UK by three per cent, thanks in large part to the work we've done online. Despite closing 101 stores at a cost saving of £12 million, our retail sales have remained broadly flat. Crucially, we've increased the proportion of the holidays we sold through our own channels by a further 1.5 per cent to 83.5 per cent – evidence that we've improved contact with our customers whenever and wherever they need us.

## PROGRESS AGAINST STRATEGY

# OUR HOLIDAYS

Of course, it is the quality and range of our holidays that determine the success of our business. We want Thomas Cook customers to trust us to provide a range of consistently high-quality hotels which provide excellent value for money.

Our strategy is increasingly to focus our attention on a more streamlined portfolio of around 3,000 hotels by 2019. By focusing on a smaller number of properties, we can have a greater influence over the customer experience, enabling us to offer holidays that are unique to Thomas Cook with a level of care and quality that stands out from the competition.

By focusing the majority of our business on a more streamlined portfolio, we are also selling more of the rooms in those hotels across more of our source markets. This means we are able to better leverage our scale and develop deeper relationships with the hoteliers, with holidays to these select partner hotels delivering higher than average selling prices and margin.

At the heart of this portfolio of hotels sit our own-brand hotels and resorts, which are franchised, managed or directly owned by Thomas Cook. These are complemented by our selected partner hotels, contracted directly and developed in partnership with hoteliers.

In these hotels we seek to give customers elements of their holiday that are unique to Thomas Cook. These include our 24-hour hotel satisfaction promise, our on-the-ground resort teams and our connected services helplines, as well as a raft of measures that customers don't see – from more frequent auditing for health and safety to the work done by our team of quality managers to ensure that we are providing a standard of accommodation and service of which we can be proud.

We rigorously track the performance of every one of these hotels using customer feedback. If they fall short, we take them out of the portfolio.

### OUR PROGRESS IN 2017

We continued to innovate to improve the customer experience in our core portfolio of hotels in the past 12 months. We expanded our 24-hour hotel satisfaction promise to cover 2,000 hotels, accounting for more than 80 per cent of our sun & beach customers.

We further reduced the portfolio of directly-contracted hotels by 310 to 3,170 for summer 2018, marking good progress towards our target of 2,900 by FY19. At the same time, we increased sales to our own brand and selected partner hotels by eight per cent in the summer compared with 2016, reflecting the strong demand for our differentiated holiday offer.

We now share 42 per cent of our hotels across more than one of our source markets, compared with just seven per cent three years ago, improving the scale benefits we get in these hotels.

## IMPROVING OUR CUSTOMER EXPERIENCE

# +8%

SALES TO  
OWN-BRAND  
AND SELECTED  
PARTNERS HOTELS  
IN SUMMER 2018

# 310

HOTELS  
REMOVED  
FROM OUR  
PORTFOLIO

# 3,170

OWN-BRAND  
AND SELECTED  
PARTNERS  
HOTELS FOR  
SUMMER 2018

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**CASE STUDY****IN-DESTINATION SERVICES –  
HOTEL QUALITY TRACKING**

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**JÜRGEN HEISS**  
GROUP HEAD OF QUALITY,  
CONNECTED SERVICE & LOGISTICS

As part of our strategy to rigorously manage the quality of our select partner hotels, we track NPS scores at all stages of the holiday. This year we stepped up the resources and tools available to our hotel quality managers in destinations to help improve this process.

We want our quality managers to operate at the heart of the feedback loop between customers, our source markets and our hotels, to make sure we're doing all that we can to continually improve our holiday offering.

The remit of our team of 49 quality managers is simple: to ensure all of the hotels in our core portfolio offer the best possible quality to our customers. This means working closely with our hotel partners to identify areas of improvement, based on customer feedback and our quality managers' rich experience in the holiday industry.

Our portfolio of services, which includes hotel training and consulting services, the Sunny Heart Academy of Excellence and online reputation management advice, means that the team is able to offer valuable support for hoteliers to improve overall standards for the benefit of all customers.

In 2017, the team undertook close to 10,000 hotel visits, implemented more than 650 quality improvement plans and monitored over 800 hotel construction and refurbishment projects.

We also saw the benefits of a new system introduced last summer to bring a more data-driven approach to the quality managers' work. The Quality Tracking Tool is a web-based programme that compiles into one place all relevant hotel KPIs, including NPS, customer service questionnaires and online performance, as well as construction reports, quality manager visits and quality improvement plans.

This gives us a comprehensive set of qualitative and quantitative measurements that help us to put the right plans in place to support underperforming hotels that want to improve, or make the difficult but necessary decision to terminate the contracts of those hotels that do not.

The results have been clear – NPS has risen across the hotel portfolio and was a full five points above target in summer 2017 with a particular improvement in underperforming hotels. It has also made more clear where we need to terminate hotel contracts – as we did with 100 hotels from our UK portfolio at the start of the year – in order to maintain the quality and service that our customers expect from a Thomas Cook holiday.

## PROGRESS AGAINST STRATEGY

**OWN-BRAND HOTELS & RESORTS**

The development of a strong portfolio of own-brand hotels and resorts is critical to the success of our strategy for profitable growth. They enable us to provide customers with a consistent, high-quality and unique holiday, whatever their needs, and earn us higher returns than the portfolio average.

Our aim is to build a hotel company within Thomas Cook with a community of hoteliers who want to work with our brands and loyal customers who follow the brands round the world. By building deeper and longer-lasting relationships with our own-brand hoteliers and taking more capacity at the hotels, we have greater influence over the service levels and quality standards. As a result, these hotels achieve higher customer satisfaction scores and higher loyalty than the portfolio average. We also earn additional revenues through management, incentive and franchise fees. Together with the brand value which these hotels command, we earn a higher margin for these hotels than others in our holiday offering.

**OUR PROGRESS IN 2017**

We made further progress in 2017 in strengthening our existing portfolio of own-brand hotels and developing a pipeline of new hotels. We continued to rigorously manage the quality in our hotels, taking a total of 19 properties from the portfolio which did not meet the quality expectations we set. We opened 11 new hotels for summer 2017, including a new Sunprime hotel in Tenerife, our first Italian own-brand property, in Sicily, and the successful launch of our second Casa Cook in Kos. We have a further 20 hotels in the pipeline to open between winter 2017 and summer 2019. This includes at least another two Casa Cooks.

As the quality of our own-brand hotels improved, so we continued to drive a higher number of bookings to the portfolio. Sales to our own-brand hotels increased eight per cent in 2017.

The arrival in the spring of our new Chief Hotels Officer, Ingo Burmester, formerly head of TUI's Robinson hotel brand, brought welcome experience at the head of the team and provided an opportunity to reboot our approach in this part of the business.

In September we took a significant step forward by agreeing a new strategic partnership with Swiss-based hotel property development company LMEY Investments. Under the terms of the agreement, Thomas Cook has acquired a seventh brand in the popular club-based sector with a 42 per cent stake in Aldiana, a premium club and activity-focused tour operator and hotel management company based in Germany.

In addition, the two companies have agreed to work together to create a joint hotel investment platform, in order to accelerate the growth of Thomas Cook's own-brand hotels portfolio. The partners will contribute a minimum of five owned and directly-managed hotel properties between them, which will be used to develop the platform into a fund focused on acquiring a pipeline of further hotel and resort assets across Thomas Cook's destination markets.

In total, we closed the year with 190 own-brand hotels in the portfolio, including the eight Aldiana resorts which will come as part of the agreement we signed in September.

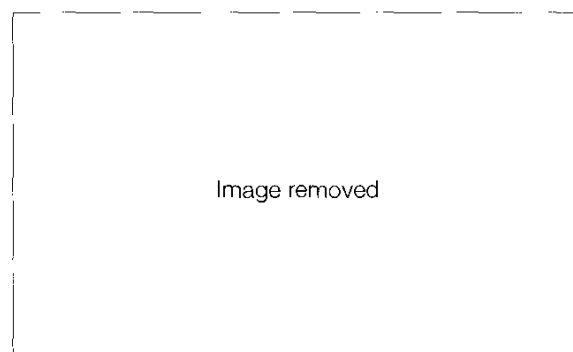
**STRENGTHENING OUR PORTFOLIO****20****HOTELS ADDED  
TO OUR PIPELINE****11****NEW HOTELS FOR  
SUMMER 2017**

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## CASE STUDY

CASA COOK  
KOSImage  
removed**REMO MASALA**  
GROUP CREATIVE DIRECTOR

We introduced Casa Cook as a hotel brand in 2016 to fill a niche in the travel industry: boutique resorts that tick all the boxes for a growing generation of independent travellers, many of whom would not think to book a package holiday.

We wanted Casa Cook to be an eclectic collection of stylish modern resorts with a low-key vibe, each with its own personality inspired as much by the local surroundings as our interpretations of global travel trends and tastes. The pool, bar and restaurant form the social hub at each hotel, informed by the Greek concept of 'Parea' – roughly translated as a get-together with friends to nourish the body and mind. The staff are attentive yet discreet, guided by a service culture that encourages guests to determine their own holiday rhythm. This extends to the dining experience: healthy and made with regional products, food is served any time of day and well into the evening.

We opened our first Casa Cook in May 2016 in Rhodes, Greece. In just one season we knew we were spot-on with our concept.

The feedback has been overwhelmingly positive and 90 per cent of our guests were new to Thomas Cook, proving that we have achieved our aim of attracting travellers who thought a holiday package wasn't for them.

Our second Casa Cook in Kos posed a challenge – how to replicate the success of Rhodes and maintain consistency of brand while at the same time forging a unique identity at the new hotel. With a beautiful location on the north coast of Kos, nestled between the countryside and the soft, dune-backed beach, we knew we had the backdrop for a stunning addition to the Casa Cook hotel, and the greenfield site allowed us to be even bolder in our design to embed the Casa Cook ethos from the ground up.

Like Rhodes, the hotel's pool, beach bar and restaurant are designed to bring guests together. The rooms themselves were all created as private sanctuaries, focusing on stylish simplicity, many with their own or shared pools. The result is a perfect balance of private and shared areas, akin to historic Greek villages and their labyrinth of cubist

houses, designed to harmonise with the surrounding landscapes.

At the close of our first summer, we're very happy with what we've achieved in Kos. The hotel ran at 95 per cent occupancy, showing how well our new brand has landed since we opened in Rhodes in May 2016, again with almost 75 per cent of customers new to Thomas Cook. Guests from across all of our source markets were attracted to our new Casa Cook, and we achieved a customer satisfaction score of 87 – a fantastic result for any hotel, let alone one in its first months of operation.

Next year we open our third Casa Cook in Chania, Crete – a pure family concept that is very different to what people might expect. In 2019 we go to Croatia where we're putting the Casa Cook vision into a sixties-era hotel – our most exciting challenge yet. There's no doubt we've got a big task to balance local individualism with our house style when we grow to four hotels, but if Casa Cook Kos is anything to go by, we're on the right track.

## PROGRESS AGAINST STRATEGY

# OUR AIRLINE

The other key element of our holiday offering which is increasingly important to our strategy for profitable growth is our airline. Over the last four years, we have transformed our airline from four separate national airlines into one Group Airline under one management team, with shared maintenance, IT systems and infrastructure.

*In parallel, we have expanded the proportion of business that the Airline does independent of the tour operator, building a world-class leisure airline which benefits from a dependable, and sizeable base of Tour Operator customers, while also increasingly competitive with airlines across Europe on a seat-only basis. Thomas Cook Group Airline is now Europe's third largest airline to sun & beach destinations, and its sixth largest long-haul carrier following strong profitable growth in our long-haul and seat-only programme*

Our strategy for the Airline is clear: to profitably build on our position in the European leisure airlines market, focused on four areas

First: we will invest in the customer experience to build on the progress we've made in the last few years, targeting the areas which we know matter most to our customers. Second: we will continue to open new routes, particularly in long haul. Third: we are leveraging the support that our tour operating business provides the Airline, whilst actively developing new distribution channels. This model helps us to flex capacity between the Tour Operator and Airline in order to optimise performance. And finally, we will continue to review our cost structure to ensure that we are operating as competitively as we can in a tough market environment, without compromising on safety. We have measures in place to further improve reliability and operational performance, as well as ensuring we have the right cost structure in the right locations

### OUR PROGRESS IN 2017

*Overall, 2017 been a positive year for our Group Airline in what has been a very competitive market, and we have made good progress against all four of our strategic aims.*

We have added 15 new destinations across our three markets, including San Francisco, New Orleans and, closer to home, Malaga and Mykonos. Next year, we will begin flying from a new base in the UK – Leeds Bradford – expanding our reach in the North of England for our tour operator customers where previously we used third-party airlines. In total, we have grown the number of long haul routes we offer by 30 per cent in the last three years, supported by a good long-haul cost base and our strong distribution channels.

*We have improved our distribution channels by working more closely with third-party tour operators, and online and traditional travel agents. We've also increased seat-only sales by improving our website and increasing the number of interline agreements we hold with other long-haul airlines. This, together with our expanded route capacity, has meant we have grown seat-only sales by 16 per cent versus 2016.*

We are now benefiting from our new, Group-wide commercial IT system, which for the first time enables us to sell all ancillaries through industry global distribution systems and to take code-share bookings from third-party airline partners with the aim of driving significant revenue growth

As part of our drive for greater efficiencies while opening up new opportunities for growth, in May we agreed to extend an existing partnership with Brussels Airlines to make them the leading carrier for Thomas Cook in Belgium. Under the terms of the agreement, we transferred all 160 pilots and cabin crew, all flight slots and two aircraft from Thomas Cook Airlines Belgium to Brussels Airlines. We also sold our ground operations and Airline Operating Certificate to SHS Aviation. The agreement gives Thomas Cook's customers a wider choice of destinations, flights and departure days while at the same time enabling us to manage our aircraft and personnel more efficiently and effectively

We followed the partnership in Belgium by agreeing a partnership in September with Canadian airline Air Transat, under which the two companies will exchange aircraft on a seasonal basis. This takes advantage of the different seasonality of the leisure market in each country, and is a further step in our strategy to work with partners in order to manage our fleet more efficiently

Finally, in October 2017 we launched a new airline based in Majorca which will give us a greater degree of operational flexibility in how we share aircraft across our Group Airline. Our plan is to focus any future growth in our fleet through this operating unit, allowing us to deploy aircraft to our three airlines in the UK, Germany and Scandinavia at a competitive cost, based upon seasonal and operational requirements.

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## CASE STUDY

## US LONG-HAUL GROWTH

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**JENS BOYD**

DIRECTOR, LONG HAUL & REVENUE  
MANAGEMENT THOMAS COOK  
GROUP AIRLINE

We've transformed the choice we offer customers over long haul in recent years, expanding the fleet and opening up new routes. In Germany for example we expanded our long-haul fleet from eight to 18 aircraft in the last three years and more than doubled the fleet in the UK to eight long-haul aircraft plus incremental peak capacity transferred from Scandinavia. We've had a particular focus on transatlantic routes, reflected in the fact that more than one million passengers flew across the North Atlantic with Thomas Cook during last year's winter and summer season.

In the same period, we introduced 11 new US destinations and we have more routes planned, including flights to Phoenix from Germany and Seattle from the UK which start in early 2018.

With a total of 18 US destinations on offer across the Group – three of which we now fly year-round – and five in Canada, we're making excellent progress with our strategy to grow our long-haul network.

As a carrier that generally focuses on leisure destinations, we, of course, look for cities that might have interest from within the German, UK and greater European outbound tourist market. However, we also are winning business in corporate markets

That is particularly evident to us on our successful nonstop route from Frankfurt to Seattle, where the frequency of our flights provide the flexibility that business travellers need.

These customers consistently tell us how great the quality and value is on our business class offer which is reaching load factors clearly above 80 per cent across our entire long-haul network.

Offering a wide range of quality options to our customers allows them to make the smart choices whenever they fly, and allows us to further develop and grow our long-haul business.

## PROGRESS AGAINST STRATEGY

# SERVICES

The additional services we offer our customers as part of their holiday, through our direct sales channels, our Airline and our in-destination teams, are a big part of what makes us different from travel agents and other tour operators.

By offering more choice to our customers in all aspects of their holiday, we can provide a unique holiday experience that is tailored specifically to our customers' individual needs.

This more personalised experience increases customer satisfaction and loyalty at the same time as delivering additional revenue and margin from the services that are purchased. The more personalised approach also enables us to combine some of the flexibility of independent travel with the hassle-free reassurance of a package holiday, thus modernising our offer and broadening our appeal to those who may not previously have considered a Thomas Cook holiday.

### OUR PROGRESS IN 2017

This year we have further increased revenues from our core ancillary services, as well as broadening the range of value-add holiday extras that we offer customers. Overall, we grew sales of ancillary services, such as seat reservations, extra luggage, meals on board, travel insurance and in-resort transfers and excursions, by 10 per cent, a total increase of 20 per cent in the two years since we created the Group Ancillaries Team in 2015.

The improvements we made to our websites this year in providing richer content have helped improve conversion of sales. As we optimise how and when we offer these services to customers, from the point of booking to in-resort, we help to build customers' excitement as they plan their perfect holiday, while increasing penetration of our services and gaining a greater share of wallet.

This year also saw the launch of a new division which builds on our heritage in financial services to offer customers across our source markets new ways to plan, save, borrow, spend and protect their holiday money. Led by Anth Mooney, the former head of financial services at Virgin Money, Thomas Cook Money will combine the trust that consumers have in the Thomas Cook brands with the best of new technology in order to offer a genuinely innovative set of new products and services.

### INCREASING SALES OF HOLIDAY EXTRAS

Image removed

**+10%**  
INCREASED SALES  
ON HOLIDAY EXTRAS

**+20%**  
INCREASE SINCE  
WE CREATED THE  
GROUP ANCILLARIES  
TEAM IN 2015



## PROGRESS AGAINST STRATEGY

# PARTNERSHIPS

As we focus on our holiday offer, we are putting our energy and attention into a number of key areas where we can create the most value for our customers.

This strategy is complemented by a series of partnerships which enable us to expand our offer to customers while at the same time streamlining our operations. Our partnerships also enable us to leverage our brand as a way to tap into new opportunities for growth

### PROGRESS IN 2017

In September, we agreed a ground-breaking strategic alliance with Expedia which will transform the way in which we produce and sell our 'complementary' hotels which sit outside of our core portfolio

Under the terms of the agreement, Expedia will become the preferred provider of hotels for our city and domestic business, offering customers more than 60,000 additional hotels in city and domestic locations than currently on sale

We will also integrate Expedia's market-leading booking platform into Thomas Cook sales channels for all hotel-only and city-break sales. This agreement completes the outsourcing of the production of our non-core hotel offer to customers, following the signing of our strategic partnership with Webjet in 2016 to outsource our non-core sun and beach hotels

Another partnership where we have made good progress in 2017 is Thomas Cook China, our joint venture with Fosun. This has got off to a great start, tapping into the growing demand from Chinese consumers for personalised holiday packages to destinations around the world. It's early days, but we took 20,000 customers on holiday in our first year of operations. Our aim is to grow this more than 10 times in 2017/18.

### CASE STUDY

## THOMAS COOK CHINA

Image removed

**ALESSANDRO DASSI**  
MANAGING DIRECTOR,  
THOMAS COOK CHINA

We officially launched Thomas Cook China in September 2016, less than a year after we announced our joint venture with Fosun. Since then, the business has developed into a one-stop, full service travel company operating inbound, domestic and outbound tourism from offices in Shanghai and Beijing.

Our plan has always been simple – combine our brand heritage and travel expertise with Fosun's local market access and knowledge to tap in to the huge growth opportunity offered by the world's largest source market for leisure travel.

While large and fast growing, the China travel market is also very competitive and fragmented. The biggest opportunity lies in the rapidly evolving behaviours of Chinese travellers. The traditional group tour travel is gradually giving way to a more independent and higher quality type of travel, and the industry is not keeping up with the pace of this change. At Thomas Cook China, we have focused on developing products that are truly unique and differentiated, leveraging Thomas Cook and Fosun's resources across destinations.

In our first year of operations we served over 20,000 customers. Recent improvements in technology and newly established local distribution partnerships have made the business more scalable. Over the next financial year, we aim to grow by more than 10 times

Both Thomas Cook and Fosun remain fully committed to supporting the future growth of our joint venture business in China. The ambition is to make China a sizeable source market for Thomas Cook Group, comparable, over time, with our more mature markets in Europe. As China's tourism sector continues to grow strongly, our expertise in travel and our unique, personalised offer means we are well-positioned to take full advantage of the opportunity

## PROGRESS AGAINST STRATEGY

# EFFICIENCIES

Underpinning every element of our strategy for profitable growth is a continual drive for greater operational efficiency, removing duplication and aligning processes so that they fit the new shape of Thomas Cook.

By reducing the number of hotels in our core holiday offering, and outsourcing the production of our non-core hotels and the technology platform to sell them, we will be able to take considerable cost and complexity out of our business – first, in terms of the contracting, pricing and other support that we need, and then through our IT systems which will support the sale of a smaller number of hotels.

These efficiencies also flow through into our marketing and digital activities where we are able to focus investment building content to support one streamlined portfolio of hotels across the Group. And this is key – reducing duplication and complexity in our systems Group-wide will enable us to increase investment in those areas where we know we can make greatest impact on customers and how they buy from us.

The result is a business which is much simpler, with a leaner organisational structure that is more focused on the activities which matter to our customers.

### OUR PROGRESS IN 2017

Continuing our efficiencies drive in Continental Europe, we consolidated our tour operator activities into three hubs for the segment: in Oberursel, Ghent and Hamburg.

We accelerated our UK store closure programme following our announcement at the start of the financial year that our retail joint venture with the Cooperative Group would end. In all we closed 101 stores this financial year, taking our retail network to 692 down from more than 1,200 in 2012.

**+** See case study in Contact on page 21

We have made good progress through procurement activities to reduce our spend by rationalising the number of suppliers we use across the Group to better leverage our scale.

Our financial shared service centre has made good progress this year and now houses financial functions from across the Group.

**+** See case study on page 31

In our airline, we have now saved £35 million against a 2015 baseline through rationalisation of our ground handling and maintenance set-ups across our destination and source markets airports.

In March we announced that we would be extending our partnership with Brussel Airlines to make them the leading carrier for our Belgian tour operator, with Thomas Cook Airlines Belgium (TCAB) no longer operating. The agreement reduces our operating costs in our Belgian market while increasing choice for customers. In addition, three of our TCAB aircraft will operate under our new airline in Palma from summer 2018.

**+** See Our Airline section on page 26

## GREATER OPERATIONAL EFFICIENCIES

Image removed

**£35m**  
SAVED IN OUR AIRLINE  
VS 2015 BASELINE

Image removed

**101**  
UK STORES CLOSED  
THIS YEAR

Image removed

## CASE STUDY

## FINANCIAL SHARED SERVICE CENTRE IN PALMA

Image removed

**PAUL HEMINGWAY**  
BUSINESS CHANGE DIRECTOR

We knew there was an opportunity to bring our finance shared service centres together from across the Group in a way which would not only significantly reduce cost but would also mean we can provide a greater consistency of quality to all parts of the business.

More importantly, one central financial shared service centre would also allow us to create a working environment that encourages the simplification and standardisation of processes so critical to our vision of 'One Thomas Cook'.

We chose Palma as a target location when we first set up the finance transformation project because of its central location within Europe and an abundance of skilled professionals from universities in Palma and mainland Spain. It is also the Group's most popular holiday destination, meaning we had a sizeable existing presence and infrastructure on which to build.

In 2014 we started to move finance functions from across our Continental business source markets into Palma. By September this year the Palma centre was providing finance services to Germany, France, Belgium, The Netherlands and Austria.

Phase two of the shared service centre is now well underway. We are in-sourcing those of the UK's finance functions which are currently run from Mumbai and Pune, India, to give us greater control over the quality of the output. We also have further plans to expand the existing services by moving further functions from within Continental Europe, the UK, our Northern Europe business and Group Airline into Palma. Our aim is that these measures will foster a culture of greater collaboration and best practice across the Group, meaning it will become more efficient as it grows.

To accommodate this growth we're moving into a new building and by September 2018 we expect to have one Finance Shared Service Centre in Palma providing services to all segments in the Group, staffed by Thomas Cook colleagues, with our shared vision and values, working to put the customer at the heart of everything we do.

# OUR KEY PERFORMANCE INDICATORS

## FINANCIAL

Graph removed

### Definition

Underlying EBIT provides a measure of the underlying operating performance of the Group and growth in profitability of the operations. EBIT margin measures the underlying EBIT generated as a proportion of sales. We target improving these metrics across all our businesses.

### 2017 performance

Group underlying EBIT of £330m and underlying EBIT margin of 3.7% represents growth of £24m due to an improvement in our Airline partially offset by competitive pressure on our UK Tour operator.

(ii) Figures have been represented on a like-for-like basis.  
(iii) FY16 figures have been restated. See Note 33 for details.

Graph removed

### Definition

Basic earnings per share (EPS) represents profit for the year attributable to equity Shareholders. This metric provides a measure of Shareholder return that is comparable over time. Underlying EPS<sup>(iii)</sup> is defined as earnings before separately disclosed items after a national tax charge divided by the weighted average number of ordinary shares. We are targeting a positive and improving EPS.

### 2017 performance

Underlying EPS has increased by 1.3p whilst Basic EPS has increased by 0.5p since FY16 due to continued progress in our transformation.

(iii) FY16 figures have been restated. See Note 33 for details.

Graph removed

### Definition

Net debt is a measure of how the Group is managing our balance sheet and capital structure. A strong balance sheet is essential to withstand external market shocks and seize opportunities. Accordingly, reducing net debt and as well as the cost of the debt is a priority for the Group.

### 2017 performance

Net debt decreased by £89m, mainly due to free cash flow generation of £93m.

(iii) FY15 Net debt has been restated to include hedging on borrowings.

## NON-FINANCIAL

Graph removed

### Definition

Net Promoter Score (NPS) is an index that measures the willingness of our customers to recommend our products and services to others. We use this as an indicator across the whole Group of our customers' overall loyalty and satisfaction in relation to our flights, our hotels and the holiday experience overall.

We are targeting NPS increases in all of our source markets and our branded hotels.

### 2017 performance

Year on year the group achieved a 4 point increase in NPS, with improvements seen in all of our major service markets and our branded hotels.

Graph removed

### Definition

Employee engagement is measured through our annual Survey, 'Every Voice'. We focus on the measurement of two main indexes, being our 'Core-index' and 'commitment-index'. Our target is to at least maintain our high core-index score and increase our commitment index score.

### 2017 performance

Our core index and commitment index was 74% and 68% respectively level with 2016. The strongest progress this year was seen in customer orientation, driven by the launch of the Customer promises and values which has driven more customer centricity. The results also told us that the strategy and direction of the Company is more clear among all managers – a foundation for driving the new strategy.

## SUSTAINABILITY

# OUR APPROACH TO SUSTAINABILITY

The millions of customers that choose Thomas Cook for their holiday have high expectations of us and the services that we provide them. We understand that sustainability is extremely important for our customers and critical to the long-term success of our business.

Over the last year, we conducted an internal review of our sustainability programmes and have developed a renewed vision and strategy for sustainability which is integral to our business strategy. Through this renewed vision and strategy, we can enhance the Company's resilience to the external environmental and social challenges while improving the experience of our customers

### OUR 'MAKING A DIFFERENCE WITH EVERY HOLIDAY' STRATEGY

Our goal is to 'make a difference with every holiday', working at every step to change the way we operate to limit environmental impacts whilst maximising the social and economic benefits travel can bring

Our new strategy is simplified and stronger than previous iterations. It reflects three key stages of the customer journey:

- › At Home
- › On the Journey
- › On Holiday

Each of these areas aligns to the three core concepts of sustainability: people, environment and business. For each one of the three areas of the customer journey, our new strategy articulates our objective as well as a simple but bold target to be achieved by 2020.

### AT HOME

We understand Thomas Cook's operations affect individuals and communities around the world. Through working with our partners, NGOs and other industry tourism groups we can better understand and mitigate the negative impact of the business whilst maximising the economic and social benefits tourism can bring

The key strand of our work 'at home' focuses on our impact as a business through our charitable and community initiatives, while ensuring we have the right policies and procedures in place to make sure we contribute meaningfully to the communities in which we live and work. In order to materially impact the lives of 100,000 people by 2020, we have taken strong steps to strengthen our impact through greater alignment on charitable activity across Thomas Cook Group.

The Group's Health, Safety & Environmental Committee this year endorsed an over-arching charitable strategy for the Group. This strategy, a first for Thomas Cook, aligns our charitable activity across our source markets and focuses our impact in key areas, including improving health and well-being, supporting vulnerable children, providing natural disaster relief and enhancing community spaces. We aim to make transformational impact through our charitable work. Greater alignment means we can focus on fewer, more relevant issues, whilst leveraging the scale of the business to create lasting change for thousands of people at home and in our destinations

	AT HOME	ON THE JOURNEY	ON HOLIDAY
<b>Objectives</b>	We will put the customer at our heart and will contribute to the communities in which we live and work.	We will strive to deliver resource efficiencies throughout the business to run our operations in the most responsible way possible.	We will embed sustainability into our business to deliver world class quality products and services. We will collaborate and innovate with our customers, partners and suppliers.
<b>2020 Targets</b>	100,000 people reached through our charitable and community programmes.	12% increase in fuel efficiency for Group Airline, from a 2008/09 baseline.	100% of our own-brand hotels to obtain a Travelife award
<b>Underpinning the strategy</b>	By engaging every one of our 22,000 employees we will make a difference with every holiday and embed sustainable practices at the heart of our business.		

## SUSTAINABILITY CONTINUED

Image removed

### CASE STUDY

## SAFEGUARDING ANIMAL WELFARE

Experiencing the local environment and wildlife-viewing opportunities can be a key part of many of our customers' holiday experiences. We recognise that these activities have a socio-economic benefit and can help to promote biodiversity and education initiatives. However, we also are acutely aware of the welfare of animals impacted by tourism.

Last year we took the decision to commission animal welfare experts Global Spirit to conduct an independent audit of a selection of animal attractions we offer.

Following that initial review we set out our new animal welfare policy in December 2016. At its heart is a simple premise - our customers trust us to make sure anything we recommend to them is consistent with our Customer Promises of Quality, Service and Reliability.

From that premise came a simple rule - if an animal attraction is found not to be fully compliant with the ABTA Global Welfare Guidance for Animals in Tourism, Thomas Cook won't sell it.

Image removed

**DAVID VILLE**  
GROUP SUSTAINABILITY  
MANAGER

We are determined to improve standards for all animals in our supply chain, while allowing our customers to enjoy and learn about animals in their natural environments. We remain committed to working responsibly and ethically in all areas of our business, and we expect the same from our suppliers.

To that end, we have already stopped the sale of 16 of 25 audited excursions following the 2016 audit programme. We have expanded our 2017 audit programme, with a further 50 audits underway.

## ON THE JOURNEY

The environmental impact of the travel industry is considerable, with around five per cent of all global carbon emissions coming from the travel and tourism sector. We recognised the risks presented by climate change and our duty to reduce our impact.

We have for a number of years worked to reduce our environmental impact across our business and supply chain. This includes reducing the use of water in our hotels, using sustainable products and materials wherever possible; reducing our production of waste, and sourcing or producing renewable energy.

Our new strategy has environmental efficiency at its heart. We are committed to making progress across our business to decrease our impact. This is demonstrated through our annual response to CDP who assess our response to carbon management. In 2016 we scored 'B', which means we are taking coordinated action on climate change issues. Fuel efficiency in our airline is central to this effort and is a key part of our approach to running efficient and profitable airlines, as demonstrated through our target of a 12 per cent increase in fuel efficiency per passenger km by 2020 (based on a 2011 baseline). We recognise the challenge presented by the Paris Climate Agreement to the airline industry and we are determined to drive incremental improvements in our current fleet, while working with the industry to develop more efficient aircraft and more sustainable fuels.

Thomas Cook Group Airline is among the most efficient in Europe, with only 72.4g CO<sub>2</sub> per passenger kilometre, compared with an average of 88.6g CO<sub>2</sub> for the five largest European airlines last year. Our German airline was ranked ninth in the Charter Carrier sector by the 2016 Atmosfair Airline Index, which ranks the carbon efficiency of the 200 largest airlines in the world.

In 2017 we brought together a group across the Airline to focus on fuel efficiency. Seven key projects were selected, including a continued drive to reduce weight on board, improve flight planning processes and optimise routing. Our upgraded aircraft continue to deliver greater comfort and a superior experience for passengers, whilst contributing toward improved efficiency.

	2017 Tonnes of CO <sub>2</sub> equivalent	2016 Tonnes of CO <sub>2</sub> equivalent
Total Scope 1 – Direct emissions	4,342,127	4,091,159
Total Scope 2 – Indirect emissions	17,931	21,045
Total emissions	4,360,058	4,112,203
Total emissions/£million turnover	484	526

We have reported on all the emission sources required under the Companies Act 2006 (Strategic report and Directors' reports) Regulations 2013. We only have responsibility for the emission sources that are included in our Annual Report and Accounts. We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), data from EU Emission Trading Scheme and emission factors from the UK Government GHG Conversion Factors Guidance 2017.

## ON HOLIDAY

Tourism is one of the biggest industries in the world and one that contributes to the economic and social fabric of destination communities. We work extensively with our hotel brands to enable our customers to experience local products and services, giving them an authentic taste of the local culture.

By 2020, we aim to have all of our own-brand hotels accredited by Travelife, the internationally-recognised scheme which helps hotels and accommodations to manage and improve their social and environmental performance. The scheme also ensures that staff in resort are employed fairly and local sourcing of products is promoted. We know that Travelife hotels are not only better for us, but they are better for our customers too, with greater results recorded in customer satisfaction surveys than our other hotels.

Over the last year we have taken strong steps to embed Travelife within our Hotels and Resorts business. This has included integrating Travelife as a brand standard in our Casa Cook, Sunwing, Sunprime and SENTIDO brands, with Smartline and Sunconnect brands to follow in 2018 and 2019.

Four years ago we launched range of excursions to allow customers to immerse themselves in the culture of a destination and create lasting memories. These 'Local Label' excursions are designed to bring a place, its people and their traditions to life; celebrating authentic food and drink, sharing personal stories with local people, and contributing to the protection of ancient sites or natural habitats.

## SUSTAINABILITY CONTINUED

Image removed

### CASE STUDY

## TUNISIA EDUCATION PROGRAMME

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**STEFANIE BERK**  
MANAGING DIRECTOR CENTRAL  
AND EASTERN EUROPE

Tourism is a hugely important industry in Tunisia, but one which suffered in recent years. It is essential that following this tough period for the tourism industry, skills are retained and quality is improved for customers. A key challenge is finding good-quality staff who are able to deliver high-quality service while promoting sustainability within our hotels.

This innovative programme consists of two strands, focusing on further education and training.

The 'Continuing Education' project, which runs from September 2017 to the end of 2018, will focus on the re-qualification and training of hotel staff in order to increase service quality and sustainability.

At the same time, Thomas Cook and Futouris eV, together with the Gesellschaft für Internationale Zusammenarbeit GmbH, the German Association for International Cooperation (GIZ), have launched a new partnership. The aim is to improve the training for the hotel staff in Tunisian hotel schools and hotels through greater experiential learning.

The pilot project will run for three years and is part of the developPPPde programme that GIZ implements on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

The two strands of the programme will enable the training and mentoring of employees in the Tunisian hotels, enabling them to access better quality employment and delivering a more sustainable, higher-quality experience for our customers.



# SUSTAINABILITY

## OUR PEOPLE

### Our strategy towards recruiting, training, developing, retaining and inspiring our workforce is critical to our success.

We recognise that strong leadership and the development of a highly engaged and committed workforce is critical to achieve our profitable growth strategy and continue the transformation of our organisation. We are particularly pleased therefore that our employee engagement score increased by 1 per cent to 77 per cent in our annual engagement survey this year. We believe this reflects the efforts we have made to bring our strategy to life for our people and inspire strong belief in our new organisational values, which form the basis of our drive to put the customer at the heart of all that we do.

#### COMMUNICATION

We know that great internal communications is key to breaking down silos and building awareness and belief in our strategy. This year has seen a re-energised approach to communication with the introduction of new global townhalls giving Peter Fankhauser the opportunity to speak to thousands of our people, increasing his visibility and reach to record numbers.

In May, we held our annual briefing for the top 170 leaders in the Thomas Cook Leadership Council (TCLC) in Tenerife. With many of our leaders now working in a horizontal or matrix structure, we can see stronger connections across the TCLC, with several subjects at the Tenerife event 'co-presented' by teams from across the Group.

#### CULTURE AND WAYS OF WORKING

With a continued focus on our 'Customer at our Heart' mantra, we felt the time was right in 2017 to make a bold next step in redefining our culture and place the customer even more firmly at the centre of our organisation.

We decided to move away from traditional corporate values, and instead, to develop and launch a new set of values and behaviours that truly reflect a holiday company. To this end, we took the unconventional approach of developing a set of values and customer promises from research into what our customers told us they want from a holiday company. Our new values help our people to understand what we expect from them in their behaviour, both towards each other and our customers.

Since launch in January, 21,255 colleagues across the Group have attended training workshops on the new Customer Promises and Values. Our annual survey showed that 80 per cent of our people understand the new values, 2 per cent more than last year, and 73 per cent of our people believe they are the right values for us to succeed. We continue to embed our new behaviours by using them to recruit, develop, measure performance and reward our people.

The new values and behaviours were introduced as criteria for our Customer Heroes recognition programme, which we continued this year. Nominated by colleagues or managers, we identify customer heroes in each market and hold local recognition events to celebrate the finalists. The winners are then recognised at the TCLC.

Our annual survey has shown that work to develop a more customer-focused culture is having an impact. There was a significant increase in customer orientation with 83 per cent of our people indicating that an awareness of customer feedback drives their improvements.

We also launched a new version of our Code of Conduct in May to reflect changes to our values and ways of working. The revised Code of Conduct is provided to all new joiners and we held briefings for existing colleagues in 2017, emphasising the importance of individual responsibility to adhere to the values at all times.

#### PUT OUR HEART INTO IT

We seek feedback & act on it

We challenge the status quo & continually look for ways to make things better

We're proactive to anticipate customer's needs

Logo removed

#### WEAR THEIR FLIP FLOPS

We listen carefully to understand what's required

We're solution focused & strive for the best outcome

We focus on the little things that make a big difference

Logo removed

#### WE'RE ONE THOMAS COOK

We're open and honest & act with integrity

We take ownership & deliver what we've promised

We work as one Thomas Cook team

Logo removed

## SUSTAINABILITY CONTINUED

### ALIGNMENT OF OUR PEOPLE BEHIND THE STRATEGY

Reflecting the need to align our people behind the Group strategy, our Group-wide performance management system is organised into key themes from the strategy so that all colleagues can select from a range of measures designed to achieve our organisational goals.

Our annual Every Voice engagement survey showed that awareness of strategy rose 2 per cent this year to 68 per cent.

Building an efficient organisational structure is a key strategic objective and we are working across the Group to better align structures. Our organisational design review includes a focus on reducing layers between the CEO and our front line colleagues, and increasing spans of control – creating larger teams with fewer managers. The aim is to increase speed of decision making and empower teams to take action for the benefit of our customers.

We have also further developed our matrix structure to bring the operations closer to the horizontal functions. This has seen us split our two key horizontals (Commercial and Digital & Marketing) across the UK, Northern Europe and Continental Europe. This ensures that our leaders think 'Group' at the same time as their local markets, streamlining the organisation and accelerating the next phase of our strategy for profitable growth.

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### PEOPLE/TALENT DEVELOPMENT

We strengthened our Group-wide talent management processes this year, culminating in our annual talent review with the PLC Board in July.

Introducing a newly updated definition of 'potential', we have reviewed all our leaders' performance to identify those we regard as 'high potential' and reviewed succession for all roles across the TCLC. 70 per cent of our leaders were rated as 'key talent', up from 61 per cent the previous year, while 69 per cent of our TCLC have an identified successor.

We welcomed two new members to the Executive Committee (previously General Management Council) in the year: Ingo Burmester as Chief Hotels Officer, and Anth Mooney as our new Chief Financial Services Officer, leading Thomas Cook Money. Tenure across the TCLC, those reporting to the Executive Committee, increased, with the number of leaders with less than one year's tenure reducing from 45 per cent to 31 per cent. Attrition across the TCLC was 14 per cent.

There were 30 new appointments into the TCLC, of which 20 were internal promotions, demonstrating that our talent processes are working. We have also moved key high potential leaders into our two new businesses in China and Thomas Cook Money, aligning talent with our strategic priorities.

In June, we launched our first global career site, aimed at encouraging international movement and retaining our talent. Within the first three months, the site had received over 120,000 visits and 16,000 registrations.

We launched a new Group-wide Leadership Development programme, Leadership Plus, for our middle managers, department heads and local Directors, recognising the influence this group has on overall engagement.

Leadership Plus addresses three main areas:

- > Influencing without authority (reflecting the growth of matrix structures)
- > Authentic leadership
- > Building highly effective teams

40 leaders attended the pilot programme with excellent feedback. A further 45 leaders started the programme in October, with further programmes planned for 2018.

In addition, leaders from across our In-Destination teams attended a new Leadership programme aimed at addressing the challenges of leading virtual teams and building high performance.

Our Navigator programme, our Group-wide emerging talent programme, successfully concluded in February, with presentations to the Executive Committee from 18 leaders.

## DIVERSITY

Our vision to be the world's most loved holiday company is supported by an internationally diverse workforce. We believe that improving our diversity will open up new ways of thinking, get us closer to our customers and drive profitable growth. We are committed to creating an inclusive working environment in which every employee is able to fulfil their potential through training, career development and fair promotion, regardless of personal characteristics.

Gender diversity has been a particular focus area for us in 2017. We introduced 'balanced' gender shortlists for the first time, for leadership roles, ensuring a fair and consistent selection of males and females. In the UK, we ran our second Women's sponsorship programme for high potential females, while in Germany, we introduced a family centre in our Head Office in Oberusel, to support working parents in their child care.

Our international diversity across our Leadership Team is strong, with 18 nationalities represented, the largest of which are British at 37 per cent, German at 28 per cent and Swedish at 9 per cent. We are working to create a new international mobility framework, designed to encourage the movement of colleagues across different countries and markets.

Ethnicity is also an increasing subject of focus. We aim to establish an organisational benchmark in 2018 and establish a framework of activity based on the results. We remain committed to a fully diverse workforce which represents the wide range of ethnicities from both our customer base and the countries and destinations in which we operate.

## EVERY VOICE – ENGAGEMENT

Our annual 'Every Voice' colleague survey is at the heart of our people strategy. The 5th annual Group-wide survey was completed by just over 19,013 colleagues, representing a response rate of 78 per cent, something we attribute to the fact that 75 per cent of our people said that they had seen positive actions taken based on results of our last survey.

Our 'Core Index' – an indication of a highly performing organisation – was 74 per cent, level with 2016, and our engagement index rose by 1 per cent to 77 per cent.

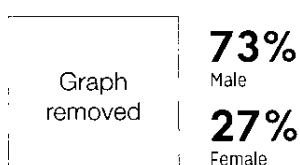
Customer orientation was at 83 per cent, seeing the highest increase of all areas of our survey. This is particularly pleasing, given our 'Customer at our heart' focus.

Our employee commitment remains high at 70 per cent, and we saw a 2 per cent increase in colleagues recommending Thomas Cook as an employer.

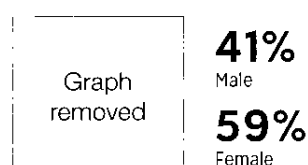
Each team builds an action plan off the back of their results, culminating in one overall plan for the Group. Action plans are reviewed closely by the Executive Committee to understand progress and ensure momentum is maintained.

## GENDER DIVERSITY ACROSS THE THOMAS COOK GROUP

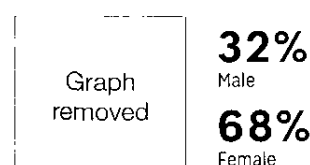
### Executive Committee



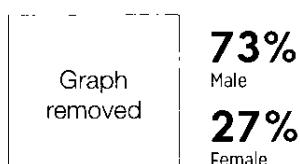
### Other Managers



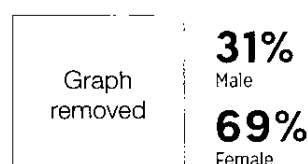
### Total



### Thomas Cook Leadership Council



### Other Employees



# FINANCIAL REVIEW

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“The Group achieved good financial progress in FY17, reporting higher revenues, higher underlying EBIT and lower Net Debt.”

MICHAEL HEALY  
CFO

## HIGHLIGHTS

### Higher revenues

Revenue increased by £722m (9%) on a like-for-like basis (FY16: £8,285m)

**£9,007m**

### Delivered improved cash conversion

Cash conversion ratio increase of 45ppts (FY16: 37%)

**82%**

### Underlying EBIT improvement

Underlying EBIT increased by £24m on a like-for-like basis (FY16: £306m)

**£330m**

### Delivered a stronger balance sheet

Like-for-like net debt reduced by £122m (FY16: £162m)

**£40m**

### Delivering returns for shareholders

Basis earnings per share increased by 0.5p (FY16 restated: 0.3p)

**0.8p**

### Continuation of a dividend

Dividend per share increase of 0.1p (20%) (FY16: 0.5p)

**0.6p**

## FINANCIAL RESULTS AND PERFORMANCE REVIEW GROUP

£m	12 months ended 30 Sep 2017	12 months ended 30 Sep 2016 (restated) <sup>(i)</sup>	Change	Like-for-like change
Revenue	9,007	7,810	+1,197	+722
Underlying <sup>(ii)</sup> Gross profit	1,995	1,829	+166	+56
Underlying <sup>(ii)</sup> Gross Margin (%)	22.1%	23.4%	-130bps	-130bps
Underlying <sup>(iii)</sup> Operating expenses	(1,665)	(1,527)	-138	-32
<b>Underlying<sup>(iv)</sup> profit from operations (Underlying EBIT)</b>	<b>330</b>	<b>302</b>	<b>+28</b>	<b>+24</b>
EBIT Separately Disclosed Items	(99)	(105)	+6	+6
<b>Profit from operations (EBIT)</b>	<b>231</b>	<b>197</b>	<b>+34</b>	<b>+30</b>
Associated Undertakings	(1)	(1)	Same	Same
Net investment income	-	1	-1	-1
Underlying <sup>(v)</sup> Net finance charges	(143)	(140)	-3	-3
Separately disclosed finance charges	(41)	(23)	-18	-18
<b>Profit before tax</b>	<b>46</b>	<b>34</b>	<b>+12</b>	<b>+8</b>
Tax	(34)	(33)	-1	-1
<b>Profit after tax</b>	<b>12</b>	<b>1</b>	<b>+11</b>	<b>+7</b>
Basic EPS	0.8p	0.3p	+0.5p	-
Underlying <sup>(vi)</sup> EPS	9.3p	8.1p	+1.2p	-
DPS <sup>(vii)</sup>	0.6p	0.5p	0.1p	-
Free cash flow <sup>(viii)</sup>	153	60	+93	-
Net debt	(40)	(129)	+89	+122

**Notes:**

- (i) As part of the preparation of the FY17 Group financial statements, management identified several non-cash adjustments which have been applied to the Group's financial statements for FY16. Further details of the restatement can be found on page 165.
- (ii) Underlying refers to trading results that are adjusted for separately disclosed items that are significant in understanding the ongoing results of the Group. Separately disclosed items are detailed on page 135.
- (iii) Like-for-like change adjusts for the impact of foreign exchange translation, fuel. The detailed like-for-like adjustments are shown on page 42.
- (iv) Dividend per share of 0.6 pence is equivalent to a cash cost of £9 million.
- (v) Free cash flow is cash from operating activities less exceptional items, capital expenditure and interest paid. A summary cash flow statement is presented on page 49, and a reconciliation of free cash flow is shown on page 52.
- (vi) Like-for-like net debt adjusts the prior year comparative for foreign exchange translation, the impact in change in finance lease arrangements and associated costs of the bond refinancing, which totalled £33 million, resulting in FY16 like-for-like net debt of £162 million.

**OVERVIEW**

The comments below are based on underlying like-for-like comparisons unless otherwise stated, as Management believes this provides a clearer view of Group's year-on-year progression.

The Group made good financial progress in FY17, reporting higher revenues, higher underlying EBIT and lower net debt, compared to last year. Group revenue increased by 15% (£1,197 million) on a headline basis (before adjusting for the positive benefits of foreign exchange translation differences), and by 9% (£722 million) on a like-for-like basis, as demand grew for our holidays, particularly to Greece and Long-Haul destinations, as well as Turkey and Egypt.

Supported by our strong revenue growth, gross profit increased by £56 million, although gross margin decreased by 130 basis points to 22.1%, mainly reflecting a more competitive market in holidays to Spain, and a mix effect from higher sales in our Russian business which has a structurally lower gross margin than our other businesses.

The Group's underlying EBIT improved by £24 million to £330 million, while the Group's profit from operations improved by £30 million to £231 million, due to lower EBIT Separately Disclosed Items.

Separately disclosed finance charges increased by £18 million to £41 million due to costs associated with our bond refinancing in December 2016. As a result, Group profit before tax increased by £8 million to £46 million. The tax charge for the year was £34 million, £1 million higher than last year, resulting in Group profit after tax of £12 million.

Free cash flow for the year was £153 million, £93 million higher than last year, underpinned by growth in EBITDA of £46 million to £552 million, and improvements in working capital as a result of stronger trading. The Group's improved cash flow position, together with non-cash changes such as foreign currency translation, resulted in net debt of £40 million, £122 million lower on a like-for-like basis than the position as at 30 September 2016.

## FINANCIAL REVIEW CONTINUED

### LIKE-FOR-LIKE ANALYSIS

Certain items, such as the normal translational effect of foreign exchange movements, affect the comparability of the underlying performance between financial years. To assist in understanding the impact of those factors, and to better present underlying year-on-year changes, 'like-for-like' comparisons with FY16 are presented in addition to the change in reported numbers.

The 'like-for-like' adjustments to the Group's FY16 results and the resulting year-on-year movements are as follows

Group (£m)	Revenue	Gross margin %	Operating expenses	Underlying EBIT
<b>Restated FY16<sup>(i)</sup></b>	<b>7,810</b>	<b>23.4%</b>	<b>(1,527)</b>	<b>302</b>
Impact of Currency Movements	575	(0.3)%	(106)	4
Reduced fuel cost	(100)	0.3%	n/a	n/a
<b>Restated FY16 Like-for-like</b>	<b>8,285</b>	<b>23.4%</b>	<b>(1,633)</b>	<b>306</b>
<b>FY17 Reported</b>	<b>9,007</b>	<b>22.1%</b>	<b>(1,665)</b>	<b>330</b>
Like-for-like change	+722	n/a	-32	+24
Like-for-like change (%)	+9%	-130bps	-2%	+8%

**Note:** (i) See Note 33 on page 165 for details of the prior year restatement

### PERFORMANCE BY BUSINESS LINE

The Group now reports the operations of its Group Tour Operator and Group Airline businesses as its primary reporting segmentation, as this split better reflects how the business is managed and reported internally. This segmentation was previously given as supplementary information. Further description of this change in segmental reporting can be found under "Segmental Information" on page 130

Underlying EBIT by business line (£m)	Group Tour Operator	Group Airline	Corporate	Group
<b>Restated FY16<sup>(i)</sup></b>	<b>249</b>	<b>83</b>	<b>(30)</b>	<b>302</b>
Impact of Currency Movements	6	(2)	-	4
<b>Restated FY16 Like-for-like</b>	<b>255</b>	<b>81</b>	<b>(30)</b>	<b>306</b>
<b>FY17 Reported</b>	<b>250</b>	<b>115</b>	<b>(35)</b>	<b>330</b>
Like-for-like change	-5	+34	-5	+24
Like-for-like change (%)	-2%	+42%	-17%	+8%

**Note:** (i) See Note 33 on page 165 for details of the prior year restatement

### PERFORMANCE BY GEOGRAPHICAL MARKET

As the Group's Tour Operator and Airline activities are integrated to varying degrees in each of our source markets, we believe that it is helpful to provide supplementary information by geographic source market, consistent with how the Group has reported in previous years

Underlying EBIT by source market (£m)	UK	Continental Europe	Northern Europe	Condor	Corporate	Group
<b>FY16 Restated</b>	<b>146</b>	<b>72</b>	<b>124</b>	<b>(10)</b>	<b>(30)</b>	<b>302</b>
Internal business unit transfer(i)	(2)	2	-	-	-	-
Impact of Currency Movements	-	1	5	(2)	-	4
<b>FY16 Like-for-like</b>	<b>144</b>	<b>75</b>	<b>129</b>	<b>(12)</b>	<b>(30)</b>	<b>306</b>
<b>FY17 Reported</b>	<b>111</b>	<b>108</b>	<b>134</b>	<b>12</b>	<b>(35)</b>	<b>330</b>
Like-for-like change	-33	+33	+5	+24	-5	+24
Like-for-like change (%)	-23%	+44%	+4%	+200%	-17%	+8%

**Note:**

(i) The trade and assets of our accommodation business, Hotels4U, was transferred from our UK business to our Continental Europe business in August 2016. A like-for-like adjustment has been made to show comparable performance of these two segments

### REVENUE

Group revenue increased by £722 million (9%) to £9,007 million, as we expanded our Winter and Summer programmes to meet growing customer demand. This resulted in higher revenue from holidays and flights to Greece, Spain, and Long Haul destinations, as well as other Short and Medium haul destinations including Turkey and Egypt. The main components of the changes by destination are as follows:

Graph removed

## GROSS PROFIT AND MARGIN

Gross profit increased by £56 million to £1,995 million, supported by strong revenue growth. Gross margin of 22.1% is 130 basis points lower than last year, mainly reflecting the impact of bed cost inflation on holidays to Spain, particularly in our UK business, and the mix effect in Continental Europe of strong growth in our Russian business, which has a lower relative gross margin. Our Airline gross margin was broadly in line with last year, with short-haul yield pressure during Winter offset by the Condor turnaround during Summer. The impact on the Group's gross margin performance by segment is set out below.

Graph removed

## OPERATING EXPENSES/OVERHEADS

Operating expenses before depreciation increased by 2% (£28 million) to £1,443 million as the benefits of efficiency initiatives were offset by inflation and volume-related increases to the operating cost base. Depreciation increased by £4 million to £222 million reflecting investment in our aircraft fleet and IT enhancements.

£m	Year ended 30 Sep 2017	Year ended 30 Sep 2016 Like-for-like	Like-for-like change
Personnel Costs	(975)	(946)	-29
Net Operating Expenses	(468)	(469)	+1
<b>Sub Total</b>	<b>(1,443)</b>	<b>(1,415)</b>	<b>-28</b>
Depreciation	(222)	(218)	-4
<b>Total</b>	<b>(1,665)</b>	<b>(1,633)</b>	<b>-32</b>

## UNDERLYING EBIT

The Group generated underlying EBIT of £330 million during the year, £24 million (8%) higher than last year on a like-for-like basis. The principal components of the Group's EBIT performance for the year are summarised below.

## EBIT

Statutory EBIT of £231 million represents an increase of 15% like-for-like (£30 million), due to lower underlying EBIT, together with a reduction in separately disclosed items to £99 million (FY16: £105 million).

## FINANCIAL REVIEW CONTINUED

### SEGMENTAL REVIEW

#### PRIMARY SEGMENTATION: PERFORMANCE BY BUSINESS LINE

During the year underlying EBIT increased by £24 million on a like-for-like basis, analysed as follows.

£m	Group Tour Operator	Group Airline	Corporate <sup>(i)</sup>	Group
Revenue	7,122	3,185	(1,300)	9,007
Gross Margin (%)	15.5%	27.8%	n/m	22.1%
Underlying EBIT	250	115	(35)	330
Underlying EBIT margin (%)	3.5%	3.6%	n/m	3.7%
Like-for-like Underlying EBIT change	-5	+34	-5	+24
Customers ('000)	11,032	18,528	(9,359)	20,201

**Note:** (i) Negative revenue and customers reported in corporate are intercompany eliminations

A review of the performance of each of our business units is set out below.

■ Group Tour Operator ■ Group Airline ■ Corporate ■ Group

Graph removed

Graph removed

Graph removed

Graph removed



## GROUP TOUR OPERATOR

Revenue (£m)	Gross margin (%)	Underlying EBIT (£m)	EBIT margin (%)	Customers (000's)
<b>7,122</b>	<b>15.5</b>	<b>250</b>	<b>3.5</b>	<b>11,032</b>

£m	FY17	Restated FY16	Change	Restated FY16 Like-for-like	Like-for-like change
Revenue	7,122	6,223	+899	6,646	+476
Gross Margin (%)	15.5%	17.0%	-160bps	16.9%	-140bps
<b>Underlying EBIT</b>	<b>250</b>	<b>249</b>	<b>+1</b>	<b>255</b>	<b>-5</b>
Underlying EBIT margin (%)	3.5%	4.0%	-50bps	3.8%	-30bps
Customers (000's)	11,032	10,867	+165	10,867	+165
ASP (£)	646	572	+74	612	+34

The market for overseas holidays experienced a resurgence in demand in FY17, following a more muted demand environment in FY16 due to geopolitical disruption. Against this backdrop, our Group Tour Operator business increased revenues by £476 million (7%) to £7,122 million, reflecting growth in both customer numbers and average selling prices across most of our source markets particularly in Continental Europe. Supported by both strong demand and a continued focus on efficiencies, Continental Europe grew underlying EBIT significantly, while Northern Europe further increased profits on top of a strong performance last year. This was offset by lower margins in our UK business, and as a result Group Tour Operator underlying EBIT declined by £5 million to £250 million.

The underlying EBIT for our Group Tour Operator, split by source market, is set out below.

£m	FY17	Restated FY16	Change	Restated FY16 Like-for-like	Like-for-like change
<b>Underlying EBIT</b>					
- UK Tour Ops	52	87	-35	86	-34
- Continental Europe Tour Ops	96	70	+26	71	+25
- Northern Europe Tour Ops	102	92	+10	98	+4
<b>Total</b>	<b>250</b>	<b>249</b>	<b>+1</b>	<b>255</b>	<b>-5</b>

## UK

Having traded strongly in the first half, our UK Tour Operator experienced challenging conditions in the second half of the year, as highlighted in previous announcements. A combination of hotel price inflation, weaker Sterling and increased air capacity made the market for holidays to Spain more competitive than in previous years, putting pressure on input costs and selling prices. The business also absorbed the costs of rising fraudulent illness claims during the year, and of supporting 10,000 customers caught up in Hurricane Irma. As a result, while revenue grew by 3%, underlying EBIT declined by £34 million compared to the strong result reported last year.

In response, our UK Tour Operator has implemented a set of actions to improve profitability. We have taken a robust approach towards illness claims including improving our handling and assessment processes, and taking legal action against fraudsters – as a result, the claim rate has declined dramatically. We are also rebalancing our destination mix towards more profitable, fast-growing destinations such as Turkey and Egypt, and we are continuing to drive operating efficiencies.

In addition, we are continuing to reposition the business. In FY17 web bookings grew by more than 25% and we closed over 100 stores, in order to accelerate the shift towards online distribution. We also grew sales of differentiated holidays, by 16% for holidays to own-brand hotels, and by 8% for sales to selected partner hotels, in order to improve our competitive positioning. Together, we expect that these actions will help to return the business to its former profitable growth trajectory.

## FINANCIAL REVIEW CONTINUED

### Continental Europe

Our Continental Europe tour operating business achieved a significantly improved performance in FY17, with revenues up 9%. Stronger demand for our holidays, coupled with a continuing efficiencies programme, helped to increase EBIT by £25 million (35%) to £96 million.

In Germany, we maintained our market share in a highly competitive marketplace, growing revenues by 7%. Underlying EBIT increased by £13 million (29%) to £58 million, helped by business improvement initiatives, including expanding our online bookings by 22%, growing sales of holidays to own-brand hotels by 9%, expanding our relationships with distribution partners, and restructuring our back office functions.

Most of our other businesses in Continental Europe also experienced good demand growth and achieved higher EBIT. Sales in our Russian business more than doubled, amid a resurgence in demand for outbound holidays as Russian tourists returned to Turkey following a travel ban in the previous year. Our businesses in Eastern Europe also performed strongly during the year.

### Northern Europe

Our Northern Europe business reported revenue growth of 7%, reflecting further expansion in our own-brand hotel range. Trading over the Summer period was notably stronger, after a Winter performance that was in line with the previous year, as we expanded sales of both classic package holidays and dynamic packages. As a result, underlying EBIT grew by a further £4 million to £102 million, further building on a very strong year last year.

During the year, the business further strengthened its customer proposition, achieving the highest net promoter score in the Group of 51, up 7 points compared to FY16. We continue to refine and streamline the cost structures within the four Nordic source markets and to leverage the competitive strengths of our integrated business model.

## GROUP AIRLINE

Revenue (£m)	EBITDAR margin (%)	Underlying EBIT (£m)	EBIT margin (%)	Departed customers ('000's)
<b>3,185</b>	<b>13.3</b>	<b>115</b>	<b>3.6</b>	<b>18,528</b>

£m	FY17	FY16	Change	FY16 Like -for-like	Like -for-like change
Flight Revenue	2,847	2,530	+317	2,598	+249
Ancillary Revenue	310	265	+45	283	+27
Other Revenue	28	30	-2	32	-4
<b>Total Revenue</b>	<b>3,185</b>	<b>2,825</b>	<b>+360</b>	<b>2,913</b>	<b>+272</b>
Total Operating Costs	(2,760)	(2,465)	-295	(2,536)	-224
<b>Underlying EBITDAR</b>	<b>425</b>	<b>360</b>	<b>+65</b>	<b>377</b>	<b>+48</b>
Underlying EBITDAR margin (%)	13.3%	12.7%	+60bps	12.9%	+40bps
<b>Underlying EBIT</b>	<b>115</b>	<b>83</b>	<b>+32</b>	<b>81</b>	<b>+34</b>
Underlying EBIT margin (%)	3.6%	2.9%	+70bps	2.8%	+80bps
Customers ('000's)	18,528	17,580	+948	17,580	+948
Proportion of internal sales (%)	42%	45%	-30bps	-	-
Available Seat Kilometres (ASK) (m)	70,171	66,776	+3,395	66,776	+3,395
Seat Load Factor (SLF) (%)	89.7%	89.3%	+40bps	89.3%	+40bps
Short/Medium Haul Yields per seat (£)	110	104	+6	112	-2
Long Haul Yields per seat (£)	306	299	+7	321	-15
Unit cost (p./ASK)	(4.37)	(4.11)	-0.26	(4.40)	+0.03

Our Group Airline revenue increased by £272 million (9%) to £3,185 million on a like-for-like basis, driven by further expansion of our long-haul business from UK and Germany. In particular, our long-haul performance was driven by seat-only growth to new destinations including New Orleans, San Diego and San Francisco, together with growing third-party tour operator sales in Germany.

In short and medium haul, a number of actions to turn around our Condor business resulted in an overall improvement in yields, while load factors increased by 110 basis points to 91.1%. In the UK, we also selectively added capacity to Turkey, in response to strong demand.

Ancillary revenues grew by 10%, partly as a result of the increase in long haul flying which attracts higher ancillary sales than short and medium haul flights. In addition, we experienced growing demand for seat reservations, as well as for our pre-packaged duty free products sold under the "Airshoppen" brand. As a result, ancillary revenue per passenger increased by 4% over the year to £16.63 (FY16: £16.10).

Operating cost increases due to volume-related growth and less favourable exchange rates were mitigated by cost efficiencies as part of our profit improvement programme, such that the total cost per ASK reduced by 0.03 pence to 4.37 pence per ASK.

Underlying EBIT for our Group Airline grew by 42% (£34 million) to £115 million. The improvement was largely driven by the turnaround in Condor, which made good progress implementing the profit improvement measures that we set out in our FY16 results announcement in November 2016. These included re-routing capacity from the Spanish Islands to alternative destinations such as Italy, Bulgaria and Greece and improving the flexibility of our flight planning, helping to optimise yields and to mitigate competitive pricing pressures in the market. As a result, Condor reported 9% higher revenue than last year, and improved Underlying EBIT by £24 million, to achieve a positive EBIT result of £12 million.

Our UK Airline reported revenue of 13% higher than last year, reflecting increases to the long haul and short/medium haul flight programme to take advantage of a recovery in demand to Turkey and growth in new and existing long haul destinations. As a consequence of further cost-out initiatives and a further strengthening of our seat-only offering, our UK airline delivered underlying EBIT in line with last year.

In Belgium, our airline recovered from the terror attacks at Brussels airport in March 2016 to deliver an Underlying EBIT improvement of £10 million compared to last year and broadly in line with FY15 levels. As previously announced, from November 2017, our Belgian airline business transferred to Brussels Airlines such that it is no longer part of the Group.

## FINANCIAL REVIEW CONTINUED

### OTHER FINANCIAL ITEMS

#### NET FINANCE CHARGES

Group net finance costs for the year of £143 million were broadly in line with last year (FY16: £140 million). Bank and bond interest charges reduced by £6 million following the replacement of our 2017 and 2020 bonds with a new lower-coupon £750 million bond issued in December 2016. This was offset by a £6 million increase in non-cash interest charges relating to the discounting of long term provisions, within other interest costs.

£m	FY17	FY16
RCF and Bond interest	(68)	(72)
Commitment fees and other bank related charges	(10)	(12)
Letters of credit and other interest payable	(44)	(36)
Fee amortisation	(7)	(7)
Interest income	4	6
Net interest & finance costs before aircraft financing	(125)	(121)
Aircraft financing	(18)	(19)
Net Finance Costs	(143)	(140)

Further information on Finance costs are set out in Note 8 on page 136

#### SEPARATELY DISCLOSED ITEMS

Net Separately Disclosed Items in FY17 comprised a charge of £140 million, which is £12 million higher than the prior year (FY16: £128 million) as analysed below:

£m	FY17	FY16
New Operating Model implementation costs	(42)	(50)
Restructuring costs	(12)	(20)
Onerous contracts and store closures	(30)	(21)
Costs of transformation	(84)	(91)
Reassessment of contingent consideration	32	4
Write offs, revaluations and other non-cash	(23)	(15)
Other	(24)	(3)
EBIT related items	(99)	(105)
Finance related charges	(41)	(23)
Total	(140)	(128)
Of which:		
- Cash <sup>(i)</sup>	(125)	(93)
- Non-Cash	(15)	(35)

**Note:**

(i) Items classified as Cash represent both current year cashflows and cash effects which are yet to be realised

Further information on Separately Disclosed Items is set out in Note 7 on page 135.

#### TAXATION

The tax charge for the year increased to £34 million (FY16: £33 million). Current tax of £42 million is £3 million higher than last year due to increased tax payable in respect of our profitable business in Northern Europe. A net credit of £8 million was recognised during the year for deferred tax which largely reflects the increased recognition of deferred tax assets in respect of carried forward tax losses in our Spanish entities.

UK tax legislation was enacted after the balance sheet date which will restrict the permitted level of utilisation of brought forward tax losses. The associated UK deferred tax asset will subsequently be recovered over an extended period of time. Although we expect this to impact the recognition of deferred tax assets in FY18 in respect of our sizeable UK tax losses, we do not expect there to be a significant impact on cash tax

£m	FY17	FY16
Current Tax	(42)	(39)
Deferred Tax	8	6
Total Tax Charge	(34)	(33)
Total Cash Tax	(37)	(15)

#### OPERATING LEASE CHARGES

Operating lease charges in the year increased by £23 million compared to last year to £236 million. Aircraft operating lease charges increased by £24 million to £144 million primarily due to the weakening of the pound against the US Dollar and changes to our narrow-body fleet.

£m	FY17	FY16
Included within EBIT:		
Aircraft operating lease charges <sup>(i)</sup>	144	120
Retail operating lease charges	41	40
Hotel operating lease charges	19	21
Other operating lease charges	32	32
Total	236	213

**Note:**

(i) In addition the Group incurred seasonal wet lease costs of £75m (2016: £60m) during the year. The year-on-year increase was due in part to unplanned requirements as a result of grounded aircraft in Condor as well as the expansion of our long-haul programme, increased summer demand in the UK and a fleet rollover on four aircraft, thus resulting in higher operating lease charges

## EARNINGS PER SHARE

Underlying earnings per share, before separately disclosed items, was 9.3 pence, a year-on-year increase of 1.2 pence (FY16: 8.1 pence). Basic earnings per share for the year was 0.8 pence, a year-on-year increase of 0.5 pence (FY16 restated: 0.3 pence). Further information is included in Note 11 on page 138.

£m	FY17	FY16
Profit After Tax	12	1
Separately Disclosed Items	140	128
Attributable to Non-controlling Interests	1	3
Exceptional Tax	(10)	(8)
Adjusted Profit After Tax	143	124
Weighted Ave. # of shares (m)	1,536	1,531
Underlying Earnings Per Share (Pence)	9.3p	8.1p

### Note:

(i) This represents the tax impact of separately disclosed items.

## SUMMARY CASH FLOW STATEMENT<sup>(i)</sup>

£m	FY17	FY16
Underlying EBIT	330	302
Depreciation	222	204
Underlying EBITDA	552	506
Working capital	105	18
Tax	(37)	(15)
Pensions & other operating	(24)	(25)
Operating Cash flow	596	484
Exceptional items	(105)	(95)
Bond Refinancing	(10)	-
Capital expenditure	(199)	(200)
Net interest paid	(129)	(129)
Free Cash flow <sup>(ii)</sup>	153	60
Dividend and Co-Op payment	(40)	(4)
Net Cash flow	113	56
Opening Net Debt	(129)	(128)
Net Cash Flow	113	56
Other Movements in Net Debt <sup>(iii)</sup>	(24)	(57)
Closing Net Debt	(40)	(129)

### Notes:

(i) The Group uses three non-statutory cash flow measures to manage the business. Operating Cashflow is net cash from operating activities excluding interest income and the cash effect of separately disclosed items impacting EBIT. Free Cash flow is cash from operating activities less capital expenditure and net interest paid. Net Cashflow is the net (decrease)/increase in cash and cash equivalents excluding the net movement in borrowings, finance lease repayments and facility set-up fees.

(ii) Free cash flow is cash from operating activities less exceptional items, capital expenditure and net interest paid.

(iii) Other movements in net debt include currency translation and the reclassification of operating leases to finance leases.

Free cash flow of £153 million was £93 million higher than last year (2016: £60 million), reflecting growth in EBITDA of £46 million to £552 million and an improvement in working capital as a result of stronger trading. These improvements were partially offset by increased outflows in relation to the timing of tax payments and additional one-off financing costs associated with the bond refinancing in December 2016.

Net cash interest paid was unchanged at £129 million. Bond and bank interest costs reduced by £9 million, whereas volume-related costs such as letters of credit increased by a similar amount.

Current year cash exceptional items are analysed as follows:

Exceptional items (£m)	FY17	FY16
Current year cash related exceptionals	(125)	(93)
Of which will be paid in future years	26	20
Prior year cash exceptionals paid in current year	(16)	(13)
Prior year EU261 (paid in Financial Year)	-	(9)
Total cash exceptional items <sup>(ii)</sup>	(115)	(95)

### Note:

(i) Total cash exceptionals in FY17 are the sum of exceptional items £105m and Bond Refinancing costs of £10m as presented in the cash flow.

The Group uses a measure of cash conversion representing the percentage of underlying profit before tax that is converted into free cash flow. On this basis, cash conversion has increased in FY17 to 82% (FY16: 37%) due to the working capital benefits from the volume related increases experienced in FY17.

Cash conversion (£m)	FY17	FY16
Underlying EBIT	330	302
Net interest	(143)	(140)
Underlying Profit before tax	187	162
Free Cash flow <sup>(ii)</sup>	153	60
Cash conversion	82%	37%

### Note:

(i) Free cash flow is cash from operating activities less exceptional items, capital expenditure and interest paid.

## FINANCIAL REVIEW CONTINUED

### NET ASSETS

Net Assets decreased by £46 million from £326 million at September 2016 to £280 million at September 2017. This includes a negative revaluation of £83 million for the Group's derivatives in respect of fuel and currency hedging, due mainly to an increase in the differential between our hedged fuel prices and spot prices, together with a positive revaluation of our pension liability of £88 million due to an improvement in bond yields used to calculate the present value of the Group's pension obligations

Graph removed

#### Note:

(i) Further information on prior year restatement is set out in Note 33 on page 165

### NET DEBT

The Group sources debt and finance facilities from a combination of the international capital markets and its relationship banking group. During FY17, the Group's net debt has fallen from £129m to £40m, equivalent to an improvement of £122m on a like-for-like basis.

Like-for-like Net Debt reconciliation	£m
<b>FY16 Reported</b>	<b>(129)</b>
Impact of currency and other non-cash movements	10
Aircraft lease extensions	(18)
Bond refinancing	(25)
<b>FY16 Like-for-like</b>	<b>(162)</b>
<b>FY17 Reported</b>	<b>(40)</b>
Like-for-like change	+122

The composition and maturity of the Group's net debt is summarised below.

£m	30 Sep 2017	30 Sep 2016	Movement	Maturity
2017 GBP Bond	-	(200)	200	June 2017
2020 Euro Bond	-	(451)	451	June 2020
2021 Euro Bond	(353)	(345)	(8)	June 2021
2022 Euro Bond	(662)	-	(662)	June 2022
Commercial Paper	(218)	(117)	(101)	Various
Revolving Credit Facility <sup>(i)</sup>	-	-	-	May 2019
Finance Leases	(154)	(183)	29	Various
Aircraft related borrowings	(32)	(64)	32	Various
Other external debt	(37)	(26)	(11)	Various
Arrangement fees	17	23	(6)	n/a
<b>Total Debt</b>	<b>(1,439)</b>	<b>(1,363)</b>	<b>(76)</b>	
Cash (net of overdraft)	1,399	1,234	165	
<b>Net Debt</b>	<b>(40)</b>	<b>(129)</b>	<b>89</b>	

#### Note:

(i) The Revolving Credit Facility (RCF) is shown as nil in FY17 and FY16 however in FY17 the Group had utilised £28 million (FY16: £20 million) which related to the ancillary facilities of the RCF which was used solely for bonding and is thus net debt neutral

As at 30 September 2017 the Group had £800 million of Committed Facilities, which comprised a Revolving Credit Facility of £500 million, of which £28 million was utilised at 30 September 2017 (£20 million in September 2016), and a £300 million bonding and guarantee facility of which £267 million was drawn at 30 September 2017 (30 September 2016: £275 million). All of the combined £295 million of drawn balances have been used solely for bonding, and therefore is not reflected in our gross debt. These facilities were due to expire in May 2019.

In November 2017 the Group entered into new financing arrangements amounting to £975 million, replacing our existing facilities. This is further discussed under 'Borrowing facilities' on pages 146 to 147.

### TREASURY AND CASH MANAGEMENT

The Group's funding, liquidity and exposure to foreign currencies, interest rates, commodity prices and financial credit risk are managed by a 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, which provides a degree of certainty to the operating segments, and to ensure a sufficient level of liquidity headroom at all times.

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

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 terms of the policy but returns in general remain low given the low interest rate environment in the UK, the US and Europe.

A small portion of the Group's cash is restricted in overseas jurisdictions primarily due to legal or regulatory requirements. Such cash does not form part of our liquidity headroom calculation.

### HEDGING OF FUEL AND FOREIGN EXCHANGE AS AT 31 OCTOBER 2017

The objective of the Group's hedging policy is to smooth fluctuations in the price of Jet Fuel and foreign currencies, in order to provide greater certainty for planning purposes. The proportion of our exposures that have been hedged are shown in the table below.

		Winter 2017/18	Summer 2018	Winter 2018/19
Euro	Fully Hedged		76%	39%
US Dollar	Fully Hedged		83%	33%
Jet Fuel	Fully Hedged		90%	51%

As at 31 October 2017

As Fuel is priced in US Dollars, our net fuel costs are influenced by both the fuel price and the movements in the US Dollar against our base currencies.

While net fuel costs reduced by around £15 million in FY17 compared to the previous year, these benefits were partially offset by higher dollar-denominated non-fuel flying costs. For FY18, we are hedged at significantly below the current forward rate, and estimate that, as a result of our hedge position, our fuel costs will fall by a further £10 million.

The Group does not hedge the translation of overseas profits into Sterling, and as a result of currency movements during the year, underlying EBIT in FY16 was higher by £4 million.

The average and period end exchange rates relative to the Group were as follows.

	Average Rate		Period End Rate	
	FY17	FY16	FY17	FY16
GBP/Euro	1.15	1.28	1.13	1.16
GBP/US Dollar	1.27	1.42	1.34	1.30
GBP/SEK	11.05	11.99	10.93	11.17

### CREDIT RATING

The Group has received an upgrade from Fitch to B+ whilst Standard & Poor's issued a positive outlook and Moody's maintained their B1 rating, recognising the continuing progress in Thomas Cook's transformation.

Corporate ratings	2017		2016	
	Rating	Outlook	Rating	Outlook
Standard and Poor's	B	Positive	B	Stable
Fitch	B+	Stable	B	Stable
Moody's	B1	Stable	B1	Stable

### FORWARD LOOKING STATEMENTS

This document includes forward-looking statements that are based on estimates and assumptions and are subject to risks and uncertainties. These forward-looking statements are all statements other than statements of historical facts or statements in the present tense, and can be identified with words such as "aim", "anticipates", "aspires", "assumes", "believes", "could", "estimates", "expects", "intends", "hopes", "may", "outlook", "plans", "potential", "projects", "predicts", "should", "targets", "will", "would", as well as the negatives of these terms and other words of similar meaning. These statements involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those otherwise expressed.

The forward-looking statements in this document are made based upon our estimates, expectations and beliefs concerning future events affecting the Group and are subject to a number of known and unknown risks and uncertainties. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which it will operate, which may prove not to be accurate. We caution that these forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in these forward-looking statements. Undue reliance should, therefore, not be placed on such forward-looking statements.

Any forward-looking statements contained in this document apply only as at the date of this document and are not intended to give any assurance as to future results. Other than in accordance with any legal or regulatory obligations, the Group does not undertake any obligation to update or revise any forward-looking statement after the date on which the forward-looking statement was made, whether as a result of new information, future developments or otherwise.

## FINANCIAL REVIEW CONTINUED

### APPENDIX 1 – USE OF ALTERNATIVE PERFORMANCE MEASURES

The Directors have adopted a number of alternative performance measures (APM), namely underlying EBIT, net debt, underlying EPS, operating cash flow, free cash flow and net cash flow. The Group's results are presented both before and after separately disclosed items. Separately disclosed items are disclosed in Note 7 of the consolidated financial statements.

These measures have been used to identify the Group's strategic objectives of 'Underlying EBIT and Underlying EBIT margin growth' and 'Net Debt' reduction, and to monitor performance towards these goals. The alternative performance measures are not defined by IFRS and therefore may not be directly comparable with other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements. The definition of each APM presented in this report, together with a reconciliation to the nearest measure prepared in accordance with IFRS is presented below

#### UNDERLYING EBIT

This is the headline measure of the Group's performance, and is based on profit from operations before the impact of separately disclosed items. Underlying EBIT provides a measure of the underlying operating performance of the Group and growth in profitability of the operations

Reconciliation to IFRS measures £m	FY17	FY16
Profit from operations	231	197
Less: Separately disclosed items affecting loss from operations (Note 7)	(99)	(105)
<b>Underlying EBIT</b>	<b>330</b>	<b>302</b>

#### MANAGEMENT CASH FLOW STATEMENT

The Group uses three non-statutory cash flow measures to manage the business. Operating Cashflow is net cash used in operating activities excluding the cash effect of separately disclosed items.

*Free Cash flow is cash from operating activities less capital expenditure and interest paid. Net Cashflow is the net decrease in cash and cash equivalents excluding the net movement in borrowings, facility set-up fees and finance lease repayments. These cash flow measures are indicators of the financial management of the business. They reflect the cash generated by the business before and after investing and financing activities and explain changes in the Group's Net Debt position.*

Reconciliation to IFRS measures £m	FY17	FY16
<b>Underlying EBIT</b>	<b>330</b>	<b>302</b>
IFRS depreciation and amortisation	222	204
IFRS share based payments	3	1
<i>IFRS movement in working capital and provisions</i>	<i>73</i>	<i>8</i>
Add back cash impact of separately disclosed items on working capital	29	(6)
IFRS Income taxes paid	(37)	(15)
IFRS additional pension contributions	(28)	(29)
Add back non cash impact of separately disclosed items	4	19
<b>Operating Cash Flow</b>	<b>596</b>	<b>484</b>

£m	FY17	FY16
IFRS net cash used in operating activities	496	395
IFRS proceeds on disposal of property, plant and equipment	7	9
IFRS investments in joint ventures & associates	-	(3)
IFRS purchase of tangible assets	(132)	(117)
IFRS purchase of intangible assets	(74)	(89)
IFRS interest paid	(144)	(135)
<b>Free Cash Flow</b>	<b>153</b>	<b>60</b>
IFRS dividends paid	(8)	-
IFRS dividends paid to non-controlling interests	(32)	(4)
<b>Net Cash Flow</b>	<b>113</b>	<b>56</b>



## UNDERLYING EPS

Earnings are based on results before separately disclosed items after a notional tax charge divided by the weighted average number of ordinary shares, adjusted for any potential dilutive impact of the assumed conversion of the employee equity-settled share-based payment schemes outstanding

Reconciliation to IFRS measures £m	FY17	FY16
<b>Profit before tax</b>	<b>46</b>	<b>34</b>
Separately disclosed items (Note 7)	(140)	(128)
<b>Underlying profit before tax</b>	<b>186</b>	<b>162</b>
Notional tax charge	(44)	(41)
Loss attributable to non-controlling interests	1	3
<b>Underlying profit attributable to equity holders of the parent</b>	<b>143</b>	<b>124</b>
Weighted average number of shares used for basic and diluted earnings per share (Note 11)	1,536	1,531
<b>Underlying EPS (pence)</b>	<b>9.3p</b>	<b>8.1p</b>

**Note:**

(1) The notional tax charge £44m (2016: £41m) includes IFRS tax charge of £34m (2016: £33m) and a notional tax charge on separately disclosed items of £10m (2016: £8m)

## NET DEBT

Net debt comprises bank and other borrowings, finance lease payables and net derivative financial instruments used to hedge exposure to interest rate risks of bank and other borrowings, offset by cash and cash equivalents. Net debt is a measure of how the Group manages its balance sheet and capital structure. A strong balance sheet and efficient capital structure is essential to withstand external market shocks and seize opportunities. Accordingly, reducing net debt and the cost of the debt is a priority for the Group.

Reconciliation to IFRS measures £m	FY17	FY16
<b>Borrowings</b>	<b>(1,292)</b>	<b>(1,738)</b>
Obligations under finance leases	(154)	(183)
Net derivative financial instruments - interest rate swaps (Note 21)	(1)	16
<b>Cash and cash equivalents</b>	<b>1,407</b>	<b>1,776</b>
<b>Net Debt</b>	<b>(40)</b>	<b>(129)</b>

# RISK MANAGEMENT

## EMBEDDING A CULTURE OF RISK MANAGEMENT

### OUR RISK MANAGEMENT STRATEGY

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 and mitigations to ensure that the nature and extent of risks taken by the Group are aligned with its strategic objectives

### RISK APPETITE

The Board has undertaken a detailed exercise to consider the 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*. It is evident that this represents a view at a point in time, changes in the economic environment, strategy or performance of the business will impact this evaluation.

The Board is aligned on the relative risks and has agreed the appetite for risk taking for Strategic Initiatives, Digital Delivery, Product Portfolio, and Talent is entrepreneurial. This position aligns with the strategic aims and targets set for the business. The Board seeks to minimise exposure to all Health and Safety, Reputational and Customer risks. In all other aspects, the Board takes a balanced view on risk taking.

The Board will use the results of this review to influence setting of Group strategy and support its ongoing decision-making process.

### OUR APPROACH TO RISK MANAGEMENT

Operating in a dynamic and continually volatile 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. We continue to focus on embedding a culture of risk management that will contribute towards effective strategy execution, ensuring both risks and opportunities are identified and managed to deliver long-term value creation.

During 2017, we focused on maturing our risk management programme. We strengthened our risk analysis and reporting through the incorporation of quantitative key risk indicators into the process. We advised the business on how to assess the risks inherent within the Group's commercial partnership agreement with Expedia. We delivered project risk management training to the IT project management community, which will help ensure risks are appropriately considered and addressed during the delivery of strategic projects.

### TOP DOWN OVERSIGHT

In 2017, we enhanced our approach to risk management by incorporating the top down risk review process into the agenda of the Executive Committee, which is chaired by the CEO. The purpose of the top down risk review is to provide leadership, direction and oversight with regard to the Group's overall risk framework, appetite, and relevant risk policies, processes and controls. As part of the new process, key strategic risks from the Group Risk Dashboard are reviewed on a quarterly basis to ascertain whether all risks are being mitigated appropriately and to take action where further mitigations are required. The Group Risk Dashboard is then presented and discussed at the Audit Committee, which ensures that the Audit Committee is provided with an enterprise-wide view of the Group's current risk exposure.

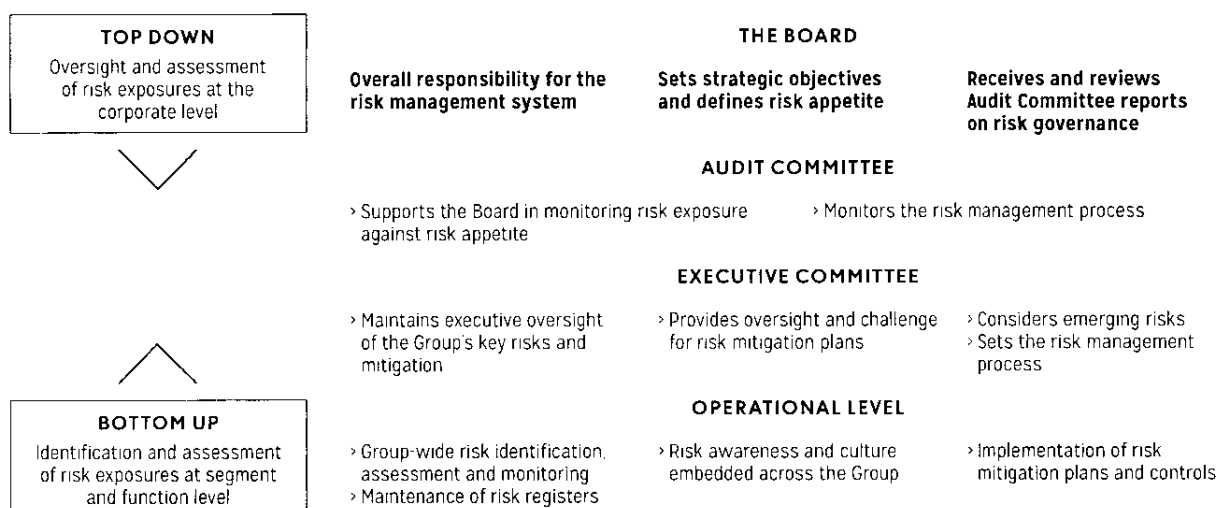
### BOTTOM UP ASSESSMENTS

Each major business unit has a quarterly risk committee attended by the risk owners representing all areas of the business, as well as by the Group Risk Team. The risk committees analyse key business unit risks and ensure implementation of risk mitigation plans. Where appropriate, significant risks identified at business unit level are escalated and discussed during the Executive Committee risk review.

### THE AUDIT 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 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. The results of these activities have informed the Annual Audit Plan, which will enable a risk-based approach to the ongoing internal audit and assurance programme. The report of the Audit Committee can be found on page 74.

## THE RISK MANAGEMENT FRAMEWORK



### VIABILITY STATEMENT

The Directors have assessed the prospects of the Group in accordance with provision C2.2 of the 2016 UK Corporate Governance Code.

The Directors believe a five-year period is appropriate to consider viability as this duration is in line with the Thomas Cook Group business plan (the 'Business Plan') and the maturity of the Group's bank facility

In order to assess the viability of the Group, the Directors reviewed each of the principal risks and uncertainties, taking into account current operational and financial performance as well as the Business Plan. The key assumptions which underpin the Business Plan include:

- > revenue growth of 4% per annum;
- > the benefits of the Group's strategic plans are delivered in full; and
- > financing facilities in the form of debt or aircraft leases will continue to be available.

As part of the analysis, stress testing focusing on the following scenarios was performed:

- > A major terrorist incident or natural disaster in one of the Group's larger destinations that leads to a significant decline in customer demand
- > The Group fails to fully deliver the efficiency targets or new business initiatives included in its business plan

Based on the results, the Directors have a reasonable expectation that the Group will be able to continue in operation and to meet its liabilities as they fall due over the five-year period of their assessment

### ASSESSMENT OF THE PRINCIPAL RISKS

The Group's risk management system works effectively in assessing the Group's risk appetite and has supported a robust assessment by the Directors of the principal risks facing the Group. The principal risks are reviewed throughout the year and discussed with the Board quarterly. This includes all relevant principal risks that could threaten Thomas Cook's business model, future performance, solvency or liquidity

## RISK MANAGEMENT CONTINUED

### OUR PRINCIPAL RISKS AND UNCERTAINTIES

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

#### Risk Direction (after mitigation)

- ↑ Increased risk
- ↔ Risk exposure unchanged
- ↓ Reduced risk

#### Our Strategic Priorities

- CARE Care
- CONT Contact
- HOL Holidays
- SERV Services
- PART Partnership
- EFF Efficiencies

Principal risks	Mitigation	Trend vs 2016	Link to Strategy
<b>Strategic initiatives</b>			
We continue to implement our strategy for profitable growth, which involves significant changes to our businesses and operations, as well as our underlying processes and systems. Due to the complexity of these changes, there is a risk that we will not deliver the targeted benefits*.	<ul style="list-style-type: none"> <li>Weekly Executive Committee meetings attended by senior management during which progress and issues are discussed and addressed</li> <li>Financial benefits and KPIs are incorporated in the business plan and delivery is tracked as part of the business review process</li> <li>Each project or programme has its own steering group which provides challenge to the project, monitors progress and ensures that decisions are made at the appropriate level</li> <li>We have made significant progress within all elements of our strategy including the 24-Hour Hotel Satisfaction Promise and partnerships with LMEY Investments and Expedia. Our strategic initiatives are key mitigation measures for our principal risks and are described in detail in the mitigation of each risk below</li> </ul>	↓	<ul style="list-style-type: none"> <li>CARE</li> <li>CONT</li> <li>HOL</li> <li>SERV</li> <li>PART</li> <li>EFF</li> </ul>
<b>Customer satisfaction</b>			
Technological advances have had a significant impact on consumer behaviour by increasing price transparency and availability of travel products as well as a proliferation of online reviews about travel experiences. Consequently, competition for travel services is increasing and Thomas Cook must differentiate itself by providing a high-quality holiday experience. Inability to consistently meet customer expectations may have an adverse impact on Thomas Cook's market share*.	<ul style="list-style-type: none"> <li>Our implementation of the Customer Experience Roadmap is progressing well and is on track to be fully embedded into the business by 2020. This has strengthened our focus on customer excellence and is improving our ability to respond to shifts in consumer behaviours</li> <li>We have refreshed our organisational values to ensure clear alignment with our Customer Promises of Quality, Service, and Reliability. All employees received training on our Customer Promises and the new organisational values, which helps foster a culture of customer excellence</li> <li>The 24-Hour Hotel Satisfaction Promise has been extended to apply to most of our differentiated properties and continues to receive positive customer feedback</li> <li>We regularly review our customer journey map to identify innovative holiday features such as 'Choose Your Room'</li> <li>We have a robust hotel quality review process</li> <li>We proactively monitor our Net Promoter Score (NPS) to identify and address areas for improvement at each stage of the customer journey</li> </ul>	↓	<ul style="list-style-type: none"> <li>CARE</li> <li>CONT</li> <li>HOL</li> <li>SERV</li> <li>PART</li> <li>EFF</li> </ul>
<b>Quality of our products and services</b>			
Our success and future growth depend upon the introduction and expansion of products and services that appeal to consumers. If we are unable to provide the right new products and services to rapidly changing customer demands and preferences, it may have an adverse effect on our business*.	<ul style="list-style-type: none"> <li>We are continuing to invest into our own-branded hotel portfolio, which contributes to higher customer satisfaction and margin. This summer we opened 11 own-branded hotels across Bulgaria, Croatia, Italy, Turkey, Spain, Greece, Cyprus, and the Maldives. In 2018 we are planning to launch a further 11 own-branded hotels</li> <li>Our aim is to reduce the number of hotels within our differentiated portfolio. This allows us to focus our resources into developing a better experience for our customers</li> <li>We have entered into a strategic partnership with LMEY Investments, a Swiss-based hotel property development company, to further develop and grow Thomas Cook's own-brand hotel portfolio</li> <li>We have signed a multi-year agreement with Expedia which will provide our customers with over 60,000 more hotels in global city and European domestic locations than currently on offer</li> <li>We have launched the 'Choose Your Room' service which allows customers to pick the hotel room of their choice. It is initially available at 50 hotels and will be available in 300 by summer 2018. The service raises the bar in terms of the quality and value we offer our customers. Personalised add-ons and ancillaries are real drivers of profitable growth</li> </ul>	↔	<ul style="list-style-type: none"> <li>CARE</li> <li>CONT</li> <li>HOL</li> <li>SERV</li> <li>PART</li> <li>EFF</li> </ul>

\* Principal risk with a direct link to viability statement.

Principal risks	Mitigation	Trend vs 2016	Link to Strategy
<b>Digital strategy</b>			
Our distribution approach has to be aligned with customer demands and preferences and be able to adapt to rapid changes in technology. If we are not successful in adapting our approach it may have an adverse effect on our market share profitability and future growth *	<ul style="list-style-type: none"> <li>› We continue to improve our websites, which is leading to strong growth in web bookings for our major markets               <ul style="list-style-type: none"> <li>– Our OneWeb platform is now fully operational in the UK, Belgium and The Netherlands</li> <li>– The web platform used by our German market was recently ranked as one of Germany's best online portals</li> <li>– We are currently upgrading the technology utilised on our Northern European platform, which will make the website faster and more responsive</li> </ul> </li> <li>› In an effort to attract more customers to our websites, we have developed rich and inspirational content. This year we have added 80,000 images and 130 hotel videos</li> <li>› Our Companion App is available for our customers to support them during their entire journey</li> </ul>	↔	<div>CARE</div> <div>CONT</div> <div>HOL</div> <div>SERV</div> <div>PART</div> <div>EFF</div>
<b>Talent</b>			
Failure to recruit or to retain the right people at the right time will lead to a lack of capability or capacity to enable the delivery of our business strategy.	<ul style="list-style-type: none"> <li>› Our annual engagement survey allows us to assess employee commitment and identify actions we need to enable talent retention. We will therefore introduce with effect from FY18, a new commitment index designed to focus leaders on those areas which will drive commitment to the organisation to deliver the business strategy</li> <li>› Our high potential talent have been identified by using a matrix of performance and potential. Those identified have targeted development plans based on their career aspiration</li> <li>› Graduate programmes were introduced in 2016 in the UK and Group Airline businesses to further strengthen succession and were further expanded in 2017</li> <li>› Our Group Leadership Development programme for direct reports to Senior Leaders commenced in 2017, targeting those identified as having potential for senior leadership roles</li> <li>› The recent appointment of the new CFO following the retirement of the current CFO was done through internal channels demonstrating effective succession planning</li> </ul>	↔	<div>CARE</div> <div>CONT</div> <div>HOL</div> <div>SERV</div> <div>PART</div> <div>EFF</div>
<b>IT infrastructure</b>			
We are increasingly dependent on technology to reduce costs and to enhance customer service. If our IT architecture is unable to support the needs of the business, our business may be adversely affected	<ul style="list-style-type: none"> <li>› Our service delivery process ensures demands from the business are addressed in a timely manner</li> <li>› We have a robust governance framework that enables IT to align with and meet the needs of the business</li> <li>› We have commenced a major change programme which involves simplifying and harmonising our IT landscape and will lead to significant operational efficiencies</li> </ul>	↔	<div>CARE</div> <div>CONT</div> <div>HOL</div> <div>SERV</div> <div>PART</div> <div>EFF</div>
<b>Cyber security</b>			
Information security and cyber threats are currently a priority across all industries and remain a key Government agenda item. We recognise that we have high risk exposure in this area.  Our review of this area indicates that the Group is particularly sensitive to criminal activity against our brand, reputation and revenue as well as ransomware/malware attacks	<ul style="list-style-type: none"> <li>› We are currently implementing a robust Cyber Security Strategy based on five objectives: Protect, Detect, Deter, Respond, and Recover</li> <li>› The Strategy is aligned with internationally recognised standards of Cyber security from the ISO 27001 series and is designed to be quickly adaptable to the changing cyber threat landscape</li> <li>› Our Cyber Security Steering Group, which meets monthly, monitors progress of the Cyber Security Strategy implementation and ensures appropriate mitigations are in place for all high risk areas. The Audit Committee also receives regular updates regarding progress on cyber risk mitigation</li> <li>› We are currently undertaking a project to achieve compliance with the General Data Protection Regulation by May 2018. As part of this project we are enhancing our information security measures to ensure the confidentiality, integrity, availability and resilience of our processing systems. This work complements our Cyber Security Strategy and serves as an additional mitigation of this risk</li> </ul>	↓	<div>CARE</div> <div>CONT</div> <div>HOL</div> <div>SERV</div> <div>PART</div> <div>EFF</div>

\* Principal risk with a direct link to viability statement.

# RISK MANAGEMENT CONTINUED

## OUR PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal risks	Mitigation	Trend vs 2016	Link to Strategy
<b>Disruption to airline operations</b>			
<p>The success of our Group Airline business depends on our ability to effectively manage our fleet by ensuring we maintain the right number and types of aircrafts and by operating those aircrafts to deliver a high-quality and cost-efficient service to our customers.</p> <p>Inability to operate the required number and types of aircraft in our fleet may lead to missed revenue or reduced margins. Inability to operate the fleet effectively may lead to customer dissatisfaction, cost increases and reduced profitability.</p> <p>This risk has always been monitored by the Group at an operational level. At the request of the Audit Committee this risk was added to the principal risks to ensure a more holistic disclosure of the Group's risk profile</p>	<ul style="list-style-type: none"> <li>&gt; We have commenced a programme that aims at achieving efficiencies in the maintenance, flight operations, ground operations, operation control and flight dispatch departments through the adoption of a more streamlined organisational structure, which will have a positive effect on our ability to manage and prevent operational disruptions</li> <li>&gt; The Red3 programme was implemented with the aim of reducing the number of three-hour delays through the adoption of mitigating measures such as the use of charters and aircrafts in reserves</li> <li>&gt; The fleet Management Team continuously assesses the status of our fleet: forecasting potential needs and managing dismissal and intake of aircraft. Our fleet strategy also involves the structuring of our lease plans over a long period of time. This approach allows us to refinance the lease/purchase of aircrafts on a staggered schedule</li> <li>&gt; The acquisition of new aircraft is subject to a number of qualitative criteria that guarantee consistency with our product offering</li> <li>&gt; We have recently entered into a seven-year agreement with Transat A.T. Inc. for the exchange of aircraft on a seasonal basis, enabling us to manage and utilise our fleet more efficiently</li> </ul>	↔	<div>CARE</div> <div>CONT</div> <div>HOL</div> <div>SERV</div> <div>PART</div> <div>EFF</div>
<b>Cash and working capital</b>			
<p>Our ability, over the longer term, to generate sufficient cash flow to make scheduled payments on our debt will depend on our future operational performance, which will be affected by a range of economic, financial, regulatory, competitive and business factors, many of which are outside of our control.*</p>	<ul style="list-style-type: none"> <li>&gt; We proactively monitor our short, medium and long-term cash requirements and liquidity headroom. Our new bank facility will further increase headroom</li> <li>&gt; Our cost-out and profit improvement initiatives are successfully contributing to cash availability</li> <li>&gt; We continue to monitor all opportunities to manage liquidity requirements and maintain an adequate level of contingency as well as seeking to lower the average cost of debt over the medium-term</li> </ul>	↓	<div>CARE</div> <div>CONT</div> <div>HOL</div> <div>SERV</div> <div>PART</div> <div>EFF</div>
<b>Health and safety</b>			
<p>Due to the nature of our industry, the Group will always be exposed to the risk of a health and safety incident en route to a destination, in the accommodation or during an excursion. A health and safety incident could have a negative impact on our reputation.</p>	<ul style="list-style-type: none"> <li>&gt; The markets in which we operate each have their own health and safety regulations. We are currently focused on enhancing our policies and procedures by finding best practice from each of the markets in order to define a common Group standard. The policies address all major risk areas including swimming pools, balconies, transport, excursions, fire and hygiene</li> <li>&gt; Our Health and Safety Audit Programme, which is delivered by reputable external specialists (SGS and Cristal), verifies compliance with Federation of Tour Operators and industry standards and includes a robust follow-up process. We continue to make improvements to our audit programme; most recently we engaged an external specialist to perform hygiene and security audits</li> <li>&gt; The Group Health, Safety and Security Team regularly reviews and updates its safety and security training programmes to ensure they continue to reflect best practice</li> <li>&gt; All new hotels are inspected by the Internal Quality Team and SGS before opening to ensure robust standards are in place</li> <li>&gt; We actively monitor the number of health and safety incidents and over the last few years we have seen a significant rise in fraudulent customer illness claims by UK tourists. We have put in place prevention and detection measures (e.g. fraud investigators) in an effort to address this issue</li> </ul>	↓	<div>CARE</div> <div>CONT</div> <div>HOL</div> <div>SERV</div> <div>PART</div> <div>EFF</div>

\* Principal risk with a direct link to viability statement.

Principal risks	Mitigation	Trend vs 2016	Link to Strategy
<b>Geopolitical uncertainties</b>			
A significant decline in customer demand due to the growing threat of terrorist attacks in our key tourist destinations, specifically Turkey, may lead to a decrease in revenue from our branded, selected and complementary hotels*	<ul style="list-style-type: none"> <li>&gt; Our flexible business model allows us to align our committed capacity to fluctuating demand. We continue to rebalance our destination mix and add new destinations to our portfolio, thereby mitigating the impact of geopolitical events</li> <li>&gt; We have developed a Hotel Security Framework, which defines a set of minimum security standards that should be operational in our hotels. Implementation of the Framework will follow a risk-based approach, with risk destinations including Tunisia and Egypt as a priority</li> <li>&gt; We proactively monitor the geopolitical landscape by partnering with the Risk Advisory Group, a leading independent global risk management consultancy that provides intelligence, investigations and security services</li> <li>&gt; We continue to follow the guidance of the appropriate state departments relevant to our source market</li> <li>&gt; We have a robust crisis management framework which we activate in the event of an incident</li> </ul>	↔	<b>CARE</b> <b>CONT</b> HOL SERV PART EFF
<b>Brexit</b>			
<p>Our risk assessment of the UK's exit from the EU identified the following areas that could have a major impact on the Group's strategy:</p> <ul style="list-style-type: none"> <li>&gt; Loss of access to the European Single Aviation Market could have a significant impact on the ability of our UK Airline to operate in the EU and the US</li> <li>&gt; Loss of access to EU employment markets, including the ability for businesses to place temporary workers in EU Member States without additional barriers may cause a skill shortage in the UK and in destination</li> </ul>	<ul style="list-style-type: none"> <li>&gt; The Corporate Affairs Team has been proactively meeting with Government officials from both the UK and the EU to ensure our concerns are appropriately understood</li> <li>&gt; The Brexit Working Group which includes representatives from Finance, Tax, HR, Communications, Legal, Risk, the Group Airline and the Tour Operating Segments was established in 2016 to ensure all risks and potential issues related to the UK's upcoming exit from the EU are being considered and addressed</li> <li>&gt; Management is putting in place contingency plans for every eventuality with a particular focus on ensuring that our customers' holiday experience is not impacted</li> </ul>	↑	<b>CARE</b> <b>CONT</b> <b>HOL</b> <b>SERV</b> PART EFF
<b>Compliance with regulatory and legislative requirements</b>			
<p>There is a risk that we do not comply with regulatory, legislative and corporate social responsibility requirements in the legal jurisdictions where Thomas Cook operates.</p> <p>In particular, in February 2017, the European Union Competition Commission launched an investigation into the travel industry regarding hotel accommodation agreements with a focus on the availability of hotel bookings and pricing between member states.</p>	<ul style="list-style-type: none"> <li>&gt; We have a dedicated legal team, which works to ensure that we comply fully with regulatory requirements and which monitors all current and emerging regulatory developments in our source markets. The team receives regular training to provide awareness of critical changes in relevant legislation or case law</li> <li>&gt; Our Code of Conduct is backed by a comprehensive training programme to ensure that it is fully embedded across the Group</li> <li>&gt; Our Legal Risk Database enables communication and timely analysis of all risks related to regulatory, legislative and corporate social responsibility requirements</li> <li>&gt; In regards to the EU Competition Commission investigation, Thomas Cook is committed to fair and open competition and will cooperate fully with the Commission through the process</li> </ul>	↔	<b>CARE</b> <b>CONT</b> HOL SERV PART EFF

\* Principal risk with a direct link to the viability statement.

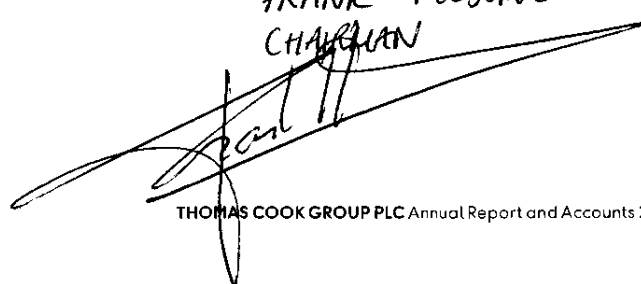
#### Risk Direction (after mitigation)

- ↑ Increased risk
- ↔ Risk exposure unchanged
- ↓ Reduced risk

#### Our Strategic Priorities

- CARE** Care
- CONT** Contact
- HOL** Holidays
- SERV** Services
- PART** Partnership
- EFF** Efficiencies




FRANK MEYMAN  
 CHAIRMAN



# CHAIRMAN'S GOVERNANCE STATEMENT

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## GOVERNANCE HIGHLIGHTS:

<b>BOARD EVALUATION</b>	 See more on pages 70 to 71
<b>BOARD ACTIVITY</b>	 See more on pages 68 to 69
<b>DIVIDEND POLICY</b>	 See more on page 73

## COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

This report sets out how the Company applied the principles of the April 2016 version of the UK Corporate Governance Code ('the Code'). It is the Board's view that for the year ended 30 September 2017 the Company fully complied with the provisions applicable to this reporting period. The Code can be read in full at [www.frc.org.uk](http://www.frc.org.uk).

## DEAR SHAREHOLDER

In my statement last year, I spoke about the focus of the Company to put the customer at the heart of our organisation. The Board shared this focus by dedicating time to getting to know our customers, our colleagues and our holiday offering more closely. This year as part of our governance activities we have used this insight to support Management to drive the right behaviours throughout the business and ensure we have the right people in place to do this.

In spring, we reviewed our corporate values and redeveloped them based upon our Customer Promises, so that the behaviours within our own organisation align with the promises we make to our customers. We also updated our Code of Conduct to ensure it closely reflects both our values and Customer Promises. These initiatives reflect Management's continued commitment to instill a customer centric culture. All of our colleagues have received training on the new values so that everybody can develop an understanding of what the values mean to them. The behaviour of our people is key to all that we do and I believe our new values will help ensure we are doing business in a way we can be proud of.

## BOARD COMPOSITION

During our FY16 Board evaluation, we identified that the importance of the customer and our own-brand hotel portfolio to our strategy meant that we could benefit from additional Non-Executive expertise in these areas. Following a comprehensive search led by the Nominations Committee, I am delighted that Jürgen Schreiber and Paul Edgecliffe-Johnson agreed to join the Board. Jürgen is a highly accomplished executive with broad international experience across retail and consumer goods businesses. Paul is the CFO of InterContinental Hotels Group PLC so brings with him valuable expertise and in-depth knowledge of the hotel industry.

During the year, the Nominations Committee continued to focus on executive succession planning and spent considerable time looking at the talent pipeline. In September, our CFO Michael Healy decided to retire following a very successful five years at Thomas Cook, during which time he has put the business on a much more stable financial footing. I am pleased that we were able to appoint a high-calibre successor to Michael from our own ranks. Bill Scott, currently Director of Financial Reporting, has a proven track record in the business having taken a leading role in the Group's key corporate transactions over the last five years, including the equity and debt raising as part of the Group's recapitalisation in 2013 and subsequent debt refinancing exercises. As such, Bill's appointment will ensure that we continue on our journey with a CFO who is perfectly positioned to keep driving the business forward in achieving its strategic goals.

Together, these three appointments further strengthen the Board and will give us, I believe, the optimal balance of skills, experience and independence needed to deliver on our strategy.



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#### GOVERNANCE HIGHLIGHT:

### BILL SCOTT APPOINTED AS CFO FROM JANUARY 2018

#### Key strengths and skills:

- › Extensive experience in strategic financial planning and financial reporting
- › Chartered accountant with expertise in leading large corporate transactions including debt and equity refinancing
- › Knowledge of international markets, having worked in Asia

#### Previous experience and appointments:

Director of Financial Reporting at Thomas Cook, Financial Controller at Kwik-Fit, and senior finance positions at PwC, First Pacific Company, Shell, and eBookers plc

#### BOARD EVALUATION

Recognising the need continually to develop the effectiveness of the Board this year, I engaged Dr Tracy Long of Boardroom Review Limited to conduct an independent evaluation of the Board's operation. This rigorous and thorough assessment involved in-depth one-to-one interviews and individual feedback, as well as overall feedback to the Board. The review provided useful insight and identified practical actions that will help us to develop. More details about the evaluation process and outputs can be found on pages 70 to 71

#### COMMITTEES

During the year, our Committees made good progress in delivering positive change in their respective areas.

With the continuing significant threat posed by cyber-attacks and the pending implementation of the General Data Protection Regulations, our Audit Committee has been particularly focused on the risks associated with cyber and information security and the controls we have in place to deal with them. The Committee continues closely to monitor progress in this area to ensure we do all we can to keep our customers' data safe. The Audit Committee also oversaw the transition to our new auditor Ernst & Young, with FY17 being their first audit. I am pleased to report a smooth transition and effective audit, benefiting from the enhanced independence that a new auditor brings.

Our Health, Safety & Environmental Committee oversaw the introduction of a number of initiatives that demonstrate our commitment to doing business in a responsible way which puts our customer at the heart. Our Group Airline introduced the 'Safe@Heart' initiative which aims to enhance the culture of safety in our Group Airline through a number of measures, including providing extra safety training to up to 7,000 Group Airline employees. In the area of sustainability, the Committee approved a new Sustainability Strategy which aligns with our main strategy for profitable growth. The Committee also oversaw the introduction of an industry-leading Animal Welfare Policy which takes a much stronger approach to ensuring the standard of care of the animals in attractions and aligns with our Customer Promises.

Meanwhile, our Remuneration Committee undertook the important task of setting targets for our Performance Share Plan which are stretching but not commercially sensitive, so that we can disclose them prospectively to our Shareholders. I believe this development represents a step forward in our reporting and demonstrates the Committee's commitment to being as transparent as possible and acting upon feedback from our investors. More information about the Remuneration Committee's activities can be found on pages 84-108.

#### SUMMARY

Thomas Cook enters FY18 with a strong Board and an enhanced corporate culture, making us well-positioned to achieve our strategic goals and build Shareholder value. The actions we have taken in the last 12 months represent positive steps forward in our governance practice and I look forward to building on this momentum in the coming year.

**FRANK MEYSMAN**  
CHAIRMAN

21 November 2017

# LEADERSHIP

## BOARD OF DIRECTORS

<b>1 FRANK MEYSMAN</b> NON-EXECUTIVE CHAIRMAN  Image removed	<b>2 PETER FANKHAUSER</b> CHIEF EXECUTIVE OFFICER  Image removed	<b>3 MICHAEL HEALY</b> CHIEF FINANCIAL OFFICER  Image removed
<b>4 DAWN AIREY</b> INDEPENDENT NON-EXECUTIVE DIRECTOR AND SENIOR INDEPENDENT DIRECTOR  Image removed	<b>5 ANNET ARIS</b> INDEPENDENT NON-EXECUTIVE DIRECTOR  Image removed	<b>6 EMRE BERKIN</b> INDEPENDENT NON-EXECUTIVE DIRECTOR  Image removed
<b>7 WARREN TUCKER</b> INDEPENDENT NON-EXECUTIVE DIRECTOR  Image removed	<b>8 MARTINE VERLUYTEN</b> INDEPENDENT NON-EXECUTIVE DIRECTOR  Image removed	<b>9 LESLEY KNOX</b> INDEPENDENT NON-EXECUTIVE DIRECTOR  Image removed
<b>10 PAUL EDGECLIFFE-JOHNSON</b> INDEPENDENT NON-EXECUTIVE DIRECTOR  Image removed	<b>11 JÜRGEN SCHREIBER</b> INDEPENDENT NON-EXECUTIVE DIRECTOR  Image removed	<b>12 ALICE MARSDEN</b> GROUP GENERAL COUNSEL AND COMPANY SECRETARY  Image removed

# EXPERIENCE AND DIVERSITY

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## 1 FRANK MEYSMAN NON-EXECUTIVE CHAIRMAN

Appointment: October 2011  
Committee memberships: **N**

### Key strengths and skills

- > Extensive chairmanship experience across public and private companies
- > International business expertise
- > Track record in the creation of shareholder value on the back of heritage brands

### Other directorships

Chairman of JBC N.V.; Independent Representative Director of Warehouses De Pauw (WDP) and Spadel S.A.

### Previous experience and appointments

Various senior positions at Procter & Gamble-Douwe Egberts, and Sara Lee Corporation where he served as Executive Vice President and on the Board of Directors

## 2 PETER FANKHAUSER CEO

Appointment: November 2014  
Committee memberships: **H**

### Key strengths and skills

- > Strong international leadership skills
- > Successful track record in turning around and growing travel businesses
- > Proven expertise in developing and delivering complex strategy with a clear customer focus

### Other directorships

None

### Previous experience and appointments

MD of the UK and Continental Europe and subsequently COO at Thomas Cook. Senior positions at Kuoni and CEO at LTU Group (the third largest tour operator in Germany at that time)

## 3 MICHAEL HEALY CFO

Appointment: July 2012

### Key strengths and skills

- > Expertise in refinancing highly levered businesses
- > In-depth knowledge of debt and equity markets and significant experience of M&A
- > Chartered Accountant with international experience across a broad range of industries including consumer and financial services

### Other directorships

None

### Previous experience and appointments

CFO at Kwik Fit Group; COO and FD at First Pacific Company (listed on the Hong Kong stock exchange) and CFO at ebookers plc

## 4 DAWN AIREY INDEPENDENT NON-EXECUTIVE DIRECTOR AND SENIOR INDEPENDENT DIRECTOR

Appointment: April 2010  
(appointed SID October 2015)  
Committee memberships: **R N**

### Key strengths and skills

- > Previous experience serving on the board of a large low-cost airline
- > Deep understanding of the use of technology in the consumer market
- > Current executive role leading a global business

### Other directorships

CEO Getty Images and Chair of the National Youth Theatre

### Previous experience and appointments

Senior Vice President of Yahoo! EMEA. President of CLT-UFA UK Television Limited within the RTL Group; Chair and CEO of Five TV; Managing Director of Global Content at ITV plc, and Non-Executive Director of easyJet plc

## 5 ANNET ARIS INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointment: July 2014  
Committee memberships: **R H**

### Key strengths and skills

- > Experience in the travel practice of a leading management consultancy
- > Expertise in digital transformation and continental corporate governance
- > Knowledge of the European technology sector

### Other directorships

Adjunct Professor of Strategy at INSEAD in France; Board member and Chair of the Nomination and Remuneration Committees of ASR Netherlands N.V.; Board member of Jungheinrich AG; Board member and member of the Audit and Compensation Committees of ProSiebenSat.1 AG; Board member and member of the Technology and Strategy Committee and the Remuneration Committee of ASML N.V.

### Previous experience and appointments

Partner of McKinsey & Company in Germany leading its Travel and Transportation practice, and later, its Media practice.

### Committee membership

- N** Nominations
- R** Remuneration
- A** Audit
- H** Health, Safety & Environmental
- Chairman

## EXPERIENCE AND DIVERSITY CONTINUED

### 6 EMRE BERKIN INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointment: November 2012  
Committee memberships: **H N**

#### Key strengths and skills

- > In-depth knowledge of the operation of low-cost airlines
- > Expertise in key destination markets, particularly Turkey
- > Strong background in managing and developing strategy in the technology sector

#### Other directorships

Board member of MyGini Inc

#### Previous experience and appointments

Various senior positions at Microsoft, including Vice President of EMEA. Non-Executive Director at a broad range of technology companies including Acatel Lucent Teletas Telekomunikasyon A.S. Non-Executive Director at Pegasus Airlines.

### 7 WARREN TUCKER INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointment: October 2013  
Committee memberships: **A R**

#### Key strengths and skills

- > Experience of travel industry including senior finance positions in a large airline
- > Expertise in international business and strategic transformations with knowledge of M&A and equity markets
- > MBA, Chartered Accountant and experienced CFO with significant UK listed Board experience

#### Other directorships

Independent Non-Executive Director of Reckitt Benckiser Group plc; Independent Non-Executive Director, Chair of the Audit Committee and member of the Compliance Committee of Survitec Limited, and Independent Non-Executive Director and Chair of the Audit & Risk Committee of the UK Foreign & Commonwealth Office

#### Previous experience and appointments

CFO at Cobham plc, various senior finance positions at British Airways plc and Cable & Wireless plc; and Non-Executive Chairman of PayPoint plc.

#### Committee membership

- N** Nominations
- R** Remuneration
- A** Audit
- H** Health, Safety & Environmental
- Chairman

### 8 MARTINE VERLUYTEN INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointment: May 2011  
Committee memberships: **A N**

#### Key strengths and skills

- > Significant experience leading international businesses with expertise in finance and IT
- > Experienced CFO
- > Strong experience in audit

#### Other directorships

Supervisory Board member and Chair of the Audit Committee of STMicroelectronics NV and Independent Director and Member of the Audit Committee of Group Bruxelles Lambert

#### Previous experience and appointments

CFO of Umicore (a Brussels-based materials technology group), CFO of Mobistar (the mobile telephone operator), Chair of the Audit Committee of the Flemish Region in Belgium; and Non-Executive Director of 3i Group plc.

### 9 LESLEY KNOX INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointment: March 2016  
Committee memberships: **A R**

#### Key strengths and skills

- > Substantial financial services and international experience
- > Expertise in consumer-oriented sectors including fast-moving consumer goods and retail
- > Significant Non-Executive Director experience in UK listed companies and an extensive traveller

#### Other directorships

Non-Executive Director for Centrica plc, Chair of Grosvenor Group and Non-Executive Director and Chair of the Remuneration Committee of Legal & General Group Plc and a member of the Nominations and Audit Committees.

#### Previous experience and appointments

Chairman of Alliance Trust PLC; Senior Independent Director at Hays plc; Non-Executive Director at Signet Jewelers and MFI Direct Limited, Chair of the Remuneration Committee of SABMiller plc.

### 10 PAUL EDGECLIFFE-JOHNSON INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointment: July 2017  
Committee memberships: **A R**

#### Key strengths and skills

- > In-depth knowledge of the global hotel industry
- > Current executive role leading a FTSE 100 company
- > Chartered Accountant with extensive financial experience and knowledge of debt and equity markets

#### Other directorships

CFO of InterContinental Hotels Group PLC.

#### Previous experience and appointments

Various senior finance positions at InterContinental Hotels Group PLC; PwC; and HSBC Investment Bank.

### 11 JÜRGEN SCHREIBER INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointment: July 2017  
Committee memberships: **A H**

#### Key strengths and skills

- > Broad experience serving at board level of large multi-national consumer facing businesses
- > Accomplished private equity executive
- > In-depth knowledge of international markets

#### Other directorships

Senior Managing Director of Katz Group, Chairman of The Aldo Group and Non-Executive Director of Lidl & Schwarz, Discount and Hypermarket Board.

#### Previous experience and appointments

CEO of Rexall Health; CEO, President and Deputy Chairman of Edcon; and CEO and President of Shoppers Drug Mart Corporation.

### 12 ALICE MARSDEN GROUP GENERAL COUNSEL AND COMPANY SECRETARY

Appointment: September 2015

#### Key strengths and skills

- > Solicitor with a strong commercial mind-set
- > In-depth knowledge of corporate governance regulation and best practice
- > International experience, having worked in the UAE and for a global law firm

#### Previous experience and appointments

Head of Legal for the UK&I for Thomas Cook and Senior Associate at Latham & Watkins.

# CORPORATE GOVERNANCE REPORT

## HOW OUR BOARD LEADS THE BUSINESS

### BOARD

Chairman, CEO, CFO and eight Independent Non-Executive Directors.

#### THE BOARD IS GOVERNED BY:

- > A Schedule of Matters reserved for the Board which sets out matters that can only be decided by the Board
  - > A documented Division of Responsibilities between the Chairman and the CEO
  - > Terms of Reference for Committees which set out matters the Board has authorised the Committees to deal with
- These documents are available on the Group's website at [www.thomascookgroup.com](http://www.thomascookgroup.com).

### OUR COMMITTEES

#### AUDIT COMMITTEE

Five Independent Non-Executive Directors.  
Responsible for overseeing the Group's financial reporting, internal and external audit, internal control and risk management system, and whistleblowing policies



Committee report on pages 74 to 77.

#### NOMINATIONS COMMITTEE

Chairman and three Independent Non-Executive Directors.  
Leads the process for Board appointments and re-election, and succession planning of Directors and the Chairman



Committee report on pages 78 to 79.

#### HEALTH, SAFETY & ENVIRONMENTAL COMMITTEE

CEO and three Independent Non-Executive Directors  
Responsible for health, safety and environmental policy and compliance, and developing standards and procedures to manage risk across the Group.



Committee report on page 80.

#### REMUNERATION COMMITTEE

Five Independent Non-Executive Directors  
Responsible for advising the Board on remuneration of Executive Directors and setting an overall policy for remunerating the Group's employees.



Committee report on page 84 to 108.

#### FINANCE & ADMINISTRATION COMMITTEE

CEO, CFO and Group General Counsel and Company Secretary  
Meets weekly to facilitate swift and efficient operational management decisions for the business in relation to day-to-day financing and administrative matters  
A schedule of decisions taken by the Committee is reported to each Board Meeting.

#### DISCLOSURE COMMITTEE

CEO, CFO, and Group General Counsel and Company Secretary and also attended by senior managers from Group Finance, Investor Relations, and Corporate Communications  
The Committee meets regularly during the year to consider the Group's disclosure obligations and to review results announcements prior to release

### EXECUTIVE COMMITTEE

CEO, CFO and functional and segment leaders.

Meets on a weekly basis to review trading, execution of strategic projects, progress against targets and monitor risk.

#### THE CODE OF CONDUCT

The Board-approved Code of Conduct sets out the behaviours expected of everyone in the organisation. During the year the Code of Conduct was updated to ensure it supports and aligns with the new Customer Promises and values (more information about our values can be found on page 37).

The Code of Conduct includes guidance to colleagues about their responsibility to report problems and issues that come to their attention and how they can do this. All colleagues are encouraged to use 'Trustline', the Company's independent whistleblowing helpline, if they wish to raise concerns anonymously. Any significant issues brought to Management's attention through the Trustline are investigated and reported to the Audit Committee.

#### THOMAS COOK LEADERSHIP COUNCIL ('TCLC')

The TCLC comprises the top 170 senior leaders in the organisation. Information about the Company's strategy and performance is regularly communicated to the TCLC, who in turn cascade to their teams to ensure everyone understands where they fit into the strategy and what they can do to help the Company achieve its goals.

More information about how our strategy and values are communicated throughout the organisation can be found on page 37.

#### DELEGATED AUTHORITY MATRIX

The Board-approved Delegated Authority Matrix sets out levels of authority delegated by the Board to senior leaders within the business in respect of the decision making required for the day-to-day operation of the business.

The Matrix is reviewed and updated annually. The Matrix is sent out to all members of the TCLC so that they can cascade to their teams

## CORPORATE GOVERNANCE REPORT CONTINUED

### THE BOARD IS RESPONSIBLE FOR:

- > guiding the Group's strategic aims and approving the Group's strategy and its budgetary and business plans;
- > approving significant investments and capital expenditure;
- > approving the Group's dividend policy and payments;
- > establishing and maintaining the Group's risk appetite, system of internal control, governance and approval authorities;
- > monitoring executive performance, remuneration and succession planning; and
- > reviewing standards of ethics and policy in relation to health, safety, environment, social and community responsibilities

### Board composition

As at 21 November 2017, the Board was made up of 11 Directors which comprised the Chairman, two Executive Directors and eight Independent Non-Executive Directors.

Frank Meysman was the Chairman throughout the year. The roles of the Chairman and CEO are separate and distinct. Dawn Airey is the Senior Independent and is available to Shareholders should they have concerns that cannot be resolved through the normal channels involving the Executive Directors or the Chairman.

Biographical details of all Directors can be found on pages 63 to 64 and on the Group's corporate website at [www.thomascookgroup.com](http://www.thomascookgroup.com)

### Changes to the Board and Committees

During the year, Paul Edgecliffe-Johnson and Jurgen Schreiber were appointed as Independent Non-Executive Directors with effect from 26 July 2017 and subsequently Paul Edgecliffe-Johnson was appointed to the Audit and Remuneration Committees and Jurgen Schreiber was appointed to the Audit and Health, Safety & Environmental Committees.

Following these appointments, the Board reviewed the membership of its Committees and made further changes so that each Non-Executive Director is a member of two Committees. Therefore, with effect from 1 October 2017, Dawn Airey stepped down from the Audit and Health & Safety Committees. Warren Tucker stepped down from the Nominations Committee. Emre Berkin stepped down from the Remuneration Committee and Peter Fankhauser stepped down from the Nominations Committee.

### Director independence and time commitment

The Nominations Committee and the Board considered the independence of the Non-Executive Directors against the criteria specified in the Code and determined that each was independent. They also considered the independence of Directors whose three-year terms were renewed during the year, before approving the renewal of these terms.

The Chairman and each Independent Non-Executive Director have provided assurance to the Board that they remain fully committed to their respective roles and can dedicate sufficient time to fulfil their obligations.

All Directors must obtain the prior consent of the Chairman before taking on any additional directorships. Before providing consent the Chairman will take into consideration any existing directorships and commitments and the nature, location and expected time commitment of the proposed new role. The Chairman will not approve any Director taking on additional commitments that he believes would interfere with their ability to dedicate sufficient time to the Company.

### Directors' conflicts of interest

The Board has a set of principles for managing conflicts and an agreed process to identify and authorise potential conflicts where appropriate. The Nominations Committee reviews any potential conflicts, as and when they arise, and makes a recommendation to the Board as to whether the potential conflict should be authorised. The Nominations Committee regularly reviews all authorised conflicts. It also reviews the interests of candidates prior to making recommendations to the Board for the appointment of new Directors. This process was followed throughout the year to 30 September 2017.

### Re-appointment of Directors

In accordance with the Code and the Company's Articles of Association, all Directors are subject to re-election by Shareholders. At the AGM held in February 2017, each of the Directors in post at the time was submitted for re-election and successfully re-elected. Non-Executive Directors are initially appointed for a three-year term, subject to annual re-election by Shareholders, and rigorous review by the Nominations Committee. Each Non-Executive Director can serve up to a maximum of three such terms.

### Group Company Secretary

The Group Company Secretary 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 Secretariat 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 and its Committees. During the year, Alice Marsden held the position of Group General Counsel and Company Secretary. Biographical details can be found on page 64.

### Meetings

The full Board meets at least six times a year at its scheduled meetings, and in between these meetings when required. Board members communicate with each other and Management outside of formal Board meetings to keep up-to-date with business developments. The Chairman and the Committee Chairs hold planning meetings and calls with Management in respect of upcoming meetings.

At each Board meeting, the CEO presents a comprehensive update on the progress of the Group's strategy and business issues arising across the Group, and the CFO presents a detailed analysis of the financial performance, both at Group and segment level.

Packs for the Board and Committee meetings are circulated using a fully encrypted electronic portal system. This enables fast and secure distribution of information that can be accessed using electronic tablets.

All Directors are invited to attend the meetings and receive the packs for all Committees, regardless of membership (unless not in line with governance best practice i.e. an Executive Director would not attend a Remuneration Committee meeting where their own remuneration was being discussed). This ensures all Directors remain well informed on all matters of the Board's business and reduces the need for lengthy Committee feedback sessions during Board meetings.

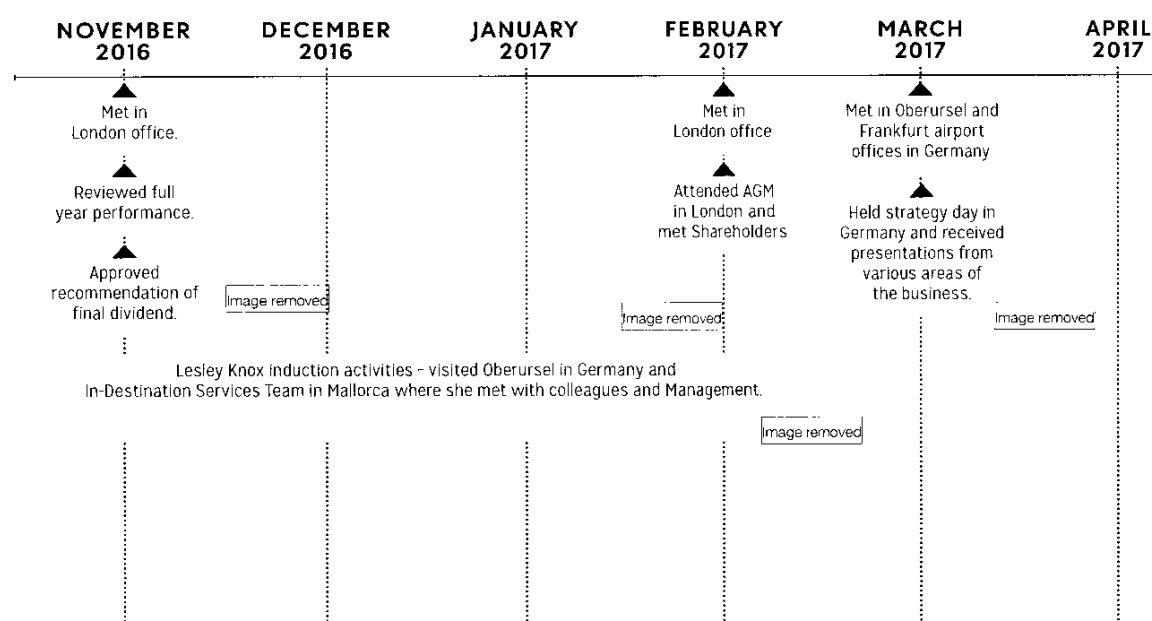
Attendance at scheduled Board and Committee meetings during the year is set out below

Name	Board	Audit Committee	Remuneration Committee	Health, Safety & Environmental Committee	Nominations Committee
Frank Meysman	6/6	-	-	-	6/6
Peter Fankhauser	6/6	-	-	4/4	6/6
Michael Healy	6/6	-	-	-	-
Dawn Airey	6/6	5/5	6/6	4/4	6/6
Annet Aris	6/6	-	6/6	4/4	-
Emre Berkin	6/6	-	6/6	4/4	6/6
Warren Tucker	5/6	4/5	6/6	-	5/6
Martine Verluysen	6/6	5/5	-	-	6/6
Lesley Knox	5/6	4/5	5/6	-	-
Paul Edgecliffe-Johnson*	1/1	-	1/1	-	-
Jurgen Schreiber*	1/1	-	-	-	-

\* Paul Edgecliffe-Johnson and Jurgen Schreiber were appointed as Independent Non-Executive Directors on 26 July 2017.

## CORPORATE GOVERNANCE REPORT CONTINUED

### WHAT THE BOARD DID DURING THE YEAR



During the year the Board spent significant time considering the Company's key strategic projects, receiving deep-dive Management presentations and comprehensive updates. Projects included the launch of a €750 million guaranteed bond in November 2016, extending a partnership with Brussels Airlines to make them the leading carrier for Thomas Cook in Belgium and the sale of the Belgium Airlines ground operations and Airline Operating Certificate to SHS Aviation; entering into a strategic alliance with Expedia under which Expedia will become the preferred supplier of complementary city and domestic hotels; and entering into a partnership with LMEY Investments to develop and grow the Company's own-brand hotel portfolio. Other important items on the Board agenda included the approval of the five-year business plan and risk mitigation matters, including agreeing the Board's risk appetite.

In March, the Board held its meetings and strategy days in the Company's Oberursel and Frankfurt airport offices in Germany, the head offices of the Tour Operator and Airline in Germany respectively. The strategy days included in-depth discussion of the Company's strategy and presentations from various areas of the business including Thomas Cook China and Thomas Cook Money. In July, the Board held its meetings in the new Peterborough office, the head office of the UK Tour Operator, where it was able to meet colleagues and receive presentations on the UK business.

The Board dedicated half a day to people, where it spent time considering a Group-wide talent review which examined talent, succession, retention risk and diversity in respect of the top 100 roles in the business and how this feeds into the executive pipeline.

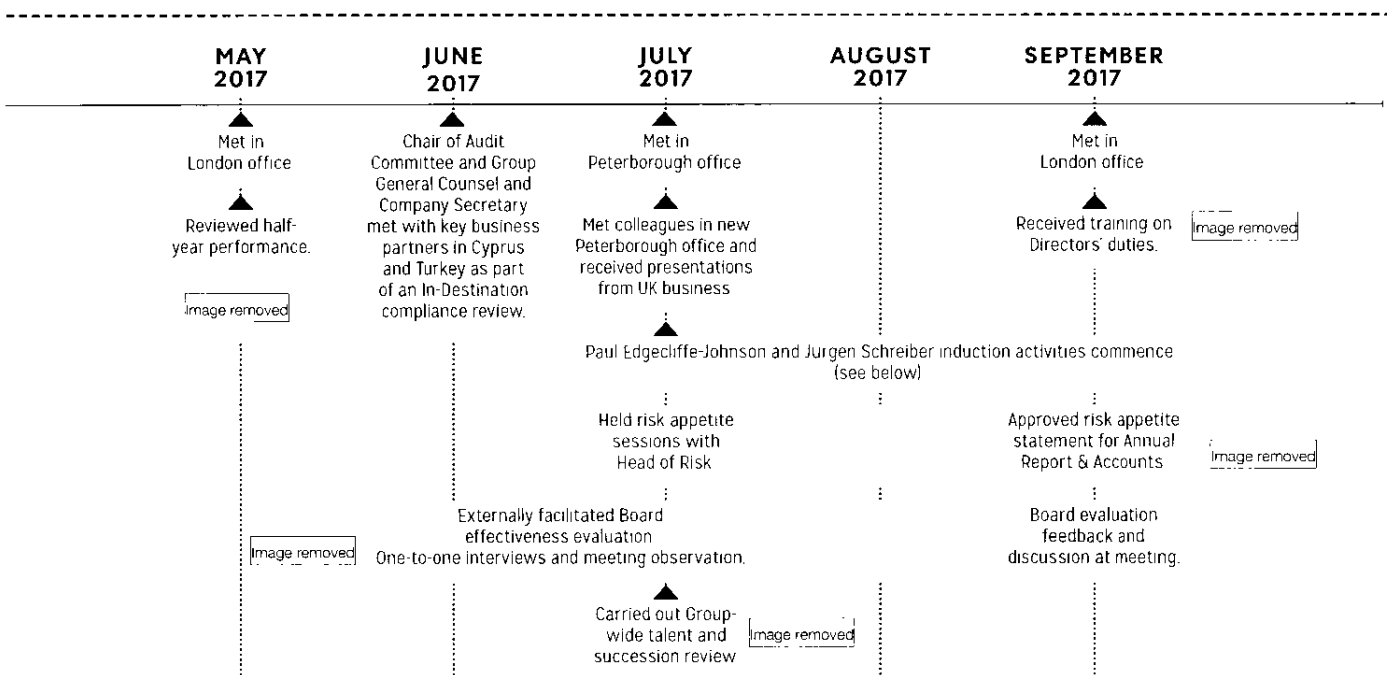
### HOW THE BOARD IS EFFECTIVE

#### BOARD INDUCTION AND TRAINING

A tailored induction programme is provided to each new Director on appointment. Inductions typically include: the provision of a comprehensive induction pack; meetings with other Board members and senior management across a wide variety of geographies; visits to the Company's business operations; and presentations and briefings on the Company's business and other relevant topics. Individual induction requirements are monitored by the Chairman, with the support of the Group General Counsel and Company Secretary.

During the year Lesley Knox completed her comprehensive Non-Executive Induction programme. Following positive feedback, a similar programme has been designed for Paul Edgecliffe-Johnson and Jurgen Schreiber. The programme covers the following activities and meetings during the course of the coming year:





#### Visits to the following business areas:

- > The Group Airline head office at Manchester Airport
- > The Northern Europe Tour Operator business and Airline head offices in Stockholm and Copenhagen respectively
- > The UK business head office in Peterborough
- > The German Tour Operator business and Condor Airline head offices in Oberursel and Frankfurt respectively
- > A retail store

Visits will involve meetings with Management Teams, presentations from the businesses, touring premises and meeting colleagues.

#### One-to-one meetings with:

- > Executive Directors
- > Committee Chairs
- > Group General Counsel and Company Secretary
- > Other members of the Executive Committee
- > Other key leaders in the business
- > The Company's audit partner
- > Attendance at an Executive Committee meeting
- > Invitation to attend a Thomas Cook Leadership Council event
- > A familiarisation trip to a Thomas Cook own-brand hotel to experience our product and meet customers

In respect of the appointment of Bill Scott, who will take up post as Group CFO on 1 January 2018, a tailored induction programme has been designed. As Bill has been with the business for five years, he has an in-depth knowledge of the Company's operations and well-established relationships with key business leaders. Therefore his induction activities will focus on the new responsibilities he will take on as an Executive Director including a training session on Directors' duties and responsibilities.

At Board meetings and, where appropriate, Committee meetings, the Directors receive updates and presentations on developments to the legislative and regulatory environments. In September 2017, the Board received a training session on Directors' duties and responsibilities. The Board also holds deep-dive sessions on different aspects of the business which are presented by Management.

## CORPORATE GOVERNANCE REPORT CONTINUED

### BOARD EFFECTIVENESS EVALUATION

During the year the Chairman engaged Dr Tracy Long, of Boardroom Review Limited, to conduct an externally facilitated Board evaluation. Neither Dr Tracy Long nor Boardroom Review Limited have any other connection with the Company aside from the provision of board evaluations. The below sets out the evaluation process.

<b>PREPARATION</b> Themes to be considered were agreed as:	<b>EVIDENCE</b> Insight was collected through:	<b>REVIEW</b> A discussion document was prepared which set out:	<b>FEEDBACK</b> Feedback was provided via:	<b>ACTIONS</b>
<ul style="list-style-type: none"> <li>&gt; Strategy</li> <li>&gt; Horizon scanning</li> <li>&gt; Risk &amp; control</li> <li>&gt; Remuneration setting</li> <li>&gt; Talent development &amp; executive succession</li> <li>&gt; Stakeholder communication</li> <li>&gt; Culture, composition &amp; choreography</li> <li>&gt; Use of time</li> </ul>	<ul style="list-style-type: none"> <li>&gt; One-to-one in-person interviews with Board members and the Group Company Secretary</li> <li>&gt; Observation of Board, Committee meetings &amp; private sessions</li> <li>&gt; Review of Board and committee papers and minutes</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Strengths</li> <li>&gt; Challenges</li> <li>&gt; Areas of focus</li> </ul>	<ul style="list-style-type: none"> <li>&gt; One-to-one verbal discussions</li> <li>&gt; Collective Board discussion at the September Board meeting</li> </ul>	<p>The Group Company Secretary and Chairman devised an action plan based on the discussion document.</p> <p>A meeting between Dr Tracy Long and the Chairman will take place within 6-12 months to discuss progress</p>

### OUTPUTS FROM 2017 EVALUATION

#### Strengths identified:

- > A positive Board culture focused on adding value to the Company with a shared strategic perspective, led by the CEO, and focused on the customer
- > An increasingly effective use of formal and informal Board and Committee time, including a good balance of strategy, performance and governance themes throughout the year
- > Good attention to the risk and control framework, crisis management and visibility of and confidence in the lines of defence

#### Areas of focus identified:

Certain agenda items and the private sessions (i.e. the meetings of Non-Executive Directors in the absence of Management) can sometimes feel rushed as a result of lack of time available on a busy agenda

The Nominations Committee should spend more time looking at long-term succession planning for the Chair and Committee chairs as well as the Executive Directors

The Board has set a clear tone from the top in respect of culture but it could now benefit from spending more time monitoring how culture changes are being received and filtering down through the organisation.

#### Actions:

The Group Company Secretary and Chairman will work to increase the overall time available for meetings and improve time allocation of the agenda.

This will be added to the Nominations Committee agenda.

The annual employee engagement results will be presented to the Board by the Group HR Director and allocated time on the Board agenda for discussion. Exit interviews of any outgoing senior personnel will be conducted by the Senior Independent Director.

The Chairman and Group Company Secretary monitor progress against the action plan set. The below sets out progress in respect of the action points identified following last year's internal evaluation.

## OUTPUTS FROM 2016 EVALUATION

### Areas of focus identified:

The format and quality of Board papers should continue to be developed to shift the emphasis from reporting past events to highlighting important matters that require the Board's guidance

The Board may benefit in the future from recruiting an additional Non-Executive Director with direct customer experience in the retail industry and/or relevant travel industry experience

The Nominations Committee should be given more time on the agenda

### Progress:

The Group Company Secretary provided guidance to senior management on the structure and content of Board papers. Templates were created and provided to contributors to ensure consistency and papers must pass a more robust review and gatekeeping process before being provided to the Board.

On the recommendation of the Nominations Committee, the Board appointed two new Independent Non-Executive Directors who possess the skills identified (see Nominations Committee report on pages 78 to 79 for more details).

The Group Company Secretary put in place an annual agenda plan and set aside more time for Nominations Committee meetings. During the year the Nominations Committee held six scheduled meetings and spent more time looking at succession planning (see Nominations Committee report on pages 78 to 79 for more details)

## CHAIRMAN EVALUATION

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 discussed by the Board in the absence of the Chairman and feedback was given to him by the Senior Independent Director, and reported to the Board at its November meeting

## INDIVIDUAL EXECUTIVE EVALUATION

The individual performance of the Executive Directors is reviewed separately by the Chairman and the Remuneration Committee.

## SHAREHOLDER COMMUNICATION AND ENGAGEMENT

The Board promotes open communication with Shareholders. This is formalised within the framework of an ongoing investor relations programme conducted by the CEO, the CFO and the Investor Relations Team. The programme includes the presentation of preliminary and half-year results (which can be accessed on [www.thomascookgroup.com](http://www.thomascookgroup.com)) and a large number of meetings with existing Shareholders and potential investors throughout the year. The Company makes every effort to ascertain investor perceptions and regular reports of investor and analyst feedback are provided to the Board

The Chairman of the Board and Chairman of the Remuneration Committee engage with Shareholders on matters concerning corporate governance and executive remuneration respectively, and feed this back to the Board. Dawn Airey held the position of Senior Independent Director throughout the year, providing an additional channel through which Shareholders can engage with the Board if they so wish.

In respect of debt investors, the Company maintains regular dialogue with key relationship banks which includes semi-annual meetings with presentations from the Executive Management Team. During the year, it also held update and review meetings with Moody's, Standard & Poor's and Fitch, the Company's credit rating agencies.

The Company hosts a dedicated conference call for bondholders on a semi-annual basis and during the year the CFO and Management also engaged with Bondholders both as a group, and, on a one-to-one basis, at several investment-bank sponsored conferences. Additionally, the Board responded to ad-hoc requests for information.

All Shareholders are entitled to attend the AGM. Shareholders are given the opportunity to lodge their votes by way of proxy and/or to attend the meeting 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

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 and reduced environmental impact and cost. Shareholders may still opt to receive their communications in a paper format. The Company's corporate website ([www.thomascookgroup.com](http://www.thomascookgroup.com)) contains information for Shareholders, including share price information and news releases.

## CORPORATE GOVERNANCE REPORT CONTINUED

### RISK MANAGEMENT AND INTERNAL CONTROL

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 UK Corporate Governance Code.

The Board has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. This is fully described in the Risk Management section on pages 54 to 59.

The Group's internal control and risk management systems are 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. These systems have been in place for the year under review and up to the date of approval of the Annual Report & Accounts. The Board has approved the framework and the standards implemented.

### 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. The Board monitors the internal control processes on an ongoing basis, including financial, operational and compliance controls, under the auspices of the Enterprise Risk and Audit function. Regular reports on control issues are presented to and discussed with the Audit Committee and there is a follow-up process in place to ensure audit recommendations are fully implemented by Management. This work is also complemented, supported and challenged by the controls assurance work carried out independently by the external auditors, Ernst & Young, as part of the external audit. The Board has noted ongoing progress and active focus in the internal control processes during this year. The Board, in reviewing the effectiveness of the system of internal control, can confirm that necessary actions continue to be taken to remedy any significant failings or weaknesses identified from that review.

### GOING CONCERN

The Directors have assessed the prospects of the Group over the medium term in the context of its current operating performance, the principal risks facing the business and its internal business plan for the next five years. In addition, the Group has prepared a sensitivity analysis on its business plan and evaluated the impact of certain principal risks occurring both individually and in unison, together with mitigating actions that could be implemented in such circumstances.

As part of their assessment, the Directors have also noted the refinancing of the Group's bonds in December 2016, which further extended debt maturities and reduced borrowing costs, and the agreement of larger, more flexible banking facilities in November 2017.

Having considered the above factors, the Directors have concluded that it is appropriate to adopt the going concern basis of accounting 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; and
- > 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; and
  - 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 Company's statement on internal control systems, prior to endorsement by the Board; and
    - the going concern assumption.

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 & Accounts, provides comfort to the Board that the Annual Report & Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and 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
- > confirm 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 are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group, and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. The Directors are also responsible for safeguarding the assets of the Company and the Group and 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. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## DISCLOSURE GUIDANCE AND TRANSPARENCY RULES CONFIRMATION

Each of the Directors who were in office at the date of this report and whose names and functions are listed on pages 63 to 64, 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 4 to 59 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.

## FAIR, BALANCED AND UNDERSTANDABLE

The Directors confirm that they consider the Annual Report & Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy. In making this confirmation, the Directors took into account their knowledge of the business, which is kept up-to-date with regular reports, updates and business reviews circulated prior to and discussed at each Board meeting, and supplemented by a variety of written reports, verbal updates and presentations (including the training and strategy support presentations detailed on page 58) given at Board and Committee meetings as well as a regular flow of information about the business between meetings.

The Directors then took into account the thorough preparation and verification process in respect of the Annual Report & Accounts, which included sufficient time for the Directors to review the Annual Report & Accounts and to feed in their comments to Management before approving the document.

## 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 they are aware, there is no relevant audit information of which the Company's auditors are unaware; and that they have taken all steps that they ought to have taken as a Director to make them 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 81 to 83.

## DIVIDEND

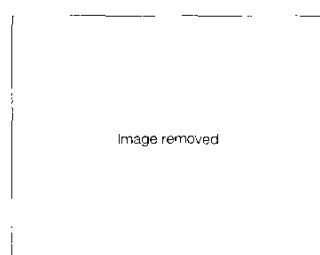
The Board has proposed a final dividend of 0.6 pence per share, representing a distribution to shareholders of £9 million. This represents an increase of 20% compared to the dividend paid in respect of the previous year, reflecting the underlying progress made in FY17 and the confidence of the Board in the Group's future.

The Board has a policy to target dividend growth that reflects the Group's progress in underlying earnings per share. As previously stated, in view of the seasonality of the Group's profit profile, it is not our intention to pay interim dividends for the foreseeable future.

The ex-dividend date will be 8 March 2018 and, subject to shareholder approval at the 2018 Annual General Meeting, the final dividend of 0.6 pence per share will be paid on 5 April 2018 to shareholders on the register at the close of business on 9 March 2018.

# CORPORATE GOVERNANCE REPORT CONTINUED

## AUDIT COMMITTEE



**CHAIRMAN**  
Martine Verluyten

### OTHER MEMBERS

Dawn Airey (until 30 September 2017), Paul Edgedcliffe-Johnson (from 21 September 2017), Lesley Knox, Jurgen Schreiber (from 21 September 2017), Warren Tucker.

### COMPOSITION OF THE COMMITTEE

All members of the Committee are Independent Non-Executive Directors

Martine Verluyten, Warren Tucker and Paul Edgedcliffe-Johnson are considered by the Board to have recent and relevant financial experience, as required by the Code, and satisfy the requirements for competence in accounting and/or auditing under the Disclosure Guidance and Transparency Rules. The Board considers that the Committee as a whole has competence in the travel sector. Travel sector experience is highlighted in the Directors' biographies.

### DIRECTORS' BIOGRAPHIES

See pages 63 to 64

### MEETINGS ALSO ATTENDED BY:

The Chairman and the other Non-Executive Directors, Peter Fankhauser (CEO), Michael Healy (CFO), Alice Marsden (Group General Counsel and Company Secretary), Bill Scott (Director of Financial Reporting), Sofya Linderman (Group Head of Risk), Derek Foster (Group Head of Audit), Anil Sen Gupta (Internal Audit, Deloitte), Nick Ong-Seng (Thomas Cook Money Risk and Compliance Director) and Richard Wilson (External Audit Partner, Ernst & Young).

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 Internal Audit and Risk functions and Ernst & Young, the Company's external auditor in the absence of Management.

## ROLE OF THE COMMITTEE

The role and responsibilities of the Audit Committee are set out in written Terms of Reference which are available at [www.thomascookgroup.com](http://www.thomascookgroup.com). Some of their key responsibilities are:

- > monitoring the integrity of the annual, half-year and quarterly results statements, including reviewing the significant financial reporting judgements contained in them;
- > reviewing the Company's internal financial controls and internal control and risk management systems;
- > monitoring and reviewing the effectiveness of the Company's Internal Audit function;
- > establishing and overseeing the Company's relationship with its external auditors, including monitoring their effectiveness and independence; and
- > monitoring matters raised pursuant to the Company's whistleblowing arrangements.

## ACTIVITIES

### Financial reporting and significant judgement areas

The Committee monitored the integrity of the annual, half-year and quarterly results statements, including a review of the significant financial reporting judgements contained in them. In May and November, the Committee reviewed a comprehensive paper prepared by the Director of Financial Reporting, which set out the Group's accounting policies and basis of preparation. The Committee also reviewed a paper prepared by the external auditors, which included significant reporting and accounting matters. 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 are shown in the table overleaf.

During the year, the Company had correspondence with the FRC's Corporate Reporting Review team in relation to its review of the Company's FY16 Annual Report & Accounts<sup>1</sup> in line with the FRC's disclosed focus on the travel and leisure sector in 2017. The Company provided clarifications and rationale for disclosures in respect of separately disclosed items and alternative performance measures and committed to enhancing disclosure in these areas going forward. The FRC welcomed these commitments. Management presented the findings of the review to the Committee and the Committee reviewed and approved the correspondence with the FRC.

<sup>1</sup> The FRC stated that the scope of their review was based on the Company's FY16 Annual Report & Accounts and was conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework. The review did not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions entered into and therefore their review does not provide assurance that the FY16 Annual Report & Accounts are correct in all material respects.

Significant issues in relation to the financial statements considered by the Committee	How the issue was addressed by the Committee
<p><b>Revenue Recognition:</b> There are a significant number of transactions in relation to revenue, given the nature of the business. The accounting for revenue is susceptible to management override. This brings a risk around the completeness and accuracy of the revenue recognised during the year.</p>	<p>The Committee evaluated the IT systems and the internal controls in place around revenue recognition. This included a review of the Group revenue recognition policies to ensure revenue is recognised in line with the policy. The Committee concluded that revenue was complete and accurate.</p>
<p><b>Accounting for aircraft maintenance provisions:</b> Significant fixed assets for aircraft and provisions for maintenance and contractual end of lease obligations are held on the balance sheet.</p> <p>There is an inherent level of estimation included in the calculation of the maintenance provisions which are based upon forecast aircraft usage and maintenance costs.</p> <p>Furthermore, there is judgement needed to determine the appropriate discount rate for the provision.</p>	<p>The Committee reviewed the methodology and key assumptions used by Management in accounting for aircraft maintenance provisions and concluded that the treatment was appropriate. In addition, the methodology for the calculation of the discount rate and the subsequent prior year correction as a result of this change was reviewed and agreed as appropriate.</p>
<p><b>Separately disclosed items:</b> The Group has an established policy of separately disclosing items that are either exceptional or not reflective of the underlying performance of the Group.</p> <p>Separately disclosed items are not defined by IFRSs as adopted by the European Union and therefore judgement is required by the Directors to identify such items. Consistency in identifying and disclosing items as separately disclosed is important to maintain comparability of reporting year-on-year.</p>	<p>The Committee considered the presentation of the Group financial statements and the appropriateness of the presentation of separately disclosed items, in particular items relating to the New Operating Model and certain non-cash finance items. The Committee reviewed the nature of items identified and concurred with Management that the treatment was even-handed, consistent across years and appropriately presented movements on items which have an effect over a number of years. Consideration was also given to the quality of earnings within underlying results.</p>
<p><b>Carrying Value of Goodwill and Deferred Tax Assets:</b> The Group holds significant goodwill and deferred tax assets on the balance sheet. Determining the carrying value of these assets is dependent on judgements about the future results of the business.</p>	<p>The Committee reviewed Management's process for testing goodwill and deferred tax assets for potential impairment. This included challenging the key assumptions: principally cash flow forecasts, growth rates and discount rates for goodwill and taxable profit forecasts for deferred tax assets.</p>
<p><b>Provision for illness claims and associated recoveries:</b> There has been a significant increase in the number of customer illness claims in the current year. Significant judgement is required and there is limited historical data available in determining the level of provision required.</p> <p>In addition, in line with the increase in illness claims the level of recoveries from hotels relating to these illness claims has also increased. To determine the amount recoverable is subjective and requires Management judgement.</p>	<p>The Committee reviewed and challenged the assumptions that Management had used in determining the provision for illness claims to satisfy itself that the level of provisioning was appropriate.</p> <p>The Committee reviewed the methodology behind the hotel recovery position and challenged Management on the assumptions used. The Committee satisfied itself that the level of recovery recognised as appropriate.</p>

## CORPORATE GOVERNANCE REPORT CONTINUED

### INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT

#### Risk Management

The Audit Committee considers risk exposure against the risk appetite of the Group, as set by the Board, by profiling key risks to the business in terms of their potential impact and likelihood of occurrence, after consideration of mitigating and controlling actions that are in place. During the year, the Committee reviewed the key strategic risks and received updates from the Group Head of Risk in respect of the Group Risk Dashboard, highlighting any changes in the Company's risk profile. The Committee also confirmed that appropriate mitigations were in place for the key strategic risks. These activities fed into the annual Internal Audit Plan, which enables a risk-based approach to be adopted as part of the ongoing Internal Audit and assurance programme.

The Committee was supported in its work by the Executive Committee, which is comprised of relevant representatives of senior management and chaired by the CEO. The Executive Committee meets quarterly to monitor the risk dashboard.

Particular areas of focus for the Committee during the year included: fraudulent customer illness claims in the UK; information security; data protection; and cyber security. The Committee received presentations and regular updates from senior management on these issues. The Committee received regular updates in respect of the Group's legal compliance programme which covered matters including: data protection; anti-bribery and corruption; competition law; the Package Travel Directive, hotel and accommodation contracting.

As part of the ongoing In-Destination Compliance Programme, the Committee Chair and Group General Counsel & Company Secretary visited Cyprus and Turkey and met with key business partners to receive first-hand feedback in respect of the Company's general governance and compliance practices in-destination. Findings from the review were reported to the Committee and an action plan to further enhance compliance in this area was put in place and is being monitored by the Committee.

The Committee reviewed reports of all cases lodged with Expolink, the Group's whistleblowing line, and the outcomes of resulting investigations.

#### Internal Audit

The Committee continued to oversee and support development of the in-house Internal Audit function. The Committee challenged and approved the proposed Internal Audit Plan, and throughout the year monitored the allocation of Internal Audit resource and delivery against the Internal Audit Plan. The Committee closely monitored the recruitment process for a new Group Head of Internal Audit. The Committee considered an effectiveness review of the Internal Audit function, which measured performance against the Quality Assessment criteria provided by the Institute of Internal Auditors and concluded it remains satisfied with work of the Internal Audit function.

During the year the Committee considered the findings of a number of reviews carried out by the Internal Audit function.

#### Internal Control

*The Group's internal control framework is managed by the Group Finance function. The Audit Committee receives updates on internal control matters at each meeting which provides the Committee with assurance that the internal controls in place are robust. Regular monitoring of the internal control framework allows timely identification of issues and formal tracking of remediation plans.*

The internal control framework includes Risk and Control Matrices, which act as a key mechanism to mitigate the risk of financial misstatement and fraud. Management of each Thomas Cook reporting entity certified compliance with the Risk and Control Matrix for the financial year. Group Finance ensure that agreed actions are being implemented to support a programme of *maintaining and improving internal controls*. Management also continues to refine the framework based on the findings of the reviews from Internal Audit.

To further support the Board's annual assessment of the effectiveness of the internal control framework, Group Finance prepare a report on the Group's internal control framework and its effectiveness, which describes the risk management systems and arrangements in place for internal control, as well as work conducted during the year to improve the control environment. Work in the current year has focused on further education on the internal control framework, to achieve consistency across the Group, as well as phased testing of reconciliations and controls.

These activities, together with the regular reports from the external auditors, have supported the Audit Committee in providing its advice to the Board in respect of the effectiveness of internal controls (see section headed "Risk Management and Internal Control" on page 72).



## EXTERNAL AUDITOR

The Company's external auditor is Ernst & Young and Richard Wilson is the Audit Partner.

### Independence

During 2016, the Audit Committee conducted a competitive tender process, the details of which were reported in last year's Annual Report & Accounts. The Board approved the Committee's recommendation to appoint Ernst & Young as auditor in respect of the audit of FY17 onwards, and a resolution was approved by Shareholders at the Company's Annual General Meeting in February 2017. Thorough conflict of interest checks were undertaken as part of the tender process and independence was one of the key considerations for the Committee when making its recommendation. Therefore the Committee considers that appointment of Ernst & Young will ensure a high level of independence is maintained and the Committee will continue to monitor this area.

### Effectiveness

At its meeting in November 2017, the Committee considered the effectiveness of Ernst & Young as external auditor in respect of FY17. The review included consideration of comprehensive papers from both Management and the external auditor, and meetings with Management in the absence of the external auditor.

The effectiveness review considered matters such as: the competence of the key senior members of the team and their understanding of the business and its environment; the planning process; effectiveness in identifying key risks; technical expertise displayed by the auditors over complex accounting matters; communicating and resolving audit issues; timeliness of the audit process; cost; and communication of issues and risks to Management and the Committee.

Following the review, the Committee concluded that overall Ernst & Young had provided an effective and independent audit in respect of FY17.

The Company confirms that it has complied with the provisions of the Competition and Markets Authority's Statutory Audit Services Order in respect of the financial year under review.

## Non-audit Fees

The Company has a Non-audit Fee Policy (the 'Policy') in place to ensure that the provision of non-audit services by the external auditor does not impair their independence or objectivity.

The Policy, which is appended as a schedule to the Audit Committee's Terms of Reference, is published on the Group's website at [www.thomascookgroup.com](http://www.thomascookgroup.com). The Policy states that the external auditor should not be engaged in respect of services 'blacklisted' in the FRC's Ethical Standard 2016. Any other material non-audit work must be authorised in advance by the Committee, unless the engagement is urgent, in which case the CFO can agree the work with the Committee Chair and report it to the next Committee meeting. The details of non-audit work (if any) are reported to the Committee on a six-monthly basis.

Fees for non-audit services during the year totalled £202,604 representing 13% of the fees paid to the external auditor (further information about non-audit fees can be found in Note 6 to the financial statements). Taking into consideration that £184,082 of this fee was in respect of the review of the Company's half-year results, for which the Company's external auditor must be used, the Committee considered the level of fees to be acceptable and did not consider it posed any risk to auditor independence.

### Planning

At its meeting in May 2017, the Committee considered and approved the external audit plan for the audit of the Group for FY17. The Committee considered significant risk areas for the audit, the proposed scope, the materiality threshold, the approach to internal audit and the transition from PwC to Ernst & Young.

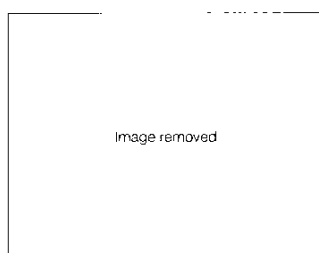
## MARTINE VERLUYTEN

CHAIRMAN OF THE AUDIT COMMITTEE

21 November 2017

## CORPORATE GOVERNANCE REPORT CONTINUED

### NOMINATIONS COMMITTEE



**CHAIRMAN**  
Frank Meysman

#### OTHER MEMBERS

Dawn Airey, Emre Berkin, Peter Fankhauser (until 30 September 2017), Warren Tucker (until 30 September 2017) and Martine Verluyten.

#### COMPOSITION OF THE COMMITTEE

A majority of the members of the Committee are Non-Executive Directors

#### DIRECTORS' BIOGRAPHIES

See pages 63 to 64

#### MEETINGS ALSO ATTENDED BY:

The other Non-Executive Directors, Peter Fankhauser (CEO), Michael Healy (CFO) and Alice Marsden (Group General Counsel and Company Secretary).

### 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 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).

### ACTIVITIES

During the year, the Committee dealt with two significant tasks firstly appointing two new Non-Executive Directors, and secondly appointing a new CFO.

The Committee considered the current skill set, experience and balance of the Board alongside the Company's strategic goals and decided that, given the importance of the customer and the hotel portfolio to the Company's strategy, it would recommend the appointment of two individuals with particular expertise in these areas.

The Committee provided a skills-based brief to executive search firm Egon Zehnder (who do not have any connection to the Company and are a signatory to the Voluntary Code of Conduct of Executive Search Firms) and instructed them to compile a gender balanced long list of candidates for the roles. After a comprehensive search the Committee recommend that Paul Edgecliffe-Johnson, who has deep global hotel industry experience, and Jürgen Schreiber, who has extensive experience across retail and consumer goods, be appointed to the Board. More information about each Director can be found in the biography section on pages 63 to 64.

During the year the Committee also spent considerable time focusing on executive succession planning. Aware of the CFO's intention to retire in the near future, the Committee oversaw a rigorous recruitment and selection process. Again the Committee instructed Egon Zehnder to compile a gender balanced long list of candidates and considered a number of external and internal candidates. This process resulted in the recommendation to appoint Bill Scott, currently Director of Financial Reporting, as successor to Michael Healy. In reaching its decision, the Committee considered Bill's skill set, experience and achievements during his five years at the Company alongside the Company's business plan and strategic goals.

Other important work in the area of succession planning included considering how the annual talent review feeds into Executive succession planning and reviewing initiatives to strengthen the internal pipeline such as the 'Leadership and Development Programme' which aims to develop the leadership skills of c.90 leaders in the business and the 'Women's Sponsorship Programme' which aims to enhance the profile and opportunity for future female leaders. More information about the Group's activities in this area can be found on page 39.

The Committee also considered

- > the composition of the Committees following the appointment of two new Non-Executive Directors and recommended changes,
- > the extension of Annet Aris' and Martine Verluyten's appointment terms for a further three years,
- > re-appointment of Directors before making a recommendation to the Board regarding their re-election at the 2017 AGM, and
- > Directors' potential conflicts of interests and independence.

## BOARD DIVERSITY

The Board currently has 36% female representation which exceeds the Davies Review target for Boards to have a minimum of 33% female representation by 2020. The Chairman is a member of the 30% Club, which has the aim of promoting the achievement of 30% of women on FTSE 100 Boards. The Committee continues to monitor gender diversity of senior management, including the Executive Committee and the TCLC (statistics for which are provided on page 39), and is mindful of the Hampton-Alexander Review targets in respect of gender diversity in senior management of FTSE 100 companies.

The Board also acknowledges the target set by the Parker Review as a FTSE 250 company, to have at least one non-white Director by 2024. As stated in the 'People' section on page 39, ethnicity will be an area of increased focus for the Company in the coming year and the Committee will consider this aspect of diversity in the context of the Board.

The Committee remains committed to ensuring a diverse and representative Board, and making appointments based on merit.

A copy of the Group's Board Appointments Policy can be found at the Group's website at [www.thomascookgroup.com](http://www.thomascookgroup.com)

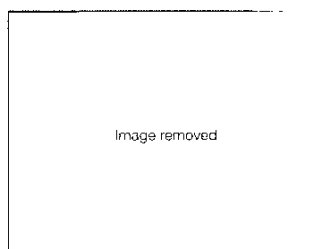
## FRANK MEYSMAN

CHAIRMAN OF THE NOMINATIONS COMMITTEE

21 November 2017

## CORPORATE GOVERNANCE REPORT CONTINUED

### HEALTH, SAFETY & ENVIRONMENTAL COMMITTEE



**CHAIRMAN**  
Emre Berkin

#### OTHER MEMBERS

Dawn Airey (until 30 September 2017), Annet Aris, Peter Fankhauser and Jurgen Schreiber (from 21 September 2017).

#### COMPOSITION OF THE COMMITTEE

A majority of the members of the Committee are Non-Executive Directors.

#### DIRECTORS' BIOGRAPHIES

➤ See pages 63 to 64

#### MEETINGS ALSO ATTENDED BY:

The other Non-Executive Directors, Michael Healy (CFO), Marc Jordan (Group Head of Health, Safety and Security), Jean Christoph-Degen (Group Airlines Director of Aviation Safety), Alice Macandrew (Group Corporate Affairs and Communications Director), Stephen D'Alfonso (Group Head of Public Affairs) and Alice Marsden (Group General Counsel and Company Secretary).

#### 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)

#### ACTIVITIES

The Committee continued to put customer and employee safety at the forefront of its agenda. As well as closely monitoring activity in these areas, it provided strategic oversight and guidance to ensure that activities align with the Company's strategy and values. The matters it considered within its four main areas of focus are:

#### Health and Safety

- Oversaw a restructure of the Group Health and Safety function which involved aligning the Group's approach to health and safety across all markets for both complementary and differentiated products
- Monitored the work and performance of the Company's main third-party audit supplier (SGS) and other suppliers, including Cristal Standards who carried out independent security audits in certain destinations
- Supported an increase in health and safety audits of hotels, resulting in a position where over 92% of differentiated hotels have been audited by one of the Company's independent third-party audit suppliers
- Monitored the outcomes and findings of audits and any remedial actions identified
- Reviewed the Company's Health and Safety Policy statement, Group Fuel Policy and Legionella Policy
- Monitored compliance with the Thomas Cook Group Fuel Policy
- Approved the introduction of a Hotel Security Policy Framework which aligns with the Federation of Tour Operators Security Guidance
- Oversaw a training programme in respect of retail store security in the UK which resulted in a reduction of burglary incidents

#### Aviation Security

- Reviewed and approved a four-year Safety Plan which aims to enhance and harmonise safety practices across the Group Airline. The Safety Plan includes the launch of the 'Safe@Heart' initiative which aims to embed an enhanced culture of safety in the Airline, including extra safety training for 7,000 Group Airline employees
- Monitored the safety and security of various airports including those in Turkey, Tunisia and Egypt
- Carried out a deep-dive into the Group Airline's Disruptive Passenger Policy

#### Sustainability

- Approved a new Sustainability Strategy which is aligned to the Group's wider strategy and provided direction in respect of target setting and implementation
- Approved a new Animal Welfare Policy and supported the engagement of an independent third-party supplier to carry out audits of animal attractions to ensure they meet ABTA's standards for animal welfare
- Monitored the performance of hotels in achieving a Travelife sustainability certification
- Oversaw a review of the Group's charitable activities.
- Monitored Carbon reporting under the Carbon Disclosure Project and the Commitment to Carbon Reduction Scheme

#### Public Affairs

- Monitored the Group's engagement with governments and policy makers in respect of Brexit, the implementation of the Package Travel Directive, fraudulent customer illness claims in the UK and the security of various airports and resorts

#### EMRE BERKIN

CHAIRMAN OF THE HEALTH, SAFETY &  
ENVIRONMENTAL COMMITTEE

21 November 2017

# OTHER DISCLOSURES

## SHARE CAPITAL

The Company has the following three classes of shares in issue

Name	Number of shares in issue at 30 September 2017
Ordinary Shares of €0.01 each	1,535,851,316
Deferred Shares of €0.09 each	934,981,938
Deferred Shares of £1 each	50,000

### Ordinary Shares

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 the premium segment of the Official List and to trading on the London Stock Exchange's Main Market.

Employees who hold shares under the Thomas Cook BAVE or vested shares under any of the Company's executive share plans, are sent a Form of Instruction by the relevant trustee in respect of any general meetings of the Company, so that they may instruct the Trustee to vote on their behalf.

### Deferred Shares

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.

## 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).

## POWERS OF DIRECTORS

The powers of the Directors are set out in the Articles. The Directors were authorised at the 2017 Annual General Meeting to allot shares equal to approximately one-third of the Company's issued share capital as at 7 December 2016 or two-thirds in respect of a rights issue. The Directors were also given the power to allot Ordinary Shares for cash up to a limit representing approximately 10% of the Company's issued share capital at 7 December 2016 without first offering them to existing Shareholders in proportion to their existing holdings (however more than 5% can only be used in connection with an acquisition or specified capital investment).

In accordance with its Articles, the Company has granted third-party indemnities to the extent permitted by law, to each Director and the Group Company Secretary, which were in force during the financial year and up to the date of signing this report. The Company also maintains Directors' and Officers' liability insurance.

## 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

## OTHER DISCLOSURES CONTINUED

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 currently set at 45%. 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

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.

As at 30 September 2017, 527,456,364 Ordinary Shares (34.34%) were held on the Separate Register.

## PROVISIONS OF CHANGE OF CONTROL

The Company has in place a facilities agreement (the 'Agreement') which consists of a £500 million revolving credit facility and £300 million bilateral bonding and guarantee facilities. 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; (ii) cancel all of its commitments under the Agreement, and/or (iii) under certain conditions demand immediate credit support.

The Company also has outstanding £750 million 6.25% guaranteed notes due 2022. On the occurrence of certain change of control events relating to the Company, each holder has the option to require the Company to repurchase all or any part of the holder's notes at a purchase price in cash equal to 101% of the principal amount plus accrued and unpaid interest.

The Company's subsidiary, Thomas Cook Finance plc, has outstanding €400 million 6.75% guaranteed notes due 2021. 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 notes) to repurchase all or any part of the holder's notes at a purchase price in cash equal to 101% of the principal amount plus accrued and unpaid interest.

## POLITICAL DONATIONS

The Company did not make any political donations during the financial year (2016: nil).

## MAJOR SHAREHOLDINGS

The table below shows notifications of major shareholdings received by the Company in accordance with rule 5 of the Disclosure Guidance and Transparency Rules:

Name	Voting rights reported as at 30 September 2017	Percentage of issued capital (%) as at 30 September 2017	Voting rights as at 21 November 2017	Percentage of issued capital (%) as at 21 November 2017
Invesco Ltd	321,948,268	20.96	307,031,986	19.99
Standard Life Aberdeen	183,196,317	11.93	183,196,317	11.93
FPI UK Limited (Fosun)	169,059,734	11.01	169,059,734	11.01
Marathon Asset Management LLP	77,257,909	5.03	77,257,909	5.03
The Capital Group	77,168,099	5.02	74,336,279	4.84
BlackRock, Inc	77,148,585	5.02	138,937,979	9.04
Orbis Holdings Limited	76,633,091	4.99	76,633,091	4.99

## DISCLOSURE OF INFORMATION UNDER LISTING RULE 9.8.4

There is no information to be disclosed under Listing Rule 9.8.4

## GREENHOUSE GAS EMISSIONS

Information in respect of greenhouse gas emissions have been included in the "Sustainability" section of the Strategic Report on pages 33 to 39.

## EMPLOYEE DISCLOSURES

Disclosures in respect of employee involvement can be found on pages 37 and 39 of the Strategic Report.

As described on page 39, we are committed to creating an environment in which employees from all backgrounds can reach their full potential. This commitment is supported by recruitment, career development and reward policies and practices which are free from discrimination and ensure equal opportunities for all employees, irrespective of their personal characteristics.

Full and fair consideration is given to applications received by those with disabilities with regard to their skills and experience for the role. Those with disabilities within our organisation are provided with appropriate learning and development, training courses, career development and promotion opportunities, with care taken to ensure that these are made fully available. If there were to be any instance of an employee becoming disabled during their employment with us, reasonable adjustments would be made to support that particular individual to ensure that they are retained within the business with the appropriate training provided for them to continue in their role, or if appropriate an alternative role within the business.

The Strategic Report and Directors' Report comprising pages 4 to 83 have been approved and are signed by order of the Board by:

**ALICE MARSDEN**  
GROUP COMPANY SECRETARY

21 November 2017

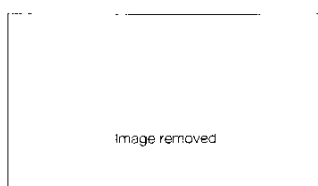
**Registered office**  
3rd Floor, South Building  
200 Aldersgate  
London EC1A 4HD

**Registered number**  
6091951



# DIRECTORS' REMUNERATION REPORT ANNUAL STATEMENT BY CHAIR OF REMUNERATION COMMITTEE

## REMUNERATION COMMITTEE



**CHAIRMAN**  
Warren Tucker

### OTHER MEMBERS

Dawn Airey, Annet Aris, Emre Berkin (until 1 October 2017), Paul Edgecliffe-Johnson (from 21 September 2017) and Lesley Knox

### COMPOSITION OF THE COMMITTEE

All members of the Committee are Independent Non-Executive Directors.

### DIRECTORS' BIOGRAPHIES

➤ See pages 63 and 64

### MEETINGS ALSO ATTENDED BY:

Frank Meysman (Chairman), Peter Fankhauser (CEO), Michael Healy (CFO), Martine Verluyten (Independent Non-Executive Director), Jurgen Schreiber (Independent Non-Executive Director), Alice Marsden (Group General Counsel & Company Secretary), Mitul Shah (Deloitte LLP, 'Deloitte') (until May 2017), Pete Smith (Mercer Ltd, 'Mercer') (from September 2017) and members of the HR Leadership Team as required, being Rachael Gillett (Group & UK HR Director), Caroline Forsyth (Group Head of Reward) and Emily Hallett (Executive Remuneration Manager).

All attendees are by invitation only

### SCHEDULED MEETINGS

Six.

This report is set out in the following key sections:

#### ANNUAL STATEMENT BY CHAIR OF THE REMUNERATION COMMITTEE

➤ See pages 84 to 88

#### DIRECTORS' REMUNERATION POLICY

➤ See pages 89 to 97

#### ANNUAL REPORT ON REMUNERATION

➤ See pages 98 to 108.

## DEAR SHAREHOLDERS

On behalf of the Board, I am pleased to present our Directors' Remuneration Report for the financial year ended 30 September 2017, our first report under the Directors' Remuneration Policy (the 'Policy') which was approved at our Annual General Meeting on 9 February 2017.

## OUR PERFORMANCE IN FY17

This has been a year of real progress for Thomas Cook. In a very competitive environment, Management's focus on executing our strategy for profitable growth has delivered a good financial performance for 2017 while at the same time transforming the Company's opportunities for growth over the longer-term.

Strong customer demand for our improved holiday offering across all source markets delivered a Group underlying EBIT of £330 million. This achievement is a strong sign of the Company's resilience as a result of our ongoing transformation.

Nowhere is this transformation more clear than in our customers' experience of Thomas Cook holidays. The Net Promoter Score (NPS) – the key metric by which we measure customer satisfaction – increased a further 4 points in 2017. This reflects the very rigorous way our people now manage the quality and service at every stage of the holiday life-cycle. But it is also linked to a number of bold moves where the Company has innovated to modernise its offering and drive reappraisal of the package holiday such as the roll out of the 24-Hour Hotel Satisfaction Promise across 2,000 hotels – a strong sign of the Group's commitment to putting customers at the heart of the business.

2017 also saw the announcement of a number of important developments that will transform the size and shape of the business for the future. These include the strategic alliance with Expedia and improving the Group's financial position by both lowering the cost of financing and by extending the Group's debt maturity profile. Taken together, the business has a strong platform on which to implement our clear strategy to deliver profitable growth and returns.

The long-term sustainability of the business is based on the execution of a very clear strategy to transform Thomas Cook into a more streamlined business focused on a number of key areas where it can set itself apart from the competition. Our Policy directly links Executive Directors' pay to the achievement of stretching performance targets which underpin that strategy. The Committee ensures that the performance measures selected in the incentive Plans reflect the Key Performance Indicators (KPIs) of the business and therefore align the interests of the Executive Directors to those of your own.



## PAY PHILOSOPHY

As a Committee, we remain very mindful of the sensitivities of executive pay felt by companies, employees, Shareholders and our customers. Our approach is to ensure that our Policy reflects our strategy, with outcomes that are fair and have a strong link to performance, and this remains our priority as a Committee

As set out in the Policy, fixed pay is set at median levels against the market, and the provision of benefits set by the local market in which the Executive Directors operates. Variable remuneration is a combination of both short and long-term incentives which are strongly linked to the rigorous execution of the strategy

Stretching targets are set to incentivise and reward profitable growth, disciplined cash management, unrivalled customer service and long-term Shareholder value creation. The diagram below shows the alignment between our strategy (as set out on pages 4 to 5) and KPIs (as set out on page 32)


## LINKING PAY WITH PERFORMANCE

### OUR VISION AND STRATEGY



Our vision is to be the most loved holiday company. 'Customer at our Heart' sits firmly at the centre of our vision and our strategy for sustainable growth

Our key performance indicators measure the success of our strategy

 See more on page 32

### KPIs WE USE TO MEASURE PERFORMANCE

Underlying EBIT

Earnings Per Share (EPS)

Net Debt

Net Promoter Score (NPS)

Employee Satisfaction

### HOW EACH KPI IS REFLECTED IN INCENTIVES

Annual Bonus

Performance Share Plan (PSP)

Core Measure

✓

Core Measure

✓

Core Measure  
(Cash Flow)

✓

Core Measure

✓

Role-specific measure  
(Engagement)

✓

Interests are further aligned with Shareholders through Total Shareholder Return (TSR) as a Core Measure

✓

1 Any reference to underlying EBIT in the Directors' Remuneration Report is stated in line with the definition explained in Appendix 1 in the Financial Review – Use of Alternative Performance Measures on page 52

## ANNUAL STATEMENT BY CHAIR OF REMUNERATION COMMITTEE CONTINUED

### THE 2017 POLICY

Last year, the Committee introduced an updated Policy which came into effect in February 2017 and included a number of best practice improvements. Whilst we were pleased that the Policy presented at the 2017 Annual General Meeting received approval, we recognise that there was a minority that voted against it, with particular concerns relating to the Strategic Share Incentive Plan (SSIP).

Your support is very important to us. To alleviate some of your concerns around the SSIP, following the results of the Annual General Meeting, we made the commitment to make a future award under the SSIP only following full consultation with our major Shareholders as to the circumstances, the objective(s), the target(s) and the quantum of any award. We also committed to not proceeding without the full support of our major Shareholders. To date, the exceptional circumstances that would give rise to using the SSIP have not arisen and therefore the SSIP has not been used in FY17 and there are no plans to use it in FY18.

In addition, in response to your concerns around the maximum opportunity under the SSIP, we have capped the award to ensure that the maximum achievable under the SSIP will not exceed the maximum achievable under the PSP, being 200% of salary. An amended Policy with this change is not being presented for formal approval, however it has been reflected as notes to the future Policy table on pages 92 and 93.

The Committee also acknowledges your concerns with our approach to disclosing EPS targets retrospectively under the PSP. I would like to update you on the progress we have made here. To date, EPS targets have been directly linked to our business plan. This made them price sensitive and therefore we felt we could not disclose these prospectively.

We have reviewed our target setting process and have developed a methodology that results in a target range which can now be disclosed prospectively. As such I am pleased to be able to share the target range for the upcoming PSP award to be made in FY18. In addition, in this report you will also find EPS target ranges for the two outstanding PSP awards. This brings our approach to disclosure in line with the market and aligns with our aim to be open and transparent on our long-term incentive plan targets.

As I mentioned earlier, a number of best practice changes were introduced during the year. These included, an increase to the shareholding requirement for Executive Directors, the addition of a holding period to all long-term incentive plans which provide for a five-year time horizon on all plans; aligning good leaver provisions, and capping the maximum employer pension benefit. We also reduced the level of vesting available for threshold performance under the PSP and improved bonus disclosure of targets by bringing forward disclosure by one year.

The changes we made and the way in which they have been implemented following approval of the Policy are set out in the table opposite.

Change made	How we have implemented this change
<b>Shareholding requirement for Executive Directors increased from 100% to 200% of salary</b>	The CEO and CFO have holdings of 449% and 300% respectively
<b>Good leaver provisions aligned across all Plans</b>	The PSP vesting date for the CFO is aligned to the normal vesting date under each award. The bonus payment for the CFO will be made on the normal payment date and a proportion of the bonus will continue to be subject to a two-year deferral period.
<b>Reduced the level of threshold vesting under the PSP from 30% to 25%</b>	Put in place from the FY17 (December 2016) grant onwards.
<b>Capped the maximum pension benefit within the Policy</b>	New CFO pension arrangement set at a level below the cap – i.e. 20% if receiving the benefit as a cash allowance or 15% if receiving as an employer contribution into the pension scheme, instead of the Policy maximum of 30%, to align more closely to the maximum an employee with long-service in the UK can receive.
<b>Introduced a two-year holding period to the PSP (and SSIP)</b>	Holding period written into the PSP rules ready for next grant in FY18 (December 2017). This means that all long-term incentive plans at Thomas Cook have a five-year time horizon in line with corporate governance guidelines and Shareholder expectations.
<b>Strengthened malus and clawback</b>	Whilst Thomas Cook was an early adopter of malus and clawback in the bonus plan and malus in the PSP, clawback events have been written into the PSP rules ready for next grant in FY18 (December 2017). Malus and clawback are now across all of our incentive plans.
<b>Improved bonus target disclosure</b>	Targets are now disclosed at the end of the performance year in line with corporate governance guidelines and Shareholder expectations. FY17 targets are disclosed in this report.
<b>Improved EPS target disclosure</b>	Last year we provided information on how EPS targets were set, and gave a performance update for targets under each outstanding award. This year we are prospectively disclosing target ranges for the upcoming PSP awards and disclosing target ranges for all outstanding awards.

## CFO SUCCESSION

As previously announced, in January 2018, Bill Scott will succeed Michael Healy as CFO, following Michael's decision to retire at the end of the year. The Board was delighted to make this internal promotion and look forward to welcoming Bill to the Board.

The key components of Bill's remuneration package were published on our Company website and announced via a regulatory news service (RNS) statement shortly after they were agreed, and are set out in detail on page 104.

Bill's appointment will commence on 1 January 2018 following Michael stepping down from the Board. I would like to echo the Chairman's comments on the significant contribution Michael has made to the Group as CFO and member of the Board.

The Committee agreed Michael's leaving arrangements in line with the Policy and these were also disclosed at the time on our Company website and via the same RNS statement. Full details of the arrangements are set out on page 104.

## COMMITTEE AND ADVISER CHANGES

In addition to the forthcoming change to the Executive Board, we appointed two new Independent Non-Executive Directors to the Board. As mentioned previously by the Chairman on page 9, Paul Edgecliffe-Johnson was appointed to the Remuneration Committee on 21 September 2017. As part of the overall streamlining and reorganisation of the Committees, Emre Berkin stepped down from the Remuneration Committee effective 1 October 2017.

The Committee also took the opportunity to review the advisers to the Committee as part of its obligation to ensure continued independence, conducting a thorough and robust tender process during the year in which five firms were invited to participate. As described further on page 98, Mercer was selected and appointed, advising the Committee from September 2017.

Other Committee activities during the year included:

- › ongoing dialogue with Shareholders;
- › deciding the salary increases for the CEO and CFO for April 2017, being an increase of 2 per cent in line with the overall employee population;
- › determining performance against the targets set under the FY17 annual bonus plan;
- › deciding on the continued operation of the terms of the bonus plan and setting targets for the FY18 Plan;
- › determining award levels under the PSP for the grant to be made in FY18. As was the case last year, the PSP award will vest subject to challenging Relative TSR and EPS targets described more fully on page 104;
- › taking into consideration Corporate Governance updates throughout the year and;
- › performing annual governance checks; including the review of dilution limits, shareholding levels against Policy, reviewing risks associated with executive remuneration and the Committee's activities against its Terms of Reference.

## REMUNERATION OUTCOMES IN FY17

### Short-term incentives

Progress has been made this year to deliver Group underlying EBIT growth, and strong cash flow management. Our 'Customer at our Heart' strategy continues to bear fruit and the Group has achieved another year of improvement in NPS.

This has resulted in a calculated achievement of 117 per cent of base salary for the CEO (777 per cent of the maximum bonus opportunity). The Group underlying EBIT and Group Free Cash Flow performance, along with strengthening the financial position of the Company, resulted in a calculated achievement of 128 per cent of base salary for the CFO (85.5 per cent of the maximum bonus opportunity).

One third of bonus payments will be deferred in shares for a period of two years and will be subject to clawback during this time.

Targets and outcomes for the year are fully disclosed on page 100.

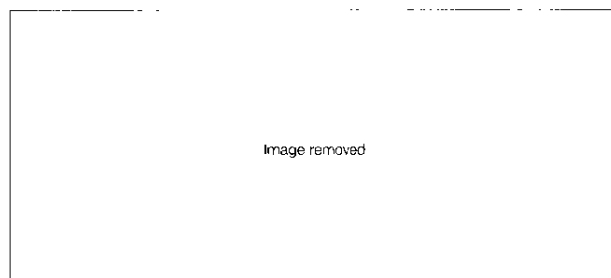
### Long-term incentives

There were no awards made to Executive Directors during FY14, therefore no awards vested during FY17.

The award made in FY15 (granted in March 2015) is subject to the achievement of performance conditions relating to FY17. The targets under this award reflected our aims of significant growth in earnings and a substantive improvement in our cash position, with a corresponding improvement in share price. As performance against the targets have not been achieved against the stretching targets and share price performance is likely not to be achieved to the extent that the target requires, awards held by Executive Directors are anticipated to lapse in March 2018. The targets and outcomes under this award are shown on page 101.

### Overall variable pay compared to the maximum available

Outcomes reflect progress made. However they also reflect that Thomas Cook is still in a period of business transformation and there is still a lot to do to deliver long-term value to Shareholders. Remuneration outcomes for the year were significantly lower than the maximum opportunity during FY17, as shown in the following charts:



## ANNUAL STATEMENT BY CHAIR OF REMUNERATION COMMITTEE CONTINUED

### APPROACH FOR FY18

#### Salary reviews

Salary reviews are undertaken annually in April of each year. Overall salary increases for the Group for 2018 have not yet been considered, with the exception of the following:

- > any increase that is awarded to Peter Fankhauser in April 2018 will not exceed the increase provided to the general employee population
- > there will be no increase to Michael Healy's base salary during FY18
- > Bill Scott, who will be assuming the role of CFO effective 1 January 2018 will not receive a salary increase in April 2018

#### Short-term incentives

Two years ago, the bonus plan was reviewed to align to our 'Customer at our Heart' strategy. The Plan was rolled out to all bonusable roles across the Group where possible, and continues

to be operated consistently across the Group. For FY18, there will be full retrospective disclosure of targets and performance against these in next year's Directors' Remuneration Report. The annual bonus opportunity will remain at 150 per cent of base salary with one third of any payment being deferred into shares, this proportion aligns with the recently published Investment Association's Principles of Remuneration which state that deferral should be applied to any bonus payments of more than 100 per cent of salary.

#### Long-term incentives

The Committee intends to grant PSP awards in FY18, shortly after announcement of our full year results. The award for Peter Fankhauser and Bill Scott will be at the normal grant level of 150 per cent. There will be no award made to Michael Healy following his notification to the Board of his forthcoming retirement. The performance conditions for the award will be Relative TSR and Basic EPS, the target range of which is disclosed on page 104.

### REMUNERATION AT A GLANCE

The table below provides a high-level summary of the outcomes for the year and the remuneration arrangements for Executive Directors for FY18.

#### FY18

Role	Chief Executive Officer	Chief Financial Officer	Incoming Chief Financial Officer
Name	Peter Fankhauser	Michael Healy	Bill Scott
Annual salary	£717,800 (increased from £703,800, +2% effective 1 April 2017)	£541,200 (increased from £530,600, +2% effective 1 April 2017)	£420,000 effective 1 January 2018
Maximum bonus opportunity (one-third deferred into shares for two years)	150% of base salary	150% of base salary (pro-rata for time employed)	150% of base salary Salary used in calculation pro-rated to reflect time in CFO role
PSP award (subject to performance)	150% of base salary	No award being made	150% of base salary

#### FY17

Role	Chief Executive Officer	Chief Financial Officer	Incoming Chief Financial Officer
Bonus payment	% of base salary	117%	128%
	£	£836,596	£694,089
LTI awards vesting in the year	% of maximum award vesting	None	None
	Number of vested shares	None	None

### CLOSING REMARKS

As a Committee, we believe that our approach to remuneration closely aligns to your expectations, making responsible remuneration decisions, and being mindful of the evolving corporate governance landscape in which we operate, with many best practice approaches included in our Policy. With your continued input, we will ensure we maintain our strong commitment to a clear link between pay and performance, operating under a structure that rewards performance for the execution of our 'Customer at our Heart' strategy, and the delivery of long-term Shareholder value.

I would like to take this opportunity to give my thanks to my fellow members of the Committee and those who supported us for their contributions during the year.

Finally, I look forward to receiving your support on the resolutions relating to remuneration at the Annual General Meeting in February 2018 where I will be available to respond to any questions you may have on this report, or the Committee's activities more generally.

**WARREN TUCKER**  
CHAIRMAN OF THE REMUNERATION COMMITTEE

21 November 2017

# DIRECTORS' REMUNERATION POLICY

This section of the report sets out Thomas Cook's Directors' Remuneration Policy (the 'Policy'). The Policy was subject to a binding Shareholder vote at the Company's Annual General Meeting on 9 February 2017 and was effective from this date.

## REMUNERATION PHILOSOPHY AND PRINCIPLES

Thomas Cook Group plc's Remuneration Policy supports the organisation's overall remuneration philosophy of pay for performance, and is based on the following principles.

### Attracts and motivates:

- > Attracts and motivates high-calibre talent without paying more than is necessary
- > Facilitates delivery of a level of total remuneration which is competitive with companies of a similar size, international aspect and complexity, in the relevant market for talent

### Drives performance:

- > Focuses Management on rigorous execution of Thomas Cook's strategy with the right behaviours in line with the Company's values
- > Performance-related pay plans will provide meaningful reward to Management dependent upon the satisfaction of challenging targets which are critical to the delivery of our business strategy

### Provides balance:

- > Provides an appropriate mix of fixed short and long-term performance-related pay via simple structures
- > Reflects the Company's relentless focus on performance and preserves and enhances company reputation without encouraging excessive risk-taking

### Creates long-term value:

- > Is linked to the creation of long-term sustainable value through long-term performance targets and share-based remuneration
- > Remuneration should support the creation of long-term Shareholder value and the building of a strong and sustainable future for Thomas Cook worthy of our customers and our heritage

## DIRECTORS' REMUNERATION POLICY CONTINUED

### 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, motivates 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. There is no automatic right to an increase each year</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 in the role</li> <li>typical pay levels for comparable roles in companies of a similar size, international aspect and complexity in the relevant market</li> <li>the economic climate and market conditions in which the business operates, and</li> <li>overall salary budgets and levels across the Group</li> </ul> </li> </ul>
<b>Retirement benefits</b>	<ul style="list-style-type: none"> <li>To provide competitive post-retirement benefits</li> <li>Attracts and retains the high-calibre talent necessary to deliver the business strategy</li> <li>Set at an appropriate level of risk and cost to the Group</li> </ul>	<ul style="list-style-type: none"> <li>Payment may be made either into a pension Plan (for example, a defined contribution Plan) or into such other arrangement the Committee considers has the same economic benefit or paid as a cash allowance with Company contributions set as a percentage of basic salary in lieu of any Company pension contributions</li> <li>Peter Fankhauser also has a German pension provision relating to his employment with Thomas Cook prior to his appointment to the Thomas Cook Group Board which has been frozen at the level accrued to 26 November 2014 (the date he was appointed CEO) and will be payable from age 60. Peter has the option to commute the annual pension to a one-off lump sum payment at age 60. If Peter's employment is terminated without good cause, a pension may be paid from termination.</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>Ensures the overall remuneration 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>Benefits may include those currently available to Executive Directors including a car allowance, a travel allowance or reimbursements, tax advice, private healthcare benefits for the Executive Directors and their immediate family, employee travel concessions and life assurance. These are reviewed annually by the Committee to ensure that they provide a competitive remuneration package and facilitate the delivery of the business strategy</li> <li>Executive Directors will be entitled to take part in any all-employee benefits and share plans on the same basis as other employees</li> <li>The Company reserves the right to offer benefits to Executive Directors depending on their individual circumstances which may include (but are not limited to) housing, travel, healthcare and other allowances</li> <li>In the case of non-UK Executive Directors, the Committee may consider additional allowances in line with standard practice for that region</li> </ul>
<b>Annual bonus</b>	<ul style="list-style-type: none"> <li>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 delivery 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 therefore a retention element</li> <li>The clawback and malus provisions enables the Company to mitigate risk</li> </ul>	<ul style="list-style-type: none"> <li>Measures and targets are set annually and payout 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 payout (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 at least one-third of their annual bonus into Company shares which then vest two years after the cash bonus payment date</li> <li>Clawback and malus provisions will apply to the cash and deferred elements of the annual bonus as described in the notes to this table</li> <li>Eligibility for any bonus payment will be forfeited if the participant leaves employment before the cash bonus payment date or before the vesting date in the case of any deferred share award, unless in specific 'good leaver' circumstances</li> <li>Good leaver terms are described in more detail in the 'Service Contracts and Loss of Office Payments' section of this Policy</li> </ul>

Maximum opportunity	Performance metrics
<ul style="list-style-type: none"> <li>› Whilst the Committee has not set a monetary maximum, ordinarily base salary increases will usually not exceed the average increase awarded to other employees in the Group</li> <li>› More significant 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, and</li> <li>– an Executive Director being moved to appropriate market positioning over time</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>› Performance, through our performance Management process, is one of the key considerations in reviewing and setting salary</li> </ul>
<ul style="list-style-type: none"> <li>› Contributions into any Plan or paid as a cash allowance will be up to 30% of base salary per annum</li> </ul>	<ul style="list-style-type: none"> <li>› None</li> </ul>
<ul style="list-style-type: none"> <li>› The Committee has not set a monetary maximum (given the value of benefits will vary based on the individual's circumstances) and reserves the right to provide such level of benefits as it considers appropriate to support the ongoing strategy of the Company</li> </ul>	<ul style="list-style-type: none"> <li>› None</li> </ul>
<ul style="list-style-type: none"> <li>› For maximum performance               <ul style="list-style-type: none"> <li>– 150% of salary</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>› The Committee will have regard to various performance measures (which will be determined by the Committee) measured over the relevant financial year, when determining bonus outcomes</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 other strategic or 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>

# DIRECTORS' REMUNERATION POLICY

## CONTINUED

### FUTURE POLICY TABLE CONTINUED

Element	Purpose and link to strategic objectives	Operation
<b>Long-term share-based incentive Plan</b>	<ul style="list-style-type: none"> <li>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 delivery 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>A summary of the key features of the Plan is set out below               <ul style="list-style-type: none"> <li>awards will vest dependent upon the achievement of performance conditions set by the Committee measured over a performance period of at least three years</li> <li>awards made under the new PSP approved by Shareholders in February 2017 i.e. awards made from December 2018 onwards will be subject to an additional holding period (currently two years) following the end of the performance period unless the Committee determines otherwise.</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 and</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 in the 'Service Contracts and Loss of Office Payments' section of this Policy</li> </ul> </li> <li>Clawback and malus provisions will apply as described in the notes to this table</li> </ul>
<b>Strategic share-based award</b>  <b>Updates to Policy following AGM:</b>  <ul style="list-style-type: none"> <li><b>Maximum award level is capped at 200% (aligned to maximum PSP award)</b></li> <li><b>The Committee will only use this award following consultation with major Shareholders</b></li> </ul>	<ul style="list-style-type: none"> <li>The Strategic Share Incentive Plan (SSIP) provides focus on near-term strategic targets that are important to the future strategic success of Thomas Cook</li> <li>Long-term TSR targets support the creation of long-term Shareholder value</li> </ul>	<ul style="list-style-type: none"> <li>A summary of the key features is set out below               <ul style="list-style-type: none"> <li>an individual Executive Director can only participate in the SSIP once every four years.</li> <li>participation in the SSIP precludes participation in the PSP (or any other long-term incentive plan) in respect of that particular financial year.</li> <li>an initial share-based award may be made based on the achievement against predefined strategic performance target(s) assessed over a period of at least two financial years</li> <li>the number of shares in the initial share-based award will be determined following the assessment of the strategic target(s).</li> <li>the initial share-based award will be subject to a TSR multiplier measured over three years commencing in the year the individual is invited to participate in the SSIP</li> <li>awards will be subject to an additional holding period following the end of the TSR performance period unless the Committee determines otherwise.</li> <li>the Committee has full discretion to amend the level of vesting (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, and</li> <li>the award will lapse if the participant leaves employment before the initial share-based award is made unless there are specific good leaver circumstances. If the participant leaves employment following the grant of the initial share-based award, the award will subsist on its original terms unless the Committee determines otherwise</li> </ul> </li> <li>Clawback and malus provisions will apply as described in the notes to this table</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</li> <li>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 or membership of Board Committees.</li> <li>additional fees for further responsibilities (for example, Senior Independent Directorship) and</li> <li>travel and hotel costs that are deemed to be an employment benefit by the relevant tax authority may also be paid (along with any associated tax liability)</li> </ul> </li> </ul>

#### PAYMENTS WHICH ARE NOT IN ACCORDANCE WITH THE POLICY

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before the 2014 Annual General Meeting (the date the Company's first Shareholder-approved Directors' Remuneration Policy came into effect), (ii) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the Shareholder-approved Policy in force at the time they were agreed, or (iii) at a time when the relevant 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. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.



Maximum opportunity	Performance metrics
<ul style="list-style-type: none"> <li>Under the Plan rules, the aggregate value of all awards made in respect of any financial year must not exceed 200% of base salary</li> <li>The normal maximum face value of awards is 150% of base salary. However, the Committee has a discretion to award up to the Plan rules maximum, 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 PSP 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 40% will be based on financial measures</li> <li>at least 40% will be based on share price-based measures; and</li> <li>the remaining proportion may be based either on financial or share price-based measures</li> </ul> </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 25% 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>The Committee may determine that a 'target' level of performance is applicable to the award. The 'target' performance level will be between 'threshold' and 'maximum' performance levels and will be set in the context of the business Plan. For achievement of the 'target' performance between 50% and 70% of each respective element of the award will vest</li> <li>Normally there will be straight-line vesting between 'threshold' and 'maximum' or when applicable between 'threshold' and 'target' and between 'target' and 'maximum'</li> </ul>
<ul style="list-style-type: none"> <li>An initial award of shares of up to 150% of base salary can be made dependent on the achievement against strategic targets</li> <li>This initial award of shares may be increased by 33%<sup>1</sup> or decreased by 50% dependent on TSR performance (i.e. the overall maximum award size in respect of any financial year is 200% of salary)</li> </ul> <p><sup>1</sup> The maximum award size was approved at 225% however was subsequently capped at 200% and is reflected in the wording above and throughout this Policy</p>	<ul style="list-style-type: none"> <li>Awards will be subject to (i) a performance condition measuring strategic targets over at least two years and (ii) a performance condition relating to the Company's TSR measured over a period of at least three years</li> <li>For achievement of a 'threshold' performance level against the strategic target (which is the minimum level of performance that results in an initial award being made), no more than 25% of the maximum initial award will be made</li> <li>For achievement of a 'maximum' performance level against the strategic targets (which is the highest level of performance that results in an initial award being made) an award equal to 100% of the maximum initial award will be made</li> <li>The initial award can then be increased by 33%<sup>1</sup> or decreased by 50% based on TSR performance ensuring that through the whole vesting period the award is subject to performance</li> </ul> <p><sup>1</sup> The maximum award size was approved at 225% however was subsequently capped at 200% and is reflected in the wording above and throughout this Policy</p>
<ul style="list-style-type: none"> <li>The maximum level of fees will not exceed the limit set out in the Company's Articles of Association and will be 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; and</li> <li>appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>

## DIRECTORS' REMUNERATION POLICY CONTINUED

### EXPLANATORY DETAIL FOR FUTURE POLICY TABLE

#### Common award terms

Awards under any of the Company's share Plans referred to in this report may

- a) be granted as conditional share awards or nil or nominal-cost options or in such other form that the Committee determines has the same economic effect;
- b) have any performance conditions applicable to them amended or substituted by the Committee if an event occurs which causes the Committee to determine an amended or substituted performance condition (s) would not be materially less difficult to satisfy;
- c) incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under an award, that vest up to the time of vesting (or where the award is subject to a holding period, at the end of the holding period). This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis;
- d) be settled in cash at the Committee's discretion; and
- e) be adjusted in the event of any variation of the Company's share capital or any de-merger, de-listing, special dividend or other event that may affect the Company's share price.

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

Performance measures have been selected by the Committee to reflect the targets and key performance indicators that are critical to the delivery of our business strategy (as shown on page 85)

Challenging performance targets are set by the Committee each year for the annual bonus plan, PSP and when applicable, the SSIP. 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 against these targets

#### Malus and Clawback

As highlighted in the Policy table, malus and clawback arrangements are in place. The following elements of the remuneration package are subject to these provisions:

- › the cash part of the annual bonus will be subject to clawback provisions for a period of at least two years following payment;
- › the unvested deferred annual bonus shares will be subject to malus provisions; and
- › the PSP and SSIP will be subject to malus and clawback provisions until the end of any holding period for a period of five years from the grant of a PSP award, or in the case of the SSIP, the date the Executive Director was invited to participate in the SSIP

Malus and clawback may be applied in the following circumstances

- › a material adverse misstatement or misrepresentation of the Company's or any Group member's financial statements; and/or
- › 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 or financial downturn, as determined by the Committee, as a result of any action (or in the case of awards under the new PSP or SSIP, any action or omission) taken by the participant, or their team.

Salary, pension and benefits are not subject to clawback

#### Shareholding requirements

Executive Directors are required to build and maintain a shareholding in the Company to a value of at least 200 per cent of base salary within a five-year period commencing on appointment as an Executive Director.

Unless the Committee determines otherwise, those Executive Directors who do not at any point meet the shareholding requirements must hold any shares vesting net of tax under the Company's share plans until the requirements are met

#### Policy for the remuneration of employees generally

Remuneration arrangements are determined throughout the Group based on the same principle of pay for performance. Reward should be achieved for delivery of our business strategy and should be sufficient to attract, motivate and retain high-calibre talent, without paying more than is necessary, with remuneration based on market rates.

Thomas Cook has operations based in a number of different countries and employees with different levels of skills and experience and whilst based on the over-arching principle of pay for performance, reward policies may vary depending upon these factors.

#### APPROACH TO RECRUITMENT REMUNERATION

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

- › The remuneration package will be sufficient to attract, motivate 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 applicable Annual Remuneration Report, the Committee will explain to Shareholders the rationale for the relevant arrangements

The following variations may be considered by the Committee for inclusion in a recruitment package for an Executive Director:

Element	Approach
<b>Initial long-term incentive award</b>	<p>An initial long-term incentive award may be made in line with the opportunity in the Policy table (either 200% under the PSP, or 150% under the SSIP with the opportunity to increase to 200% upon vesting subject to TSR performance)</p> <p><sup>1</sup> The maximum award size was approved at 225% however was subsequently capped at 200% and is reflected in the wording above and throughout this Policy</p> <p>The Committee will ensure:</p> <ul style="list-style-type: none"> <li>&gt; the award is linked to the achievement of appropriate and challenging performance targets. The Committee has the flexibility to use different performance measures and weightings to those set out in the Policy table;</li> <li>&gt; the award will be subject to the leaver provisions set out in the 'Service Contracts and Loss of Office Payments' section; and</li> <li>&gt; awards will only be made following consultation.</li> </ul>
<b>Initial annual bonus opportunity</b>	<p>The initial annual bonus opportunity will be in line with the opportunity of 150%, as set out in the Policy table.</p> <p>The Committee will ensure the award is linked to the achievement of appropriate and challenging performance targets. The Committee has the flexibility to use different performance measures and weightings to those set out in the Policy table</p>
<b>Compensation for forfeited awards</b>	<p>The terms of any compensation will be determined by taking into account the terms of any forfeited awards, including:</p> <ul style="list-style-type: none"> <li>&gt; performance achieved or likely to be achieved;</li> <li>&gt; the proportion of performance/vesting period remaining; and</li> <li>&gt; the form and timing of the original award.</li> </ul>
<b>Notice period</b>	<p>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.</p>
<b>Relocation costs</b>	<p>Where necessary, the Company will pay appropriate relocation costs, in line with market practice. The Committee will seek to ensure that no more is paid than is necessary.</p>

Under reporting regulations, Thomas Cook is required to set out the maximum amount of variable pay which could be paid to a new Executive Director in respect of their recruitment. The Committee has set this figure in line with the maximum allowed under the short-term and long-term incentive Plans combined, being either 350 per cent if a PSP award has been made, or 300 per cent (rising to a maximum of 350 per cent<sup>1</sup> based on the TSR multiplier) if a SSIP has been made, in addition to the maximum opportunity under the annual bonus. This excludes the value of any compensation for forfeited awards

<sup>1</sup> The maximum award size was approved at 225 per cent however was subsequently capped at 200 per cent and is reflected in the wording above and throughout this Policy

For an individual 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 Policy table.

## SERVICE CONTRACTS AND LOSS OF OFFICE PAYMENTS

### Executive Directors

- > Executive Directors have Company service contracts. For Peter Fankhauser and Michael Healy the service contracts provide for a six-month 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
- > The extent to which any performance linked elements of an Executive Director's remuneration package will be delivered will depend on the circumstances of the Executive Director's departure and whether the Committee considers the Executive Director to be a 'good leaver'. A 'good leaver' scenario may constitute circumstances where the Executive Director leaves because of disability, injury, ill-health, redundancy or retirement or the Executive Director's employing company or business being sold out of the Group, for any other reason that the Committee determines appropriate, or on the Executive Director's death
- > If an Executive Director leaves as a 'good leaver' during the annual bonus performance year or before the normal bonus payment date, a bonus payment in respect of the year may be made, which will be pro-rated to reflect the portion of the performance year elapsed and performance achieved at the end of the performance year. This bonus may be paid in such proportions of cash and shares as determined by the Committee and paid on the normal payment dates
- > If the participant leaves as a 'good leaver' before the end of the deferral period, any unvested deferred bonus awards will vest at the normal vesting date
- > Any 'good leaver's' unvested awards under the PSP vest to the extent determined by the Committee taking into account performance achieved against any relevant performance targets and the proportion of the vesting period that has elapsed
- > SSIP awards will lapse if the individual leaves prior to the initial share-based award being made, unless in a good leaver scenario, defined for the purposes of the SSIP as death, ill-health, injury or disability only. If a participant in the SSIP leaves after the initial share-based award has already been made, the award will continue to subsist on its original terms, unless the Committee determines otherwise

## DIRECTORS' REMUNERATION POLICY CONTINUED

- > Where PSP and SSIP awards are subject to an additional holding period, they will be released following the end of the holding period, unless in the case of death when vesting will be accelerated. Awards structured as options shall be exercisable for a period of six months (or 12 months in the case of death) from vesting (or where subject to a holding period, release).
- > In the event of a takeover or winding-up of the Company (other than as part of an internal re-organisation of the Thomas Cook Group), PSP and SSIP awards may vest to the extent determined by the Committee, taking into account the performance achieved against any relevant performance targets and, the proportion of the vesting period that has elapsed (in the case of PSP awards) and the period of time that has elapsed since grant (in the case of SSIP awards where the strategic performance condition(s) have not yet been satisfied). Vested awards will be released from any holding periods at the time of transaction. Where a takeover occurs after an Executive Director has been invited to participate in the Plan but prior to the grant of the initial share-based award, the Committee may grant the individual an award which takes into account the Company's performance and the length of time the individual has been a participant in the SSIP.
- > Awards may alternatively be 'rolled over' into new shares of an acquiring company or at the Committee's discretion be amended or allowed to subsist on their original terms. In the event of any demerger, delisting, special dividend or other event which, in the Committee's opinion, may affect the Company's current or future share price, awards may, at the Committee's discretion, vest (and be released) on the same basis as for a takeover.
- > The Committee reserves the right to make any other payments in connection with an Executive Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of an Executive Director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the Executive Director's legal and/or professional advice fees in connection with their cessation of office or employment.

### Non-Executive Directors

Non-Executive Directors, including the Chairman, are appointed pursuant to a letter of appointment. The notice period for the Chairman is three months, and one month for the other Non-Executive Directors. All Non-Executive Directors are subject to annual re-election by Shareholders at the Annual General Meeting. 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 Annual General Meeting. The Directors' service contracts and letters of appointment are kept for inspection by Shareholders at the Company's registered office.

### 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. 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 Director's time commitment to the performance of Thomas Cook duties.

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

### STATEMENT OF CONSIDERATION OF CONDITIONS ELSEWHERE IN THE COMPANY

When setting the Policy for Executive 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 incentive plans;
- > company-wide benefits (including pension), and
- > any other relevant factors as determined by the Committee.

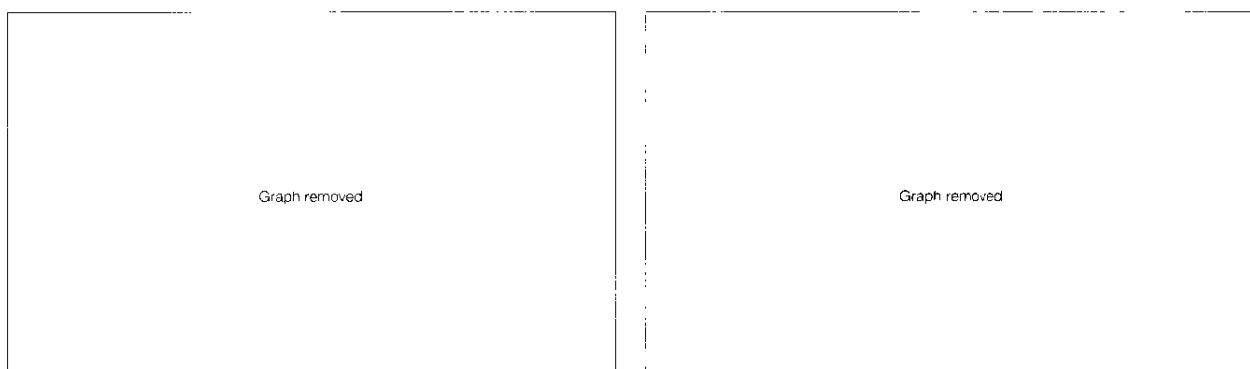
In order to take into account the views of the general employee population when formulating Executive Director pay Policy, the Committee may review information provided by the HR function and feedback from employee satisfaction surveys.

### STATEMENT OF CONSIDERATION OF SHAREHOLDER VIEWS

The Company is committed to ongoing engagement and seeks major Shareholder views in advance of proposing significant changes to its remuneration policies.

## ILLUSTRATIVE PERFORMANCE SCENARIOS

This section illustrates the levels of remuneration that may be received by the current Executive Directors. Their remuneration is set in accordance with the Policy. The charts below show three scenarios: (a) fixed pay, comprising of base salary, benefits and pension, (b) mid and (c) maximum of overall potential:



In developing the scenarios, the following annualised assumptions have been made

**(a) Fixed**

Based on fixed pay being received only, for example, base salary, benefits and pension. This is calculated for Peter Fankhauser and Michael Healy as follows:

- > Base salary at the date of this report
- > Benefits are based on the amount shown in the single figure table in this year's Annual Report on remuneration
- > Pension measured by applying cash in lieu rate against base salary as at the date of this report

The calculation basis for Bill Scott is as follows:

- > Base salary at 1 January 2018
- > Benefits are based on an estimated amount based on the contractual arrangements
- > Pension measured by applying cash in lieu rate against base salary at 1 January 2018

	Base salary (£'000s)	Benefits (£'000s)	Pension (£'000s)	Total fixed (£'000s)
CEO	£718	£76	£215	£1,009
CFO (Michael Healy)	£541	£26	£135	£702
CFO (Bill Scott)	£420	£16	£84	£520

**(b) Mid**

If performance is in line with the Company's expectations:

- > Annual bonus pays out at 60% of maximum for on-target performance, based on a maximum annual eligibility of 150% of salary
- > For Peter Fankhauser and Bill Scott only A PSP award with a face value of 150% of base salary pays out 60% of maximum

**(c) Maximum**

If performance is in line with the maximum eligibility levels:

- > Full pay-out of annual bonus i.e. 150% of salary with stretching performance achieved
- > For Peter Fankhauser and Bill Scott only A PSP award with a face value of 150% of base salary pays out at 100% of maximum in line with stretching performance

### Note:

As required by the regulations, PSP 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

# ANNUAL REPORT ON DIRECTORS' REMUNERATION

The Remuneration Committee presents its Annual Report on Directors' Remuneration, which is set out within this section. Decisions taken on remuneration during the year are in line with our Directors' Remuneration Policy, which was approved at our Annual General Meeting in February 2017.

## CONSIDERATION BY THE DIRECTORS OF MATTERS RELATING TO DIRECTORS' REMUNERATION

The Remuneration Committee is responsible for recommending to the Board the Policy for Executive Directors and for setting the remuneration packages for each Executive Director.

The Committee also has input into the remuneration arrangements of the Executive Committee in conjunction with the CEO, and has oversight of the Policy and remuneration packages for other senior leaders with particular focus on the variable pay elements, ensuring incentives are consistently applied beyond the CEO and CFO to ensure the execution of the strategy throughout the organisation.

The aim of the Committee is to align Remuneration Policy to the overall strategy of the Thomas Cook Group, and to ensure remuneration reflects our Shareholders' and customers' interests, governed by our Policy and its philosophy and principles.

During the year, the Committee had six scheduled meetings. At the end of each financial year at the Committee's meeting in September a review is undertaken of activities against its Terms of Reference (available on the Thomas Cook Group plc website) to ensure the Committee is properly fulfilling its duties and responsibilities.

### Attendees

The Committee invites individuals to attend meetings, as it deems beneficial, to assist it in reviewing matters for consideration. Individuals who have provided support and advice to the Committee during the year include the Board members, Alice Marsden – Group General Counsel and Company Secretary, Rachael Gillett – Group & UK HR Director, Caroline Forsyth – Group Head of Reward, Emily Hallett – Executive Remuneration Manager and a representative from each of the Committee's independent external advisers, being Mitul Shah – Partner, Deloitte, and Pete Smith – Partner, Mercer. Warren Tucker, Chairman of the Remuneration Committee is also a member of the Audit Committee and, as such, ensures there is knowledge and coordination in respect of risk and accounting issues. No Director or senior executive is present at the section of the meeting when their own remuneration arrangements are being discussed.

### External advisers

Under its Terms of Reference, the Committee obtains the advice of external independent remuneration consultants and is responsible for their selection and appointment. The Committee also considers the independence and effectiveness of the Adviser, and it was decided that after a five-year period of working with Deloitte as adviser to the Remuneration Committee, it would be appropriate and good governance to put the role out to tender. Following a formal tender process involving five firms which included Deloitte, following references being undertaken, the Committee was delighted to appoint Mercer as its independent remuneration adviser.

Mercer commenced work with the Committee in August 2017 and fees for the two-month period were £43,050 for advice in relation to executive remuneration. Deloitte's fees for the preceding part of the year were £79,500. Both fees covered attendance at Committee meetings, general advice and updates on remuneration developments with the total fees paid to advisers equating to £122,550 for FY17.

Deloitte also provided advice in relation to miscellaneous consulting services as well as international mobility, tax, corporate finance and internal audit advice. Mercer provided advice in relation to pensions and insured benefits.

Mercer and Deloitte are both members of the Remuneration Consultants Group (RCG) and comply with its Code of Conduct. The Committee is satisfied that their advice was and continues to be objective and independent.

The following pages set out the remuneration of the Executive Directors during FY17, and the intended approach for FY18.

**SINGLE FIGURE OF TOTAL REMUNERATION (AUDITED)**

The following table sets out the single figure of total remuneration for Directors for the financial years ending 30 September 2016 and 2017:

	Salary/fees		Benefits <sup>1</sup>		Group Bonus Plan <sup>4</sup>		PSP		Pension		Total
	£'000 FY17	£'000 FY16	£'000 FY17	£'000 FY16	£'000 FY17	£'000 FY16	£'000 FY17	£'000 FY16	£'000 FY17	£'000 FY16	£'000 FY16
<b>Executive Directors</b>											
Peter Fankhauser	711	697	76	67	837	236	-	-	213	209	1,837
Michael Healy	536	525	26	25	694	194	-	-	134	131	1,390
<b>Non-Executive Directors</b>											
Frank Meysman	275	275	30	41	-	-	-	-	-	-	305
Dawn Airey	70	70	3	2	-	-	-	-	-	-	73
Annet Aris	60	60	7	6	-	-	-	-	-	-	67
Emre Berkin	80	70	7	6	-	-	-	-	-	-	87
Paul Edgecliffe-Johnson <sup>2</sup>	11	-	1	-	-	-	-	-	-	-	12
Lesley Knox	60	35	1	1	-	-	-	-	-	-	61
Jurgen Schreiber <sup>2</sup>	11	-	2	-	-	-	-	-	-	-	13
Warren Tucker	80	80	3	8	-	-	-	-	-	-	83
Martine Verluyten	80	80	9	4	-	-	-	-	-	-	89

**Notes:**

1 The Committee Chair fees were aligned from 1 October 2016 resulting in an increase to the fees paid to Emre Berkin

2 Paul Edgecliffe-Johnson and Jurgen Schreiber were appointed to the Board on 26 July 2017

3 Executive benefits paid includes car allowance, healthcare, life assurance, tax advice for Peter Fankhauser only, and expenses which are chargeable to income tax. Non-executive benefits relates only to travel and accommodation expenses which are chargeable to UK income tax (or would be if the individual were resident in the UK)

4 One-third of the bonus will be deferred into an award of shares under the Deferred Bonus Plan

**ADDITIONAL DISCLOSURES RELATING TO THE SINGLE FIGURE TABLE (AUDITED)**

Further information in respect of the base salary, pension, annual bonus and PSP amounts is shown in this section:

**Salary**

The table below shows the base salaries of Peter Fankhauser and Michael Healy at the end of FY17 and at the end of the previous financial year. Salary increases were effective 1 April 2017.

	Salary at 30 September 2017	Salary at 30 September 2016	Percentage increase
Peter Fankhauser	£717,800	£703,800	2.0%
Michael Healy	£541,200	£530,600	2.0%

The salary increases awarded to the Executive Directors were in line with the overall salary increase budget (expressed as a percentage) across the Group during the 2017 annual salary review and were in line with the level of increase awarded to the general employee population where individual performance was 'effective'.

**Pensions (audited)**

Currently, both Peter Fankhauser and Michael Healy receive a taxable cash allowance of an amount equivalent to 30 per cent and 25 per cent of base salary respectively. These allowances are broadly in line with the equivalent maximum net contribution for UK-based employees who are eligible to receive up to 15 per cent of reference salary from the Company in pension contributions, which are paid as gross employer contributions into the Company's defined contribution pension plan.

**FY17 Group Bonus Plan, (the Plan) (audited)**

The maximum Plan opportunity for both Peter Fankhauser and Michael Healy was 150 per cent of base salary, one third of which is subject to deferral into shares to be held for two years, subject to malus (clawback before the vesting date), as described on page 94

As described in the Chairman's statement on page 87, bonus outcomes reflect the progress made against a number of the Group's KPIs and progress in the delivery of the strategic and ongoing transformation of the business. Therefore there is an element of payout against each of the core bonus measures and role-specific objectives, as set out in the table on the following page

For the CEO, the role-specific objectives were partly achieved, (13 per cent out of 15 per cent) of the maximum bonus opportunity and is described below.

The role-specific leadership objective is measured by the overall engagement of colleagues across the Group, underpinned by rigorous performance management and customer focus of the leadership team. As described in the KPIs section on page 32 and in our people report on page 39, the very high core-index score of 74 per cent was maintained in 2017, resulting in an achievement of 3 per cent out of the 5 per cent for this element of the Plan

# ANNUAL REPORT ON DIRECTORS' REMUNERATION CONTINUED

The second role-specific objective, (equating to 10 per cent of the maximum bonus opportunity) was achieved through the partnership entered into with Expedia. This partnership gives our customers a much bigger choice of hotels in City and Domestic and delivers on the Complementary part of our Group-wide strategy that was set out last year. It is a catalyst for restructuring the business and simplifying systems and processes, so that the focus on core package holidays can be achieved. By using Expedia's superior technology, leveraging their global reach, volume and expertise, the Group will be able to significantly reduce costs and complexity within the business for the long-term. This objective was therefore fully achieved.

For the CFO, achievement against the role-specific objectives was in respect of the implementation of a Board-approved financial plan that delivered tangible steps towards improving the Group's financial position. In December 2016, the Company took advantage of positive market sentiment to issue a new £750 million bond due in 2022, with a coupon of 6.25 per cent. The proceeds from this bond were used to repay two more expensive bonds due in 2017 and 2020. As a result, this refinancing exercise improved the Group's financial position by both lowering the cost of financing and by extending the Group's debt maturity profile. Accordingly, the Committee has concluded that this refinancing fully satisfies the achievement of this element (50 per cent) of the CFO's bonus criteria for FY17.

## FY17 Group Bonus Plan, (the Plan) (audited) (Continued)

### CEO – Peter Fankhauser

CEO Peter Hainhauser							
FY17 Measures		Weighting	Threshold (20%)	Target (60%)	Stretch (100%)	Performance achieved	Resulting level of award (of max % opportunity)
Core	Group underlying EBIT <sup>2</sup> (constant currency)	35%	£290m	£330m	£350m	£312m	14.7%
	Group Free Cash Flow <sup>3</sup>	35%	£125m	£200m	£244m	£305m	35%
	Net Promoter Score <sup>4</sup>	15%	42.25	43.25	44.25	45.18	15%
Role-specific	Leadership: Core-Index Employee Satisfaction Score (Thomas Cook Group)	5%	Stay above external 'top 30' benchmark of 70%	Maintain at 74%	Increase by 1% pt to 75%	74%	3%
	Strategic Progress in New Operating Model	10%	£43m	£60m	New substantial change in the New Operating Model direction	> Delivery of partnership with Expedia: Outcome 100% > New Operating Model benefits delivered, £67m	10%
	Total level of award as a % of maximum opportunity						

### CFO – Michael Healy

FY17 Measures		Weighting	Threshold (20%)	Target (60%)	Stretch (100%)	Performance achieved	Resulting level of award (of max % opportunity)
Core	Group underlying EBIT (constant currency) <sup>2</sup>	25%	£290m	£330m	£350m	£312m <sup>1</sup>	10.5%
	Group Free Cash Flow <sup>3</sup>	25%	£125m	£200m	£244m	£305m	25%
Role-specific	Implement a Board-approved financial Plan that delivers tangible steps towards improving the Group's financial position	50%	Either repaying the £200m Bond due in June 2017, while ensuring adequate liquidity headroom throughout the following winter or Issuing a new Bond with a coupon rate of no more than 7% to refinance and extend the Group's maturing liabilities at a lower cost, or Agreeing a revised bank facility, consistent with the Group's revised financial Plan.		In December 2016, the Company issued a new £750m bond due in 2022, with a coupon of 6.25%. The proceeds were used to repay two more expensive bonds due in 2017 and 2020 and, as a result, improved the Group's financial position by both lowering the cost of financing and by extending the debt maturity profile.		50%
Total level of award as a % of maximum opportunity.							85.5%

1. As disclosed in prior years, bonus targets in relation to Group underlying EBIT are set on a fixed currency basis at the beginning of the performance period, therefore the achievement used for bonus purposes is different from the achievement stated earlier in the report.

2. Group underlying EBIT is defined as Earnings before interest and tax excluding exceptional items measured on a constant currency basis.

3. Group Free Cash Flow is defined as Group Cash Flow for the financial year before payments/receipts in respect of tax and payments/receipts associated with exceptional items, where exceptional items include restructuring costs and asset disposals.

4. Net Promoter Score (NPS). NPS is the main customer key performance indicator of the Group. It shows the degree of customer loyalty and recommendations by reference to responses from our customer feedback survey when asked 'How likely would you recommend Thomas Cook to your friends & family?'. It is calculated by taking the percentage of promoters and deducting the percentage of detractors.

Note: In order for there to be any payment under the Plan, the two financial hurdles of Group underlying EBIT and Group Free Cash Flow must be achieved.



## Long-Term Incentives

The awards made in FY15, vesting in FY18 are subject to three-year performance ending in FY17 and it is expected that these will not vest due to the non-achievement of targets under the Plan. This award is expected to lapse in March 2018, the third anniversary from the date of award.

Performance conditions for FY15 PSP awards	Weighting	Threshold level of vesting (30%)	Maximum level of vesting (100%)	Outcome	Level of vesting
<b>Share price and dividend</b> Share price is measured as the average share price and dividends over the fixed period of 30 trading days from the release of the preliminary FY17 results.	45%	225p	300p	Estimated <225p	0%
<b>FY17 Group underlying EBIT</b> Group underlying EBIT excludes exceptional items	30%	£453m	£548m	£330m	0%
<b>FY17 Group cash conversion</b> Cash conversion is defined as cash flow post-exceptional items, before capital expenditure/EBITDA.	25%	70%	80%	64%	0%
					0%

This will result in the number of shares vesting for each Executive Director as set out below

Director	Date of grant	Earliest vesting date	Number of shares under award	Number of shares vesting	Share price on date of vesting	Value of shares that vested
Peter Fankhauser	12/03/2015	12/03/2018	720,752	0	n/a	0
Michael Healy	12/03/2015	12/03/2018	532,729	0	n/a	0

## Scheme interests awarded during the financial year (audited)

PSP awards were made to Peter Fankhauser and Michael Healy in FY17 equating to a face value of 165 per cent and 150 per cent of salary respectively, as reported previously in the FY16 report. Details of the performance conditions can be found on page 107, with details of the individual awards shown below:

Director	Type of award	Plan	Date of award	End of performance period	Number of shares awarded	Face value of award <sup>1</sup>	Face value of award	Share price used to calculate award <sup>2</sup>	Number of shares received if threshold performance achieved <sup>3</sup>
Peter Fankhauser	Conditional Share Award	PSP	01/12/2016	30/09/2019	1,388,248	165%	£1,161,269	£0.8365	347,062
Michael Healy	Conditional Share Award	PSP	01/12/2016	30/09/2019	951,464	150%	£795,900	£0.8365	237,866

### Notes:

1 Expressed as a % of base salary at the time of award

2 The share price used to calculate the award was 83.65 pence being the average closing share price of the three days prior to grant

3 Threshold performance is equal to 25% of maximum award

## Payments to past Directors

There were no payments made to past Directors during the year.

## Loss of office payments

There were no loss of office payments made to past Directors during the year.

## External appointments

Executive Directors currently do not hold any external appointments.

## Current Executive Directors' service contracts

The dates of the service contracts for Peter Fankhauser and Michael Healy are 23 February 2015 and 8 May 2012 respectively. Executive Directors have rolling service contracts terminable in line with the Directors' Remuneration Policy. The service contracts are available on request for inspection at the Company's registered office.

Michael Healy tendered his resignation and notification of retirement on 25 September 2017 and is currently working his six months' notice period, with his employment ending on 31 March 2018. Details of the remuneration arrangements associated with his departure are shown on page 104.

## ANNUAL REPORT ON DIRECTORS' REMUNERATION CONTINUED

### STATUTORY GRAPH

The graph below shows the TSR for holders of Thomas Cook Group plc Ordinary Shares for the nine-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

The table below shows the pattern of remuneration of the CEO during this period.

	CEO	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
CEO single figure of remuneration	Peter Fankhauser <sup>1</sup>	n/a	n/a	n/a	n/a	n/a	n/a	£4.296m	£1.209m	£1.837m
	Harriet Green <sup>2</sup>	n/a	n/a	n/a	£717k	£2.855m	£1.046m	£248k	n/a	n/a
	Sam Weihagen <sup>3</sup>	n/a	n/a	£153k	£1.171m	n/a	n/a	n/a	n/a	n/a
	Manny Fontenla-Novoa <sup>4</sup>	£2.996m	£2.322m	£1.008m <sup>5</sup>	n/a	n/a	n/a	n/a	n/a	n/a
Group Bonus Plan payout (as % maximum opportunity)	Peter Fankhauser	n/a	n/a	n/a	n/a	n/a	n/a	69%	22%	78%
	Harriet Green	n/a	n/a	n/a	n/a	100%	0%	0%	n/a	n/a
	Sam Weihagen	n/a	n/a	0%	23%	n/a	n/a	n/a	n/a	n/a
	Manny Fontenla-Novoa	96%	80%	0%	n/a	n/a	n/a	n/a	n/a	n/a
PSP vesting (as % of maximum opportunity)	Peter Fankhauser	n/a	n/a	n/a	n/a	n/a	n/a	70% <sup>6</sup>	0%	0%
	Harriet Green	n/a	n/a	n/a	-	n/a	n/a	See below <sup>2</sup>	n/a	n/a
	Sam Weihagen	n/a	n/a	0%	0%	n/a	n/a	n/a	n/a	n/a
	Manny Fontenla-Novoa	68%	0%	0%	n/a	n/a	n/a	n/a	n/a	n/a

The table above shows the prescribed remuneration data (as shown in the left-hand side column) for the Director(s) undertaking the role of CEO during each of the last nine financial years

#### Notes:

- Peter Fankhauser was appointed CEO on 26 November 2014 and has been employed in the Group since 1 May 2001
- Harriet Green stepped down as CEO on 26 November 2014 and remained a Director until 31 December 2014. In addition to the single figure shown, a proportion of Harriet Green's 2012 PSP award vested following her departure with 4,115,721 shares vesting under this award
- Sam Weihagen was appointed CEO on 3 August 2011 and remained in post until the appointment of Harriet Green on 30 July 2012
- Manny Fontenla-Novoa stepped down as CEO on 2 August 2011
- The single figure for FY17 for Manny Fontenla-Novoa excludes his termination payment, which was a total of £1.2m (in respect of contractual entitlements to base salary, pension allowance and benefits in lieu of notice)
- Relates to the June 2012 PSP and CGIP awards and the September 2012 PSP award representing the full value received

## PERCENTAGE CHANGE IN REMUNERATION COMPONENTS OF THE CEO

The table below sets out the percentage change in the remuneration of the CEO. It also sets out the average percentage change in the remuneration of other employees in the Group. A peer group of UK-based employees has been selected. We have selected this peer group as the CEO is UK-based and therefore pay movement in this peer group is subject to similar external market conditions. We have excluded employees subject to long-term collective agreements for the same reason, in order to ensure that the comparison is on a like-for-like basis.

	% change in remuneration from FY16 to FY17		
	% change in base salary	% change in benefits <sup>1</sup>	% change in annual bonus <sup>2</sup>
CEO	2.00%	13.5%	248%
UK-based employees	2.71%	2.16%	104%

### Notes:

- The main benefits provided to UK-based employees are private health insurance, life assurance, travel concessions and car allowances. The increase in benefits for the CEO is a result of increased premiums on private health insurance, life assurance and the continuation of tax advice relating to Peter's former expatriate arrangement.
- In order to provide the most direct comparison possible, the above calculation includes all UK-based employees participating in the Thomas Cook Bonus Plan which have a significant Group element to the Plans. Bonus payouts in FY16 were 22% for the CEO and on average 36% for those in the Group Bonus Plan. In FY17, achievement for the CEO was 78% and for those who are UK-based and in the Thomas Cook Bonus Plan the average payout level will be 73%. The difference is caused by the achievement of the UK and Airline element of the Plans being lower than the Group achievement.

## RELATIVE IMPORTANCE OF SPEND ON PAY

The table below displays the relative expenditure of the Company on all employees' pay and Shareholder distributions as required by the Regulations.

	2016 £m	2017 £m	Year-on-year % change <sup>1</sup>
Overall expenditure on Group employee pay <sup>2</sup>	863	943	8.5%
Group underlying EBIT <sup>3</sup>	302 <sup>4</sup>	330	8.5%
Shareholders' distributions	0	8	100%

- Some of the year-on-year increase is attributed to a benefit from exchange rates. The figures shown in the table are extracted from the Groups financial statements.
- The amounts for Group employees and Directors' pay include employer social security payments.
- Group underlying EBIT is shown above as this continues to be a key performance measure.
- Restated FY16 number.

## STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN THE FOLLOWING FINANCIAL YEAR

### 2018 salary reviews

Salary reviews for the Group are in April each year. The Committee will undertake the annual salary review for the CEO at this time, with no increase in April 2018 for the new CFO due to the timescales associated with the appointment.

### FY18 Group Bonus Plan

FY18 maximum opportunity for Executive Directors' annual bonus will remain at 150 per cent of base salary. Any payments under the FY18 Plan will be subject to financial hurdles for the Group underlying EBIT and Group Unlevered Free Cash Flow measures being met. Core measures focus on our customer, profit and cash measures to drive business performance and growth, with role-specific objectives set to support the delivery of our 'Customer at our Heart' strategy through the continued growth of our own-brand hotel offering, delivering on the new partnerships entered into where we can leverage our brand to tap into new opportunities for growth.

For FY18, Group Unlevered Free Cash Flow is defined as cash flow before payments/receipts in respect of interest and any cash amounts associated with acquisitions/disposals, payment of dividends or the refinancing of the Group's bank facilities and bonds.

The structure of the FY18 Plan for the Executive Directors is set out below:

CEO	CFO (Michael Healy)	CFO (Bill Scott)	Weighting % overall opportunity
Group Underlying EBIT	Group Underlying EBIT	Group Underlying EBIT	35%
Group Unlevered Free Cash Flow	Group Unlevered Free Cash Flow	Group Unlevered Free Cash Flow	35%
Net Promoter Score (NPS)	Net Promoter Score (NPS)	Net Promoter Score (NPS)	15%
Delivery of Strategic Project Benefits	Refinancing and CFO transition (15%)	Delivery of Tour Operator Finance Organisation	10%
Leadership, Succession & Engagement		Leadership: Gender Diversity & Engagement	5%

Bonus targets are set on a constant currency basis at the start of the performance period. Details of the targets will be disclosed at the end of the performance period, in the FY18 Directors' Remuneration Report.

## ANNUAL REPORT ON DIRECTORS' REMUNERATION CONTINUED

### Performance Share Plan (PSP)

The Committee will grant the next award under the PSP following the announcement of our FY17 results in accordance with the current Policy. Peter Fankhauser and Bill Scott will each be made awards equating to a face value of 150 per cent of salary. There will be no award made to Michael Healy.

In line with the Remuneration Policy and our previous two PSP grants, the awards will vest to the extent stretching EPS and Relative TSR targets (weighted equally) are achieved over a three-year performance period. Following the end of the vesting period, awards will be subject to a two-year holding period.

Targets under the award are set out below:

Total Shareholder Return (TSR)	Level of vesting	Performance Required
The Indexed TSR measures the TSR of the Company relative to the FTSE 250 excluding financial services and commodities over the full three-year performance period ending 30 September 2020	Threshold (25%)	Equal to the index
	Target (60%)	+8% above the index per annum
	Maximum (100%)	+12% above the index per annum
Basic Earnings Per Share (EPS)	Level of vesting	Performance Required
Basic EPS is calculated by dividing the profit or loss attributable to Ordinary Shareholders of the Company by the weighted average number of Ordinary Shares outstanding during the FY20 in respect of the final year of the performance period ending 30 September 2020	Threshold (25%)	10p
	Maximum (100%)	18p

The EPS targets, set on a constant currency basis for the FY18 PSP award have been set by the Committee taking into account multiple considerations, including the Group's overall business strategy, expectations for future years as incorporated into our long-term Business Plan, growth expectations within our sector, and historical performance.

The EPS vesting schedule is non-linear with an intermediate point. The Committee may take into account the impact of any major restructuring plans (not envisaged when setting the target) when assessing performance against the EPS target, to ensure the PSP rewards actions taken by management which are in the best long-term interests of Shareholders. Details of the intermediate point will be disclosed retrospectively following the end of the performance period.

EPS targets ranges for both outstanding awards are shown on page 107.

### CFO TRANSITION ARRANGEMENTS

Michael Healy stands down from the Board and his role as CFO with effect from 31 December 2017. He remains available to Peter Fankhauser, Bill Scott and the Board to assist with the transition and will leave employment with Thomas Cook on 31 March 2018. Michael will be retiring from the Company and will be treated as a good leaver in respect of his outstanding awards. The leaving arrangements set out below are in accordance with the Policy approved by Shareholders at the 2017 Annual General Meeting:

- > There are no payments for loss of office
- > Salary and benefits will be paid in full on a monthly basis during the notice period
- > The FY17 bonus is disclosed on page 100. One third of this bonus will be deferred for a period of two years
- > The FY18 bonus will be determined by the Committee in November 2018 following the end of the financial year, and will be prorated to reflect the period employed in the year. One third of the FY18 bonus will also be subject to deferral for a period of two years however will be deferred as cash as Michael will not be an employee of the Group at the time of grant
- > There will be no FY18 PSP award made
- > All outstanding PSP awards will vest at the normal vesting date i.e. on the three-year anniversary from grant and will be prorated to reflect the period employed
- > Outstanding deferred bonus awards will vest in full at the normal vesting dates, subject to there being no clawback events occurring during the vesting period
- > Malus and clawback provisions remain in force throughout

After ceasing employment with Thomas Cook, Michael will continue his Non-Executive Director roles in Thomas Cook China and Thomas Cook Money. The single consolidated fee for these Board roles will be £80,000 per annum in total, with any additional consultancy fee for advisory work to the Thomas Cook Group plc paid at a rate of £5,000 per day. It is expected that the latter fees will not exceed £60,000 per annum.

Bill Scott will be appointed as an Executive Director and CFO with effect from 1 January 2018. His remuneration for FY18 for the period in which he is Executive Director will be reported in the FY18 Directors' Remuneration Report. The key terms were disclosed via RNS on 28 September 2017 following the Board's decision to appoint Bill, and are also summarised below:

- > Annual base salary: £420,000; next salary review date April 2019
- > Pension: 15 per cent contribution into the Thomas Cook defined contribution pension scheme, or if taken as cash, a taxable allowance of 20 per cent of salary
- > Car allowance: £12,000 per annum
- > Annual bonus: 150 per cent of base salary of which one third is subject to deferral for a period of two years
- > PSP award: 150 per cent of base salary
- > Shareholding requirement of 200 per cent of base salary
- > Benefits in line with Policy

In addition to existing PSP awards granted within the Policy, Bill Scott also has an existing share award granted to him in December 2016 under the Restricted Share Plan (RSP). The Committee has determined, in accordance with the Directors' Remuneration Policy, that this award will be allowed to continue under the original terms of the Plan.

## NON-EXECUTIVE DIRECTORS

The Chairman is paid a fee of £275,000 per annum

The Non-Executive Directors are paid an annual basic fee, plus additional fees for the chairing of Board Committees.

### Non-Executive Director fees

Non-Executive Director fees are reviewed periodically to ensure they remain at an appropriate level relative to the market and that they reflect the skills, expertise and the contribution of the Directors. It was determined in September 2017 that the fees would remain at their current levels.

The annual rates of Non-Executive Director's fees for FY17 are shown in the table below:

Position	Annual fees £'000
Non-Executive Director	60
Additional fee for the Chair of the Audit Committee	20
Additional fee for the Chair of the Remuneration Committee	20
Additional fee for the Chair of the Health, Safety & Environmental Committee	20
Additional fee for the Senior Independent Director	10

Each of the Non-Executive Directors has been appointed pursuant to a letter of appointment, which is available on request 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	21 July 2016	11 April 2019	1 month
Annet Aris	16 March 2017	30 April 2020	1 month
Emre Berkin	13 October 2015	30 October 2018	1 month
Paul Edgecliffe-Johnson	26 July 2017	25 July 2020	1 month
Lesley Knox	23 February 2016	28 February 2019	1 month
Jurgen Schreiber	26 July 2017	25 July 2020	1 month
Warren Tucker	22 September 2016	3 October 2019	1 month
Martine Verluyten	16 March 2017	6 May 2020	1 month

## Directors' and former Directors' share interests (audited)

The following table shows the beneficial interests of the Directors in the shares of the Company:

	Beneficial holdings (Number of shares as at 30 September 2017)
Peter Fankhauser	2,229,376
Michael Healy	1,212,890
Frank Meysman	547,000
Dawn Airey	42,000
Annet Aris	-
Emre Berkin	-
Paul Edgecliffe-Johnson	-
Lesley Knox	46,100
Jurgen Schreiber	-
Warren Tucker	30,800
Martine Verluyten	165,000

From 30 September 2017 to 21 November 2017 there were no changes to any of the Directors' beneficial interests in shares

## ANNUAL REPORT ON DIRECTORS' REMUNERATION CONTINUED

### SHAREHOLDING REQUIREMENT (AUDITED)

Under our Shareholding Requirement Policy, Executive Directors are required to build up within five years of appointment to the Board, and maintain a minimum shareholding of 200 per cent of base salary, increased from 100 per cent earlier during the year. Until the shareholding requirement is met, vested shares cannot be sold, other than to pay tax in respect of the relevant award.

To ensure alignment with Shareholders and to encourage a share ownership culture across the senior team, members of the Executive Committee are required to build up within five years of becoming an Executive Committee member, and maintain 50 per cent of base salary in the Company's shares.

In line with the Policy, the value of the Directors' holding has been calculated by taking the greater of: a) the initial financial commitment; and b) the market value at 30 September 2017.

At 30 September 2017, the shareholding of Peter Fankhauser and Michael Healy were 449 per cent and 300 per cent of salary respectively as shown below:

Graph removed

### Directors' interests in shares under the DBP and PSP (audited)

	Date of grant	Actual share price at date of grant	At 30 September 2016	Granted	Released	Lapsed	At 30 September 2017	Earliest vesting date of outstanding awards
<b>Peter Fankhauser</b>								
Performance Share Plan	12/03/2015	£1.486	720,752	-	-	-	720,752	12/03/2018
	11/12/2015	£1.13	880,102	-	-	-	880,102	11/12/2018
	01/12/2016	£0.86	-	1,388,248	-	-	1,388,248	01/12/2019
Deferred Bonus Plan	08/01/2016	£1.191	193,702	-	-	-	193,702	06/01/2018
	15/02/2017	£0.888	-	89,081	-	-	89,081	31/01/2019
<b>Michael Healy</b>								
Performance Share Plan	12/03/2015	£1.486	532,729	-	-	-	532,729	12/03/2018
	11/12/2015	£1.13	663,520	-	-	-	663,520	11/12/2018
	01/12/2016	£0.86	-	951,464	-	-	951,464	01/12/2019
Deferred Bonus Plan	08/01/2016	£1.191	150,885	-	-	-	150,885	06/01/2018
	15/02/2017	£0.888	-	73,168	-	-	73,168	31/01/2019

There are no outstanding awards for past Directors

## DETAILS OF SHARE PLANS

### Deferred Bonus Plan (DBP)

Under the DBP, one third of any bonus payment made to Executive Directors under the Group Bonus Plan is deferred into shares for a period of two years on a compulsory basis. The DBP awards shown in the previous table represent one third of the FY15 bonus and FY16 bonus respectively. DBP awards are made at the earliest opportunity following bonus payment date, and are released on the second anniversary of the actual bonus payment date.

### Performance Share Plan (PSP)

Under the PSP, participants are awarded a conditional award of shares in Thomas Cook Group plc. Shares under the awards will vest to the satisfaction of stretching performance conditions measured over three years being met. Performance conditions for awards up to and including March 2015, were based on absolute share price, Group underlying EBIT and Group Cash Conversion. For subsequent awards, granted from December 2015 onwards, the performance conditions are Relative TSR and Basic EPS. Performance conditions for the outstanding awards are shown on the following page.

### Performance Conditions for PSP Awards (audited)

#### FY14 PSP awards

There were no awards made to Executive Directors during FY14.

#### FY15 PSP awards

The performance measures, targets and performance achieved under the FY15 PSP awards which lapsed during the year are set out on page 101.

#### FY16 PSP awards

The FY16 PSP awards made to Executive Directors are subject to equally weighted Basic EPS and Relative TSR performance measures as set out in the table below:

Total Shareholder Return (TSR)	Level of vesting	Performance Required	Basic Earnings Per Share (EPS)	Level of vesting	Performance Required
The Indexed TSR measures the TSR of the Company relative to the FTSE 250 excluding financial services and commodities over the full three-year performance period ending 30 September 2018.	Threshold (30%)	Equal to the index	Basic EPS is calculated by dividing the profit or loss attributable to Ordinary Shareholders of the Company by the weighted average number of Ordinary Shares outstanding during the FY18 in respect of the final year of the performance period, ending 30 September 2018.	Threshold (30%)	9.3p
	Target (60%)	+8% above the index per annum		Maximum (100%)	16.5p
	Maximum (100%)	+12% above the index per annum			

#### FY17 PSP awards

The FY17 PSP awards made to Executive Directors are subject to equally weighted Basic EPS and Relative TSR performance measures as set out in the table below:

Total Shareholder Return (TSR)	Level of vesting	Performance Required	Basic Earnings Per Share (EPS)	Level of vesting	Performance Required
The Indexed TSR measures the TSR of the Company relative to the FTSE 250 excluding financial services and commodities over the full three-year performance period ending 30 September 2019.	Threshold (25%)	Equal to the index	Basic EPS is calculated by dividing the profit or loss attributable to Ordinary Shareholders of the Company by the weighted average number of Ordinary Shares outstanding during the FY19 in respect of the final year of the performance period, ending 30 September 2019.	Threshold (25%)	11.2p
	Target (60%)	+8% above the index per annum		Maximum (100%)	18.2p
	Maximum (100%)	+12% above the index per annum			

## ANNUAL REPORT ON DIRECTORS' REMUNERATION CONTINUED

### STATEMENT OF SHAREHOLDER VOTING

The table below sets out the results of the votes on the Directors' Remuneration Policy and Report at the 2017 Annual General Meeting

	Votes for number of shares	Proportion of total votes cast	Votes against number of shares	Proportion of total votes cast	Total number of votes cast	Total number of votes withheld
Annual Remuneration Report (2017 Annual General Meeting)	995,505,485	77.49	289,162,803	22.51	1,284,668,288	201,701
Remuneration Policy (2017 Annual General Meeting)	994,036,827	78.32	275,169,417	21.68	1,269,206,244	15,663,744

The Board acknowledges the views of Shareholders who voted against the above resolutions at the 2017 Annual General Meeting.

The Board's aim is to consult regularly with major Shareholders and achieve the maximum possible support for all proposals. On this basis, the Board consulted with a number of key Shareholders and proxy advisory bodies at the start of the 2017 financial year, and again in the weeks leading up to the Annual General Meeting. This showed that there was misalignment with a small number of institutional Shareholders and was a serious concern to the Board. Therefore, we listened to the feedback which are set out below, and took the following actions:

#### Policy Review and SSIP (Remuneration Policy Resolution)

A number of Shareholders raised concerns in relation to the SSIP. From the feedback, it was clear that concern centred on the level of disclosure in respect of potential strategic objectives and the maximum potential award level. It also became clear that views were split with no clear consensus on the issue amongst Shareholders.

The SSIP was put in place to cater for exceptional circumstances that would warrant an alternative long term incentive plan. The Committee did not make use of the SSIP in FY17 and has no need to in FY18. In response to Shareholder concerns following the AGM the Board made the following commitments:

- > The Committee would use the SSIP following consultation and with the support of our major Shareholders and.
- > The maximum opportunity under the SSIP, if it were used, would be capped so that it would not exceed that of the PSP (i.e. 200% of salary)

A revised Policy has not been presented back to Shareholders for approval. However, the current approved Policy has been updated to reflect the above commitments.

#### Long-Term Incentive Plan Target Disclosure (Remuneration Report Resolution)

Some Shareholders wanted to see EPS targets under the PSP disclosed prospectively. The need to provide Shareholders with assurance that the PSP is based on stretching targets that drive strong performance and have a direct positive impact on Company performance, and thus an increase in Shareholder value, is clear.

Up to and including the FY17 award granted in December 2016, EPS targets had been explicitly and directly linked to the business plan. This made them price sensitive. However, following Shareholder feedback, as described earlier in this report the Committee has developed a new methodology for setting targets that is based on a number of other factors and does not directly link to the business plan. This new methodology has enabled the prospective disclosure of EPS target ranges for the FY18 PSP grant in the FY17 Directors' Remuneration Report.

There are also two outstanding awards where EPS targets have not been previously disclosed. In the commitment made to Shareholders to provide greater transparency, the FY17 Directors' Remuneration Report has also disclosed target ranges for these two awards.

Finally, the maximum size of awards under the PSP is 200% of salary but the normal award to Executive Directors is 150% of salary. In December 2016, Peter Fankhauser, CEO was granted an award of 165% of salary under this provision to incentivise his continued leadership, drive and commitment he demonstrates and the profitable growth he is expected to deliver over the long-term. Some Shareholders felt there was not a strong enough rationale to support this. For FY18, the award for Peter Fankhauser will be set at the normal award level of 150% of base salary.

I would like to take this final opportunity to assure you, our Shareholders, that we take seriously your views and act upon them, which I hope you can see we have demonstrated this year.

This Annual Report on remuneration has been approved by the Board of Directors and signed on its behalf by.

**WARREN TUCKER**  
CHAIRMAN, REMUNERATION COMMITTEE

21 November 2017





# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THOMAS COOK GROUP PLC

## REPORT ON THE FINANCIAL STATEMENTS

### Our opinion

In our opinion,

- Thomas Cook Group plc's Group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2017 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with 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 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.

### What we have audited

We have audited the Group and parent company financial statements of Thomas Cook Group plc for the year ended 30 September 2017 which comprise

Group	Parent company
Group income statement for the year then ended	Company balance sheet as at 30 September 2017
Group statement of comprehensive income for the year then ended	Company cash flow statement for the year then ended
Group cash flow statement for the year then ended	Company statement of changes in equity for the year then ended
Group balance sheet as at 30 September 2017	Related Notes 1 to 20 to the financial statements including a summary of significant accounting policies
Group statement of changes in equity for the year then ended	
Related Notes 1 to 34 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

### Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 56 to 59 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 72 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 72 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 72 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

### Overview of our audit approach

<b>Key audit matters</b>	<ul style="list-style-type: none"> <li>Revenue recognition due to the susceptibility to management override through inappropriate manual journals</li> <li>Leased aircraft maintenance provisions</li> <li>Provision for illness claims and associated recoveries from suppliers</li> <li>Classification of separately disclosed items</li> <li>Carrying value of goodwill</li> <li>Recoverability of deferred tax assets</li> </ul>
<b>Audit scope</b>	<ul style="list-style-type: none"> <li>We performed an audit of the complete financial information of 20 components and audit procedures on specific balances for a further 17 components</li> <li>The components where we performed full or specific audit procedures accounted for 85% of underlying profit from operations and 86% of revenue</li> <li>The components subject to review scope procedures covered the remainder (15% of underlying profit from operations and 14% of revenue)</li> </ul>
<b>Materiality</b>	<ul style="list-style-type: none"> <li>Overall Group materiality of £15m which represents 5% of underlying profit from operations</li> </ul>

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THOMAS COOK GROUP PLC CONTINUED

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Revenue recognition due to the susceptibility to management override through inappropriate manual journals (£9,007m, FY16 restated: £7,810m)</b></p> <p>Refer to the Audit Committee Report (page 75) Accounting policies (page 127) and Note 4 of the Consolidated Financial Statements (pages 130 to 133)</p> <p>The accounting for revenue is susceptible to management override through the recording of manual top side journal entries either in the underlying ledgers or via consolidation</p>	<p>We understood the Group's revenue recognition policies and how they are applied. We identified a change in the application of the accounting policy for revenue recognition on third-party commission income in the UK during the year.</p> <p>We have assessed the design of key controls and where appropriate, tested the operating effectiveness of controls over revenue and the financial statement close process.</p> <p>For a number of reporting units, as part of our overall revenue recognition testing we used data analysis tools on 100% of revenue transactions in the year to test the correlation of revenue to cash receipts to verify the occurrence of revenue. For those in-scope businesses where we did not use data analysis tools we performed appropriate alternative substantive procedures over revenue recognition including tests of details for a sample of revenue transactions.</p> <p>Other audit procedures specifically designed to address the risk of management override of controls included journal entry testing, placing particular focus on manual journal entries in revenue.</p> <p>Using data extracted from the accounting system we tested the appropriateness of journal entries impacting revenue, as well as other adjustments made in the preparation of the financial statements.</p> <p>We performed cut-off testing for a sample of revenue transactions around the period end date to check that they were appropriately recorded as revenue or revenue received in advance based on the date of travel and other attributes of package holidays.</p> <p>We performed full and specific scope audit procedures over this risk area in 28 locations which covered 86% of the Group's revenue.</p>	<p>Based on the audit procedures performed we did not identify evidence of material misstatements in the revenue recognised in the current year. The impact of the change in application of the accounting policy was not material to the financial statements.</p> <p>Our journal entry testing procedures did not identify any instances of inappropriate management override in the recognition of revenue across the Group.</p>
<p><b>Leased aircraft maintenance provisions (£366m, FY16 restated: £330m)</b></p> <p>Refer to the Audit Committee Report (page 75) Accounting policies (page 127) and Note 25 of the Consolidated Financial Statements (pages 155 to 156)</p> <p>The Group recognises provisions for maintenance obligations in relation to leased aircraft. The calculation of aircraft maintenance provisions requires complex judgements and estimates to be made based on forecast aircraft utilisation, estimates of future maintenance costs, planned rollover and renewal of the aircraft fleet. In addition judgement is required to determine the appropriate rate to discount the provision.</p>	<p>We have evaluated the methodology and key assumptions adopted by Management in its calculation of aircraft maintenance provisions and walked through the controls over the process. This involved the following procedures:</p> <ul style="list-style-type: none"> <li>&gt; Understanding the process and testing the arithmetical accuracy and integrity of the data in the provision models</li> <li>&gt; Challenging the consistency and reasonableness of the assumptions adopted. This included a review of discount rates, testing of source data in the model to information from lessors and comparison of assumptions to contract terms</li> <li>&gt; Testing the cost estimates of future maintenance events to the latest rate reviews in contracts, tenders or historical cost experience</li> <li>&gt; For the timing of future maintenance, we corroborated the maintenance interval limits to the manufacturer's information and tested the actual flight hours to the technical logs and the forecast flying hours to the forecast flying hour plans.</li> </ul> <p>We have tested the completeness of the provisions by comparison to fleet and financing registers and reviewing lease agreements for hand back obligations.</p> <p>We assessed the discount rate applied to the provision. Using our valuation specialists, we determined the appropriate rate to be applied to this provision by reference to IFRS guidance in this area.</p>	<p>We concluded the assumptions within the models used to calculate the provision before discounting as at 30 September 2017 were appropriate and supported by underlying evidence.</p> <p>We concluded an adjustment for credit risk that had been applied to the risk-free discount rate was not required. This also applied to previous years. An adjustment to correct this was recorded as a prior year adjustment. See Note 33.</p>
<p><b>Provision for illness claims and associated recoveries from suppliers (Illness provision £24.4m, FY16: 19.9m; Recoveries from suppliers £20.6m, FY16 (restated): £8.0m)</b></p> <p>Refer to the Audit Committee Report (page 75) Accounting policies (page 126) and Note 25 of the Consolidated Financial Statements (pages 155 to 156)</p> <p>There has been a significant increase in the number of illness-related claims from customers in the UK. Significant judgement is required in determining the level of provision required particularly in respect of underlying assumptions such as the total amount of potential compensation, probable amount to be settled in respect of claims, and the likelihood of having a valid defence against such claims. In addition, there is a risk that expected recoveries from suppliers in respect of such claims are recognised when such income is not virtually certain.</p>	<p>We have evaluated the methodology and key assumptions adopted by Management in its calculation of provision for illness claims and walked through the controls over the process. This included:</p> <ul style="list-style-type: none"> <li>&gt; Challenging the consistency and reasonableness of the assumptions adopted</li> <li>&gt; Testing the arithmetical accuracy and integrity of the data in the provision models</li> <li>&gt; Testing manual adjustments to provisions to understand their rationale and ensure that they are appropriate</li> </ul> <p>In respect of recoveries we have challenged whether appropriate evidence exists to support the recoveries, such as acknowledgement from a hotel that they were at fault and intend to reimburse the Group, or a signed agreement in place in relation to that claim.</p> <p>In respect of recoveries we identified that the contractual terms indicates that liability rests with the hoteliers. We have sought evidence that signed contracts are in place with hoteliers. In instances where signed contracts were not available or where the recovery is with parties that are not hotels we have sought additional evidence that there is acknowledgement of liability.</p>	<p>Our year-end audit procedures did not identify any material misstatement of provisions for illness claims and the assumptions in the underlying calculations were assessed as reasonable.</p> <p>We identified that the recoverability of certain balances from suppliers was not virtually certain at the balance sheet date. We concluded that these did not result in a material misstatement to the financial statements as a whole.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<b>Classification of separately disclosed items (£140m, FY16 (restated): £128m)</b> Refer to the Audit Committee Report (page 75) Accounting policies (pages 127 to 128) and Note 7 of the Consolidated Financial Statements (pages 135 to 136) The Group separately discloses items in the income statement that are considered non-recurring and material either because of their size or nature. Separately disclosed items are not defined by IFRS and therefore considerable judgement is required in determining the appropriateness of such classification. Consistency in items treated as separately disclosed is important to maintain comparability of reporting year-on-year.		
	We have reviewed the separately disclosed items to understand the rationale for the separate classification and have challenged the appropriateness by confirming they are material and non-recurring to warrant separate disclosure. We compared separately disclosed costs incurred with the budgets approved by the Board to ensure consistency with the plan. We have also assessed consistency with the nature of separately disclosed items reported in the prior year. We challenged the treatment of a number of items of expenditure that we considered would be more appropriately classified as underlying. We have reviewed the enhanced disclosures regarding items classified as separately disclosed and conclude they provide further transparency on the nature of these items which provides clarity on those items excluded from underlying performance of the Group.	In light of the guidelines published by ESMA we recommend that Management continues to focus on the nature of expenses classified as exceptional and the disclosures provided in the financial statements. There is significant judgement in determining the appropriate type of expenditure to separate from the Group's underlying performance. We challenged the classification of certain items of expenditure recorded as separately disclosed items which we believe should be recorded in underlying profit and concluded that those that remained unadjusted were not material.
<b>Carrying value of goodwill (£2,627m, FY16: £2,595m)</b> Refer to the Audit Committee Report (page 75) Accounting policies (page 123) and Note 12 of the Consolidated Financial Statements (pages 139 to 140) The Group holds significant goodwill on the balance sheet. The Group's business is geographically diverse and the changing geopolitical, environmental and economic landscape will continue to influence business performance and could impact the carrying value of goodwill. The annual impairment test of goodwill includes several key areas of estimation and judgement over the future performance of the business and specific assumptions such as discount rates and terminal growth rates. Changes to these assumptions or adverse performance could have a significant impact on the available headroom and any impairment that may be required.		
	We understood the methodology applied by Management in performing its impairment test for each of the relevant CGUs. For all CGUs we calculated the degree to which the key inputs and assumptions would need to fluctuate before an impairment was triggered and considered the likelihood of this occurring. We performed our own sensitivities on the Group's forecasts and determined whether adequate headroom remained. We performed detailed testing to critically assess and corroborate the key inputs to the valuations, including: <ul style="list-style-type: none"> <li>analysing the historical accuracy of budgets to actual results to determine whether forecast cash flows are reliable based on past experience;</li> <li>working with our internal specialists, corroborating the discount rate used by obtaining the underlying data used in the calculation and benchmarking it against market data and comparable organisations; and</li> <li>validating the growth rates assumed by comparing them to economic and industry forecasts.</li> </ul> We assessed the disclosures in Note 12 against the requirements of IAS 36 Impairment of Assets, in particular in respect of the requirement to disclose further sensitivities for CGUs where a reasonably possible change in a key assumption would cause an impairment. The audit procedures performed to address this risk were performed by the Group audit team.	We agreed with Management's conclusion that no impairments were required based on the results of our work. Of the Group's goodwill, that relating to the Airline CGU is most sensitive to reasonable possible changes in key assumptions. Sensitivities have not been disclosed in the 'Intangible assets' note to the Group financial statements as Management believe any reasonable change in assumptions would not cause an impairment. We concur that this is reasonable.
<b>Recoverability of deferred tax assets (£216m, FY16: £228m)</b> Refer to the Audit Committee Report (page 75) Accounting policies (page 128) and Note 24 of the Consolidated Financial Statements (pages 154 to 155) Judgement is required in assessing the recoverability of the deferred tax assets based on the likelihood of taxable profits arising in the future periods and the likelihood that the tax assets will be utilised.		
	Management applies judgement in assessing the deferred tax assets to be recognised in each jurisdiction, based on the application of tax law and probability that sufficient taxable profits are available. We performed detailed testing to assess the recoverability of deferred tax assets recognised which included: <ul style="list-style-type: none"> <li>testing Management's process to prepare the deferred tax calculation;</li> <li>assessing the period over which deferred tax assets will be utilised and corroborating to supporting forecasts of future profits;</li> <li>testing adjustments made to forecast profits required to assess the level of forecast taxable profits available to support the recoverability of the deferred tax asset; and</li> <li>audited individual transactions that gave rise to additional deferred tax assets recognised or utilised during the year.</li> </ul>	We have considered the recognition period over which deferred tax assets will be recovered and concluded they were reasonable. We noted full recognition of deferred tax assets on brought forward losses and other temporary differences in Spain, resulting in an increase in the period over which they will be recovered. We concur with the basis of recognition due to supporting taxable profit forecasts.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THOMAS COOK GROUP PLC CONTINUED

The risks of material misstatement to the financial statements as set out in the table above differ from those reported by Thomas Cook Group plc's previous external auditor. We have included provisions for illness claims and associated recoveries from suppliers due to the significant increase in illness claims in the UK observed during the current financial year which we considered increased the risk of material misstatement. In addition, we have included revenue recognition, including the risk of management override, as a key audit matter as we view revenue as an area susceptible to material misstatement. During the course of preparing the financial statements in the current year the Company identified a number of prior year adjustments which have been adjusted and are disclosed in Note 33 to the financial statements. In the course of our audit we have confirmed the appropriateness of the adjustments made.

We have omitted the following areas in the auditor's report that were included in the prior year: recoverability of hotel prepayments, defined benefit pensions valuation, treasury operations and use of derivative instruments, and going concern. Whilst we agreed that these were areas of increased risk for our audit they were not assessed as being areas subject to significant Management judgement or areas where there were significant findings in our audit.

### AN OVERVIEW OF THE SCOPE OF OUR AUDIT

#### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. In determining our audit scope, we take into account size (based on contribution to Group underlying profit from operations and Group revenue), risk profile (including country risk, risks from the complexity of operations and accounting treatment and judgements, controls findings and risk arising from change in the period including changes to IT systems and key management personnel) and the number of significant accounts based on performance materiality and any other known factors when assessing the level of work to be performed at each entity.

The Group structures its operations around its three geographical tour operators and group airline, with sub-consolidations being performed at the tour operator locations. Our approach to scoping has been at the individual reporting unit level and the Group team has directed the sub-scoping in each of the segments to ensure that we have the appropriate level of involvement to enable us to obtain sufficient audit evidence as a basis for our opinion on the Group as a whole.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 135 reporting components of the Group, we selected 37 components covering entities within the four reporting segments outlined above, which represent the principal reporting units within the Group. This constituted 12 country component teams and the group engagement team and included one non-EY component auditor to perform full scope procedures over one reporting unit and specific scope procedures over accounts we concluded were significant at one further reporting unit.

Of the 37 components selected, we performed an audit of the complete financial information of 20 components ('full scope components') which were selected based on their size or risk characteristics. For the remaining 17 components ('specific scope components'), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

The full and specific scope reporting components where we performed audit procedures accounted for 85% of the Group's underlying profit from operations and 86% of the Group's revenue.

Of the remaining 98 components that together represent 15% of the Group's underlying profit from operations, none are individually greater than 5% of the Group's underlying profit from operations or individually greater than 2% of the Group's revenue. For these components, we performed other procedures, including analytical review, review of the legal register and discussions with the in-house legal counsel, testing of unusual, one-off transactions and testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

Thomas Cook Group plc's previous external auditor performed full and specific scope audit procedures on components accounting for 75% of the Group's underlying profit from operations and 80% of the Group's revenue.

#### Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 20 full scope components, audit procedures were performed on two of these directly by the Group audit team, 17 by component auditors of the EY global network and one by a non-EY component team. For the 13 specific scope components where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the current year's audit cycle, the Senior Statutory Auditor or other members of the Group audit team visited the component teams in Northern Europe, UK and Continental Europe where sub-consolidations of results within that region are performed. 15 of the full scope and specific scope reporting units are audited by these teams. In addition, the Senior Statutory Auditor visited the Airlines Germany team. In addition to our visits the Senior Statutory Auditor and other members of the Group team attended the year-end closing meetings with local management.

These visits involved meeting with our component team to discuss and direct its audit approach, reviewing and understanding the significant audit findings in response to the risk areas including leased aircraft maintenance provisions, provisions for illness claims and revenue recognition, holding meetings with local management and obtaining updates on local regulatory matters. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Group to be £15m, which is 5% of underlying profit from operations. We believe that underlying profit from operations is the most relevant performance measure to the stakeholders of the Group.

Starting basis	Adjustments	Materiality
<ul style="list-style-type: none"> <li>&gt; Profit from operations – £231m for the year ended 30 September 2017</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Separately disclosed items impacting profit from operations – £99m</li> <li>&gt; Less amortisation of business combination intangibles – (£8m)</li> <li>&gt; See Note 7 to the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Underlying profit from operations £322m excluding amortisation of business combination intangibles (basis for materiality)</li> <li>&gt; Materiality of £16m (5% of materiality basis)</li> </ul>

The above materiality is our reassessment based on the final results for the year. Our audit was conducted at the lower preliminary materiality of £15m.

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £7.5m, reflecting that this is our first period as auditor of Thomas Cook Group plc.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £1m to £3.8m.

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.75m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### OTHER INFORMATION

The other information comprises the information included in the Annual Report including the Overview, the Strategic Report and the Directors' Report set out on pages 1 to 108, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THOMAS COOK GROUP PLC

## CONTINUED

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 73** – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on page 74** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 55** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- 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; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on pages 65 to 66, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view in accordance, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

In preparing the financial statements the Directors are responsible for assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are to identify and assess the risks of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, the Companies Act 2006 and the UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the Group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those regulations relating to health and safety and employee matters.
- We understood how Thomas Cook Group plc is complying with those frameworks by making enquiries of Management, enterprise risk and internal audit, those responsible for legal and compliance procedures and the Group legal counsel. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and Board and correspondence received from regulatory bodies

- › We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with Management from various parts of the business to understand where they considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by Management to manage earnings or influence the perceptions of analysts. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud, and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business, enquiries of legal counsel, Group management, enterprise risk and internal audit, segment management and Management at full and specific scope entities, and focused testing, as referred to in the Key audit matters section above.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### Other matters we are required to address

- › Following the recommendation of the Audit Committee, we were appointed by the Company on 9 February 2017 to audit the financial statements for the year ending 30 September 2017 and subsequent financial periods.  
The period of total uninterrupted engagement including previous renewals and re-appointments is one year, covering the year ending 30 September 2017.
- › The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company and we remain independent of the Group and the Company in conducting the audit.
- › The audit opinion is consistent with the additional report to the Audit Committee.

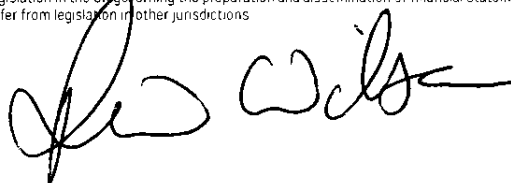
#### RICHARD WILSON SENIOR STATUTORY AUDITOR

for and on behalf of Ernst & Young LLP Statutory Auditor  
London

21 November 2017

#### Notes:

- 1 The maintenance and integrity of the Thomas Cook Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- 2 Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# FOR THE YEAR ENDED 30 SEPTEMBER 2017

## GROUP INCOME STATEMENT

	Notes	Year ended 30 September 2017			Year ended 30 September 2016 Restated <sup>1</sup>		
		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	4	9,007	-	9,007	7,810	-	7,810
Cost of providing tourism services		(7,012)	(2)	(7,014)	(5,981)	(9)	(5,990)
<b>Gross profit</b>		<b>1,995</b>	<b>(2)</b>	<b>1,993</b>	<b>1,829</b>	<b>(9)</b>	<b>1,820</b>
Personnel expenses	5	(975)	(28)	(1,003)	(882)	(39)	(921)
Depreciation and amortisation	12/13	(222)	-	(222)	(204)	-	(204)
Net operating expenses	6	(468)	(52)	(520)	(441)	(41)	(482)
Loss on disposal of assets		-	(9)	(9)	-	(10)	(10)
Amortisation of business combination intangibles	7	-	(8)	(8)	-	(6)	(6)
<b>Profit from operations</b>		<b>330</b>	<b>(99)</b>	<b>231</b>	<b>302</b>	<b>(105)</b>	<b>197</b>
Share of results of joint venture and associates	14	(1)	-	(1)	(1)	-	(1)
Net investment income		-	-	-	1	-	1
Finance income	8	4	-	4	6	-	6
Finance costs	8	(147)	(41)	(188)	(146)	(23)	(169)
<b>Profit before tax</b>		<b>186</b>	<b>(140)</b>	<b>46</b>	<b>162</b>	<b>(128)</b>	<b>34</b>
Tax	9			(34)			(33)
<b>Profit for the year</b>				<b>12</b>			<b>1</b>
<b>Attributable to:</b>							
Equity holders of the parent				13			4
Non-controlling interests				(1)			(3)
				12			1
<b>Basic and diluted earnings per share (pence)</b>	11			<b>0.8</b>			<b>0.3</b>

The notes on pages 122 to 166 form an integral part of the consolidated financial statements.

\* For details of restatement please see Note 33



# FOR THE YEAR ENDED 30 SEPTEMBER 2017

## GROUP STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 30 September 2017 £m	Year ended 30 September 2016 Restated* £m
Profit for the year		12	1
<b>Other comprehensive income and expense</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial gains/(losses) on defined benefit pension schemes	30	114	(144)
Tax on actuarial gains and losses	24/9	(28)	30
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Foreign exchange translation losses		(27)	(15)
<b>Fair value gains and losses</b>			
(Losses)/gains deferred for the year		(20)	53
Tax on (losses)/gains deferred for the year	24/9	5	5
(Gains)/losses transferred to the income statement	21	(60)	105
Tax on (gains)/losses transferred to the income statement	24/9	(5)	(21)
<b>Total net other comprehensive income/(loss) for the year</b>		<b>(21)</b>	<b>13</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>(9)</b>	<b>14</b>
<b>Attributable to</b>			
<b>Owners of the parent</b>		<b>(8)</b>	<b>17</b>
<b>Non-controlling interests</b>		<b>(1)</b>	<b>(3)</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>(9)</b>	<b>14</b>

\* For details of restatement please see Note 33

# FOR THE YEAR ENDED 30 SEPTEMBER 2017

## GROUP CASH FLOW STATEMENT

	Notes	Year ended 30 September 2017 £m	Year ended 30 September 2016 Restated* £m
<b>Profit before tax</b>		<b>46</b>	<b>34</b>
Adjustments for:			
Net finance costs		184	163
Net investment income and share of results of joint ventures and associates		1	-
Increase in provisions		20	1
Depreciation, amortisation and impairment		238	216
Loss on disposal of assets		9	10
Share-based payments		3	1
Additional pension contributions		(28)	(29)
Interest received		4	6
Decrease/(increase) in working capital:			
Inventories		2	(7)
Receivables		(110)	(88)
Payables		164	103
<b>Cash generated from operations</b>		<b>533</b>	<b>410</b>
Income taxes paid		(37)	(15)
<b>Net cash from operating activities</b>		<b>496</b>	<b>395</b>
Proceeds on disposal of property, plant and equipment		7	9
Investment in joint ventures and associates	14	-	(3)
Purchase of tangible assets		(132)	(117)
Purchase of intangible assets		(74)	(89)
<b>Net cash used in investing activities</b>		<b>(199)</b>	<b>(200)</b>
Dividends paid to non-controlling interests		(32)	(4)
Dividends paid		(8)	-
Interest paid		(144)	(135)
Draw down of borrowings		1,011	157
Repayment of borrowings		(948)	(340)
Payment of facility set-up fees		(10)	-
Repayment of finance lease obligations		(44)	(38)
<b>Net cash used in financing activities</b>		<b>(175)</b>	<b>(360)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>122</b>	<b>(165)</b>
Cash and cash equivalents at beginning of year		1,234	1,286
Effect of foreign exchange rate changes		43	113
<b>Cash, cash equivalents and overdrafts at end of year</b>		<b>1,399</b>	<b>1,234</b>

\* For details of restatement please see Note 33

# AT 30 SEPTEMBER 2017

## GROUP BALANCE SHEET

	Notes	30 September 2017 £m	Restated* 30 September 2016 £m
<b>Non-current assets</b>			
Intangible assets	12	3,136	3,077
Property, plant and equipment			
– aircraft and aircraft spares	13	581	627
– other	13	139	221
Investments in joint ventures and associates	14	6	8
Other investments		1	1
Deferred tax assets	24	216	228
Pension asset	30	123	52
Trade and other receivables	16	65	58
Derivative financial instruments	21	6	26
		4,273	4,298
<b>Current assets</b>			
Inventories	15	42	43
Tax assets		1	4
Trade and other receivables	16	735	677
Derivative financial instruments	21	56	145
Cash and cash equivalents	17	1,407	1,776
		2,241	2,645
<b>Non-current assets held for sale</b>	32	101	-
<b>Total assets</b>		<b>6,615</b>	<b>6,943</b>
<b>Current liabilities</b>			
Retirement benefit obligations	30	(9)	(8)
Trade and other payables	18	(2,343)	(2,179)
Borrowings	19	(245)	(891)
Obligations under finance leases	20	(39)	(42)
Tax liabilities		(57)	(40)
Revenue received in advance		(1,355)	(1,251)
Short-term provisions	25	(168)	(139)
Derivative financial instruments	21	(109)	(83)
		(4,325)	(4,633)

\* For details of restatement please see Note 33

GROUP BALANCE SHEET  
CONTINUED

	Notes	30 September 2017 £m	Restated* 30 September 2016 £m
<b>Non-current liabilities</b>			
Retirement benefit obligations	30	(439)	(501)
Trade and other payables	18	(25)	(109)
Long-term borrowings	19	(1,047)	(847)
Obligations under finance leases	20	(115)	(141)
Non-current tax liabilities		(7)	(31)
Deferred tax liabilities	24	(61)	(51)
Long-term provisions	25	(307)	(301)
Derivative financial instruments	21	(9)	(3)
		(2,010)	(1,984)
<b>Total liabilities</b>		<b>(6,335)</b>	<b>(6,617)</b>
<b>Net assets</b>		<b>280</b>	<b>326</b>
<b>Equity</b>			
Called-up share capital	26	69	69
Share premium account		524	524
Merger reserve		1,547	1,547
Hedging and translation reserves		8	115
Capital redemption reserve		8	8
Accumulated losses		(1,867)	(1,950)
Investment in own shares		(8)	(8)
<b>Equity attributable to equity owners of the parent</b>		<b>281</b>	<b>305</b>
Non-controlling interests		(1)	21
<b>Total equity</b>		<b>280</b>	<b>326</b>

\* For details of restatement please see Note 33

The financial statements on pages 116 to 166 were approved by the Board of Directors on 21 November 2017.

Signed on behalf of the Board

  
**MICHAEL HEALY**  
 GROUP CHIEF FINANCIAL OFFICER

FOR THE YEAR ENDED 30 SEPTEMBER 2017

# GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital and share premium £m	Other reserves £m	Hedging reserve £m	Translation reserve £m	Accumulated losses £m	Attributable to equity holders of the parent £m	Non-controlling interests £m	Total equity £m
As at 30 September 2015	593	1,537	(102)	90	(1,778)	340	28	368
Adjustment on correction of error	-	-	-	-	(53)	(53)	-	(53)
<b>At 30 September 2015 restated</b>	<b>593</b>	<b>1,537</b>	<b>(102)</b>	<b>90</b>	<b>(1,831)</b>	<b>287</b>	<b>28</b>	<b>315</b>
Profit for the year as reported	-	-	-	-	12	12	(3)	9
Adjustment for correction of error	-	-	-	-	(8)	(8)	-	(8)
<b>Restated profit for the period</b>					<b>4</b>	<b>4</b>	<b>(3)</b>	<b>1</b>
<b>Other comprehensive income/(loss):</b>								
Foreign exchange translation losses	-	-	-	(15)	-	(15)	-	(15)
Actuarial losses on defined benefit pension schemes (net of tax)	-	-	-	-	(114)	(114)	-	(114)
Gains deferred for the year (net of tax)	-	-	58	-	-	58	-	58
Losses transferred to the income statement (net of tax)	-	-	84	-	-	84	-	84
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>142</b>	<b>(15)</b>	<b>(110)</b>	<b>17</b>	<b>(3)</b>	<b>14</b>
Dividends paid to non-controlling interest correction of error	-	-	-	-	-	-	(4)	(4)
Exercise of shares - Employee Benefit Trust	-	10	-	-	(10)	-	-	-
Equity credit in respect of share-based payments	-	-	-	-	1	1	-	1
<b>At 30 September 2016 restated</b>	<b>593</b>	<b>1,547</b>	<b>40</b>	<b>75</b>	<b>(1,950)</b>	<b>305</b>	<b>21</b>	<b>326</b>
<b>Profit for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>13</b>	<b>(1)</b>	<b>12</b>
<b>Other comprehensive income/(loss):</b>								
Foreign exchange translation losses	-	-	-	(27)	-	(27)	-	(27)
Actuarial gains on defined benefit pension schemes (net of tax)	-	-	-	-	86	86	-	86
Losses deferred for the year (net of tax)	-	-	(15)	-	-	(15)	-	(15)
Gains transferred to the income statement (net of tax)	-	-	(65)	-	-	(65)	-	(65)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(80)</b>	<b>(27)</b>	<b>99</b>	<b>(8)</b>	<b>(1)</b>	<b>(9)</b>
Equity credit in respect of share-based payments	-	-	-	-	3	3	-	3
Dividends paid	-	-	-	-	(8)	(8)	-	(8)
Dividends paid to non-controlling interest	-	-	-	-	-	-	(32)	(32)
Settlements of non controlling interest	-	-	-	-	(11)	(11)	11	-
<b>At 30 September 2017</b>	<b>593</b>	<b>1,547</b>	<b>(40)</b>	<b>48</b>	<b>(1,867)</b>	<b>281</b>	<b>(1)</b>	<b>280</b>

\* For details of restatement please see Note 33

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 buyback 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 (currently known as Thomas Cook GmbH). 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

Thomas Cook Group plc is a public 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 Strategic Report on pages 4 to 59.

These consolidated financial statements were approved for issue by the Board of Directors on 21 November 2017.

## 2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) and Companies Act 2006 applicable to companies 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.

After making enquiries and taking into account the matters set out in the Risk Management section on pages 54 to 59, the Directors confirm that they consider it appropriate to use the going concern basis in preparing the Annual Report & Accounts.

The financial statements have been prepared on a historical cost basis, except for revaluation of certain financial assets and liabilities (including derivative financial instruments) at fair value through the profit or loss, share-based payments and defined benefit pension obligations.

The financial statements have been rounded to the nearest million in Great British Pounds. Amounts in pence have been rounded to the nearest tenth of a pence.

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.

Management identified several adjustments that, in their opinion, should be applied to Thomas Cook's financial statements for the year ended 30 September 2016. As a result, these have been restated. Refer to Note 33 for further details of the restatement.

## 3 SIGNIFICANT ACCOUNTING POLICIES

### 3A CHANGES IN ACCOUNTING POLICY AND DISCLOSURE

No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 October 2016, have had a material impact on the Group or parent company.

#### New or amended standard and interpretations in issue but not yet effective or EU endorsed

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective or EU endorsed.

**IFRS 9** "Financial Instruments" is a replacement for IAS 39 "Financial Instruments" and covers three distinct areas. Phase 1 contains new requirements for the classification and measurement of financial assets and liabilities. Phase 2 relates to the impairment of financial assets and requires the calculation of impairment on an expected loss basis rather than the current incurred loss basis. Phase 3 relates to less stringent requirements for general hedge accounting. IFRS 9 is effective for periods commencing on or after 1 January 2018, and therefore will be applied by the Group in fiscal year 2019. Based on our preliminary assessment, the Group does not currently anticipate a material impact from the new standard other than in providing additional disclosures in the Annual Report.

**IFRS 15** "Revenues from Contracts with Customers" introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. IFRS 15 is effective for periods commencing 1 January 2018 and therefore will be applied by the Group in fiscal year 2019. The Group continues to assess the possible impact of IFRS 15, which involves:

- an examination of key contract types in order to identify any distinct performance obligations in the context of the contractual arrangement;
- assessing the point at which the Group delivers promised services to its customers and whether this presents a requirement to change the timing of its revenue recognition; and
- understanding the specific new disclosure requirements prescribed.

Based on our preliminary assessment, the Group does not currently anticipate a material impact from the new standard other than in providing additional disclosures in the Annual Report.

### 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### 3A CHANGES IN ACCOUNTING POLICY AND DISCLOSURE CONTINUED

- IFRS 16 "Leases" provides a single lessee accounting model, requiring lessees to recognise right of use assets and lease liabilities for all applicable leases. The leasing standard is expected to have a material impact on net debt, gross assets, profit from operations and interest. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, and therefore will be applied by the Group in fiscal year 2020. Management have commenced a project across the Group to assess the overall impact of the standard, including considering the systems and processes required for implementation and the options around transition. We expect to report on the impact in the 2018 Annual Report. In addition, the Group awaits the result of ongoing HMRC consultation to understand the impact on taxes.
- IFRS 17 "Insurance Contracts" is effective for annual periods beginning on or after 1 January 2021 subject to endorsement by the EU. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The Group plans to assess the impact of IFRS 17 closer to implementation date.
- IFRIC 23 "Uncertainty over Income Tax Treatments" is effective for periods commencing on or after 1 January 2019 with early adoption permitted. IFRIC 23 clarifies how to apply the recognition and measurements requirements in IAS12 'Income Taxes' when there is uncertainty over income tax treatments. The Group is assessing the impact of IFRIC 23.

There are no further IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

#### 3B SIGNIFICANT ACCOUNTING POLICIES

##### Basis of consolidation

The Group's financial statements consolidate those of the Company and its subsidiary undertakings. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated.

##### Joint venture and associates

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 investments in its associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

##### Foreign currency

The presentation currency of the Group is Sterling.

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 year end are translated at period end exchange rates. The resulting exchange gain or loss is recorded in the Costs of providing tourism services within 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.

##### Intangible assets - goodwill

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 purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### 3B SIGNIFICANT ACCOUNTING POLICIES CONTINUED

##### Intangible assets – other

Intangible assets, other than goodwill, are carried on the Group's balance sheet at cost less accumulated amortisation

Other than capitalised development costs, including those that are internally generated, expenditure is reflected in the income statement in the year in which the expenditure is incurred.

Amortisation is charged on a straight-line basis over the intangible asset's useful life, when finite, as follows:

Brands	9 years to indefinite life
Customer relationships	1 to 15 years
Computer software	3 to 10 years

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.

##### 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	23 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

##### Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

##### Aircraft overhaul and maintenance costs

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

Provision is made for the future costs of major overhauls of operating leased engines, auxiliary power units and airframes by making appropriate charges to the income statement, calculated by reference to hours flown and/or the expired lease period, as a consequence of obligations placed upon the 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.



### 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### 3B SIGNIFICANT ACCOUNTING POLICIES CONTINUED

##### 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 remeasured 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 remeasurement 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.

##### Hedge accounting

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 is designated in a fair value hedge relationship of a financial liability held at amortised cost, the change in fair value in respect to the hedged risk is recorded as a fair value adjustment within finance income or cost.

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.

The gain or loss on remeasurement 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 costs of providing tourism.

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.

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.

##### 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 substantially all the risks (and rewards) relating to the financial asset or when the contractual rights to the cash flows associated with the financial asset 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.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash balances, term deposits and investment in money market funds which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less. Where the Group operates centrally pooled accounts and has the legal right along with the intention and ability to pool account balances, the net cash or overdraft position is disclosed. Where the intention or ability to pool balances together is absent, the cash and overdraft are disclosed on a gross basis in the consolidated balance sheet and the overdraft is excluded from cash and cash equivalents for the purpose of the consolidated statement of cash flows.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### 3B SIGNIFICANT ACCOUNTING POLICIES CONTINUED

##### 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 exposure are classified as held for trading and are recognised and subsequently measured 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

The Group recognises a provision when there is a present obligation as a result of a past event, 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.

Provisions are recognised at the Director's 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.

##### Pensions

The Group 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.

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.

##### Share capital

Ordinary Shares including share premium are classified as equity.

### 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### 3B SIGNIFICANT ACCOUNTING POLICIES CONTINUED

##### 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.

##### 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. This credit is not considered to be distributable under the Companies Act 2006.

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.

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.

##### Revenue recognition

The Group's revenue is measured as the aggregate amount of gross revenue receivable from inclusive tours, airline travel services, hotel services, travel agency commission and other travel services supplied to customers in the ordinary course of business. The Group records revenue on a net basis after deducting trade discounts, volume rebates, value added tax and compensation vouchers granted to customers.

Revenue relating to travel services arranged by the Group's leisure and airline travel providers, are taken to the income statement on the date of holiday and flight departure. Revenue relating to other services provided by the Group is taken to the income statement as earned. Revenue from the sale of goods is recognised when all the significant risks and rewards of ownership is transferred to the customer, usually on delivery of the goods. Monies received by the balance sheet date relating to holidays commencing and flights departing after the period end are included within current liabilities as revenue received in advance.

##### Expenses

Direct expenses relating to inclusive tours arranged by the Group's leisure travel providers are taken to the income statement on holiday departure or over the period to which they relate as appropriate. Indirect expenses are recognised in the income statement over the period to which goods and services are received by the Group.

##### Separately disclosed items

The Group separately discloses to profit before tax in the income statement: non-recurring items, impairment of goodwill and amortisation of business combination intangibles; and IAS 39 fair value remeasurement.

Separately disclosed items, namely items that are material either because of their size or their nature, or which are non-recurring, are presented within their relevant income statement category, but highlighted through separate disclosure. The separate reporting helps provide a full understanding of the Group's underlying performance.

Items which are included within the separately disclosed 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 which may extend over a number of years;
- > 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; and
- > 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 (currently known as Thomas Cook GmbH) 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 considers that it should be disclosed separately to enable a full understanding of the Group's results.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### 3B SIGNIFICANT ACCOUNTING POLICIES CONTINUED

IAS 39 fair value remeasurement 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 contingent consideration are not considered to be part of the Group's underlying performance.

In addition, certain finance costs or income that derive from one-off events or transactions are not considered to be part of the Group's underlying performance. The Group's Management considers 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, 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 non-current liabilities, interest cost on pension plan liabilities, changes in the fair value of held for trading interest-related derivatives and changes in fair value of derivatives designated in a fair value hedge relationship.

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 7 under the description "Finance related charges".

#### Tax

##### Current tax

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are substantively enacted at the balance sheet date.

##### Deferred tax

Deferred tax is recognised on all temporary differences arising from differences between the carrying amount of an asset or liability and its tax base, with the following exceptions:

- › Where the temporary difference arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting or taxable profit or loss;
- › In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- › Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, tax losses or credits carried forward can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws substantively enacted at the balance sheet date.

#### Allocation of tax charge or credit between income statement, other comprehensive income and equity

Tax is recognised in the income statement unless it relates to an item recognised directly within other comprehensive income, in which case the associated tax is recognised directly in other comprehensive income respectively.

#### Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its Ordinary Shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of Ordinary Shares outstanding during the period. Diluted EPS is determined by adjusting the weighted average number of Ordinary Shares outstanding for the effects of all dilutive potential Ordinary Shares. EPS measures for continuing operations have been presented in accordance with IAS 33. The Group also presents a basic and diluted underlying EPS measure based on underlying profit before tax as defined in the "Separately Disclosed Items" section above. Further details of the EPS calculation are presented in Note 11.

### 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### 3C CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In applying its accounting policies, the Group has made estimates and assumptions concerning the future, which may differ from the related actual outcomes. Those estimates and assumptions which 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.

##### Revenue recognition

A key judgement in recognising revenue is to distinguish where the Group's businesses act in the capacity of principal or agent so to determine the accounting as either gross or net respectively, in line with IAS 18 Revenue Recognition. The Group exercises judgement to assess principal or agency by considering if it is the prime obligor in all the revenue arrangements, has pricing discretion and is exposed to inventory and credit risk in which case the Group will be principal to the arrangement.

##### Impairment of goodwill

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.

##### 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.

##### Provisions for illness claims and associated recoveries

In calculating the level of provisions required, judgements have been made on the probability of success in defending legal claims and estimated outcome of such claims. In assessing associated recoveries, judgements have been made on the estimate of the amounts that will be recovered from hotel suppliers.

##### Tax

Judgements 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.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 4 SEGMENTAL INFORMATION

During the year, the Group refined its organisational structure resulting in a reassessment of its reportable segments. In line with this change the Group reassessed its reporting segments. The principal activities of the Group are therefore presented in the following segments:

- Tour operations and associated activities ('Group Tour Operator') within the Group's 17 source markets;
- Airline-related services, including both scheduled and charter services, and associated activities ('Group Airline') within the Group's four airlines; and
- Certain residual businesses and corporate functions that are not allocated to these divisions and are shown separately as Corporate.

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. Segment information for the year ended 30 September 2016 has been restated accordingly.

Segmental information for these activities is presented below.

Year ended 30 September 2017	Group Tour Operator	Group Airline	Corporate	Group
<b>Revenue</b>				
Segment sales	7,122	3,185	-	10,307
Inter-segment sales	(43)	(1,257)	-	(1,300)
<b>Total revenue</b>	<b>7,079</b>	<b>1,928</b>	<b>-</b>	<b>9,007</b>
<b>Revenue by geography</b>				
UK				2,476
Continental Europe				4,139
Northern Europe				1,307
Airlines Germany				1,470
Intercompany eliminations				(385)
				<b>9,007</b>
<b>Result</b>				
Underlying operating profit/(loss) from operations	250	115	(35)	330
Separately disclosed items	(74)	1	(18)	(91)
Amortisation of business combination intangibles	(8)	-	-	(8)
<b>Segment result</b>	<b>168</b>	<b>116</b>	<b>(53)</b>	<b>231</b>
Share of results of associates and joint venture				(1)
Finance income				4
Finance costs				(188)
<b>Profit before tax</b>				<b>46</b>
Tax				(34)
<b>Profit for the year</b>				<b>12</b>
<b>Other information</b>				
Capital additions	77	120	34	231
Depreciation	23	162	-	185
Amortisation of intangible assets	17	4	15	36
Amortisation of business combination intangibles	8	-	-	8
Impairment of property, plant & equipment	8	-	-	8

## 4 SEGMENTAL INFORMATION CONTINUED

	Group Tour Operator £m	Group Airline £m	Corporate £m	Group £m
<b>Balance sheet</b>				
<b>Assets</b>				
Segment assets	7,666	3,627	8,539	19,832
Inter-segment eliminations				(13,440)
				6,392
Investments in associates and joint ventures				6
Tax and deferred tax assets				217
<b>Total assets</b>				<b>6,615</b>
<b>Liabilities</b>				
Segment liabilities	(6,491)	(1,881)	(9,007)	(17,379)
Inter-segment eliminations				12,615
				(4,764)
Tax and deferred tax liabilities				(125)
Borrowings and obligations under finance leases				(1,446)
<b>Total liabilities</b>				<b>(6,335)</b>

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 12) and property, plant and equipment (Note 13).

The total non-current assets, other than goodwill, indefinite life intangibles, financial instruments and deferred tax located in the UK, was £1,991 (2016: £2,013m). The total non-current assets, other than goodwill, indefinite life intangibles, financial instruments and deferred tax located in Germany was £578m (2016: £615m).

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 4 SEGMENTAL INFORMATION CONTINUED

Year ended 30 September 2016 restated	Group Tour Operator	Group Airline	Corporate	Group
	£m	£m	£m	£m
<b>Revenue</b>				
Segment sales	6,223	2,825	–	9,048
Inter-segment sales	(43)	(1,195)	–	(1,238)
<b>Total revenue</b>	<b>6,180</b>	<b>1,630</b>	<b>–</b>	<b>7,810</b>
<b>Revenue by geography</b>				
UK				2,363
Continental Europe				3,435
Northern Europe				1,132
Airlines Germany				1,253
Intercompany eliminations				(373)
				<b>7,810</b>
<b>Result</b>				
Underlying operating profit/(loss) from operations	249	83	(30)	302
Separately disclosed items	(82)	(7)	(10)	(99)
Amortisation of business combination intangibles	(6)	–	–	(6)
<b>Segment result</b>	<b>161</b>	<b>76</b>	<b>(40)</b>	<b>197</b>
Share of results of associates and joint venture				(1)
Net investment income				1
Finance income				6
Finance costs				(169)
<b>Profit before tax</b>				<b>34</b>
Tax				(33)
<b>Profit for the year</b>				<b>1</b>
<b>Other information</b>				
Capital additions	70	136	31	237
Depreciation	20	154	–	174
Amortisation of intangible assets	19	3	8	30
Amortisation of business combination intangibles	6	–	–	6
Impairment of property, plant & equipment	4	–	–	4
Impairment of other intangible assets	–	–	2	2



#### 4 SEGMENTAL INFORMATION CONTINUED

Year ended 30 September 2016 restated	Group Tour Operator £m	Group Airline £m	Corporate £m	Group £m
<b>Balance sheet</b>				
<b>Assets</b>				
Segment assets	7,661	3,678	10,723	22,062
Inter-segment eliminations				(15,359)
				6,703
Investments in associates and joint ventures				8
Tax and deferred tax assets				232
<b>Total assets</b>				<b>6,943</b>
<b>Liabilities</b>				
Segment liabilities	(6,400)	(1,928)	(10,919)	(19,247)
Inter-segment eliminations				14,673
				(4,574)
Tax and deferred tax liabilities				(122)
Borrowings and obligations under finance leases				(1,921)
<b>Total liabilities</b>				<b>(6,617)</b>

#### 5 PERSONNEL EXPENSES

	2017 £m	2016 £m
Wages and salaries	834	766
Social security costs	109	97
Share-based payments - equity settled (see Note 29)	3	1
Defined benefit pension costs (see Note 30)	6	11
Defined contribution pension costs (see Note 30)	51	46
	<b>1,003</b>	<b>921</b>

The average number of employees of the Group during the year was:

	2017 Number	2016 Number
Group Tour Operator	14,016	14,320
Group Airline	7,525	7,372
Corporate	247	248
	<b>21,788</b>	<b>21,940</b>

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 Conduct Authority are on pages 98 to 108 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 31

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 6 OPERATING EXPENSES

	2017 £m	2016 £m
Advertising expenses	155	132
Rents and expenses for building maintenance	105	99
Information technology and telecommunication costs	124	124
Travel expenses and ancillary personnel expenses	54	51
Legal and consultancy fees	48	21
Write off of bad debt and impairment of plant, property and equipment	27	23
Auditor's remuneration	3	4
Other operating expenses	4	28
	520	482

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below:

#### Auditors' remuneration

	2017 £m	2016 £m
<b>Ernst &amp; Young</b>		
Fees payable to Company's auditor and its associates for the audit of parent company and consolidated financial statements	1	-
Fees payable to Company's auditor and its associates for other services	-	-
Audit of subsidiaries	2	-
<b>Total audit fees</b>	<b>3</b>	<b>-</b>
<b>Pricewaterhouse Coopers LLP</b>		
Fees payable to Company's auditor and its associates for the audit of parent company and consolidated financial statements	-	1
Fees payable to Company's auditor and its associates for other services	-	-
Audit of subsidiaries	-	2
<b>Total audit fees</b>	<b>-</b>	<b>3</b>
<b>Ernst &amp; Young</b>		
Other non-audit services	-	-
<b>Pricewaterhouse Coopers LLP</b>		
Other non-audit services	-	1
<b>Total non-audit services</b>	<b>-</b>	<b>1</b>
<b>Total fees</b>	<b>3</b>	<b>4</b>

Included within the above 'The audit of company's subsidiaries', £0.1m (2016: £0.1m) has been incurred in respect of the audits of the Group pension schemes.

Total non-audit services are inclusive of £0.2m (2016: £0.6m) in relation to the review of Group's interim financial statements and Enil (2016: £0.1m) in relation to tax services.

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 page 74 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

## 7 SEPARATELY DISCLOSED ITEMS

	2017 £m	Restated 2016 £m
<b>Affecting profit from operations</b>		
New Operating Model implementation costs	(42)	(50)
Restructuring costs	(12)	(20)
Onerous leases and store closures	(30)	(21)
<b>Costs of transformation</b>	<b>(84)</b>	<b>(91)</b>
Reassessment of contingent consideration	32	4
Asset valuation reviews	(15)	(9)
Amortisation of business combination intangibles	(8)	(6)
Other	(24)	(3)
	<b>(99)</b>	<b>(105)</b>
<b>Affecting finance income and costs</b>		
Net interest cost on bond refinancing	(23)	-
Bond open market repurchase premium	-	(6)
Net interest cost on defined benefit obligation (Note 30)	(7)	(7)
Unwind of discount on provisions and other non-current liabilities	(11)	(10)
	<b>(41)</b>	<b>(23)</b>
<b>Total separately disclosed items</b>	<b>(140)</b>	<b>(128)</b>

### New Operating Model implementation and restructuring costs

Implementation costs relating to the New Operating Model total £42m (2016: £50m) and primarily relate to efficiency programmes in Continental Europe and the UK. These programmes commenced in 2015 and were planned over a 3 year period, with a focus on generating efficiencies within the Group by co-operating more closely across all source markets, rather than duplicating activity in each individual market. The costs that we have separately disclosed in relation to these programmes include the cost of external professional advice and redundancies, as well as the cost of dedicated personnel (both external consultants and internal employees) assigned to New Operating Model projects. The work of these teams focuses on aligning and driving harmonised activities across the Group in each business area, including finance, digital, marketing, product and yield management. This work represents an investment in our transformation, resulting in a temporary increase in costs by doubling up resource in some business areas, as we transform our business model into one that is horizontally aligned across the Group under a matrix structure. Once processes are fully co-ordinated and harmonised in these areas, these additional costs will fall away. Accordingly we believe that it is appropriate to separately disclose these costs. The New Operating Model was initially established as a three year transformation project and these costs are expected to continue to be incurred until implementation is complete.

Restructuring costs of £12m (2016: £20m) largely relate to legacy rationalisation in Continental Europe, namely France and Russia.

### Reassessment of contingent consideration

In December 2016, the Group announced its intention to acquire full control of its UK retail store network, following notification by The Co-operative Group ('the Co-op') of the decision to exercise its option over its stake in their UK retail joint venture. In line with the requirements of IFRS, the Group has reassessed the carrying value of a contingent obligation to acquire the Co-op shares and this reassessment resulted in a reduction of £32m to the liability previously accrued. As part of the reassessment it was noted that a payment of £4m was made in the prior period which has been restated in the comparatives above (refer to Note 33).

### Onerous leases and store closures

Onerous leases and store closures of £30m (2016: £21m) relates to a provision associated with loss-making UK stores. The provision follows the results of a strategic review of the UK store network as part of the New Operating Model.

### Asset revaluation reviews

Asset valuation reviews of £15m primarily relate to write-offs of property, fixtures and fittings of closed UK stores and IT assets in the UK no longer required as part of the implementation of the New Operating Model.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 7 SEPARATELY DISCLOSED ITEMS CONTINUED

#### Amortisation of business combination intangibles

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 considers that it should be disclosed separately to enable a full understanding of the Group's results.

#### Other

Other separately disclosed items of £24m includes £15m in relation to investment in the set-up of partnerships and new business developments, £6m of costs incurred relating to repatriation of guests net of insurance received for Hurricane Irma and £6m of costs incurred for fraudulent illness claims. In addition there is a £6m gain from the movement in forward points related to foreign exchange forward contracts and the time value of options in cash flow hedge 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.

#### Finance related charges

The Group has provisions for future liabilities arising from separately disclosed circumstances, primarily deferred acquisition consideration. A notional interest charge of £11m on the discounted value of such provisions is recognised within separately disclosed finance related charges. In addition, the Group incurred an interest charge of £23m as a result of issuing a new Euro bond in December 2016 which refinanced the Group's debt at a lower interest rate, while net interest charges arising on the Group's defined benefit pension schemes were £7m.

### 8 FINANCE INCOME AND COSTS

	2017 £m	2016 £m
<b>Underlying finance income</b>		
Other interest and similar income	4	6
	<b>4</b>	<b>6</b>
<b>Underlying finance costs</b>		
Bank, bond interest and other related charges	(78)	(84)
Fee amortisation	(7)	(7)
Letters of credit	(20)	(18)
Other interest payable	(24)	(18)
	<b>(129)</b>	<b>(127)</b>
<b>Underlying aircraft related finance costs</b>		
Interest payable	(2)	(3)
Finance costs in respect of finance leases	(16)	(16)
	<b>(18)</b>	<b>(19)</b>
<b>Underlying finance cost</b>	<b>(147)</b>	<b>(146)</b>
<b>Net underlying interest</b>	<b>(143)</b>	<b>(140)</b>
<b>Separately disclosed finance costs (Note 7)</b>		
Bond refinancing costs	(23)	-
Bond open market repurchase premium	-	(6)
Net interest cost on defined benefit obligation (Note 30)	(7)	(7)
Unwind of discount on provisions and other non-current liabilities	(11)	(10)
	<b>(41)</b>	<b>(23)</b>
<b>Total net interest</b>	<b>(184)</b>	<b>(163)</b>

Bank and bond interest includes fair value gain of £nil (2016: £2m gain) on hedging instruments and fair value loss of £nil (2016: £2m loss) on hedged items in fair value hedges.

## 9 TAX

	2017 £m	2016 £m
<b>Analysis of tax charge</b>		
<b>Current tax</b>		
UK Corporation tax (credit)/ charge for the year	-	6
Adjustments in respect of prior periods	(4)	2
	(4)	8
Overseas Corporation tax charge for the year	45	27
Adjustments in respect of prior periods	1	4
	46	31
<b>Total current tax</b>	<b>42</b>	<b>39</b>
<b>Deferred tax</b>		
Tax credit	(8)	(6)
<b>Total deferred tax</b>	<b>(8)</b>	<b>(6)</b>
<b>Total tax charge</b>	<b>34</b>	<b>33</b>

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the UK standard corporation tax rate applicable to profits of the Company as follows:

	2017 £m	2016 £m
<b>Tax reconciliation</b>		
Profit before tax	46	34
Expected tax charge at the UK corporation tax rate of 19.5% (2016: 20.0%)	9	7
Income not liable for tax	(23)	(11)
Expenses not deductible for tax purposes	16	11
Losses and other temporary differences for which tax relief is not available	41	34
Utilisation of tax losses and other temporary differences not previously recognised	(4)	(2)
Recognition of losses and other temporary differences not previously recognised	(58)	(60)
Derecognition of deferred tax previously recognised	44	36
Difference in rates of tax suffered on overseas earnings	7	9
Impact of changes in tax rates	5	6
Other	(2)	2
Income tax charge in respect of prior periods	(1)	1
<b>Tax charge</b>	<b>34</b>	<b>33</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 £28m has been charged directly to equity (2016: credit of £14m). UK corporation tax is calculated at 19.5% (2016: 20%) of the estimated assessable profit/(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 £2.222m (2016 restated: £2.132m) are available predominantly in France, Germany and the UK for offset against future profits.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 10 DIVIDENDS

The Board recommends a dividend of 0.6p per share (2016: 0.5p). The proposed final dividend is subject to approval by Shareholders at the Annual General Meeting and has not been included as a liability in these financial statements

The proposed dividend will be paid to Shareholders on the register at the close of business on 5 April 2018

The payment of this dividend will not have any tax consequences for the Group

### 11 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 3m shares held by the employee share ownership trusts (2016: 4m)

Basic and diluted earnings per share	2017 £m	2016 £m
Net profit attributable to the owners of the parent	13	4

	2017 millions	2016 millions
Weighted average number of shares for basic earnings per share	1,532	1,530
Weighted average number of shares for diluted earnings per share*	1,536	1,531

	2017 pence	2016 pence
Basic and diluted earnings per share	0.8	0.3

\* Awards of shares under the Thomas Cook Performance Share Plan, Restricted Share Plan and Deferred Bonus Plan will be satisfied by shares held in trust and therefore are potentially dilutive

## 12 INTANGIBLE ASSETS

	Goodwill £m	Computer software and concessions		Brands and customer relationships £m	Order backlog £m	Other Purchased £m	Total £m
		Purchased £m	Internally generated £m				
<b>Cost</b>							
At 1 October 2015	2,695	182	244	383	41	3	3,548
Additions	-	20	69	-	-	-	89
Disposals	-	(2)	(23)	-	-	-	(25)
Reclassifications	-	(2)	2	-	-	-	-
Exchange differences	214	20	20	36	-	-	290
At 30 September 2016	2,909	218	312	419	41	3	3,902
Additions	-	24	51	-	-	2	77
Disposals	-	(7)	(82)	-	(1)	-	(90)
Exchange differences	45	4	5	5	-	-	59
At 30 September 2017	2,954	239	286	424	40	5	3,948
<b>Accumulated amortisation and impairment losses</b>							
At 1 October 2015	307	93	179	134	41	-	754
Impairment loss	-	-	2	-	-	-	2
Charge for the year	-	4	26	6	-	-	36
Disposals	-	(1)	(13)	-	-	-	(14)
Exchange differences	7	17	12	11	-	-	47
At 30 September 2016	314	113	206	151	41	-	825
Charge for the year	-	6	35	8	-	-	49
Disposals	-	(6)	(76)	-	(1)	-	(83)
Exchange differences	13	3	4	1	-	-	21
At 30 September 2017	327	116	169	160	40	-	812
<b>Carrying amount</b>							
At 30 September 2017	2,627	123	117	264	-	5	3,136
At 30 September 2016	2,595	105	106	268	-	3	3,077

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 12 INTANGIBLE ASSETS CONTINUED

Brand names with indefinite lives acquired through business combination intangibles are allocated by cash generating unit. The carrying value of brand names and goodwill is analysed by cash generating unit as follows:

	Goodwill 2017 £m	Goodwill 2016 £m	Brand names 2017 £m	Brand names 2016 £m
UK Tour Operator	1,038	1,030	67	67
Northern Europe Tour Operator	505	494	53	51
Continental Europe Tour Operator	183	181	130	126
Group Airline	901	890	-	-
	2,627	2,595	250	244

#### Impairment Testing

In accordance with IFRS, the Group tests the carrying value of goodwill and brand names with indefinite lives for impairment annually and whenever events or circumstances change.

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.

During the year, the Group refined its organisational structure resulting in a reassessment of its reportable segments. This has resulted in a reassessment of its CGUs for the purposes of impairment testing, which now consist of UK Tour Operator, Northern Europe Tour Operator, Continental Europe Tour Operator and Group Airline.

The future cash flow projections used to determine the value in use are based on the most recent annual budgets and four-year plans for each of the CGUs. The key assumptions used to determine the business' budget and four-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 four-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 four-year plan are extrapolated at an estimated average long-term nominal growth rate of 2%.

A pre-tax discount rate of between 9.8% - 10.2% reflecting the specific risks of each CGU is used to calculate the value in use for each of the CGUs.

Sensitivity analysis has not been disclosed as Management believes that any reasonable change in assumptions would not cause the carrying value of the CGUs to exceed their recoverable amount.



## 13 PROPERTY, PLANT AND EQUIPMENT

	Aircraft and aircraft spares £m	Freehold land and buildings £m	Other property, plant and equipment		Other Total £m
			Short leaseholds £m	Other fixed assets £m	
<b>Cost</b>					
At 30 September 2015	1,175	152	125	177	454
Additions	120	5	4	19	28
Disposals	(64)	(11)	(58)	(31)	(100)
Exchange differences	184	25	11	25	61
At 30 September 2016	1,415	171	82	190	443
Additions	108	4	29	13	46
Transferred to held for sale	-	(146)	(1)	(43)	(190)
Disposals	(89)	-	(24)	(53)	(77)
Exchange differences	33	3	3	2	8
At 30 September 2017	1,467	32	89	109	230
<b>Accumulated depreciation and impairment</b>					
At 30 September 2015	570	47	79	126	252
Charge for the year	152	4	7	11	22
Provision for impairment	-	-	4	-	4
Disposals	(56)	(11)	(57)	(29)	(97)
Exchange differences	122	10	7	24	41
At 30 September 2016	788	50	40	132	222
Charge for the year	162	3	8	9	20
Provision for impairment	-	4	4	-	8
Transferred to held for sale	-	(57)	(1)	(31)	(89)
Disposals	(83)	(1)	(22)	(52)	(75)
Exchange differences	19	2	-	3	5
At 30 September 2017	886	1	29	61	91
<b>Carrying amount</b>					
At 30 September 2017	581	31	60	48	139
At 30 September 2016	627	121	42	58	221

Freehold land with a cost of £20m (2016: £34m) has not been depreciated. The net book value of aircraft and aircraft spares includes £244m (2016: £308m) in respect of assets held under finance leases.

The net book value of other property, plant and equipment includes £20m (2016: £9m) in respect of assets held under finance leases.

The depreciation of the owned assets during the year was £79m (2016: £86m). Depreciation for property, plant and equipment held under finance lease was £107m (2016: £88m).

	2017 £m	2016 £m
Capital commitments		
Capital expenditure contracted but not provided for in the accounts	37	51

The Group is contractually committed to the acquisition of one new spare engine as at 30 September 2017, which had a list price of \$9.6m each at the time of commitment, before escalations and discounts. It is intended to be financed by sale and leaseback at delivery date in November 2017.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 14 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	2017 £m	2016 £m
<b>Cost</b>		
At 1 October 2016	33	25
Additions	–	3
Group's share of joint ventures and associates' loss for the year	(1)	(1)
Exchange differences	1	6
<b>At 30 September 2017</b>	<b>33</b>	<b>33</b>
<b>Amounts written off or provided</b>		
At 1 October 2016	25	21
Exchange differences	2	4
<b>At 30 September 2017</b>	<b>27</b>	<b>25</b>
<b>Carrying amount</b>	<b>6</b>	<b>8</b>

Investments in joint ventures and associates at 30 September 2017 included a 40% interest in Activos Turísticos S.A, an office real estate company based in Palma de Mallorca, Spain and 49% interest in Kuyi International Travel Agency (Shanghai) Co., Ltd. which forms part of Thomas Cook China, the Group's joint venture with Fosun.

Summarised financial information in respect of joint ventures and associates is as follows:

	2017 Joint ventures and associates £m	2016 Joint ventures and associates £m
Total assets	35	33
Total liabilities	(21)	(15)
Net assets	14	18
Group's share of net assets	5	8
Revenue	25	22
Loss for the year	(3)	(2)
Group's share of associates' loss for the year	(1)	(1)

The accounting period end dates of the joint ventures and associates consolidated in the Group financial statements differ from those of the Group. For the purposes of applying the equity method of accounting the most recent financial statements of these joint ventures and associates and the management accounts are used to draw up the financial position and performance of each joint venture and associate.

### 15 INVENTORIES

	2017 £m	2016 £m
Goods held for resale	10	12
Airline spares and other operating inventories	32	31
	<b>42</b>	<b>43</b>

The cost of inventories recognised as an expense was £196m (2016: £146m).

**16 TRADE AND OTHER RECEIVABLES**

	2017 £m	2016 £m
<b>Non-current assets</b>		
Trade receivables	1	-
Other receivables	18	13
Deposits and prepayments	45	44
Loans	1	1
	<b>65</b>	<b>58</b>
<b>Current assets</b>		
Trade receivables	220	242
Other receivables	89	74
Deposits and prepayments	401	340
Loans	2	4
Other taxes	23	17
	<b>735</b>	<b>677</b>

The average credit period taken on invoicing of leisure travel services is eight days (2016, nine 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 £7m (2016, £5m) of deposits on aircraft lease arrangements.

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.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 16 TRADE AND OTHER RECEIVABLES CONTINUED

#### Movement in allowances for doubtful receivables

	2017 £m	2016 £m
At beginning of year	33	29
Additional provisions	12	7
Exchange differences	1	4
Receivables written off	(4)	(5)
Unused amounts released	(3)	(2)
At end of year	39	33

At the year end, trade and other receivables of £125m (2016: £203m) were past due but not impaired

The analysis of the age of these financial assets is set out below:

#### Ageing analysis of overdue trade and other receivables

	2017 £m	2016 £m
Less than one month overdue	40	97
Between one and three months overdue	25	47
Between three and 12 months overdue	34	39
More than 12 months overdue	26	20
	125	203

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

**17 CASH AND CASH EQUIVALENTS**

	2017 £m	2016 £m
Cash at bank and in hand	914	1,256
Term deposits with a maturity of less than three months	493	520
	<b>1,407</b>	<b>1,776</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:

- › £24m (2016: £19m) held within escrow accounts in respect of local regulatory requirements; and
- › £4m (2016: £3m) of cash held by White Horse Insurance Ireland DAC and Voyager Android Insurance Services, the Group's captive insurance companies

The Directors consider that the carrying amounts of these assets approximate to their fair value.

Cash, cash equivalents and overdrafts at the end of the year as shown in the Group cash flow statement can be reconciled to the related items in the Group balance sheet position as shown below.

	2017 £m	2016 £m
Cash and cash equivalents	1,407	1,776
Overdrafts (Note 19)	(8)	(542)
	<b>1,399</b>	<b>1,234</b>

**18 TRADE AND OTHER PAYABLES**

	2017 £m	2016 £m
<b>Current liabilities</b>		
Trade payables	1,685	1,602
Amounts owed to associates and participations	1	1
Social security and other taxes	53	32
Accruals and deferred income	442	423
Other payables	162	121
	<b>2,343</b>	<b>2,179</b>
<b>Non-current liabilities</b>		
Accruals and deferred income	4	-
Other payables	21	109
	<b>25</b>	<b>109</b>

The average credit period taken for trade purchases is 82 days (2016: 97 days)

The Directors consider that the carrying amounts of trade and other payables approximate to their fair value

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 19 BORROWINGS

	2017 £m	2016 £m
<b>Short-term borrowings</b>		
Unsecured bank loans and other borrowings	217	117
Unsecured bank overdrafts	8	542
	225	659
<b>Current portion of long-term borrowings</b>	20	232
	245	891
<b>Long-term borrowings</b>		
Bank loans and bonds:		
- repayable within one year	20	232
- repayable between one and five years	667	835
- repayable after five years	380	12
	1,067	1,079
Less: amount due for settlement within one year shown under current liabilities	(20)	(232)
<b>Amount due for settlement after one year</b>	<b>1,047</b>	<b>847</b>

Cash and overdraft balances in cash pooling arrangements are reported gross on the balance sheet. The cash pooling agreements do not incorporate a legally enforceable right of net settlement, so these arrangements do not qualify for net presentation. At 30 September 2017 the total value of overdrafts on accounts in cash pooling arrangements was £8m (2016: £542m) which is offset by an equal amount within cash and cash equivalents.

#### Borrowings by class

	2017		2016	
	Current £m	Non-current £m	Current £m	Non-current £m
Group committed credit facility (including transaction costs)	-	(2)	-	(7)
Aircraft-related bank loans (including transaction costs)	17	15	32	32
Commercial paper	218	-	117	-
Other bank borrowings	10	33	542	26
Issued bonds (including transaction costs)	-	1,001	200	796
	245	1,047	891	847

The Directors consider that the fair value of the Group's borrowings with a carrying value of £1,292m is £1,476m (2016: £1,738 carrying value £1,767m, fair value £1,025m). £1183m (2016: £1,025m) of the fair value which relates to issued bonds has been calculated using quoted market prices.

For all other borrowings, the Directors consider that the fair value of £291m (2016: £742m) is approximate to the carrying amount. In 2017, the Group has £32m as security to aircraft (2016: £63m) and £37m as a security to property (2016: £29m).

#### Borrowing facilities

As at 30 September 2017, the Group had undrawn committed debt facilities of £472m (2016: £481m) and undrawn committed debt facilities plus cash available to repay revolving credit facility of £1,824m (2016: £2,212m). 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.

In December 2016 we issued a new €750 million bond. The new bond, bearing a coupon of 6.25% and maturing in June 2022, enabled us to redeem in full both the outstanding £200 million principal of our £300 million bond due in June 2017, and our entire €525 million bond due in June 2020.

## 19 BORROWINGS CONTINUED

In November 2017 the Group entered into new financing arrangements being an enlarged £875 million revolving credit facility and bonding and guarantee facility, maturing in November 2022. In addition the Group has secured £100 million of annual rolling bilateral funding from one of their insurance providers. These new arrangements replace the Group's existing facility, which provided £800 million of facilities until May 2019.

### Covenant measures

The covenant measures are tested quarterly on a 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 operating lease charges. The leverage and fixed charge covenant hurdles vary depending on the period that they relate to, reflecting the seasonality of the Group's business.

## 20 OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2017 £m	2016 £m	2017 £m	2016 £m
Amounts payable under finance leases				
Within one year	49	54	39	42
Between one and five years	105	139	91	117
After five years	26	28	24	24
	180	221	154	183
Less: future finance charges	(26)	(38)	-	-
Present value of lease obligations	154	183	154	183
Less: amount due for settlement within 12 months (shown under current liabilities)			(39)	(42)
Amount due for settlement after 12 months			115	141
The currency analysis of amounts payable under finance leases is:				
			2017 £m	2016 £m
Euro			13	13
US Dollar			141	170
			154	183

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 £154m was £176m at 30 September 2017 (2016: carrying value £183m, fair value £191m). 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.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 21 FINANCIAL INSTRUMENTS

#### Carrying values of financial assets and liabilities

The carrying values of the Group's financial assets and liabilities as at 30 September 2017 and 30 September 2016 are as set out below:

	2017				2016			
At 30 September 2017	Fair value through profit or loss £m	Derivative instruments in designated hedging relationships £m	Loans & receivables £m	Financial liabilities at amortised cost £m	Fair value through profit or loss £m	Derivative instruments in designated hedging relationships £m	Loans & receivables £m	Financial liabilities at amortised cost £m
Trade and other receivables	-	-	394	-	-	-	406	-
Cash and cash equivalents	-	-	1,407	-	-	-	1,776	-
Trade and other payables	-	-	-	(2,202)	(79)	-	-	(2,061)
Borrowings	-	-	-	(1,292)	-	-	-	(1,738)
Obligations under finance leases	-	-	-	(154)	-	-	-	(182)
Provisions arising from contractual obligations	-	-	-	(432)	-	-	-	(395)
Derivative financial instruments	(9)	(47)	-	-	2	83	-	-
	(9)	(47)	1,801	(4,080)	(77)	83	2,182	(4,376)

#### Derivative financial instruments

The fair values of derivative financial instruments were:

	Interest rate swaps £m	Currency contracts £m	Fuel contracts £m	Total £m
At 1 October 2015	11	84	(165)	(70)
Movement in fair value during the year	5	12	138	155
At 1 October 2016	16	96	(27)	85
Movement in fair value during the year	(17)	(181)	57	(141)
At 30 September 2017	(1)	(85)	30	(56)

	2017 £m	2016 £m
Non-current assets	6	26
Current assets	56	145
Current liabilities	(109)	(83)
Non-current liabilities	(9)	(3)
	(56)	85



## 21 FINANCIAL INSTRUMENTS CONTINUED

### 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. derived using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The fair value of financial instruments is determined by discounting expected cash flows at prevailing interest rates.

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 are set out below

	Level 1 £m	Level 2 £m	Level 3 £m	2017 Total £m	Level 1 £m	Level 2 £m	Level 3 £m	2016 Total £m
<b>Financial assets</b>								
Currency contracts	-	30	-	30	-	131	-	131
Fuel contracts	-	32	-	32	-	24	-	24
Interest rate swaps	-	-	-	-	-	16	-	16
<b>Financial liabilities</b>								
Currency contracts	-	(115)	-	(115)	-	(35)	-	(35)
Fuel contracts	-	(2)	-	(2)	-	(51)	-	(51)
Contingent consideration	-	(1)	-	(1)	-	-	(79)	(79)
<b>At 30 September</b>	-	(56)	-	(56)	-	85	(79)	6

The fair values of financial instruments have been calculated using discounted cash flow analysis.

In December 2016, the Group announced its intention to acquire full control of its UK retail store network, following notification by The Co-operative Group of the decision to exercise its option over its stake in their UK retail joint venture. The Group's contingent consideration is now fixed, therefore is no longer classified as a Level 3 financial liability. There were no other Level 3 financial assets or liabilities as at 30 September 2017.

Currency hedges are entered into up to a maximum of 24 months in advance of the forecasted requirement. As at 30 September 2017, the Group had in place currency hedging derivative financial instruments with a maximum maturity of May 2019 (2016: February 2018).

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. All fuel hedges are designated as cash flow hedges.

Fuel price hedges are entered into up to a maximum of 24 months in advance of forecasted consumption of fuel. Trades with maturities longer than 24 months need additional approval in line with treasury policy. As at 30 September 2017, the Group had in place fuel price hedging derivative financial instruments with a maximum maturity of March 2019 (2016: March 2018).

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 21 FINANCIAL INSTRUMENTS CONTINUED

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 and to hedge against interest rate exposures on fixed rate debt. 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 designated fair value hedge relationships at 30 September 2017 was a liability of £1m (2016: £16m asset).

As at 30 September 2017, the maximum maturity of interest rate derivatives was June 2022 (2016: June 2020).

The fair values of the Group's derivative financial instruments have been calculated using underlying market prices available on 30 September 2017.

During the year, a gain of £60m (2016: £105m loss) was transferred from the hedge 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 £6m was recognised in the income statement in respect of the forward points on foreign exchange cash flow hedging contracts (2016: £2m gain) and a gain of £nil in respect of the movement in the time value of options in cash flow hedging relationships (2016: £3m gain).

	2017 £m	2016 £m
Cost of providing tourism services:		
- release from hedge reserve	60	(105)
- time value on options	-	3
- forward points on foreign exchange cash flow hedging contracts	6	2
Finance income/(costs)		
- fair value movements on derivatives in designated fair value hedge	(17)	5

During the year a loss of £10m (2016: £3m loss) was taken directly to the income statement in respect of held for trading derivatives that are used to hedge Group balance sheet exposure.

The closing hedging reserve, excluding the impact of tax, was a loss of £44m (2016: £36m gain). 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 £35m (2016: £26m gain) within one year and a loss of £9m (2016: £10m gain) between one and five years.

## 21 FINANCIAL INSTRUMENTS CONTINUED

### Offsetting financial assets and financial liabilities

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross amounts of recognised financial assets/(liabilities) £m	Related amounts not set off in the balance sheet			Net Amount £m
		Gross amounts of recognised financial (liabilities)/assets set off in the balance sheet £m	Net amounts presented in the balance sheet £m	Financial Instruments £m	
As at 30 September 2017					
Derivatives financial assets	62	-	62	(53)	9
Derivatives financial liabilities	(118)	-	(118)	53	(65)
Cash and cash equivalents	1,412	(5)	1,407	-	1,407
Bank overdrafts	(13)	5	(8)	-	(8)
<b>Total</b>	<b>1,343</b>	<b>-</b>	<b>1,343</b>	<b>-</b>	<b>1,343</b>

	Gross amounts of recognised financial assets/(liabilities) £m	Related amounts not set off in the balance sheet			Net Amount £m
		Gross amounts of recognised financial (liabilities)/assets set off in the balance sheet £m	Net amounts presented in the balance sheet £m	Financial Instruments £m	
As at 30 September 2016					
Derivatives financial assets	171	-	171	(75)	96
Derivatives financial liabilities	(86)	-	(86)	75	(11)
Cash and cash equivalents	1,778	(2)	1,776	-	1,776
Bank overdrafts	(544)	2	(542)	-	(542)
<b>Total</b>	<b>1,319</b>	<b>-</b>	<b>1,319</b>	<b>-</b>	<b>1,319</b>

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

## 22 FINANCIAL RISK

The Group is subject to risks related to changes in interest rates, exchange rates, fuel prices, liquidity and counterparty credit 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 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.

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 includes the hedging build up and permitted instruments. The maximum hedge tenor is 24 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 transactional currency risks and these are usually designated as cash flow hedges.

The Group does not hedge translation exposures arising from profits generated outside the UK.

# NOTES TO THE FINANCIAL STATEMENTS

## CONTINUED

### 22 FINANCIAL RISK CONTINUED

#### 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 includes the hedging build up and permitted instruments. The maximum hedge tenor is 24 months and in general 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, foreign 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 2017, the sensitivity of these risks to the defined scenario changes are set out below.

#### Interest rate risk

	Impact on profit before tax £m	2017 Impact on equity £m	Impact on profit before tax £m	2016 Impact on equity £m
1% (2016: 1%) increase in interest rates	9	-	8	-
0.25% (2016: 0.25%) decrease in interest rates	(2)	-	(2)	-

#### Foreign exchange rate risk

	Impact on profit before tax £m	2017 Impact on equity £m	Impact on profit before tax £m	2016 Impact on equity £m
5% (2016: 5%) strengthening of Euro	(1)	8	1	12
5% (2016: 5%) weakening of Euro	1	(7)	(1)	(11)
5% (2016: 5%) strengthening of US Dollar	2	75	3	80
5% (2016: 5%) weakening of US Dollar	(1)	(67)	(2)	(72)

#### Fuel price risk

	Impact on profit before tax £m	2017 Impact on equity £m	Impact on profit before tax £m	2016 Impact on equity £m
10% (2016: 10%) increase in fuel price	-	63	-	61
10% (2016: 10%) decrease in fuel price	-	(63)	-	(61)

Given recent historical movements in fuel prices Management believes a 10% shift is a reasonable possibility.

## 22 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 bank facility the terms of which, including the covenant measures, are detailed in the borrowings note (refer to Note 19). 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 the cash available ranged between £993m and £1 824m during the current financial year (2016: £586m–£2 212m).

Surplus short-term liquidity is invested in accordance with approved treasury policy.

Financial liabilities are analysed below based on the time between the period 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.

	in less than 3 months £m	between 3 and 12 months £m	between 1 and 5 years £m	in more than 5 years £m	Amount due Total £m
At 30 September 2017					
Trade and other payables	1,967	180	51	4	2,202
Borrowings	224	17	1,310	28	1,579
Obligations under finance leases	13	36	105	26	180
Derivative financial instruments:					
- payable	1,054	2,054	546	-	3,654
- receivable	(1,053)	(1,989)	(542)	-	(3,584)
Provisions arising from contractual obligations	27	102	224	79	432
	2,232	400	1,694	137	4,463

	in less than 3 months £m	between 3 and 12 months £m	between 1 and 5 years £m	in more than 5 years £m	Amount due Total £m
At 30 September 2016					
Trade and other payables	1,851	168	119	2	2,140
Borrowings	652	252	1,076	21	2,001
Obligations under finance leases	14	40	138	28	220
Derivative financial instruments:					
- payable	714	2,005	575	-	3,294
- receivable	(740)	(2,028)	(593)	-	(3,361)
Provisions arising from contractual obligations	39	45	260	51	395
	2,530	482	1,575	102	4,689

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 £165m (2016: £148m) 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 the carrying value. The Group assesses its counterparty credit risk 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 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 16.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 23 INSURANCE

#### Management of insurance risk

Incidental to its main business, the Group, through its subsidiary White Horse Insurance Ireland DAC, 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 is 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.

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 has an Actuarial Function 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 DAC Board of Directors which ensures that reinsurers have a financial stability rating of A (S&P). The Group has assessed these credit ratings as being satisfactory in diminishing the Group's exposure to the credit risk of its insurance receivables.

### 24 DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current 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 1 October 2016	(55)	76	(14)	(85)	255	177
(Charge)/credit to income	6	(1)	17	36	(50)	8
Credit to equity	-	(32)	-	-	4	(28)
Exchange differences	(2)	2	-	(4)	2	(2)
At 30 September 2017	(51)	45	3	(53)	211	155

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2017 £m	2016 £m
Deferred tax assets	216	228
Deferred tax liabilities	(61)	(51)
	155	177

At the balance sheet date, the Group had unused tax losses of £3,182m (restated 2016: £3,274m) available for offset against future profits. Deferred tax assets have only been recognised to the extent that the business has forecast future taxable profits against which the assets may be recovered.

As a result of the continuing robustness of the Spanish business it is now considered appropriate for all Spanish losses and deductible temporary differences to be recognised.

No deferred tax asset has been recognised in respect of tax losses of £2,222m (restated 2016: £2,132m) due to the unpredictability of future profit streams. £2,219m of these losses have no expiry date, with the remaining £3m expiring within 5 years.

## 24 DEFERRED TAX CONTINUED

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 assets acquired as part of the merger.

In addition, the Group had unused other temporary differences amounting to £432m (2016: £374m) for which no deferred tax asset has been recognised due to the unpredictability of future profit streams.

Deferred tax liabilities were offset against the corresponding deferred tax assets as appropriate within territories.

No deferred tax liability has been recognised in respect of unremitted earnings of subsidiaries, associates and joint ventures because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future.

### Factors affecting the tax charge in future periods

In addition to the reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017), a further reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. Deferred tax on temporary differences and tax losses as at the balance sheet date is calculated based on the substantively enacted rates at which the temporary differences and tax losses are expected to reverse.

The Group's future tax charge could be affected by numerous factors, including but not limited to:

- the UK's proposal to amend the tax rules relating to the utilisation of brought forward losses and the deductibility of interest were substantively enacted on 31 October 2017. These new rules apply retrospectively from 1 April 2017. With substantive enactment taking place after the Group's balance sheet date, the accounting standards do not require the impact of these rules to be accounted for until the period ended 30 September 2018. Due to the complexity of the legislation it is too soon to quantify the impact on UK deferred tax, and
- any tax reforms in jurisdictions where we have a taxable presence, including any reforms which may arise from the UK's proposed exit from the EU, from the European Commission's proposals for a Common Corporate Tax Base across the EU or any reforms adopted from the OECD's BEPS actions such as those in relation to the deductibility of interest, anti-avoidance or transfer pricing.

## 25 PROVISIONS

	Aircraft maintenance provisions £m	Off-market leases £m	Insurance and litigation £m	Reorganisation and restructuring plans £m	Other provisions £m	Total £m
At 1 October 2015 (restated)	287	11	75	6	24	403
Additional provisions in the year	51	-	86	8	24	169
Unused amounts released in the year	(19)	-	(2)	(2)	(4)	(27)
Unwinding of discount	4	-	-	-	1	5
Utilisation of provisions	(34)	(7)	(90)	(10)	(16)	(157)
Exchange differences	41	1	2	1	2	47
At 30 September 2016 (restated)	330	5	71	3	31	440
Additional provisions in the year	73	-	109	12	31	225
Unused amounts released in the year	(37)	(2)	(3)	(2)	(4)	(48)
Unwinding of discount	11	-	-	-	1	12
Utilisation of provisions	(8)	(3)	(102)	(12)	(28)	(153)
Exchange differences	(3)	-	-	-	2	(1)
At 30 September 2017	366	-	75	1	33	475
Included in current liabilities						168
Included in non-current liabilities						307
At 30 September 2017						475
Included in current liabilities						139
Included in non-current liabilities						301
At 30 September 2016						440

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 25 PROVISIONS CONTINUED

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 10 years. The aircraft maintenance provisions are reassessed at least annually in the normal course of business with a corresponding adjustment made to either non-current assets (aircraft and aircraft spares) or aircraft costs.

Insurance and litigation represents costs related to legal disputes, customer compensation claims (including EU 261) and estimated costs arising through insurance contracts in the Group's subsidiary, White Horse Insurance Ireland DAC.

Reorganisation and restructuring plans predominantly represent committed restructuring costs in the Group Tour Operator segment.

Other provisions includes items such as onerous contracts, dilapidations and emissions trading liabilities. Of the £31m charge recognised in the year, £13m has been classified as a Separately Disclosed Item within 'Onerous leases and store closures'. For further details refer to Note 7. Onerous lease provisions will be utilised over the lease terms.

### 26 CALLED-UP SHARE CAPITAL

	Allotted, called-up and fully paid  Ordinary Shares of €0.01 each	Deferred Shares of €0.09 each	Ordinary Shares of €0.01 each £m	Deferred Shares of €0.09 each £m	Allotted, called-up and partly paid  Deferred Shares of £1 each, 25p paid
At 1 October 2015	1,535,851,316	934,981,938	11	58	50,000
Exercise of Warrants	-	-	-	-	-
Issue of shares	-	-	-	-	-
At 30 September 2016	1,535,851,316	934,981,938	11	58	50,000
Exercise of Warrants	-	-	-	-	-
Issue of shares	-	-	-	-	-
At 30 September 2017	1,535,851,316	934,981,938	11	58	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 the premium segment of the Official List and to trading on the London Stock Exchange's main market. 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.

#### Contingent rights to the allotment of shares

As at 30 September 2017, options to subscribe for Ordinary Shares were outstanding with respect to the Thomas Cook Group plc 2007 Performance Share Plan, the Thomas Cook plc 2011 Restricted Share Plan and the Thomas Cook 2014 Deferred Bonus Plan. For further details refer to Note 29. 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 plc 2011 Restricted Share Plan and the Thomas Cook 2014 Deferred Bonus Plan. Equiniti Share Plan Trustees Limited hold shares 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 2017 by EES Trustees International Limited and Equiniti Share Plan Trustees Limited was 3,211,284 (2016: 3,899,182) and 343,310 (2016: 358,893) respectively. The cumulative cost of acquisition of these shares was £5m (2016: £6m) and the market value at 30 September 2017 was £4m (2016: £3m). Shares held by the trust have been excluded from the weighted average number of shares used in the calculation of earnings per share.



## 26 CALLED-UP SHARE CAPITAL CONTINUED

### 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 capital structure of the Group consists of debt (net of related hedging instruments), cash and cash equivalents 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 £320m (2016: £495m).

## 27 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 £m	Aircraft and aircraft spares £m	2017 Total £m	Property and other £m	Aircraft and aircraft spares £m	2016 Total £m
Within one year	68	159	227	71	163	234
Later than one and less than five years	187	558	745	202	642	844
After five years	120	377	497	92	505	597
	375	1,094	1,469	365	1,310	1,675

Operating lease rental payable charged to the income statement for hire of aircraft and aircraft spares was £219m (2016: £180m) which includes £75m (2016: £60m) for seasonal wet leases. Operating lease rental payable charged to the income statement for property and other was £92m (2016: £93m) which includes £13m of onerous lease provisions recognised in the year (2016: £16m).

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 four years.

Leases for new aircraft are typically negotiated for an average term of 12 years; leases for second hand aircraft and extensions are typically considerably shorter.

## 28 CONTINGENT LIABILITIES

	2017 £m	2016 £m
Contingent liabilities	154	126

Contingent liabilities primarily comprise guarantees, letters of credit and other contingent liabilities, 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, insurance companies, accredited associations and in The Netherlands via a guaranteed fund.

In the ordinary course of its business, the Group is subject to commercial disputes and litigation including customer claims, employee disputes, taxes and other kinds of lawsuits. These matters are inherently difficult to quantify. In appropriate cases, a provision is recognised based on best estimates and Management's judgement but there can be no guarantee that these provisions will result in an accurate prediction of the actual costs and liabilities that may be incurred. These are not expected to have a material impact on the financial position of the Group.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 29 SHARE-BASED PAYMENTS

The Company operates 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 £3m (2016: £1m charge)

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

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

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

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

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

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

The movements in options and awards during the year in relation to the PSP and the other awards were:

	PSP	2017 Other
Outstanding at beginning of year	20,295,442	1,730,112
Granted	17,167,250	2,971,574
Exercised	(90,684)	(617,874)
Forfeited	(1,948,444)	(121,335)
Lapsed	(2,448,446)	(11,648)
Outstanding at end of year	32,975,118	3,950,829
Exercise price (£)	nil	nil
Average remaining contractual life (years)	1.5	1.6

The weighted average share price at the date of exercise for the options exercised during the year ended 30 September 2017 was £0.89

	PSP	2016 Other
Outstanding at beginning of year	25,465,856	1,711,492
Granted	9,292,704	882,355
Exercised	(4,687,924)	(673,489)
Lapsed	(9,775,194)	(190,246)
Outstanding at end of year	20,295,442	1,730,112
Exercise price (£)	nil	nil
Average remaining contractual life (years)	1.7	0.9

The weighted average share price at the date of exercise for the options exercised during the year ended 30 September 2016 was £0.67.

## 29 SHARE-BASED PAYMENTS CONTINUED

The fair value of options and awards subject to basic EPS 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:

	PSP	2017 DBP	PSP	2016 DBP
Weighted average share price at measurement date	£0.86	£0.89	£1.13	£1.03
Weighted average exercise price	nil	nil	nil	nil
Expected volatility	66%	66%	40%	40%
Weighted average option life (years)	3	1.46	3	1.39
Weighted average risk-free rate	0.79%	0.79%	0.85%	0.8%
Expected dividend yield	nil	nil	nil	nil
Weighted average fair value at date of grant	£0.69	£0.89	£0.74	£1.03

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

## 30 RETIREMENT BENEFIT OBLIGATIONS

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

	2017 £m	2016 £m
Present value of funded obligations	1,315	1,442
Fair value of plan assets	(1,425)	(1,470)
<b>(Surplus)/Deficit of funded plans</b>	<b>(110)</b>	<b>(28)</b>
Present value of unfunded obligations	435	485
<b>Total deficit of defined benefit pension plans</b>	<b>325</b>	<b>457</b>

### 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 £367m (2016: £416m) 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.

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 Group Tour Operator segment.

The unfunded pension schemes are accounted for as part of liabilities for retirement benefit obligations in the balance sheet.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 30 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

The following weighted average actuarial assumptions were made for the purpose of determining the unfunded defined benefit obligations

	2017 %	2016 %
Discount rate for scheme liabilities	2.19%	1.62%
Expected rate of salary increases	2.57%	2.57%
Future pension increases	1.51%	1.52%
Rate of inflation	1.80%	1.81%

The mortality tables 2005 G drawn up by Prof. Dr. Klaus Heubeck were used, for the German pension schemes, as the basis for the mortality assumptions used in arriving at the present value of the pension obligations at 30 September 2017. These assume a life expectancy for members currently aged 65 of 19.3 years for men and 23.4 years for women.

Changes in the present value of unfunded pension obligations were as follows

	2017 £m	2016 £m
At beginning of year	485	320
Current service cost*	17	11
Interest cost*	8	8
Benefits paid	(8)	(7)
Settlements*	(15)	-
Effect of experience adjustments and demographic assumptions	(7)	1
Effect of financial assumptions	(55)	105
Exchange difference	10	47
At end of year	435	485

\* These amounts have been recognised in the income statement

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.

#### Funded defined benefit pension obligation

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. These schemes are closed to new entrants and continue to accrue future benefits for existing active members.

The plans are final salary pension plans which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on a member's length of service and their salary in the final years of active membership. In the UK plans, pensions in payment are generally updated in line with retail price index, pensions in deferment are generally updated in line with consumer price index.

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.

The funded defined benefit obligation primarily relates to the Thomas Cook UK Pension Plan. The assumptions used in arriving at the present value of the obligations at 30 September 2017 have been updated following the 2014 triennial actuarial funding valuation. The mortality assumptions used in arriving at the present value of those obligations at 30 September 2017 are based on the S2PA pensioner tables with 2013 CMI projection model until 2014 and then 2016 CMI projection model with a long-term trend rate of 1.5% for males and females. The mortality assumptions adopted for the plan liabilities indicate a further life expectancy for members currently aged 65 of 23.3 years for men and 25.2 years for women. The Company and Board of trustees are responsible for governance of the plans and ensuring it is sufficiently funded to meet current and future benefits. The trustees appoint advisers to carry out the administration actuarial work and investment advice.

**30 RETIREMENT BENEFIT OBLIGATIONS CONTINUED**

Following the 2014 actuarial valuation of the Thomas Cook UK pension plan, the Recovery Plan agreed with the pension trustees to fund the actuarial deficit was extended. In line with that agreement, during the year ended 30 September 2017 Thomas Cook UK paid instalments totalling £26m in line with the recovery plan.

The valuation of the Thomas Cook UK pension plan at 30 September 2017 resulted in a surplus of £123m (2016: £52m), this is included within the net Group pension deficit of £327m (2016: £457m). The £123m has been disclosed as a pension asset in the statements of financial position.

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

	2017 £m	2016 £m
<b>Present value of obligation</b>		
At beginning of year	1,442	1,063
Interest expense/(income)	34	41
	34	41
Remeasurements		
- Gain from change in demographic assumptions	(26)	-
- (Gain)/loss from change in financial assumptions	(72)	387
- Experience (gains)/losses	(10)	(24)
	(108)	363
Exchange differences	-	6
Payments from plans:		
- Benefit payments	(53)	(31)
<b>At end of year</b>	<b>1,315</b>	<b>1,442</b>
<b>Fair value of plan assets</b>		
At beginning of year	(1,470)	(1,104)
Interest income	(35)	(43)
	(35)	(43)
Remeasurements		
- Return on plan assets, excluding amounts included in interest expense/(income)	56	(324)
	56	(324)
Exchange differences	(2)	(4)
Expenses paid	2	3
Contributions		
- Employers	(29)	(29)
Payments from plans:		
- Benefit payments	53	31
<b>At end of year</b>	<b>(1,425)</b>	<b>(1,470)</b>
<b>Deficit of funded plan</b>	<b>(110)</b>	<b>(28)</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 30 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

The weighted average actuarial assumptions were as follows:

	2017 %	2016 %
Discount rate for scheme liabilities	2.67	2.37
Inflation rate	3.05	2.96

The average mortality assumptions adopted for the plan liabilities indicate a further life expectancy for members currently aged 65 of 23.1 years for men and 25 years for women

	Quoted £m	Non-quoted £m	Total £m	2017 %	Quoted £m	Non-quoted £m	Total £m	2016 %
Plan assets are comprised as follows:								
Cash and cash equivalents	11	-	11	1	8	-	8	1
Equity instruments	122	-	122	9	108	-	108	7
Debt instruments	534	-	534	37	452	-	452	31
Real estate	-	54	54	4	59	-	59	4
Derivatives	-	-	-	-	651	-	651	44
Investment funds	569	95	664	46	154	-	154	10
Assets held by insurance company	6	34	40	3	4	34	38	3
<b>Total</b>	<b>1,242</b>	<b>183</b>	<b>1,425</b>	<b>100</b>	<b>1,436</b>	<b>34</b>	<b>1,470</b>	<b>100</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 scheme currently has part of its assets invested in a liability driven investment portfolio. These assets, in combination with the other protection assets in the portfolio, provide interest rate and inflation rate protection.

#### Sensitivities of the defined benefit obligation

The Group is exposed to a number of risks, the most significant of which are detailed below.

##### Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. However, the Group believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of the Group's long-term strategy to manage the plans efficiently. See below for more details on the Group's asset-liability matching strategy.

##### Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

##### Inflation risk

Some of the group pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation meaning that an increase in inflation will also increase the deficit.

##### Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

### 30 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate for scheme liabilities	0.25%	Increase by 6%	Decrease by 5%
Inflation rate	0.25%	Decrease by 3%	Increase by 4%
Mortality	1 year	Increase by 2%	

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the pension liability recognised within the statement of the financial position.

The expected future benefit payments are detailed below:

At 30 September 2017	Less than a year £m
Pension benefit payments	76

The weighted average duration of the defined benefit obligation at 30 September 2016 is 24.6 years

#### 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. Cash contributions paid into the defined contribution schemes are accounted for as an income statement expense as they are incurred. 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 £51m (2016: £46m).

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

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 31 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 joint ventures and associates are disclosed below. Transactions between the Company and its subsidiaries, joint ventures 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 and joint ventures	
	2017 £m	2016 £m
Sale of goods and services	6	5
Purchases of goods and services	(4)	(3)
Other income	-	1
Amounts owed by related parties	2	1
Amounts owed to related parties	(1)	(1)

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

Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration Report on pages 98 to 107.

	2017 £m	2016 £m
Short-term employee benefits	4	3
	4	3

The short-term employee benefits include employer social security payments which are excluded from the Director's Remuneration Report.

### 32 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	2017 £m	2016 £m
Non-current asset classified as held for sale	101	-

The non-current assets classified as held for sale consist mainly of properties in Germany, Greece, Spain and the UK currently reported within the Group Tour Operator segment, are due to be sold within one year and have been recorded at the lower of carrying amount and fair value less cost to sell.



### 33 PRIOR YEAR RESTATEMENTS

During the year management identified that long term aircraft maintenance provisions had been measured using an incorrect discount rate. An adjustment has been calculated to restate the carrying value of these provisions using a risk free rate based on government bond rates of similar currency and term to the related obligations. The impact of this restatement principally affects the opening balance at 1 October 2015 and prior periods and has resulted in a £46m increase in aircraft maintenance provisions recorded within opening reserves as at 1 October 2015. The effect of applying these revised discount rates would not be material to the results of 2016.

During the year a reassessment of contingent consideration to be settled in the period has been performed. This has resulted in a £4m reduction to the prior year separately disclosed items, within the income statement, and corresponding reduction in non-controlling interest.

Following the cessation of the Hotels 4U business in the UK at the end of 2016, it was identified during the year that there were a number of balances that were assessed as no longer recoverable. This resulted in a reduction in prior year profit of £6m, of which £2m was in respect of the impairment of property and recognition of onerous leases recorded in separately disclosed items. A further £4m was recognised in underlying profit in respect of a reduction in trade and other receivables.

During FY16 an estimate of the TOMS (Tour Operator Margin Scheme) liability was recognised, however it was subsequently identified that the final liability was understated by £2m. This has been recorded as an adjustment to underlying profit with a corresponding decrease in trade and other payables.

Management identified a deferral of a profit on a historic sale and leaseback transaction had not been correctly recorded over the life of the lease. This resulted in an adjustment of £4m being recorded in opening reserves in the prior year.

Amounts of £7m previously recognised receivables have been reassessed as irrecoverable, this included £3m that related to pre-FY16 and therefore has been taken through the opening reserves. The remaining £4m related to FY16 and resulted in an adjustment to separately disclosed items in 2016.

The errors have been corrected by restating each of the affected financial statement line items for the prior periods, as follows.

Impact on equity - increase/(decrease) in equity 30 September 2016	£m
Trade and other receivables	(11)
Plant, property and equipment	(1)
Short-term provision	(1)
Current trade and other payables	(2)
Non-current trade and other payables	(4)
Long-term provisions	(46)
<b>Net assets</b>	<b>(65)</b>
Opening reserves <sup>(1)</sup>	(53)
Retained earnings	(8)
Equity attributable to equity owners of the parent	(61)
Non-controlling interests	(4)
<b>Total equity</b>	<b>(65)</b>

(1) The impact on opening reserves comprises long term provisions (£46m), deferred income in long term trade and other payables (£4m) and trade and other receivables (£3m).

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 33 PRIOR YEAR RESTATEMENTS CONTINUED

	Underlying EBIT £m	Separately disclosed items £m	Statutory profit £m
Impact on statement of profit or loss - increase/(decrease) in profit for 30 September 2016			
Sale of goods	(2)	-	(2)
Operating expenses	(4)	(2)	(6)
Net impact on profit for the year	(6)	(2)	(8)
Attributable to:			
Equity holders of the parent			(8)
Non-controlling interests			-
			(8)
Impact on basic and diluted earnings per share (EPS) - increase/(decrease) in EPS			
Basic and diluted EPS			(0.5)pence

### 34 SUBSEQUENT EVENTS

As previously announced, from November 2017, our Belgian airline business transferred to Brussels Airlines such that it is no longer part of the Group

In November 2017 the Group entered into new financing arrangements being an enlarged, £875 million revolving credit facility and bonding and guarantee facility maturing in November 2022. In addition the Group has secured £100 million of annual rolling bilateral funding from one of their insurance providers. These new arrangements replace the Group's existing facility, which provided £800 million of facilities until May 2019

# AS AT 30 SEPTEMBER 2017

## COMPANY BALANCE SHEET

	Notes	30 September 2017 £m	30 September 2016 £m
<b>Non-current assets</b>			
Intangible assets	7	49	40
Property, plant and equipment		1	2
Investments in subsidiaries	8	2,037	2,035
Tax assets	9	-	1
		<b>2,087</b>	<b>2,078</b>
<b>Current assets</b>			
Trade and other receivables	9	1,575	1,610
Cash and cash equivalents	10	1	-
		<b>1,576</b>	<b>1,610</b>
<b>Total assets</b>		<b>3,663</b>	<b>3,688</b>
<b>Current liabilities</b>			
Trade and other payables	11	(151)	(571)
Borrowings	14	-	(200)
Short-term provisions	13	(1)	(2)
		<b>(152)</b>	<b>(773)</b>
<b>Non-current liabilities</b>			
Borrowings	14	(653)	-
<b>Total liabilities</b>		<b>(805)</b>	<b>(773)</b>
<b>Net assets</b>		<b>2,858</b>	<b>2,915</b>
<b>Equity</b>			
Called-up share capital	15	69	69
Share premium account		524	524
Merger reserve		1,429	1,429
Hedging and translation reserve		519	519
Capital redemption reserve		8	8
Retained earnings surplus		317	374
Investment in own shares		(8)	(8)
<b>Total equity</b>		<b>2,858</b>	<b>2,915</b>

The loss after tax of the Company amounted to £52m (2016: £81m profit after tax).

The financial statements on pages 167 to 180 were approved by the Board of Directors on 21 November 2017.

Signed on behalf of the Board



**MICHAEL HEALY**  
DIRECTOR

Notes 1 to 20 form part of these financial statements

# YEAR ENDED 30 SEPTEMBER 2017

## COMPANY CASH FLOW STATEMENT

	Year ended 30 September 2017 £m	Year ended 30 September 2016 £m
<b>Cash flows from operating activities</b>		
Loss before tax	(62)	51
Adjustments for		
Interest expense	47	30
Amortisation	6	4
Increase in provisions	(1)	(1)
(Increase)/decrease in receivables	(5)	16
Increase/(decrease) in payables	(338)	41
<b>Net cash used in operating activities</b>	<b>(353)</b>	<b>141</b>
<b>Investing activities</b>		
Purchase of tangible and intangible assets	(17)	(18)
<b>Net cash from investing activities</b>	<b>(17)</b>	<b>(18)</b>
<b>Financing activities</b>		
Net inflow/(outflow) from borrowings	428	(100)
Interest paid	(49)	(24)
Dividends paid	(8)	-
<b>Net cash used in financing activities</b>	<b>371</b>	<b>(124)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1</b>	<b>(1)</b>
Cash and cash equivalents at beginning of year	-	1
<b>Cash and cash equivalents at end of year</b>	<b>1</b>	<b>-</b>

# FOR THE YEAR ENDED 30 SEPTEMBER 2017

## COMPANY STATEMENT OF CHANGES IN EQUITY

	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 30 September 2015	69	524	1,429	8	382	302	(18)	2,696
Profit for the year	-	-	-	-	-	81	-	81
Other comprehensive income	-	-	-	-	137	-	-	137
<b>Total comprehensive income for the year</b>					<b>137</b>	<b>81</b>	<b>-</b>	<b>218</b>
Equity credit in respect of share-based payments	-	-	-	-	-	1	-	1
Exercise of own shares	-	-	-	-	-	(10)	10	-
<b>At 30 September 2016</b>	<b>69</b>	<b>524</b>	<b>1,429</b>	<b>8</b>	<b>519</b>	<b>374</b>	<b>(8)</b>	<b>2,915</b>
Loss for the year	-	-	-	-	-	(52)	-	(52)
<b>Total comprehensive income for the year</b>					<b>-</b>	<b>(52)</b>	<b>-</b>	<b>(52)</b>
Dividends paid	-	-	-	-	-	(8)	-	(8)
Equity credit in respect of share-based payments	-	-	-	-	-	3	-	3
<b>At 30 September 2017</b>	<b>69</b>	<b>524</b>	<b>1,429</b>	<b>8</b>	<b>519</b>	<b>317</b>	<b>(8)</b>	<b>2,858</b>

Other comprehensive income and expenses relates to translation of the balance sheet.

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

The share premium arose in connection with the issue of Ordinary Shares of the Company following the issuance of shares to Fosun in March 2015

At 30 September 2017, the Company had distributable reserves of £286m (2016: £374m).

Details of the own shares held are set out in Note 26 to the Group financial statements

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 1 ACCOUNTING POLICIES

Thomas Cook Group plc is a public 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 accounting policies applied in the preparation of these Company financial statements are the same as those set out in Note 3 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 Sterling*

## 2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) and Companies Act 2006 applicable to companies 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

After making enquiries and taking into account the matters set out in the Risk Management section on pages 54 to 59, the Directors confirm that they consider it appropriate to use the going concern basis in preparing the Annual Report & Accounts.

The financial statements have been prepared on a historical cost basis except for revaluation of certain financial assets and liabilities (including derivative financial instruments) at fair value through the profit or loss, share-based payments and defined benefit pension obligations

The financial statements have been rounded to the nearest million in Great British Pounds. Amounts in pence have been rounded to the nearest tenth of a pence.

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.

## 3 PROFIT 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 auditors' remuneration for audit services to the Company was £0.1m (2016: £0.1m).

## 4 PERSONNEL EXPENSES

	2017 £m	2016 £m
Wages and salaries	21	23
Social security costs	2	1
Share-based payments – equity settled	2	0
	25	24

	2017 Number	2016 Number
The average number of employees of the Company during the year was:	183	169

Employees are based in the UK 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 98 to 108 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 30 of the Group financial statements.

## 5 TAX

At the balance sheet date, the Company had unrecognised tax losses of £99m (2016 £145m) and unrecognised deductible short-term temporary differences of £20m (2016 £1m)

## 6 DIVIDENDS

The details of the Company's dividend are disclosed in Note 10 to the Group financial statements

## 7 INTANGIBLE ASSETS

	£m
<b>Other intangible assets:</b>	
<b>Cost</b>	
At 30 September 2015	26
Additions	18
At 30 September 2016	44
Additions	15
<b>At 30 September 2017</b>	<b>59</b>
<b>Accumulated amortisation</b>	
At 30 September 2015	1
Charge for the year	3
At 30 September 2016	4
Charge for the year	6
<b>At 30 September 2017</b>	<b>10</b>
<b>Carrying amount</b>	
<b>At 30 September 2017</b>	<b>49</b>
At 30 September 2016	40

Software and intangible assets are initially measured at cost. The direct costs associated with the development of business software and intangibles are capitalised where project success is probable and the capitalisation criteria is met. Following initial recognition, software and intangible assets are stated at cost less accumulated amortisation and impairment losses. Software and intangible assets with a finite life are amortised from the date the asset is ready for use on a straight-line basis over its estimated useful life which is four years (websites five years)

At each reporting date, Thomas Cook Group plc reviews the carrying amounts of its software and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Where estimated useful lives or recoverable values have diminished, amortisation is accelerated.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

## 8 INVESTMENTS IN SUBSIDIARIES

	£m
Cost and net book value	
At 30 September 2015	1,873
Adjustment in respect of share-based payments	1
Additions	55
Exchange difference	106
At 30 September 2016	2,035
Adjustment in respect of share-based payments	2
Additions	-
Exchange difference	-
At 30 September 2017	2,037

A list of the Company's related undertakings is shown in Note 20 to the financial statements.

## 9 TRADE AND OTHER RECEIVABLES

	2017 £m	2016 £m
<b>Current</b>		
Amounts owed by subsidiary undertakings	1,562	1,606
Other receivables	-	1
Deposits and prepayments	13	3
	1,575	1,610
<b>Non-current</b>		
Tax assets	-	1
	-	1

Amounts owed by subsidiary undertakings are repayable on demand. The average interest on overdue amounts owed by subsidiary undertakings is 0.8% (2016: 0.3%). The Directors consider the fair value to be equal to the book value.

## 10 CASH AND CASH EQUIVALENTS

	2017 £m	2016 £m
Cash at bank and in hand	1	-
	1	-

Cash and cash equivalents includes balances which are considered to be restricted. £0.1m (2016: £0.1m) 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.



## 11 TRADE AND OTHER PAYABLES

	2017 £m	2016 £m
Amounts owed to subsidiary undertakings	123	543
Social security and other taxes	5	1
Other payables	1	10
Accruals	22	17
	151	571

The average interest on overdue amounts owed to subsidiary undertakings is 1.2% (2016: 2.4%).

Amounts owing to subsidiary undertakings are repayable on demand, with the exception of £43m due in 2023. The Directors consider the fair value to be equal to the book value.

## 12 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 151 to 153. The Company believes the value of its financial assets to be fully recoverable.

2017: The carrying value of the Company's financial instruments is exposed to movements in foreign currency exchange rates (primarily Euro). The Company estimates that a 5% strengthening in Euro would increase profit before tax by £nil, while a 5% weakening in Euro would decrease profit before tax by £nil.

2016: The carrying value of the Company's financial instruments is exposed to movements in foreign currency exchange rates (primarily Euro). The Company estimates that a 5% strengthening in Euro would increase profit before tax by £nil, while a 5% weakening in Euro would decrease profit before tax by £nil.

The carrying value of the Company's financial instruments is exposed to movements in interest rates. The Company estimates that a 1% increase in interest rates would increase profit before tax by £nil (2016: 1% increase in interest rates increase loss before tax by £nil), while a 0.25% decrease in interest rates would decrease profit before tax.

### Carrying values of financial assets and liabilities

The carrying value of the Group's financial assets and liabilities as at 30 September 2017 and 30 September 2016 are set out below.

At 30 September 2017	Loans & receivables £m	Financial liabilities at amortised cost £m	Total £m
Non-current asset investments			
Trade and other receivables	1,575	-	1,575
Cash and cash equivalents	1	-	1
Trade and other payables	-	(151)	(151)
Borrowings	-	(653)	(653)
Provisions arising from contractual obligations	-	(1)	(1)
	1,576	(805)	771

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

## 12 FINANCIAL INSTRUMENTS CONTINUED

At 30 September 2016	Loans & receivables £m	Financial liabilities at amortised cost £m	Total £m
Non-current asset investments			
Trade and other receivables	1,610	-	1,610
Cash and cash equivalents	-	-	-
Trade and other payables	-	(571)	(571)
Borrowings	-	(200)	(200)
Provisions arising from contractual obligations	-	(2)	(2)
	1,610	(773)	837

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.

At 30 September 2017	In less than 3 months £m	Between 3 and 12 months £m	Between 1 and 5 years £m	Amount due Total £m
Trade and other payables	(143)	(1)	-	(144)
Borrowings	(21)	(21)	(818)	(860)
Provisions arising from contractual obligations	-	-	-	-
	(164)	(22)	(818)	(1,004)

At 30 September 2016	In less than 3 months £m	Between 3 and 12 months £m	Between 1 and 5 years £m	Amount due Total £m
Trade and other payables	(564)	(7)	-	(571)
Borrowings	-	(218)	-	(218)
Provisions arising from contractual obligations	-	(2)	-	(2)
	(564)	(227)	-	(791)

The Company is exposed to credit risk in relation to cash and cash equivalents, trade and other receivables, and amounts due from subsidiary undertakings. The maximum exposure in respect of each of these items at the balance sheet date is their carrying value. The Company assesses its counterparty exposure in relation to surplus cash using credit limits based on counterparty credit ratings.

For amounts due from subsidiary undertakings and receivables, future operating cash flows are assessed for any indication of impairment. In the opinion of the Directors, the fair value of the Company's investments is not less than the carrying value as stated in the balance sheet. As of 30 September 2017, Company receivables from Group undertakings were not past due and were expected to be recovered in full.

The Company's approach to credit risk in respect of trade and other receivables is explained in Note 9.

### 13 PROVISIONS

Other provisions:	2017 £m	2016 £m
At 1 October	(2)	(3)
Utilisation of provision	1	1
<b>At 30 September</b>	<b>(1)</b>	<b>(2)</b>

Other provisions relate to provisions for insurance claims

### 14 BORROWINGS

Borrowings comprise of a €750m bond with an annual coupon of 6.25% maturing in June 2022 (2016: borrowings comprised of a £200m bond with an annual coupon of 7.75% which was fully repaid in December 2016)

### 15 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 26 to the Group financial statements in this report

Details of share options granted by the Company are set out in Note 29 to the Group financial statements

### 16 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:

	2017 £m	2016 £m
Within one year	1	1
Later than one year and less than five years	4	3
After five years	7	1
	<b>12</b>	<b>5</b>

### 17 CONTINGENT LIABILITIES

At 30 September 2017, 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 £820m (2016: £669m). This predominantly relates to a guarantee on the drawdown portion of the Group banking facility (detailed in Note 19 of 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 £154m (2016: £182m)

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.

The Company has issued a letter of support to confirm its intention to provide each subsidiary of the Group with sufficient funds to enable it to pay its debts as they fall due for a period of at least 18 months

**18 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.

	2017 £m	2016 £m
<b>Transactions with subsidiaries</b>		
Interest receivable	12	1
Interest payable	(7)	(3)
Management fees and other expenses	30	20
Dividend income received	-	92
<b>Year-end balances arising on transactions with subsidiaries</b>		
Loans receivable	1,279	1,527
Other receivables	89	77
Loans payable	(94)	(530)
Other payables	(16)	(8)

**Remuneration of key management personnel**

The remuneration of the Directors, who are the key management personnel of the Company, is set out in Note 31 of the Group financial statements.

**19 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 29 to the Group financial statements and have therefore not been re-presented here.

The share-based payment charge of £1m (2016: £1m) is stated net of amounts recharged to subsidiary undertakings.

## 20 SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

In accordance with section 409 of the Companies Act 2006, a full list of subsidiaries, associates and joint ventures as at 30 September 2017 is disclosed below.

Name	Registered office address	Proportion of shares held by the Company %	Class of shares
1841 Limited	Westpoint, Peterborough Business Park, Lynch Wood, Peterborough, PE2 6FZ, England	100	ordinary
AB 9807 Beteiligungsverwaltungs GmbH	Thomas Cook Platz 1, 61440 Oberursel, Germany	100	ordinary
Activos Turísticos S.A.	Calle General Riera 154, 07010, Palma de Mallorca, Spain	40	ordinary
Airtours Finance Limited	Mont Crevett House, Bulwer Avenue, St. Sampson, Guernsey GY2 4LH	100	ordinary
Airtours Holidays Transport Limited	Westpoint, Peterborough Business Park, Lynch Wood, Peterborough, PE2 6FZ, England	100	ordinary
Airtours Resort Ownership Espana S.L.	Calle Fray Juniper Serra, 6 Entlo, 07014, Palma de Mallorca, Illes Balears, Spain	100	ordinary
Algarve Tours - Agencia De Viagens E Turismo Lda	Estrada Nacional 125/10, Est. Aeroporto, Edif. Cefil, Loja 1, 8000, Faro, Montenegro, Portugal	100	ordinary
Alpha Reisebüro Partner GmbH	Thomas Cook Platz 1, 61440 Oberursel, Germany	50	ordinary
Anfinpan S.L.	Calle Mayor de Triana 120, 5, Palmas de Gran Canaria, Las Palmas, 35002, Spain	100	ordinary
Astral Hellas SA	Agnostou Stratoti Square 17, 741 00 Rethymoon, Crete, Greece	70	ordinary
Astral Spain Incoming S.A.	Calle Fray Juniper Serra, 6 Entlo, 07014, Palma de Mallorca, Illes Balears, Spain	100	ordinary
Astral Tours (Cyprus) Limited	4 Riga Fereou street, Omega court, Nicosia, Cyprus	70	ordinary A
Belgian Travel Network CVBA	Imper astraat 10/3, 1930 Zaventem, Belgium	50	ordinary
Blue Sea Overseas Investments Limited	Westpoint, Peterborough Business Park, Lynch Wood, Peterborough, PE2 6FZ, England	100	ordinary
Bucher Reisen GmbH	Düsseldorfer Straße 83, 40667 Meerbusch, Germany	100	ordinary
Buzzard Leisure Limited	Westpoint, Peterborough Business Park, Lynch Wood, Peterborough, PE2 6FZ, England	100	ordinary
Capitol Holdings Limited	3C Dunshughlin Business Centre, Dunshaughlin, Co. Meath, Ireland	100	ordinary
Carousel Holidays Ltd	Hill House 1 Little New Street, London, EC4A 3TR, United Kingdom	100	ordinary
Carousel Resorts International Limited	Hill House 1 Little New Street, London, EC4A 3TR, United Kingdom	100	ordinary
Close Number 16 Limited	Hill House 1 Little New Street, London, EC4A 3TR, United Kingdom	100	ordinary
Close Number 39 Limited	Hill House 1 Little New Street, London, EC4A 3TR, United Kingdom	100	ordinary
Close Number 40 Limited	14 Charing Cross, St. Helier, JE2 3RP, Jersey	100	ordinary
Close Number 6 Limited	Westpoint, Peterborough Business Park, Lynch Wood, Peterborough, PE2 6FZ, England	100	ordinary
Condor Berlin GmbH	Ely-Beinhorn-Ring 4, 12529 Schönefeld, Berlin, Germany	49.999	ordinary
Condor Flugdienst GmbH	Condor Platz, 60549, Frankfurt am Main, Germany	49.999	ordinary
Condor Technik GmbH	Condor Platz, 60549, Frankfurt am Main, Germany	49.999	ordinary
Co-op Group Travel 2 Holdings Limited	Westpoint, Peterborough Business Park, Lynch Wood, Peterborough, PE2 6FZ, England	100	ordinary
Cooperative Parkway U.A.	Air um, 7th Floor, Strawinskylaan 3105, Amsterdam, The Netherlands	100	class A interests, initial preferred class B and preferred Class B
DMH In Destination Management Holdings (Cyprus) Ltd	Makarios III Avenue, 195 Neocleous House, 1-5 Floor, Limassol, CY-3030, Cyprus	100	ordinary
Eurocenter Beteiligungs- und Reisevermittlung GmbH	Thomas Cook Platz 1, 61440 Oberursel, Germany	100	ordinary
Ferriomat Reisen GmbH	Düsseldorfer Straße 83, 40667 Meerbusch, Germany	100	ordinary
Future Travel Limited	Westpoint, Peterborough Business Park, Lynch Wood, Peterborough, PE2 6FZ, England	88 100	ordinary preference
Gesellschaft für Reisevertriebssysteme mbH	Herner Strasse 299, Gebäude A/6, 44 809 Bochum, Germany	100	ordinary
Happy Camp S.P.A.	Borgo Cavour 21, 37011 Bardolino, Italy	40	ordinary
Helios Palace SA	Ionos Dragoumi 5, Rhodes, Greece, 85100	100	ordinary
Hix Express S.L.	GENERAL RIERA 154, 07010, Palma de Mallorca, Illes Balears, Spain	100	ordinary
Hotel Investments Sarigerme Turizm Ticaret L.S.	Osmaniye Koyu, Sarigerme Ortaca, 48063 Mugla, Turkey	100	ordinary
Hoteles Sunwing SA	C/ Minerva 15, 07400 Alcudia, Spain	100	ordinary
Hotels4u.com Limited	Westpoint, Peterborough Business Park, Lynch Wood, Peterborough, PE2 6FZ, England	100	ordinary
In Destination Incoming S.L.U.	GENERAL RIERA 154, 07010, Palma de Mallorca, Illes Balears, Spain	100	ordinary
Inspirations Limited	Westpoint, Peterborough Business Park, Lynch Wood, Peterborough, PE2 6FZ, England	100	ordinary
ITC Enterprises Limited	Westpoint, Peterborough Business Park, Lynch Wood, Peterborough, PE2 6FZ, England	100	ordinary
ITC Travel Investments S.L.	Calle General Riera 154, 07010, Palma de Mallorca, Illes Balears, Spain	75	ordinary
Jeropatur-Viagens e Turismo Limitada	Rotunda da Cruz de Portugal, Edificio Colina, 8300-999 Silves-Portugal, Portugal	100	ordinary
Jet Eldo Maroc	Immeuble Salam n° 21 Les Amicales, AGADIR, Morocco	100	partnership
Jet Eldo Tunisie	Hotel Salammbô, 8050 Hammamet, Tunisia	100	partnership
Jet Marques S.A.	92-98 Boulevard Victor Hugo, Clichy Cedex, France	100	ordinary
JFS GmbH	Ely-Beinhorn-Ring 4, 12529 Schönefeld, Berlin, Germany	100	ordinary
JMCH Services Limited	Hill House 1 Little New Street, London, EC4A 3TR, United Kingdom	100	ordinary
Kelly Holdings Limited	3 Bell Lane, Gibraltar	100	ordinary
Kestrel Leisure Limited	Westpoint, Peterborough Business Park, Lynch Wood, Peterborough, PE2 6FZ, England	100	ordinary
Kuyi International Travel Agency (Shanghai) Co., Ltd	Room 1010, 10th Floor, No. 6 Jilong Road, (Shanghai) Pilot Free Trade Zone, China	49	ordinary
LLC Intourist	129366, Russian Federation, Moscow, Mira Avenue, 150	75	ordinary
LLC NTC Intourist	119334, Russian Federation, Moscow, 5th Donskoy proezd, 15, building 5	75	ordinary
LLG Nord GmbH & Co. Delta OHG	Tölzer Strasse 15, 82031 Grünwald, Germany	100	ordinary
Mareours NV	Diestsesteenweg 141, 3202 Aarschot, Belgium	33.333	ordinary

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

## 20 SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES CONTINUED

Name	Registered office address	Proportion of shares held by the Company %	Class of shares
Movables Inversiones 2014 S.L.	Playa del Cura s/n 35140 Mogán Las Palmas Spain	100	ordinary
MyTravel 370 Leasing Ltd	M&C Corporate Services Limited Uglind House South Church Street PO Box 399 Grand Cayman KY1-1104 Cayman Islands	100	cumulative class A, B, C, D preference and ordinary
MyTravel Deutschland GmbH	Thomas Cook Platz 1 61440 Oberursel Germany	100	ordinary
MyTravel Group Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	redeemable preference and ordinary
MyTravel IFR Ireland Limited	First Floor Rineanna House Shannon Free Zone Shannon Co. Clare Ireland	100	ordinary
MyTravel Luxembourg UK Unlimited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
MyTravel North America Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
MyTravel Pioneer Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
NALG Holdings Unlimited Company	First Floor Rineanna House Shannon Free Zone Shannon Co. Clare Ireland	100	ordinary
NALG Ireland Unlimited Company	First Floor Rineanna House Shannon Free Zone Shannon Co. Clare Ireland	100	ordinary
Neckermann Polska BP SP z o.o.	Alleg Jerozolimskie Nr 94 00-807 Warszawa Poland	100	ordinary
Neckermann Slovakia s.r.o.	Panská 23 8101 Bratislava Slovakia	60	ordinary
Neckermann Urlaubswelt GmbH	Thomas-Cook-Platz 1 61440 Oberursel Germany	100	ordinary
N-U-R Neckermann utazás Szolgáltató Kft.	Dayka Gábor u 5 1118 Budapest Hungary	100	ordinary
Oger Tours GmbH	Heidenkampsweg 81 Hamburg 20097 Germany	100	ordinary
Orlando (ABC) Limited	14 Charing Cross St. Helier JE2 3RP Jersey	100	ordinary
OY Tjaereborg AB	Urho Kekkonen gatan 3 B FIN-00100 Helsinki Finland	100	ordinary
Park Hotel SNC	18 rue Trezel 92300 Levallois-Perret France	50	ordinary
Parkway Australia Holdings Pty Limited	C/O BDW Services Pty Ltd Level 35 Grosvenor Place 225 George Street Sydney NSW 2000 Australia	100	ordinary
Parkway Auto Realisations (Germany) Vermögensverwaltungs GmbH	Thomas Cook Platz 1 61440 Oberursel Germany	100	ordinary
Parkway Hellas Holdings Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Parkway Holdings GmbH	Frankfurt am Main Deutschland	100	ordinary
Parkway Holdings UK BV	Rotterdam Netherlands	100	ordinary
Parkway IPR (Cyprus) Limited	Makarios III Avenue 195 Neocleous House 1-5 Floor Limassol CY-3030 Cyprus	100	ordinary
Parkway IPR Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Parkway Limited	PO Box 119 Martello Court Admiral Park St Peter Port Guernsey GY1 3HB	100	ordinary
Parkway Nederland BV	Rotterdam Netherlands	100	ordinary
Parkway Northern Europe Holding A/S	Kay Fiskers Plads 9 4 2300 Copenhagen S Denmark	100	ordinary
Peregine Leisure Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Plotin Travel S.A.	24 Lagoumitzi Street Kallithea 17671 Athens Greece	45	ordinary
Resorts Mallorca Hotels International S.L.	Calle General Riera 154 07010 Palma de Mallorca Illes Balears Spain	100	ordinary
Retail Travel Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
ROSATA Grundstücks-Vermietungsgesellschaft mbH & Co Objekt am Hämmergarten KG	Mercedesstraße 6 40470 Düsseldorf Germany	15	ordinary
Sandbrook Overseas Investments Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Sandbrook UK Investments Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
SATEE GmbH	Thomas Cook Platz 1 61440 Oberursel Germany	100	ordinary
SENTIDO Hotels & Resorts GmbH	Thomas Cook Platz 1 61440 Oberursel Germany	100	ordinary
Servicios de Administración y Operación de Hoteles S.A. de CV	Boulevard Kukulan KM 3.5 Cancun Quintana Roo Mexico 77500	100	ordinary
Shipping and Aviation Industries Limited	Hill House 1 Little New Street London EC4A 3TR United Kingdom	100	ordinary
Société Touristique et Hotelière du Senegal SOTHOUS S.A.	SSRT-Club Aldiana South Australia Senegal	99.5	ordinary
Spies A/S	Kay Fiskers Plads 9 2300 Copenhagen S Denmark	100	ordinary
Sumango (Proprietary) Limited	Blandford House 27 Caledon Street Somerset West 7150	100	ordinary
Sun International (UK) Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	deferred and ordinary
Sunwing Hellas AB	Rålambsvägen 17 SE 105-20 Stockholm Sweden	100	ordinary
Sunwing Hotels (Cyprus) Limited	75 Nissi Avenue 5340 Ayia Napa Cyprus	100	ordinary
Sunwing Hotels Hellas SA	Box 207 85100 Rhodes Greece	100	ordinary
TC Delta GmbH	Thomas-Cook-Platz 1 61440 Oberursel Germany	100	ordinary
TC In-Destination Management Hellas Single Member PC	1 Lord Byron Street Heraklion Crete 71202 Greece	100	ordinary
TCCT Holdings Limited	44 Esplanade St Helier JE4 8WG Jersey	100	ordinary
TCCT Holdings UK Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	66.5	ordinary A
TCCT Retail Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
TCGH Holdings Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
TCIM Limited	Hill House 1 Little New Street London EC4A 3TR United Kingdom	50.95	ordinary
TCNE Aircraft Leasing AB	Rålambsvägen 17 SE 105-20 Stockholm Sweden	100	ordinary
Tedgold Limitat	Suite 1 Burns House 19 Town Range Gibraltar	99.95	ordinary
The Airline Group Limited	c/o National Air Traffic Services (NATS) Brettenham House South 5th Floor Lancaster Place London WC2N 7EN United Kingdom	1166	ordinary
The Freedom Travel Group Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary

## 20 SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES CONTINUED

Name	Registered office address	Proportion of shares held by the Company %	Class of shares
THG Touristik GmbH	Thomas-Cook-Platz 1 61440 Oberursel Germany	100	ordinary
Thomas Cook (CIS) AB	Rålambsvägen 17 S-105 20 Stockholm	100	ordinary
Thomas Cook Air Kereskedelmi és Szolgáltató Kft	Dayka Gábor u 5 1118 Budapest Hungary	100	ordinary
Thomas Cook Aircraft Engineering (Mexico) S.A. de CV	Mariposa No. 394 Col. Smiza 51 Cancun Benito Juarez Quintana Roo C.P. 77533 Mexico	100	ordinary
Thomas Cook Aircraft Engineering Inc	2711 Centerville Road Wilmington Delaware 19805 USA	100	ordinary
Thomas Cook Aircraft Engineering Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook Airlines Balearics SL	Calle Fray Juniper Serra 6 Entlo 07014 Palma de Mallorca Illes Balears Spain	100	ordinary
Thomas Cook Airlines Belgium NV	Bedrijfszone Diegem-Luchthaven 45 1831 Diegem Belgium	100	ordinary
Thomas Cook Airlines Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook Airlines Scandinavia A/S	c/o Hangar 276 Copenhagen Airport DK-2791 Dragør Denmark	100	ordinary
Thomas Cook Airport Service GmbH	Thomas Cook Platz 1 61440 Oberursel Germany	100	ordinary
Thomas Cook Austria AG	Ungargasse 59-61 1030 Wien Austria	100	ordinary
Thomas Cook Belgium NV	Tramstraat 63-67 9052 Gent Belgium	100	ordinary
Thomas Cook Brok Air Services	92/98 Boulevard Victor Hugo 92115 Clichy Cedex France	100	ordinary
Thomas Cook Cabin Crews GmbH	Thomas-Cook-Platz 1 61440 Oberursel Germany	100	ordinary
Thomas Cook Continental Holdings Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook Cruise Services Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook Destination Services Inc	Morgan Lewis & Bockius 5300 First Union Financial Center 200 South Biscayne Boulevard Miami 33131-2339	100	ordinary
Thomas Cook Destinations GmbH	Thomas Cook Platz 1 61440 Oberursel Germany	100	ordinary
Thomas Cook Finance plc	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook Financial Services Belgium	Tramstraat 63-65 9052 Gent Belgium	100	ordinary
Thomas Cook France Hotellerie Holding S.A.R.L.	92/98 Boulevard Victor Hugo 92115 Clichy Cedex France	100	ordinary
Thomas Cook France S.A.S	92/98 Boulevard Victor Hugo 92115 Clichy Cedex France	100	ordinary
Thomas Cook GmbH <sup>1</sup>	Thomas Cook Platz 1 61440 Oberursel Germany	100	ordinary
Thomas Cook Group Airlines Limited <sup>1</sup>	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook Group Hedging Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook Group Management Services Limited <sup>1</sup>	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook Group Tour Operations Limited <sup>1</sup>	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	redeemable preference ordinary
Thomas Cook Group Treasury Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	redeemable preference ordinary
Thomas Cook Group UK Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook Holdco 2 Limited <sup>1</sup>	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook In Destination Services Limited <sup>1</sup>	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook Indian IP Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook International AG	Poststr. 4 8808 Pfaffikon Switzerland	100	ordinary
Thomas Cook Investments (2) Limited <sup>1</sup>	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook Money Australia Pty Ltd	Wheeler Accounting & Taxation Pty Ltd Suite 246 117 Old Pittwater Road Brookvale NSW 2100 Australia	100	ordinary
Thomas Cook Money Limited <sup>1</sup>	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook Nederland BV	Spicaaan 41 2132 JG Hoofddorp Netherlands	100	ordinary
Thomas Cook Nordic Holdings AB	Rålambsvägen 17 SE 105 20 Stockholm Sweden	100	ordinary
Thomas Cook Northern Europe A/S	Kay Fiskers Plads 9 2300 Copenhagen S Denmark	100	ordinary
Thomas Cook Northern Europe AB	Rålambsvägen 17 S-105 20 Stockholm	100	ordinary
Thomas Cook Online Limited	Mont Crevelt House Bulwer Avenue St Sampson Guernsey GY2 4LH	100	ordinary
Thomas Cook Pension Trust Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook Retail Belgium NV	Tramstraat 67C 9052 Gent Belgium	100	ordinary
Thomas Cook Retail Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook Retail NV	Tramstraat 67B 9052 Gent Belgium	100	ordinary
Thomas Cook s.r.o.	Praha Czech Republic	100	ordinary
Thomas Cook SAS	92-98 Boulevard Victor Hugo 92110 Clichy France	100	ordinary
Thomas Cook Service AG	Poststrasse 4 8808 Pfaffikon Switzerland	100	bearer
Thomas Cook Services Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook Tour Operations Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook Touristik GmbH <sup>1</sup>	Thomas Cook Platz 1 61440 Oberursel Germany	100	ordinary
Thomas Cook Travel Pension Trustees Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	Limited by Guarantee	n/a
Thomas Cook Treasury Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook UK Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook UK Travel Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary
Thomas Cook Vertriebs GmbH <sup>1</sup>	Thomas Cook Platz 1 61440 Oberursel Germany	100	ordinary
Thomas Cook West Holdings Limited	Westpoint Peterborough Business Park Lynch Wood Peterborough PE2 6FZ England	100	ordinary

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

## 20 SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES CONTINUED

Name	Registered office address	Proportion of shares held by the Company %	Class of shares
Thomas Cook West Investments Limited	Westpoint, Peterborough Business Park, Lynch Wood, Peterborough PE2 6FZ, England	100	ordinary
TK Marketing Et Services	Rue du Lac de Constance - Les Berges du Lac, Tunis 1053, Tunisie	99.95	ordinary
Tour Vital Touristik GmbH <sup>1</sup>	Kaltenbornweg 6, 50679, Köln, Germany	100	ordinary
Tourmajor Limited	Westpoint, Peterborough Business Park, Lynch Wood, Peterborough PE2 6FZ, England	100	ordinary
Travel Alliance a.s.	Americká 368/9, Vinohrady 120 00, Praha, Czech Republic	40	ordinary
Travel and Financial Services Limited	Westpoint, Peterborough Business Park, Lynch Wood, Peterborough PE2 6FZ, England	100	ordinary
Travel Technology Initiative Limited	Victoria House, 51 Victoria Street, Bristol, Avon, BS1 6AD, United Kingdom	9.091	ordinary
Univers Holidays S.A.	Boulevard du 23 Août, Complexe Hotel Tivoli Agadir, Morocco	15	ordinary
VA Insurance Services Limited	Tower House, Loch Promenade, Douglas, IM1 2LZ, Isle of Man	100	ordinary
Ving Norge A/S	Dronning Eufemias gate 16, 0191 Oslo, Norway	100	ordinary
Ving Sverige AB	Rålambsvägen 17 S, 105 20 Stockholm, Stockholm, Sweden	100	ordinary
VR Espana SA	Avda. De Turis 18, San Fernando de Maspalomas, San Bartolome de Tirajana 35, Las Palmas	100	ordinary
Wavell Holdings BV	Rotterdam, Netherlands	100	ordinary
White Horse Administration Services Limited	First Floor, Rineanna House, Shannon Free Zone, Shannon, Co. Clare, Ireland	100	ordinary
White Horse Insurance Ireland Designated Activity Company	First Floor, Rineanna House, Shannon Free Zone, Shannon, Co. Clare, Ireland	100	ordinary

1. Shares held directly by Thomas Cook Group plc

2. 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

3. The company has exercised its right of exemption under section 264(3) German Handelsgesetz (HGB)



# SEVEN-YEAR FINANCIAL SUMMARY

	2017	2016	Restated(1) 2015	2014	2013	2012	2011
<b>Income Statement</b>							
Statutory (£m)							
Revenue (£m)	9,007	7,810	7,834	8,588	9,315	9,195	9,809
Gross profit (£m)	1,993	1,820	1,772	1,866	2,020	2,031	2,098
Gross profit margin (%)	22.1%	23.3%	22.6%	21.7%	21.7%	22.1%	21.4%
Profit/(loss) from operations (£m)	231	197	211	52	13	(170)	(267)
Interest (£m)	(184)	(163)	(169)	(168)	(177)	(168)	(135)
Profit/(loss) before taxation (£m)	46	34	50	(114)	(163)	(337)	(398)
Profit/(loss) for the financial year (£m)	12	1	19	(115)	(213)	(441)	(518)
Weighted average number of shares (millions)	1,532	1,530	1,487	1,440	1,196	872	858
Basic and diluted loss per ordinary share	0.8	0.3	16	(8.2)	(17.1)	(67.2)	(60.7)
<b>Underlying</b>							
Revenue (£m)	9,007	7,810	7,834	8,588	9,315	9,195	9,809
Gross profit (£m)	1,995	1,829	1,774	1,916	2,059	2,026	2,160
Gross profit margin (%)	22.1%	23.4%	22.6%	22.3%	22.1%	22.0%	22.0%
EBIT (£m)	330	302	310	323	263	177	304
Underlying EBIT (%)	3.7%	3.9%	4.0%	3.8%	2.8%	1.9%	3.1%
Separately disclosed items (£m)	(140)	(128)	(120)	(296)	(281)	(393)	(573)
Underlying interest (£m)	(143)	(140)	(141)	(143)	(146)	(146)	(123)
Underlying profit before tax (£m)	187	162	170	182	118	56	175
Weighted average number of shares (millions)	1,532	1,530	1,487	1,440	1,196	872	858
Underlying EPS	9.3	8.1	8.9	11.3	5.0	0.6	10.2
<b>Like for like</b>							
Revenue (£m)	9,007	8,285	8,793	8,819	9,091	9,102	8,924
Gross profit (£m)	1,995	1,939	1,968	1,951	1,947	1,921	1,922
Gross profit margin (%)	22.1%	23.4%	22.4%	22.1%	21.4%	21.1%	21.5%
EBIT (£m)	330	306	360	327	208	172	262
Interest (£m)	(143)	(140)	(141)	(143)	(146)	(142)	(130)
Separately disclosed items (£m)	(140)	(128)	(120)	(296)	(263)	(272)	(489)
Profit before taxation (£m)	46	38	100	(110)	(201)	(239)	(364)
Profit for the financial year (£m)	12	3	69	(111)	(248)	(332)	(478)

## SEVEN-YEAR FINANCIAL SUMMARY CONTINUED

	2017	2016	Restated (1) 2015	2014	2013	2012	2011
<b>Statement of financial position (£m)</b>							
Total assets	6,615	6,943	5,958	5,794	6,285	5,907	6,690
Current assets	2,241	2,645	2,035	1,829	1,933	1,524	1,646
Current liabilities	(4,325)	(4,633)	(3,702)	(3,894)	(3,688)	(3,540)	(3,749)
Net pension deficit	(325)	(457)	(279)	(448)	(404)	(331)	(331)
Net Assets	280	326	315	239	548	458	1,183
Net debt <sup>(2)</sup>	(40)	(129)	(128)	(315)	(426)	(792)	(894)
<b>Statement of cash flows (£m)</b>							
Operating cash flow	496	395	474	335	339	152	289
Investing activities	(199)	(200)	(180)	(78)	(182)	53	(178)
Financing activities	(175)	(360)	10	(278)	476	(74)	(82)
Exchange (losses)/gains	45	113	(35)	(52)	2	(19)	(3)
Net (decrease)/increase in cash and cash equivalents	122	(165)	304	(21)	633	131	28
Capex	206	206	200	156	151	138	187
Average number of employees	21,788	21,940	21,813	22,672	26,448	32,250	31,097

(1) See Note 33 for details of restatement

(2) FY11 to FY15 Net Debt figures have been restated in accordance with new Net Debt measure adopted in FY16. Net debt comprises bank and other borrowings, finance lease payables, net derivative financial instruments used to hedge exposure to interest rate risks of bank and other borrowings offset by cash and cash equivalents.

# SHAREHOLDER INFORMATION

## ANNUAL GENERAL MEETING (AGM)

The AGM will be held at 1st Floor, North Building, 200 Aldersgate, London EC1A 4HD on 8 February 2018 at 10.30am. The last date for AGM proxy votes to be received by the Registrar is 10.30am 6 February 2018.

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: 0371 384 2154\*  
(International telephone number, +44 (0)121 415 0182)

\* 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 Group'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, 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 Group'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.

## DIVIDEND

The Board has proposed a final dividend of 0.6 pence per share.

The ex-dividend date will be 8 March 2018 and, subject to Shareholder approval at the 2018 Annual General Meeting, the final dividend of 0.6 pence will be paid on 5 April 2018 to Shareholders on the register at the close of business on 9 March 2018.

More information about our dividend policy can be found on page 73. If you have any questions about the payment of this dividend, please contact our Registrars Equiniti, whose contact details are set out on this page.

## SHAREHOLDER INFORMATION CONTINUED

### 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.

### 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 03456 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).

### CAUTIONARY STATEMENT

This Annual Report has been prepared for, and only for the members of the Company, as a body, and no other persons. The Company, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Group in this Annual Report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements.

### Registered office

3rd Floor, South Building, 200 Aldersgate, London EC1A 4HD  
Registered Number: 6091951

### SHAREHOLDER CONTACTS

Shareholder Helpline: 0371 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)

Lines are open 8.30am to 5.30pm (London time Monday to Friday  
(excluding UK public holidays))

### FINANCIAL CALENDAR

Date	Event
8 February 2018	Q1 2018 Quarterly Results
8 February 2018	Annual General Meeting
17 May 2018	Interim results for six months ended 31 March 2018
31 July 2018	Q3 2018 Quarterly Results

Graph 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 and Sustainability Reports
- > half-year results and interim management statements
- > news alerts
- > career opportunities

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