Thomas Cook Group

9 February 2017

First Quarter Results for the three months ended 31 December 2016

Solid start to the year

£m (unless otherwise stated)	**3 months ended 31 Dec 2016**	**3 months ended 31 Dec 2015**	**Change**	**Like-for-like change**(ii)
Revenue	1,618	1,409	+209	+14
Gross Margin	22.1%	22.2%	-10bps	+10bps
Underlying(i) Loss from Operations (Underlying EBIT)	(49)	(49)	-	+1
EBIT Separately Disclosed Items	(18)	(29)	+11	+11
Loss from operations (EBIT)	(67)	(78)	+11	+12
Net Debt	(1,225)	(1,192)(iii)	-33	-10 (iv)

Notes (i) 'Underlying' refers to trading results that are adjusted for separately disclosed items that are significant in understanding the ongoing results of the Group

(ii) 'Like-for-like' changes adjust for the impact of disposals, foreign exchange translation and fuel. The detailed like-for-like adjustments are shown on page 7

(iii) December 2015 net debt has been restated for net derivative financial instruments used to hedge exposure to interest rate risks of bank and other borrowings which totalled £3m (December 2016: nil)

(iv) 'Like-for-like' net debt adjusts the prior year comparative for foreign exchange translation, the cost of the new €750m 2022 Bond (issued in December 2016), and other non-cash movements, to give a true, underlying change in Net Debt as set out on page 8

The comments below are based on like-for-like comparisons unless otherwise stated, as Management believes this provides a better explanation of performance

Solid financial performance in Q1

- Revenue up 1% to £1,618 million, with growth in holidays to Greece, Spain and long-haul destinations
- Gross margin up 10 basis points to 22.1% reflecting focus on own-brand and selected partner hotels
- Seasonal underlying operating loss improved by £1 million to £49 million
- Successful €750 million bond refinancing extends maturities at reduced interest cost

Focused on delivering our strategy for profitable growth

- Digital growing strongly: online bookings up more than 20% in the UK and 40% in Germany
- 24-hour satisfaction promise successfully extended to 250 hotels in long haul destinations for Winter 2016/17
- Improved customer satisfaction: Net Promoter Score (NPS) up 8 points year-on-year

Current trading on track

- Winter 2016/17 is 82% sold, in line with expectations
- Summer 2017 is 31% sold, with bookings 9% ahead of last year
- Expanded holiday offering to Greece and smaller European destinations, in line with strong demand

Peter Fankhauser, Chief Executive of Thomas Cook commented:

“We have delivered a solid performance for the first three months in line with our expectations, against a backdrop of continued uncertainty.

“Our businesses in the UK and Northern Europe continued last summer’s strong performance into the first quarter, while our tour operating business in Continental Europe also improved. This helped to offset the pressures that Condor is experiencing in the German airline market. We have taken measures to address Condor’s challenges and expect to start to see the benefits come through in the second half, as we set out in November.

“In preparation for the Summer season, we have expanded our holiday offering to Greece and a number of smaller destinations across Europe, and I’m pleased that this early action is paying off. Bookings to Greece are currently up by over 40%, while demand for destinations such as Cyprus, Bulgaria, Portugal and Croatia is also strong. These positive trends are making up for continued weak demand for Turkey.

“We remain focused on giving customers the very best holiday experience with Thomas Cook, both through the quality of the hotels and the customer care we provide. The results can be seen in further improvement in Net Promoter Score, our measure of customer satisfaction, which was up 8 points during the first quarter.

“We have a number of exciting new customer initiatives coming this summer. These include the further roll-out of our successful 24-hour satisfaction promise to cover 80% of our customers, and the launch of a brand new mobile in-flight entertainment system. We are also making good progress on our own-brand hotel portfolio, with ten new hotels set to open for the summer, including our second Casa Cook in Kos, enabling us to offer more unique holidays and further strengthening our growing hotels business

“We remain cautious about the rest of the year, given the uncertain political and economic outlook. It’s still relatively early in the selling cycle for summer holidays, but based on current trading, and supported by further financial benefits from implementing our strategy, we expect our full year operating results to be in line with current market expectations.”

Presentation to equity analysts

A conference call and webcast for investors and analysts will be held today at 08.30 (GMT). The access details are as follows:

United Kingdom 020 3059 8125
All other locations + 44 20 3059 8125

http://webcasts.thomascookgroup.com/thomascook015/default.asp

Forthcoming announcement dates

The Group intends to issue a pre-close update on 28 March 2017, and announce its results for the six months ended 31 March 2017 on 18 May 2017.

Enquiries

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CURRENT TRADING AND OUTLOOK

Winter 2016/17

Winter trading remains in line with our expectations, with the programme now 82% sold, level with the same period last year. Total bookings for the Group are 1% higher than last year, with average selling prices down 1% due mainly to the competitive environment in the airline sector. Bookings have been supported by further growth in demand for Spain and certain long-haul destinations such as the Dominican Republic, offsetting the continued shift away from Turkey. Bookings for the Group excluding Turkey are up by 5%.

UK bookings have increased by 5% compared to last year, reflecting strong growth in both charter risk package sales (up 9%) and seat-only sales (up 9%), partly offset by a reduction in lower margin non-risk packages. This growth is increasingly coming through our website, with online bookings up by more than 20% so far this financial year. A focus on improving our holiday offering has led to charter risk pricing increasing by 4%.

Northern Europe is trading behind last year's exceptionally strong levels, with bookings down 1% and average selling prices down 3%. Demand has remained solid for the Canaries but has weakened further for Turkey. Overall the performance of Northern Europe is in line with our expectations.

In Continental Europe, bookings are 3% lower due to continued weak demand in Germany and Belgium, particularly for Turkey. This has been partly offset by a strong performance from our Russian and French businesses. However, a focus on sales of differentiated holidays has helped increase average selling prices by 2%. In Germany, where we are focusing on growing our controlled distribution, online bookings have grown by more than 40% following the launch of a new web platform last year.

Condor bookings are 1% lower, ahead of capacity reductions of 5%, due primarily to the shift away from Turkey. As expected, yields to both short and long haul destinations remain weak, with average selling prices down by 1% overall, reflecting general soft consumer demand and overcapacity, particularly to the Canaries.

Winter 2016/17	Year-on-Year Variation %		
	Bookings(i)	ASP(i)	% Sold(ii)
UK	+5%	-1%(iii)	80%
Continental Europe	-3%	+2%	82%
Northern Europe	-1%	-3%	96%
Airlines Germany (Condor)	-1%	-1%	80%
Total	**+1%**	**-1%**	**82%**(iv)

Based on cumulative bookings to 4 February 2017

Notes:
(i) Risk and non-risk customers
(ii) Risk customers only
(iii) UK average selling price is up by 4% for charter risk and down 5% for seat only, resulting in an overall ASP down 1% on a blended basis
(iv) For the tour operator only, the Winter 2016/17 season is 89% sold, 1% below last year

Summer 2017

Although it is still early in the booking cycle, Summer 2017 trading is positive, with overall bookings for the Group up 9%, and pricing broadly in line with last year. Our Summer programme is now 31% sold, 2% higher than this time last year.

Continued reductions in bookings to Turkey have been more than offset by strong demand for Greece. We have also grown bookings significantly to a number of smaller European destinations including Cyprus, Bulgaria, Croatia and Portugal, and we have seen a strengthening of demand for Egypt and Morocco. Following strong growth in 2016, demand for the Spanish Islands, including the Balearics and the Canaries, has now levelled off.

For both Northern Europe and Continental Europe, Summer trading is significantly stronger than at this point last year. In Continental Europe, bookings are well ahead of last year in most markets, with prices holding firm at last year's levels. Northern Europe has enjoyed a record start to Summer trading, with double digit bookings growth and positive pricing.

In our UK business, bookings are up 1% overall, with Greece, Cyprus and other smaller European destinations performing particularly well. Average selling prices are up 2%. However, a combination of hotel price inflation and increased air capacity has intensified competition for the Spanish islands. In this context, and consistent with our strategy, we have taken a deliberate decision to focus on higher margin, quality holidays, rather than chase volume growth. As a result, overall UK charter risk bookings are slightly behind last year's levels, while pricing is up 9%.

Condor is performing in line with our expectations for Summer. The German airlines market continues to be impacted by weak demand for Turkey and overcapacity to the Canaries. However strong demand for Greece, together with capacity reductions on certain routes, is helping to mitigate the impact. Our plan of action to improve Condor's profitability, which we announced in November, is on track and is expected to deliver positive benefits from the second half of the year.

Outlook

We have made a solid start to the year, with Winter trading broadly in line with last year. For the key Summer period, Northern Europe and Continental Europe are trading well ahead of last year, while UK bookings are broadly in line with last year as we manage through a more competitive market for holidays to the Spanish islands.

We remain cautious for the rest of the year given the uncertain political and economic outlook. It is still relatively early in the selling cycle for Summer, but based on the Group's current trading performance, and supported by further financial benefits from the New Operating Model, we continue to expect our operating result in FY17 to be in line with current market expectations.

As previously disclosed, we expect the profit improvement measures at Condor to positively impact Condor's performance in the second half, following continued weakness in the first half. Therefore we expect the Group's positive performance to be weighted more towards the second half than usual.

OPERATING AND FINANCIAL REVIEW

£m	3 months ended 31 Dec 2016	3 months ended 31 Dec 2015	Change	Like-for-like Change(ii)
Revenue	1,618	1,409	+209	+14
Gross profit	357	313	+44	+4
Gross Margin (%)	22.1%	22.2%	-10bps	+10bps
Operating expenses	(406)	(362)	-44	-3
Underlying(i) profit from operations (Underlying EBIT)	**(49)**	**(49)**	-	**+1**
EBIT Separately Disclosed Items	(18)	(29)	+11	+11
Loss from operations (EBIT)	**(67)**	**(78)**	**+11**	**+12**
Net finance charges (underlying)	(39)	(34)	-5	-5
Separately disclosed finance charges	(29)	(4)	-25	-25
Loss before tax	**(135)**	**(116)**	**-19**	**-18**

Notes (i) 'Underlying' refers to trading results that are adjusted for separately disclosed items that are significant in understanding the ongoing results of the Group

(ii) 'Like-for-like' change adjusts for the impact of foreign exchange translation and fuel. The detailed like-for-like adjustments are shown on page 7

The comments below are based on like-for-like comparisons unless otherwise stated, as Management believes this provides a better explanation of performance

Group Performance

Group revenue increased by £14 million (or 1%) to £1,618 million, due to growth in sales of holidays to Spain, Greece and long haul destinations, together with new seat-only routes, mitigating the impact of reduced sales to Turkey and Egypt.

Gross profit of £357 million was £4 million higher than last year, while gross margin of 22.1% represents an improvement of 10 basis points over the same period last year, reflecting an increased focus on own-brand and selected partner hotels.

The Group's underlying operating loss during the first quarter improved by £1 million to £49 million, a year-on-year improvement of 2%.

EBIT separately disclosed items of £18 million were £11 million lower than last year, and comprise costs associated with the implementation of our New Operating Model and other restructuring costs.

Group loss from operations for the first quarter was £67 million, an improvement of £12 million compared to last year. However, due to higher separately disclosed finance charges of £29 million, relating mainly to the issuance of our new €750 million bond during December 2016, the Group's loss before tax increased by £18 million to £135 million.

Segmental EBIT Performance

Underlying EBIT by segment (£m)	UK	Continental Europe	Northern Europe	Airlines Germany	Corporate	Group
3 months ended 31 Dec 2015 LfL	(48)	(24)	25	6	(9)	(50)
3 months ended 31 Dec 2016	(43)	(19)	27	(7)	(7)	(49)
3 months LFL change (£m)	**+5**	**+5**	**+2**	**-13**	**+2**	**+1**

Our UK business improved underlying EBIT by £5 million (or 10%) to a seasonal loss of £43 million, mainly due to higher sales of differentiated holidays and our ability to maintain strong margins during the end of the Summer season and early Winter months.

Continental Europe improved underlying EBIT by £5 million to a seasonal loss of £19 million, reflecting planned cost reduction initiatives through our New Operating Model, which helped to mitigate challenging market pressures in Germany. Russia saw growth during the period, buoyed by Turkey opening as a potential destination once again, while France achieved better margins as a result of a greater proportion of differentiated holidays in the sales mix.

Northern Europe improved its underlying EBIT by £2 million to £27 million, due to higher sales of holidays to own-brand hotels, including the new Ocean Beach Club resort in Gran Canaria which opened in December 2016.

Underlying EBIT in Condor (Airlines Germany) declined by £13 million to a loss of £7 million, as profitability was impacted by overcapacity in the short-haul market and weak demand.

Net debt

Net debt at 31 December 2016 was £1,225 million, an increase of £33 million since the end of December last year. On a like-for-like basis, excluding the impact of refinancing activities, exchange rate movements, and other non-cash adjustments, net debt increased by £10 million. The components of the movement in net debt over the 12 months to 31 December 2016 are shown in the Appendix on page 8.

Refinancing

In December 2016, Thomas Cook issued a new €750 million bond, bearing a coupon of 6.25% and maturing on 15 June 2022. The proceeds of the bond enabled us to redeem in full both the outstanding £200 million principal of our £300 million bond maturing in June 2017, and our entire €525 million bond maturing in June 2020. The new bond was issued at a coupon 150 basis points lower than the two bonds it replaced, helping to enhance our financial and operational flexibility, and supporting the progress we are making towards our financial targets.

Hedging of Fuel and Foreign Exchange

The proportion of our forthcoming requirements for Euros, US Dollars and Jet Fuel that have been hedged are shown in the table below.

	Winter 16/17	Summer 17	Winter 17/18
Euro	96%	87%	72%
US Dollar	94%	89%	71%
Jet Fuel	95%	90%	79%

As at 31 January 2017

As Jet Fuel is priced in US Dollars, we buy forward the requisite amount of US Dollars from a mix of base currencies. For FY17, we estimate that our net fuel costs will fall by around £30 million compared to FY16.

The Group's policy is not to hedge the translation impact of profits generated outside the UK. If Q1 period end rates for Euro and Swedish Krona were maintained throughout the remainder of FY17, there would be a negative year-on-year translation impact of approximately £7 million.

The average and period end exchange rates relevant to the Group for the quarter were as follows:

	Average Rate		Period End Rate	
	Q1'17	Q1'16	Q1'17	Q1'16
GBP/Euro	1.15	1.39	1.17	1.36
GBP/US Dollar	1.24	1.52	1.23	1.47
GBP/SEK	11.24	12.89	11.17	12.44

APPENDIX

Like-for-like analysis

'Like-for-like' (LFL) changes adjust for the impact of disposals, foreign exchange translation, fuel and other.

To assist in understanding the impact of these factors and their influence on year-on-year progression, we consider 'like-for-like' adjusted changes from the 3 month period to 31 December 2015 to the 3 month period to 31 December 2016 in our analysis below:

Group (£m)	**Revenue**	**Gross margin**	**Operating expenses**	**Underlying EBIT**
	£m	**%**	**£m**	**£m**
3 months ended 31 December 2015	**1,409**	**22.2%**	**(362)**	**(49)**
Accounting(i)	-	-0.1%	+2	-
Fuel	-18	+0.3%	-	-
Impact of Currency Movements	+213	-0.4%	-43	-1
3 months ended 31 December 2015 LfL	**1,604**	**22.0%**	**(403)**	**(50)**
3 months ended 31 December 2016	1,618	22.1%	(406)	(49)
3 month LfL change (£m)	**+14**	**+10bps**	**-3**	**+1**

Underlying Revenue by segment (£m)	**UK**	**Continental Europe**	**Northern Europe**	**Airlines Germany**	**Corporate**	**Group**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
3 months ended 31 December 2015	**402**	**557**	**249**	**287**	**(86)**	**1,409**
Accounting(i)	-2	+2	-	-	-	-
Fuel	-8	-	-7	-3	-	-18
Impact of Currency Movements	+1	+115	+40	+57	-	+213
3 months ended 31 December 2015 LfL	**393**	**674**	**282**	**341**	**(86)**	**1,604**
3 months ended 31 December 2016	407	660	300	334	(83)	1,618
3 month LfL change (£m)	**+14**	**-14**	**+18**	**-7**	**+3**	**+14**

Underlying EBIT by segment	**UK**	**Continental Europe**	**Northern Europe**	**Airlines Germany**	**Corporate**	**Group**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
3 months ended 31 December 2015	(49)	(19)	23	5	(9)	(49)
Accounting(i)	+1	-1	-	-	-	-
Impact of Currency Movements	-	-4	+2	+1	-	-1
3 months ended 31 December 2015 LfL	**(48)**	**(24)**	**25**	**6**	**(9)**	**(50)**
3 months ended 31 December 2016	(43)	(19)	27	(7)	(7)	(49)
3 month LfL change (£m)	**+5**	**+5**	**+2**	**-13**	**+2**	**+1**

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

Net debt

The components of the movement in Net Debt over the last 12 months are as follows:

£m	
31 December 2015 closing net debt position	**(1,192)**[(i)]
Exchange rate movements	(8)
Bond refinancing cash costs	(10)
Bond refinancing non-cash costs	(15)
Non-cash movements	10
Like-for-like 31 December 2015 closing net debt position	**(1,215)**
Operating cashflow	439
Exceptionals	(95)
Capex	(208)
Net Interest paid	(142)
JV Dividend and Other	(4)
31 December 2016 closing net debt position	**(1,225)**

Note (i) December 2015 net debt has been restated for net derivative financial instruments used to hedge exposure to interest rate risks of bank and other borrowings which totalled £3m (December 2016: nil)