Thomas Cook Group

23 November 2016

Audited results for the year ended 30 September 2016

Proactively managed through tough market, resumption of dividend

£m (unless otherwise stated)	12 months ended		Change	Like-for-like change[ii]
	30 Sept 2016	30 Sept 2015		
Revenue	7,812	7,834	-22	-371
Underlying[i] Gross Margin %	23.4%	22.6%	+80bps	+80bps
Underlying[i] Profit from Operations (Underlying EBIT)	308	310	-2	-41
Profit from operations (EBIT)	205	211	-6	-45
Profit after tax	9	19	-10	-49
Basic EPS	0.8p	1.6p	-0.8p	-
Underlying EPS	8.5p	8.9p	-0.4p	-
DPS	0.5p	-	+0.5p	-
Net Debt	(129)	(128)[iii]	-1	+56[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. Separately disclosed items are detailed on page 17

(ii) ‘Like-for-like’ change adjusts for the impact of disposals, foreign exchange translation, fuel. The detailed like-for-like adjustments are shown on page 11

(iii) Sept 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 £11 million (FY16: £16 million)

(iv) ‘Like-for-like’ net debt adjusts the prior year comparative for foreign exchange translation and the impact of changing finance lease arrangements which totalled £57 million resulting in FY15 like-for-like net debt of £185 million

Performance in line with Q3 expectations

- Revenue maintained: Turkey impact offset by shift to alternative destinations and currency translation
- Gross margin of 23.4%, up 80 basis points, reflecting focus on our improved holiday offering
- Underlying EBIT of £308 million
- Record underlying EBIT margins in UK and Northern Europe; difficult year for Condor
- Profit after tax of £9 million
- Recommended dividend of 0.5 pence per share

Focus on quality and service delivered record customer satisfaction

- Group Net Promoter Score (‘NPS’) up 6 points overall in Summer 2016
- Increased focus on own brand hotels resonating: NPS up 7 points in Summer 2016
- Increasing direct contact with customers: controlled distribution up 1% pt, web share up 3 % pts

Transforming the business for sustainable growth through our New Operating Model

- Building on success of own brand hotels: 14 new hotels in pipeline so far
- Strengthening our holiday offering by streamlining portfolio of selected high-quality partner hotels
- Growing sales of personalised services for customers: sales of ancillaries up 9%
- Improving efficiency of our complementary offering through Webjet hotel sourcing partnership
- New Operating Model delivering financial benefits as planned; EBIT targets increased to FY19

Peter Fankhauser, Chief Executive of Thomas Cook said:

“In what’s been a difficult year for tourism, I’m pleased with the progress that we’ve made at Thomas Cook. The early actions we took to shift our holiday programme into the Western Mediterranean and long haul, together with the benefits of a stronger Euro, helped us to maintain revenue at Group level. Additionally, a focus on holidays to our own-brand and partner hotels delivered record profit margins in our UK and Northern European businesses. Underlying operating profit for the group was £308 million. This reflects the decline in customer demand for Turkey, which impacted Condor in particular, and the effect on our Belgian business of the Brussels attacks.

“Meanwhile, we’ve made big strides towards our target to put the customer back at the heart of the business. Our strategy is clear: to deliver sustainable growth by giving our customers great holidays which inspire them to come back to Thomas Cook and recommend us to their family and friends. This renewed focus on quality and service delivered a six-point increase in customer satisfaction in Summer 2016 telling us that the changes we’re making are having an impact where it matters most.

“Right across our business we’re making customers’ experience of our holidays better. By focusing on fewer hotels, we can have a bigger influence on quality and service, whether that’s a promise to fix any issues within 24 hours or the reassurance of regular checks on health and safety standards.

“We’re also building a stronger portfolio of own-brand hotels, with the aim of increasing the proportion that we manage ourselves. This will enable us to offer holidays that are unique to Thomas Cook and to attract a new generation who might have thought a package holiday wasn’t for them. We’re building momentum with 14 new hotels in the pipeline to open in the next two years, including the roll-out of Casa Cook into Kos and Mallorca and a new Ocean Beach Club in Cyprus.

“Our renewed focus on the customer has breathed new energy into the business and I’m proud of the way that our people, in our markets and in resort, have embraced the challenge. It is these efforts to create lifelong advocates for Thomas Cook that will generate greatest value in the future.

“Given the environment, the Board’s recommendation to pay a dividend, our first in five years, reflects confidence in the strategy and the opportunity for sustainable, profitable growth.

“We’re taking a cautious approach to the year ahead. We’ve had an encouraging start to bookings for Summer 2017 in our key markets, but it is early days. In addition, we are addressing the decline in Condor’s profitability with actions that we expect to have a positive impact in the second half of the year. Overall, we are confident that our strategy for profitable growth, focusing on improving our holidays for customers, will help us to achieve a full year operating result in line with current market expectations.”

Presentation to equity analysts

A presentation will be held for equity analysts and investors today at 09.00 GMT at Farmers & Fletchers In the City, 3 Cloth Street, London EC1A 7LD. A live webcast of the presentation will be available via the following link and dial in:

http://webcasts.thomascookgroup.com/thomascook012/default.asp

United Kingdom 020 3059 8125
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Forthcoming announcement dates

The Group intends to announce its results for the first quarter ended 31 December 2016 on 9 February 2017.

Enquiries

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FINANCIAL HIGHLIGHTS

- Group revenue in line with last year at £7,812 million (FY15: £7,834 million), as the impact of lower demand to Turkey was offset by shifting our holiday programme to alternative destinations, and by positive foreign exchange translation. On a like-for-like basis (excluding the FX translation impact), Group revenue fell by 5%
- Gross margin grew by 80 basis points to 23.4%, reflecting an improved holiday offering and more effective capacity management
- Underlying EBIT slightly down at £308 million (FY15: £310 million), including a £39 million benefit from positive foreign exchange translation, in spite of significant disruption in some of our key source and destination markets. On a like-for-like basis, underlying EBIT fell by £41 million:
  - The UK business continued to strengthen, achieving a record underlying EBIT margin of 6.4%, 150 basis points above last year (FY15: 4.9%). Underlying EBIT grew by £33 million to £152 million (FY15: £119 million)
  - Northern Europe delivered record profits, increasing underlying EBIT on a like-for-like basis by £22 million to £124 million (FY15 like-for-like: £102 million) representing a margin of 11.0%, 180 basis points above last year (FY15 like-for-like: 9.2%)
  - In Continental Europe, underlying EBIT declined by £22 million on a like-for-like basis to £72 million (FY15 like-for-like: £94 million). Profits were impacted by weak consumer confidence in Germany and in Belgium, following the Brussels terror attacks. However, profits in Russia grew despite the travel ban from Russia to Turkey, and losses in our French business were further reduced
  - In Condor, underlying EBIT declined by £76 million on a like-for-like basis, leading to an underlying operating loss of £10 million (FY15 like-for-like: £66 million profit), as it suffered from significantly lower demand to Turkey and overcapacity in the short and medium haul sector
- Profit after tax of £9 million (FY15: £19 million). This has enabled the Board to recommend a dividend payment for the first time in five years, of 0.5 pence per share, reflecting confidence in the future of the business as we deliver our strategy
- Net debt of £129 million (FY15: £128 million), representing an improvement of £56 million on a like-for-like basis. Free cash flow for the year was £56 million

CURRENT TRADING AND OUTLOOK

Summer 2016

Our Summer programme ended in October with no significant changes to the trading environment since we made our pre-close announcement on 27 September 2016.

Winter 2016/17

Trading for Winter is in line with our expectations. The Winter 2016/17 season is 61% sold for the Group, 2% higher than the same period last year. Overall Group bookings are 2% ahead of last year, and pricing is down 2%. We continue to adapt our destination strategy to changing customer demands with higher volumes to Spain and long-haul destinations, offsetting a continued shift away from Turkey and North Africa. Group bookings excluding Turkey are up by 5%.

In the UK, bookings are up by 2%, against a strong comparator this time last year, and average selling prices are up by 1%. Bookings are being driven by strong growth in charter risk package sales, up by 11%, and by seat only sales, up by 4%, offset by a reduction in lower margin non-risk sales. Contributing to this growth is the further expansion of our long haul programme, with new destinations including Cape Town and Tobago.

In Northern Europe, bookings are slightly behind last year's strong comparative performance, with pricing down by 2%. We are seeing strong demand into the Canaries and Cape Verde, and continue to focus on maximising yield and margin.

In Continental Europe, the demand weakness seen over the Summer has continued into the Winter. Bookings for Germany are down by 5%, mostly due to low demand for Turkey, while trading in Belgium remains challenging. This has been partially offset by a strong performance from our French and Russian businesses. Overall, bookings in Continental Europe are down by 4%; however, a focus on differentiated product, growth in long-haul holidays and the launch of our premium Signature brand in Germany has helped to drive average selling prices up by 5%.

Condor bookings are flat, with pricing down 4%. Yields continue to be impacted by weak demand and overcapacity. As a result, we are experiencing margin weakness behind the levels seen during the same period last year. In response to these market conditions, we have implemented a set of actions in Condor to improve profits, including reducing our exposure in the German short and medium haul sector, further expanding our successful long haul offering, and building more flexibility into flight plans. These actions are expected to positively impact Condor's financial performance, from the second half of 2017.

Winter 2016/17	Year-on-Year Variation %			
	Bookings(i)	ASP(i)	% Sold(ii)	Bookings ex Turkey(i)
UK	+2%	+1%(iii)	60%	+4%
Continental Europe	-4%	+5%	58%	+1%
Northern Europe	-1%	-2%	74%	+1%
Airlines Germany (Condor)	Flat	-4%	55%	+4%
Total	**+2%**	**-2%**	**61%**(iv)	**+5%**

Based on cumulative bookings to 19 November 2016

Notes:
(i) Risk and non-risk customers
(ii) Risk customers only
(iii) UK average selling price is up by 3% for charter risk and down 5% for seat only, resulting in a 1% increase on a blended basis
(iv) For the tour operator only, the Winter 2016/17 season is 70% sold, 2% below last year

Summer 2017

For Summer 2017, we have seen an encouraging early start to trading, with bookings ahead across all segments. Our UK business, which tends to have an earlier booking pattern compared to other source markets, is currently 20% sold, in line with last year. Our strategic focus to deliver better holiday experiences for our customers has helped to grow UK bookings by 2%. In particular, UK charter risk bookings are up 4%, to destinations including Spain, Greece, Bulgaria, Mexico and the Caribbean, and pricing is up by 8%.

Outlook

Based on current trading, we expect to see a continued strengthening of our tour operator businesses in FY17, underpinned by further financial benefits from our New Operating Model. We expect growth in these businesses to be weighted more towards our UK and Continental Europe businesses than to Northern Europe, which enjoyed an unusually strong year in FY16.

We are implementing profit improvement measures in Condor, and we expect these to positively impact Condor's performance in the second half of FY17, following continued weakness in the first half. For the Group as a whole, however, we are confident that we will achieve an operating result in FY17 in line with current market expectations, although, due to Condor, this may be more weighted towards the second half than usual.

PROGRESS IN EXECUTING OUR STRATEGY FOR PROFITABLE GROWTH

Our strategy is to grow profitably by consistently providing high quality, distinctive holiday experiences that both increase our customers' loyalty and attract a new generation of customers to Thomas Cook. At the centre of our strategy is our drive to put the customer at the heart of all that we do, recognising that satisfied customers are more likely to return to Thomas Cook and recommend us to others, leading to top line growth, lower customer acquisition costs and greater shareholder value.

We aim to grow sales and margins by improving our holiday offering through a focus both on own-brand hotels, which we have carefully chosen to meet the varying needs of holidaymakers, and a closely-managed portfolio of selected partner hotels. We will also grow sales of personalised services and ancillary products that give customers greater choice and flexibility when choosing their holiday.

Where it makes sense for our business, we will partner with third parties to target opportunities for growth in new markets as well as to supplement our own in-house expertise. Examples of such strategic partnerships are our China Joint Venture with Fosun and our hotel supply partnership with WebJet.

This strategy is being implemented through the New Operating Model, our multi-year business transformation programme which was described in detail at our FY15 full year results in November 2015. The financial benefits achieved from the New Operating Model in FY16 are described on pages 8 and 9.

Customer At Our Heart

Over the last 18 months we have been implementing a set of "Customer At Our Heart" initiatives aimed at ensuring we always give customers the very best holiday experience. We track our progress through our Net Promoter Score (NPS), which we measure in relation to our flights, our hotels and our customers' holiday experience overall. NPS is also now fully embedded into our management compensation framework. Over the Summer, our overall Group NPS increased by 6 points compared to Summer 2015, to 43, with improvements seen in every one of our source markets and our own-brand hotels.

Customer Care

A key differentiator of a Thomas Cook holiday is the level of care we provide to our customers, whether that is the reassurance of 24/7 support from our reps in resort, the certainty of our rigorous health & safety audit process, or the security of our assistance in the event of a crisis, small or large.

This Summer we successfully launched our 24-hour hotel satisfaction promise across 1,600 hotels, committing to resolve any problems our customers may have, on arrival at their hotel, within 24 hours. Customer feedback has been overwhelmingly positive, with NPS in our 24-hour promise hotels 9 points higher on average than in our other hotels. Accordingly, we plan to further extend this programme for Summer 2017.

We have also made a step change in our approach to health & safety standards. We have committed to more than double our investment in health and safety over two years and to grow our specialists in house by 50%. By Summer 2017, all of our own-brand and selected partner hotels will be subject to an annual physical health & safety audit, with more detailed audits conducted for pool safety as standard.

Customer Contact

We want to be as close to our customers as possible, being easily accessible online, by phone or in-store – or in destination during their holiday. This direct contact with customers through the channel of their choice enables us to build strong customer relationships, improve loyalty and provide more personalised services.

A key measure of direct customer contact is controlled distribution, which indicates how much of our sales are through in-house channels rather than through third party agents. In FY16, we improved controlled distribution by one percentage point, from 66% to 67%.

We've made good progress on the web, which in FY16 accounted for 43% of holidays sold across the Group, compared to 40% in FY15. In the UK, online sales grew by 9%, while in Germany, where we launched a new web platform earlier in the year, online sales grew by 13% compared to FY15.

We continue to invest in OneWeb, our international web platform, which is fully live in the UK and currently being trialled in Belgium and the Netherlands. We believe a common web platform will lead to further improvements in web performance across the Group and more efficient web development.

The increasing use of smartphones for online transactions and web browsing presents us with a significant opportunity to deepen our customer relationships. Through our digital companion apps, live in Northern Europe, the UK and Germany, customers are able to access their booking, make balance payments, view in-resort information and book excursions. So far, these apps have been downloaded 1.3 million times.

Alongside progress in our web offering, we continue to optimise the profitability of our retail store network, which in the UK now consists of 790 stores. As previously announced, we plan to close around 30 of the less profitable stores in the coming months, offset by a small number of openings planned in high footfall areas.

Holidays

Our core holiday offering is focused on higher margin holidays, both to our own-brand hotels and to a closely managed portfolio of selected partner hotels, which are differentiated by our focus on quality, our deep relationships with hotel partners, our in-destination support staff and, in some cases, full Thomas Cook exclusivity.

In FY16 sales of differentiated holidays increased by 8% compared to the previous year (excluding holidays to Turkey, Egypt and Tunisia, where volumes fell due to geopolitical disruption), reflecting continuing strong demand for these higher margin holidays.

Own-brand hotels

We currently own, lease, manage or franchise around 190 own-brand hotels, located across 16 destination countries and operating under six brands – Casa Cook, Sunwing, Sunprime, Sunconnect, Sentido and Smartline – enabling us to offer a consistent and high quality experience. In FY16, sales of holidays to own-brand hotels increased by 18% (excluding holidays to Turkey, Egypt and Tunisia).

We further developed our own-brand portfolio during the year by opening new, high-quality hotels aimed at generating superior returns and bringing new customers to Thomas Cook. In December 2015 we opened the Ocean Beach Club by Sunwing in Gran Canaria, a premium family hotel providing 137 rooms available all year round, with a guest satisfaction rating of 4.7 out of 5. In May 2016 we opened our first Casa Cook in Rhodes, a new lifestyle concept hotel providing 93 new hotel rooms aimed at independent modern travellers. Over the Summer, Casa Cook achieved one of our highest hotel NPS scores and successfully attracted a completely new set of customers, with over 90% of Casa Cook guests being new to Thomas Cook.

We currently have 14 further new hotel openings planned over the next two years, including two new Casa Cook hotels in Kos and Mallorca, an Ocean Beach Club by Sunwing in Cyprus, and a Sentido in Sicily. Our aim is, over time, to rely less on franchise arrangements and to increase the proportion of own-brand hotels that we manage ourselves, in order to increase our direct influence over our own-brand hotels.

Selected high quality partner hotels

Alongside our own-brand hotels, we also offer holidays to a closely managed portfolio of selected partner hotels, chosen on the basis of quality and high standards. Our aim is to streamline this portfolio, consolidating our volumes into a smaller number of hotels, in order to improve hotel utilisation, maintain deep relationships with hoteliers, and agree more exclusive terms. In 2016, we offered approximately 3,600 differentiated hotels (including both own-brand and selected partner hotels), a reduction of around 300 compared to the previous year.

This is consistent with our overall strategy to significantly reduce the number of hotels with which we have direct relationships, from around 10,000 hotels (including complementary hotels), to a target of around 3,000 hotels by FY19. We believe this will lead to a higher quality customer experience supported by a significantly less complex and more efficient business.

We also support our own-brand and partner hotels with resources to enable them to provide the best possible service and customer care. Over the last year we created an Academy of Excellence, which offers quality management training and consulting services to our partner hotels, in areas such as food presentation, housekeeping, and online reputation management. During the summer the Academy worked with over 100 hotels, which achieved significantly higher ratings as a result.

Our airlines

Over the last four years we have increasingly integrated our four airlines into a single airline system, with common operational and support functions. This has enabled us to significantly invest in the quality of our fleet of 94 aircraft, 25 of which are brand new, and most of the remainder fully refurbished. In 2016, our UK airline won the award for "European Charter Airline of the Year" for the second year running, recognising our ongoing commitment to customer service.

We continue to grow our long-haul business with overall revenues from long-haul up by 13% during the year. We have launched 10 new long haul routes, including Manchester to Los Angeles and Frankfurt to Austin, and announced new routes for this year including Gatwick to Cape Town and Munich to Barbados. This has resulted in Winter 2016/17 long-haul bookings increasing by 18% in the UK.

Over the last year Condor, our German airline, has been impacted by tough trading conditions, including weak demand especially for Turkey, and overcapacity on certain key routes. In our Belgian airline, profits also declined due to the Brussels attack. In contrast, our UK and Scandinavian airlines, which are strongly supported by our tour operator, performed well during the year. The financial performance of our airlines is further discussed on page 17.

The financial performance of Condor has led us to implement various profit improvement initiatives. These are described on page 16.

Services

We offer a variety of ancillary products which allow customers to personalise their holiday while providing Thomas Cook with a valuable incremental source of revenue and margin. These include travel and booking insurance, airline meals and seat selection, extra luggage, private transfers, room upgrades, excursions and entertainment while in destination. In FY16 we increased our revenue from ancillary sales by 9%, as we improved the way we present ancillary offers to customers during the pre-departure period.

Alongside ancillaries, we have renewed our focus during the year on financial services, including in the UK where we were one of the first providers to launch an innovative multi-currency prepaid travel money card – Thomas Cook Cash Passport. We were also the first tour operator to offer payment by direct debit online in the UK, allowing customers easily to spread their holiday payments over the pre-departure period.

Building on these existing strengths, we are today announcing the appointment of Anthony Mooney as Chief Financial Services Officer. In his new role, Anthony will take responsibility for Thomas Cook's financial services products. Anthony joins Thomas Cook from Virgin Money, where he was Director of Financial Services.

Partnerships

Our core areas of strategic growth are complemented by our key partnerships across various areas of the business as we look to offer our customers choice and breadth when booking their next holiday.

Complementary hotel sourcing partnerships with Webjet

In August 2016 we announced a strategic hotel sourcing partnership with WebJet, a leading online digital services provider, under which we will transfer around 3,000 complementary hotel contracts to Sunhotels, Webjet's European online accommodation business. By moving the direct contracting for these hotels to a trusted partner, we are better able to harmonise and simplify our IT platforms and business processes across the Group, delivering cost savings by reducing complexity, and allowing us to focus on growing our core differentiated holiday offering. We will also gain access to Sunhotels existing portfolio of 7,000 directly contracted hotels, broadening range and choice for our customers.

Thomas Cook China

Thomas Cook China, our joint venture with Fosun, was officially launched in September 2016. The joint venture offers both inbound services to customers travelling to China, and outbound services for Chinese customers travelling to destinations around the world.

China is already the largest and fastest growing travel market in the world, although it is also highly competitive and fragmented. The travel behaviour of Chinese travellers is changing quickly, moving away from traditional mass-market group tours, towards more premium and personalised holiday experiences. Thomas Cook China is targeting the more affluent independent traveller segment, leveraging both Thomas Cook's and Fosun's tourism resources to provide innovative and differentiated holiday packages.

Since the opening of our Shanghai offices in October 2015, we have set the foundations of our business, from acquiring the necessary licences to establishing both online and offline distribution channels. Customers can now choose from a range of personalised holiday packages to over 40 regions including South East Asia, Europe and the Americas, which are available on our website (thomascook.com.cn) and other third party e-commerce platforms. Thomas Cook China currently has around 50 employees, operating from offices in Shanghai and Beijing. Thomas Cook China has developed ahead of expectations so far, and we expect the business to grow significantly in the coming years.

Operational efficiencies and streamlined organisational structure

Underpinning our strategy is the aim to operate efficiently and minimise costs in all areas of our business. A rigorous focus on cost enables us to offer our customers better value for money. We have made good progress during the year in moving to a matrix structure where horizontal group functions interact with vertical source market businesses, helping to reduce duplication and share best practice across the Group.

Key areas where we have been able to extract efficiencies include reducing IT complexity across our source markets and rationalising marketing activities, particularly in the UK and Germany. Overall, we have generated cost savings of £27m during the year. As we move forward, we expect to significantly reduce operating costs in our Continental Europe business by removing duplication within tour operating, marketing and finance functions and to streamline IT processes.

Benefits from the New Operating Model and progress towards targets

Our strategic progress has been implemented through the New Operating Model, our multi-year business transformation programme. At our full year results in November 2015 we set out our financial targets relating to the New Operating Model. Progress against these targets is discussed below.

Revenue growth

Our revenue growth ambitions were impacted by geopolitical disruption in some of our key source and destination markets. Nevertheless, assuming a more stable environment, we expect from FY17 to meet our target of achieving revenue growth at least in line with the European leisure travel market, which we estimate will grow, on average, between 2% and 3% per year.

Annual EBIT benefits

In FY16, the first year of this programme, the New Operating Model generated net EBIT benefits of £26 million, in line with our expectations, and contributing towards the total annual net benefit target of £100 million to £120 million by FY18. These benefits were generated as follows:

- £1 million from higher room rates in our own brand hotels;
- £5 million from the growth in higher margin differentiated hotels, as revenues from the sale of differentiated holidays increased by 8% (excluding Turkey, Egypt and Tunisia), and £1 million from improvements in our complementary offering;
- £12 million from ancillary sales, which increased by 9% in FY16;
- £17 million from lower commissions and other retail efficiencies relating to the growth of our web channel from 40% of Group bookings last year to 43% this year, as part of our omni-channel customer contact strategy; and
- £27 million from efficiencies including simplifying IT systems and eliminating duplicated activities.

These gross benefits were offset by £24 million of increased depreciation, mainly in our Group airlines, and £13 million of overhead cost inflation. The benefits have been achieved having incurred one-off implementation costs so far of £25 million in FY15 and £50 million in FY16.

Cash conversion

Our cash conversion measure represents the proportion of underlying profit before tax that is converted into free cash flow. In FY16 we achieved cash conversion of 70%, in line with our annual target, after adjusting for working capital timing differences. These adjustments are explained on page 19.

Fixed-term debt reduction

Having repaid £100 million of our 2017 bond during the course of the year, we are on track to achieve our target fixed-term debt reduction of £300 million by FY18. This is discussed further below.

Increased target New Operating Model benefits to FY19

Reflecting the confidence we have in the continued success of the New Operating Model, we now expect it to deliver further financial benefits beyond FY18. We are therefore announcing an additional target EBIT benefit of a further £30 million in FY19, driven mainly by increased efficiencies. This takes our target annual net EBIT benefits from the New Operating Model to between £130 million and £150 million by FY19.

In order to deliver these additional benefits, we expect total New Operating Model implementation costs to increase by £30 million, to £130 million over the five years from FY15 to FY19.

Financing progress

The reduction of interest costs is a priority for the Group, as we move towards a more efficient capital structure with less fixed term debt. We made significant progress on this during the year, reducing our fixed term debt by £100 million through an early partial buy back of the 2017 bond. This improves the efficiency of our capital structure, and keeps us on track to reduce fixed term debt by £300 million by FY18.

During the year we secured a new two-year facility providing up to a further £150 million of liquidity. This is in addition to our existing £800 million revolving credit and bonding facilities. As well as providing additional liquidity for the Group, this new facility gives the Group more flexibility when considering its financing options. We expect to continue to manage our liquidity requirements through both the banking and bond markets, taking advantage of lower pricing where possible.

During the year, Moody’s provided a first time credit rating (B1) for the Group, one notch rating higher compared to Standard & Poor’s and Fitch. This keeps us on track to increase our rating in the future as we reduce leverage, which would further enhance our access various sources of finance at a lower cost.

Distribution to shareholders

The Board has proposed a final dividend of 0.5 pence per share, representing a distribution to shareholders of £7.7 million. This is Thomas Cook’s first dividend for more than five years, and reflects the significant progress achieved so far in transforming the Group, and the confidence of the Board in the Group’s future.

Our policy is to target a payout ratio of between 20% and 30% of reported net profit (after exceptional items) each year. Given the unusual levels of market disruption seen in 2016, and the impact this has had on earnings, the Board has chosen to propose a dividend in respect of FY16 which represents a payout ratio in excess of the target.

In the future, however, and subject to market conditions, we expect our dividend payout ratio to be in line with our policy. 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 9 March 2017 and, subject to shareholder approval at the 2017 Annual General Meeting, the final dividend of 0.5 pence per share will be paid on 5 April 2017 to shareholders on the register at the close of business on 10 March 2017.

OPERATING AND FINANCIAL REVIEW

£m	12 months ended 30 Sep 2016	12 months ended 30 Sep 2015	Change	Like-for-like Change [(ii)]
Revenue	7,812	7,834	-22	-371
Gross profit	1,831	1,774	+57	-22
Gross Margin (%)	23.4%	22.6%	+80bp	+80bp
Operating expenses	(1,523)	(1,464)	-59	-19
Underlying[(i)] profit from operations (Underlying EBIT)	**308**	**310**	**-2**	**-41**
EBIT Separately Disclosed Items	(103)	(99)	-4	-4
Profit from operations (EBIT)	**205**	**211**	**-6**	**-45**
Associated Undertakings	-	8	-8	-8
Net finance charges (underlying)	(140)	(141)	+1	+1
Separately disclosed finance charges	(23)	(28)	+5	+5
Profit before tax	**42**	**50**	**-8**	**-47**
Tax	(33)	(31)	-2	-2
Profit after tax	**9**	**19**	**-10**	**-49**
Basic EPS	0.8p	1.6p	-0.8p	-
Underlying EPS	8.5p	8.9p	-0.4p	-
DPS[(iii)]	0.5p	-	+0.5p	-
Free cash flow[(iv)]	56	161	-105	-
Net debt[(v)]	(129)	(128)	-1	+56[(vi)]

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. Separately disclosed items are detailed on page 17
(ii) 'Like-for-like' change adjusts for the impact of foreign exchange translation, fuel. The detailed like-for-like adjustments are shown on page 11
(iii) Dividend per share of 0.5 pence is equivalent to a cash cost of £7.7 million
(iv) 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 19, and a reconciliation of free cash flow is shown on pages 23 and 24
(v) Net debt is a measure that management use to manage the balance sheet and capital structure. Sept 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 £11 million (FY16: £16 million)
(vi) 'Like-for-like' net debt adjusts the prior year comparative for foreign exchange translation and the impact of changing finance lease arrangements which totalled £57 million, resulting in FY15 like-for-like net debt of £185 million

Overview

The comments below are based on like-for-like comparisons unless otherwise stated, as Management believes this provides a clearer view of on-going business performance

The Group's financial performance in FY16 demonstrates the improved underlying strength of our business, together with an increased resilience to external factors. During the year, we experienced weaker customer demand, particularly in Germany and Belgium, combined with unprecedented levels of disruption in some of our major destinations, such as Turkey and North Africa.

Despite these headwinds, the Group achieved a satisfactory result, with underlying EBIT of £308 million and a profit after tax for the second consecutive year. Recognising the significant progress that we have made in recent years in transforming Thomas Cook, and reflecting the improved underlying strength of our business, the Board has decided to recommend the payment of a dividend for the first time in five years.

Group revenue for the year decreased by £371 million (4.5%) to £7,812 million. This was mainly due to lower customer demand to Turkey, where the Group is market leader, and to North African destinations such as Egypt and Tunisia, resulting in sales to those destinations declining by over £800 million (around 50%). Anticipating this shift in demand, we took proactive steps to switch our capacity commitments from the Eastern Mediterranean to other markets, such as the Spanish Islands, and to further expand our successful long haul programme.

Gross margin increased by 80 basis points to 23.4%. This reflects our effective capacity management and improved customer offering, which offset significant yield pressures in Condor, our German airline, caused by weak demand for Turkey and continuing overcapacity in the short and medium haul sector.

Free cash flow for the year was £56 million (FY15: £161 million), reflecting growth in Group EBITDA of £28 million to £512 million. Cash flow performance was below the high level achieved in FY15 when, as previously disclosed, our working capital position was improved by a £60 million timing benefit which reversed in Q1 FY16.

Group net debt at 30 September 2016 was £129 million which, represents an underlying reduction of £56 million during the year, including the impact of non-cash changes such as foreign currency translation.

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. Accordingly, to assist in understanding the impact of those factors, and to better present underlying year-on-year changes, 'like-for-like' comparisons with FY15 are presented in addition to the change in reported numbers.

The 'like-for-like' adjustments to the Group's FY15 results and the resulting year-on-year movements are as follows:

Group	Revenue £m	Gross Margin %	Operating Expenses £m	Underlying EBIT £m
FY15 Reported	**7,834**	**22.6%**	**(1,464)**	**310**
Impact of Currency Movements	463	(0.3)%	(40)	39
Reduced fuel cost	(114)	0.3%	-	-
FY15 Like-for-like	**8,183**	**22.6%**	**(1,504)**	**349**
FY16 Reported	**7,812**	**23.4%**	**(1,523)**	**308**
Like-for-like change (£m)	-371	n/a	-19	-41
Like-for-like change (%)	-4.5%	+80bps	-1.3%	-11.7%

Primary segmentation

The Group reports the performance of its principal geographic source markets as its primary reporting segmentation, as that best represents the Group's integrated operating activities (tour operator and airline) and customer experience in each market. The exception to this is Condor, our German airline, which operates independently of our German tour operator and has a high proportion of third party customers.

Underlying EBIT by source market	UK £m	Continental Europe £m	Northern Europe £m	Condor £m	Corporate £m	Group £m
FY15 Reported	**119**	**71**	**96**	**56**	**(32)**	**310**
Impact of Currency Movements	-	23	6	10	-	39
FY15 Like-for-like	**119**	**94**	**102**	**66**	**(32)**	**349**
FY16 Reported	**152**	**72**	**124**	**(10)**	**(30)**	**308**
Like-for-like change (£m)	**+33**	**-22**	**+22**	**-76**	**+2**	**-41**
Like-for-like change (%)	**+27.7%**	**-23.4%**	**+21.6%**	**n/a**	**n/a**	**-11.7%**

Supplementary Information

In addition to the Group's primary reporting segmentation, we believe that it is helpful to provide supplementary information to give a better understanding of the separate financial performance of our tour operator and airline businesses. Although these functions are integrated to varying degrees in each of the Group's source markets, they are now separately reported for certain internal management purposes.

This supplemental information has been developed to improve financial reporting as part of our transformation. It is our intention to provide this financial information in future reporting periods.

Underlying EBIT by business line	Group Tour Operator £m	Group Airline £m	Corporate £m	Group £m
FY15 Reported	**202**	**140**	**(32)**	**310**
Impact of Currency Movements	27	12	-	**39**
FY15 Like-for-like	**229**	**152**	**(32)**	**349**
FY16 Reported	**255**	**83**	**(30)**	**308**
Like-for-like change (£m)	+26	-69	+2	-41
Like-for-like change (%)	+11.4%	-45.4%	n/a	-11.7%

Revenue

Group revenue decreased by £371 million (4.5%) on a like-for-like basis to £7,812 million. This reflects a reduction in customer demand for holidays to Turkey, Egypt and Tunisia by over £800 million (about 50%). Anticipating this change in customer preferences, we took proactive steps to switch our capacity commitments from the Eastern Mediterranean to other markets, which resulted in growth in holidays to Spain and the further expansion of our Long Haul programme to destinations such as the USA and Cuba.

The main components of the changes in like-for-like revenue by destination are as follows:

	£m	
FY15 Like-for-like Revenue	**8,183**	
Turkey	(604)	-47%
Egypt	(161)	-54%
Tunisia	(105)	-83%
Spain	183	+8%
Long Haul(i)	186	+17%
Croatia and Bulgaria	50	+16%
Other	80	+2%
FY16 Revenue	**7,812**	

Notes (i) Long Haul comprises the USA, Mexico, Cuba, Dominican Republic and Thailand

Gross Margin

Gross margin of 23.4% is 80 basis points ahead of last year reflecting the benefits of the Group's strategy to focus our customer offering including ancillaries, together with the expansion of our long haul programme, particularly in the Winter season, and the improved generation of ancillary income.

These benefits have been partially offset by yield reductions experienced in Condor due to continued over-capacity in the German short and medium haul flight sector, particularly in respect of flights to certain Spanish destinations, where market capacity increased significantly in the Summer season.

Operating Expenses / Overheads

Operating expenses before depreciation improved by £6 million (0.5%) to £1,319 million, due to the benefits of further cost control initiatives, offset by inflationary increases in the operating cost base. Depreciation has increased by £24 million (13%) to £204 million due to the full year effect of cabin refurbishments and IT developments during the second half of FY15.

£m	**Year Ended 30 Sep 2016**	**Year Ended 30 Sep 2015**	**Change**	**Like-for-like Change**
Personnel Costs	(882)	(859)	-23	+2
Net Operating Expenses	(437)	(431)	-6	+4
Sub Total	**(1,319)**	**(1,290)**	**-29**	**+6**
Depreciation and amortisation	(204)	(174)	-30	-24
Total	**(1,523)**	**(1,464)**	**-59**	**-18**

Underlying EBIT

The Group generated underlying EBIT of £308 million during the year, a reduction of £41 million (11.7%) compared to last year on a like-for-like basis.

The principal drivers of the Group's EBIT performance for the year are summarised below, including gross benefits of £63 million from the first year of our New Operating Model. This compares to our target for gross New Operating Model benefits of £180 million to £210 million by FY18, as announced in November 2015.

	£m
FY15 Like-for-like EBIT	**349**
Gross New Operating Model benefits	63
Depreciation(i)	(24)
Inflation	(13)
Condor EBITDA(i)	(65)
Belgium	(10)
Other	8
FY16 EBIT	**308**

Notes (i) Condor's change in depreciation is within the £24 million depreciation figure

EBIT

Statutory EBIT of £205 million represents a reduction of £45 million (18%) on a like-for-like basis. The reasons for this reduction are similar to the factors which caused a reduction in underlying EBIT, together with an increase in separately disclosed items to £103 million (FY15: £99 million) (see page 10).

SEGMENTAL REVIEW

Primary Segmentation: Performance by source market

During the year underlying EBIT declined by £41 million on a like-for-like basis, analysed as follows:

£m	UK	Continental Europe	Northern Europe	Condor	Corporate(i)	Group
Revenue	2,365	3,435	1,132	1,253	(373)	**7,812**
Gross Margin (%)	29.1%	14.0%	30.4%	25.1%	n/a	**23.4%**
Underlying EBIT	**152**	**72**	**124**	**(10)**	**(30)**	**308**
Departed Customers (000's)	**5,809**	**6,627**	**1,614**	**7,269**	**(2,213)**	**19,106**
Underlying EBIT Change	+33	+1	+28	-66	+2	**-2**
Like-for-Like Underlying EBIT Change	**+33**	**-22**	**+22**	**-76**	**+2**	**-41**

Notes (i) Negative revenue and customers reported in Corporate is a result of intercompany eliminations

The financial performance of each segment is considered below:

United Kingdom & Ireland

£m	FY16	FY15	Change	FY15 Like-for-Like(i)	Like-for-Like Change
Revenue	2,365	2,457	-92	2,408	-43
Gross Margin (%)	29.1%	26.7%	+240bps	27.2%	+190bps
Underlying EBIT	**152**	**119**	**+33**	**119**	**+33**
Underlying EBIT margin (%)	6.4%	4.9%	+160bps	4.9%	+150bps
Departed Customers (000's)	5,809	6,109	-300	5,803	-6

Notes (i) The trading 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

Our UK business has reported a fourth consecutive year of EBIT improvement, growing its EBIT margin to 6.4% from close to zero in FY12. This represents a record margin for our UK business, which was the principal beneficiary of the initial phase of our transformation programme, including simplifying our brands, rationalising our store network, developing our web proposition and improving the quality of our differentiated holidays. While the profitability of our UK business has improved significantly since 2012, we believe that further growth will be delivered through our New Operating Model from continuing improvements in the quality of our hotel portfolio and refinements to the functionality and content of our online offering.

Revenue of £2,365 million is £43 million (1.8%) lower than the prior year, as reduced customer demand to Turkey was partly offset by higher sales to Spain and further expansion of our long haul programme. Within our package offering, we were able to offer a higher proportion of holidays to our own-brand hotels, and benefited from a change in destination mix which contributed to an increased average selling price. These factors helped achieve an underlying gross margin increase of 190 basis points to 29.1%.

Underlying EBIT for FY16 of £152 million is £33 million (28%) higher than last year, representing a 150 basis point improvement in EBIT margin from 4.9% to 6.4%. This improved performance was underpinned by further enhancements to the functionality of our OneWeb platform, which was first launched during FY14. This improvement in our online capability will facilitate a more efficient distribution structure and enable us to further refine our UK retail network to focus on the most profitable locations.

Continental Europe

£m	FY16	FY15	Change	FY15 Like-for-Like(i)	Like-for-Like Change
Revenue	3,435	3,449	-14	3,763	-328
Gross Margin (%)	14.0%	13.5%	+50bps	13.4%	+0.6%
Underlying EBIT	**72**	**71**	**+1**	**94**	**-22**
Underlying EBIT margin (%)	2.1%	2.1%	Flat	2.5%	-40bps
Departed Customers (000's)	6,627	7,061	-434	7,367	-740

Notes (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

Revenue and underlying EBIT performance by key geographical market within Continental Europe is set out below

Revenue and EBIT by Market

£m	FY16	FY15	Change	FY15 Like-for-Like	Like-for-Like Change
Revenue					
- Central Europe(i)	1,956	1,944	+12	2,107	-151
- East/West(ii)	1,023	1,084	-61	1,193	-170
- Other(iii)	456	421	+35	463	-7
Total	**3,435**	**3,449**	**-14**	**3,763**	**-328**
Underlying EBIT					
- Central Europe(i)	42	51	-9	52	-10
- East/West(ii)	4	7	-3	14	-10
- Other(iii)	26	13	+13	28	-2
Total	**72**	**71**	**+1**	**94**	**-22**

Notes (i) Central Europe includes: Germany and Austria
(ii) East/West includes: Belgium; Netherlands; France; Russia; Poland; Hungary; and the Czech Republic
(iii) "Other" includes: the head office functions based in Germany; In-Destination Services; our hotel accommodation businesses based in Switzerland; and other support functions

Revenue of £3,435 million was £328 million (9%) lower than last year, primarily due a significant reduction in demand to Turkey (down by £369 million), where we are market leaders. As a result, Continental Europe businesses reported underlying EBIT of £72 million, £22 million lower than last year.

As we indicated last year, we have implemented several initiatives in our Central Europe business (Germany and Austria), including strengthening our management team, improving our distribution relationships and implementing a new web platform. These actions have further improved the resilience of our German business in a challenging market and have positioned it for profitable growth in the future.

However, market conditions in Germany remained challenging in FY16, with a decline in customer demand of around 10%, mainly for holidays to Turkey where our German tour operator is a market leader. As a result, although the implementation of the actions summarised above enabled our German business to outperform the market, underlying EBIT for Central Europe of £42 million was £10 million lower than last year.

Within East/West, our Belgian business reported a decline in underlying EBIT of £9 million compared to last year due primarily to the terrorist attack at Brussels airport in March 2016, which resulted in significant operational disruption and a subsequent sharp decline in customer demand. Our other East/West markets recorded underlying EBIT results slightly ahead of the prior year, as losses in France reduced by £5 million to £8 million and profitability in Russia improved by £2 million by focussing its activities on domestic tourism during a period when there was a ban on outbound travel from Russia to Turkey.

Our other businesses within Continental Europe delivered EBIT of £26 million, a reduction of £2 million compared to last year. These include our City and Domestic hotel accommodation business and our "In Destination" operations.

Northern Europe

£m	FY16	FY15	Change	FY15 Like-for-Like	Like-for-Like Change
Revenue	1,132	1,057	+75	1,107	+25
Gross Margin (%)	30.4%	27.9%	+250bps	27.6%	+280bps
Underlying EBIT	**124**	**96**	**+28**	**102**	**+22**
Underlying EBIT margin (%)	11.0%	9.1%	+190bps	9.2%	+180bps
Departed Customers (000's)	1,614	1,698	-84	1,698	-84

Our Nordic business reported a record result in FY16, with underlying EBIT of £124 million, £22 million better than last year on a like-for-like basis, which is equivalent to a market-leading EBIT margin of 11%.

Revenue of £1,132 million was £25 million (2.3%) higher than last year demonstrating the strong differentiation of our holiday offering, which has maintained an unrivalled popularity with our customers, together with a strong ancillary sales performance.

Stronger Winter trading resulted from maintaining risk capacity while the market in general sought to reduce capacity commitments, positioning the business well to take advantage of poor weather in the early part of the booking period.

During the year, the business focused on strengthening the number of customer touch points and increasing sales of our ancillary products, as well as further expanding our range of own brand hotels. We opened a new Ocean Beach Club by Sunwing in Winter 2015/16, which has been a successful new brand in terms of customer demand and profitability. These initiatives, combined with proactive and selective capacity cuts to our Summer programme, enabled our Nordic business to further grow its industry leading margins.

As a result, gross margin increased by 280 basis points to 30.4%.

Condor (Airlines Germany)

£m	FY16	FY15	Change	FY15 Like-for-Like	Like-for-Like Change
Revenue	1,253	1,257	-4	1,291	-38
Gross Margin (%)	25.1%	28.4%	-330bps	29.8%	470bps
Underlying EBIT	**(10)**	**56**	**-66**	**66**	**-76**
Underlying EBIT margin (%)	(0.8)%	4.5%	-530bps	5.1%	-590bps
Departed Customers (000's)	7,269	7,713	-444	7,713	-444

Condor, our German airline, has been significantly affected by German market developments including weak demand, especially for Turkey where it is a market leader, and general overcapacity in the short and medium haul sector. These developments have led to significant yield pressures, particularly for flights to the Canaries and Balearics during the peak Summer period. Given the relatively fixed nature of an airline's operating cost base, the yield decline had a direct impact on underlying EBIT which fell by £76 million, with Condor reporting a loss of £10 million for FY16.

Revenue of £1,253 million reduced by £38 million (2.9%) primarily due to a 6% decrease in departed customers due to lower market demand, together with lower yields in the Summer season. This reflects a reduction in revenue in the short and medium haul sector, particularly to Turkey, which was only partially mitigated through the expansion of the long haul offering. Load factors fell to 89.2% from 91.6% last year, whilst yields fell to £95 per seat from £105 per seat last year.

In response to these challenging market conditions, we have implemented several initiatives to improve Condor's performance, including reducing our exposure in the German short and medium haul sector, further expanding our successful long haul offering in Summer, and building more flexibility into flight plans. These actions will be underpinned by a closer co-operation with our German tour operator, to take advantage of economies of scale.

Corporate

£m	FY16	FY15	Change	FY15 Like-for-Like	Like-for-Like Change
Operating Expenses	(30)	(32)	+2	(32)	+2
Underlying EBIT	**(30)**	**(32)**	**+2**	**(32)**	**+2**

Corporate operating expenses of £30 million were £2 million lower than last year reflecting cost efficiencies in our central support functions.

Supplementary Information: Performance by Business Line

A review of the financial performance of each of the Group's principal business lines is set out below.

Group Tour Operator business

£m	FY16	FY15	Change	FY15 Like-for-Like	Like-for-Like Change
Revenue	6,278	6,366	-88	6,740	-462
Gross Margin (%)	16.9%	15.6%	+130bps	15.5%	+140bps
Underlying EBIT	**255**	**202**	**+53**	**229**	**+26**
Underlying EBIT margin (%)	4.1%	3.2%	+90bps	3.4%	+70bps
ASP (£)	578	530	+48	577	+1

Tour Operator revenue of £6,278 million was £462 million (6.8%) lower than last year due to a reduction in departed customers. However, demand for our differentiated product and a change in destination mix has resulted in a 70 basis point improvement in underlying EBIT margin to 4.1% in FY16.

The Group's Tour Operator businesses generated underlying EBIT of £255 million, £26 million (11.4%) higher than in the prior year. Total first year benefits from our New Operating Model have underpinned EBIT growth in our tour operator businesses, especially in the UK and Northern Europe.

Group Airline business

	FY16	FY15	Change	FY15 Like-for-Like	Like-for-Like Change
Revenue (£m)	2,825	2,806	+19	2,809	+16
Gross Margin (%)	27.2%	27.7%	-50bps	28.6%	-140bps
Underlying EBIT (£m)	**83**	**140**	**-57**	**152**	**-69**
Underlying EBIT margin (%)	2.9%	5.0%	-210bps	5.4%	-250bps
Average Seat Kilometre (ASK) (m)	66,776	64,925	+1,851	64,925	+1,851
Seat Load Factor (SLF) (%)	89.3%	91.1%	-180bps	91.1%	-180bps
Long Haul Yields per seat (£)	299	296	+3	308	-9
Short Haul Yields per seat (£)	104	106	-3	111	-7

Overall Airline revenue increased by 0.6% to £2,825 million as further expansion of our long haul business from the UK and Germany has mitigated yield pressures and lower demand in the short and medium haul sector, particularly in Germany and Belgium.

The Group's Airline generated underlying EBIT of £83 million, £69 million less than in the prior year, impacted by lower profitability in Condor. As a consequence, although further cost efficiencies were delivered, yields for both long haul and short haul fell by £9 (3%) and £7 (6%) per seat respectively, with a direct impact of profitability.

OTHER FINANCIAL ITEMS

Net Finance Costs

Group finance costs for the year of £140 million were broadly in line with last year (FY15: £141 million). This consisted of net interest charges before aircraft financing of £121 million (FY15: £124 million) and aircraft financing charges totalling £19 million (FY15: £17 million). A detailed analysis of net finance costs is set out Note 5 on page 33.

Separately Disclosed Items

Net Separately Disclosed Items in FY16 comprised a charge of £126 million, which is £6 million higher than the prior year (FY15: £120 million) as analysed below:

£m	**FY16**	**FY15**
New Operating Model implementation costs	(50)	(25)
Restructuring costs	(20)	(27)
Onerous contracts and legal disputes	(21)	(35)
Write offs, revaluations and other non-cash	(6)	9
Other	(6)	(21)
EBIT related items	**(103)**	**(99)**
Profit on disposal of associated undertaking	-	7
Finance related charges	(23)	(28)
Total	**(126)**	**(120)**
Of which:		
- Cash[(i)]	(95)	(69)
- Non-Cash	(31)	(51)

Notes (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 4 on page 32.

Taxation

The overall tax charge for the year increased to £33 million (FY15: £31 million). Current tax of £39 million is £12 million higher than last year largely due to increased tax payable in respect of our profitable business in Northern Europe. A net credit of £6 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.

£m	FY16	FY15
Current Tax	(39)	(27)
Deferred Tax	6	(4)
Total Tax Charge	**(33)**	**(31)**
Total Cash Tax	**(15)**	**(18)**

UK tax legislation is expected to change during FY17 which will restrict the permitted level of utilisation of brought forward tax losses. We expect this to impact the recognition of deferred tax assets in FY17 in respect of our significant UK tax losses.

Operating lease charges

Operating lease charges in the year of £213 million increased by £25 million compared to last year, as analysed below.

£m	FY16	FY15
Included within EBIT:		
Aircraft operating lease charges[(i)]	120	98
Retail operating lease charges	40	44
Hotel operating lease charges	21	26
Other operating lease charges	32	20
Total	**213**	**188**

Notes (i) In addition the Group incurred seasonal wet lease costs of £60m (2015: £37m) 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 and increased summer demand in the UK

Aircraft operating leases charges increased by £22 million to £120 million due to a net increase of 3 additional aircraft taking the total fleet to 94 at September 2016, including replacing older aircraft with 4 additional Airbus A321s (£13 million), and the impact from the depreciation of Sterling against the US Dollar (£9 million).

Earnings per share

Underlying earnings per share, before separately disclosed items, was 8.5 pence, a year-on-year reduction of 0.4 pence (FY15: 8.9 pence).

£m	FY16	FY15
Profit After Tax	9	19
Separately Disclosed Items	126	120
Attributable to Non-controlling Interests	3	4
Exceptional Tax[(i)]	(8)	(11)
Adjusted Profit After Tax	130	132
Weighted Ave. # of shares (m)	1,531	1,487
Underlying Earnings Per Share (Pence)	8.5	8.9

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

The basic earnings per share for the year was 0.8 pence, a year-on-year reduction of 0.8p (FY15: 1.6p). Further information is included in Note 8 on page 35.

Liquidity and capital structure

During FY16 we continued to strengthen the Group's financial position through further improvements to our capital structure and by increasing our access to liquidity through larger bank financing facilities.

The reduction of interest costs is a priority for the Group, as we move towards a more efficient capital structure with less fixed term debt. In keeping with this, we repurchased £100 million of our 2017 outstanding bonds in May 2016, with the objective of reducing interest costs earlier than originally planned. In addition, we entered into a new two-year bank facility in May 2016 providing up to a further £150 million of liquidity and giving the Group more flexibility when considering its financing options. We expect to continue to manage our liquidity requirements through both the banking and bond markets, taking advantage of lower pricing where possible.

Summary Cash Flow Statement(i)

£m	FY16	FY15
Underlying EBIT	308	310
Depreciation	204	174
Underlying EBITDA	**512**	**484**
Working capital	8	139
Tax	(15)	(18)
Pensions & other operating	(25)	(20)
Operating Cash flow	**480**	**585**
Exceptional items	(95)	(118)
Disposal proceeds	6	20
Capital expenditure	(206)	(201)
Net interest paid	(129)	(125)
Free Cash flow(ii)	**56**	**161**
New equity and other	-	86
Net Cash flow	**56**	**247**

Opening Net Debt	**(128)**	**(326)**
Net Cash Flow	56	247
Other Movements in Net Debt(iii)	(57)	(49)
Closing Net Debt(iv)	**(129)**	**(128)**

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

(iv) Sept 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 £11 million (FY16: £16 million)

Free cash flow of £56 million largely reflects growth in the Group's EBITDA of £28 million to £512 million and lower cash separately disclosed items. Free Cash flow performance in FY16 was £105 million below the high level achieved last year (FY15: £161 million) as our working capital performance in FY15 was supported by a £60 million timing benefit, as disclosed last year, which reversed in Q1 FY16. Adjusting for this timing impact, free cash flow generation would have been approximately £100 million in both years.

Exceptional items (£m)	**FY16**	**FY15**
Current year cash related exceptionals	(95)	(69)
Of which will be paid in future years	22	7
Prior year cash exceptionals paid in current year	(13)	(40)
Prior year EU261 (paid in Financial Year)	(9)	(16)
Total cash exceptional items	**(95)**	**(118)**

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 reduced in FY16 to 33% (FY15: 95%) due to the working capital timing impact referred to above. Adjusting for this impact, cash conversion would have been 70% in FY16 and 60% in FY15.

Cash conversion (£m)	FY16	FY15
Underlying EBIT	308	310
Net interest	(140)	(141)
Underlying Profit before tax	**168**	**169**
Free Cash flow[i]	56	161
Cash conversion	33%	95%

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

Net Assets

Net Assets increased by £23 million from £368 million at September 2015 to £391 million at September 2016. This includes a positive revaluation of £142 million for the Group's derivatives in respect of fuel and currency hedging, due mainly to decrease in the differential between our hedged fuel prices and spot prices, together with a negative revaluation of our pension liability of £114 million due to a reduction in bond yields used to calculate the present value of the Group's pension obligations. During FY16 the Group contributed £26 million (FY15: £26 million) to the UK defined benefit pension scheme. The triennial review of this defined benefit pension scheme is due to take place in 2017 and annual paid contributions of £26 million are expected to be continued.

£m	FY16
Opening Net assets	**368**
Underlying PBT	168
Tax charge	(33)
Separately disclosed items	(126)
Revaluation of derivatives	142
Revaluation of pension liability	(114)
Other	(14)
Closing net assets	**391**

Net Debt

The Group sources debt and finance facilities from a combination of the international capital markets and its relationship banking group. The composition and maturity of the Group's net debt is summarised below.

£m	30 Sept. 2016	30 Sept. 2015	Movement	Maturity
2017 GBP Bond	(200)	(299)	**+99**	June 2017
2020 Euro Bond	(451)	(388)	**-63**	June 2020
2021 Euro Bond	(345)	(295)	**-50**	June 2021
Commercial Paper	(117)	(155)	**+38**	Various
Revolving Credit Facility[i]	-	-	**-**	May 2019
Finance Leases	(183)	(183)	**-**	Various
Aircraft related borrowings	(64)	(99)	**+35**	Various
Other external debt	(26)	(21)	**-5**	Various
Arrangement fees	23	26	**-3**	n/a
Total Debt	**(1,363)**	**(1,414)**	**+51**	
Cash (net of overdraft)	1,234	1,286	**-52**	
Net Debt	**(129)**	**(128)**	**-1**	

Notes (i) The Revolving Credit Facility (RCF) is shown as nil, however the Group has drawn £20 million (£47 million in FY15) and this relates to a drawdown of the ancillary facilities of the RCF, which has been used solely for bonding and is thus net debt neutral.

The Group's £800 million Committed Facilities comprise a Revolving Credit Facility of £500 million, of which £20 million was drawn at 30 September 2016 (£47 million in FY15), and a £300 million bonding and guarantee facility of which £275 million was drawn at 30 September 2016 (FY15: £247 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 expire in May 2019. The Group's additional £150 million bank facility, which cannot be drawn before June 2017, expires in May 2018.

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 as they fall due, 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.

Co-op joint venture

From 1st December to 31st January every year, The Co-operative Group and Midlands Co-operative (now Central England Co-operative) have the right to exercise a put option in respect of their 33.5% ownership interest in our UK retail joint venture, and we have a similar call option over this interest. The carrying value of the discounted obligation relating to this option is £79 million (see Note 9 on page 35). Approximately one third of this amount is payable in FY17 under the terms of the original joint venture agreement. The remaining two thirds will become payable within 12 months of the option being exercised.

Hedging of Fuel and Foreign Exchange

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 2016/17	Summer 17	Winter 2017/18
Euro	92%	75%	38%
US Dollar	95%	84%	40%
Jet Fuel	92%	90%	56%

As at 31 October 2016

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 £90 million in FY16 compared to the previous year, these benefits were partly offset by higher dollar-denominated non-fuel flying costs, and partly passed on to our customers through lower prices. For FY17, we currently estimate that our net fuel costs will fall by a further £35 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 £39 million.

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

	Average Rate		Period End Rate	
	FY16	FY15	FY16	FY15
GBP/Euro	1.28	1.35	1.16	1.35
GBP/US Dollar	1.42	1.55	1.30	1.51
GBP/SEK	11.99	12.60	11.17	12.66

Credit Rating

The Group has maintained its 'B' ratings from both Standard & Poor's and Fitch and in May 2016 was issued a rating of B1 from Moody's, recognising our continuing progress in the transformation of Thomas Cook despite external challenges.

Corporate Ratings	2016		2015	
	Rating	Outlook	Rating	Outlook
Standard and Poor's	B	Stable	B	Stable
Fitch	B	Stable	B	Stable
Moody's	B1	Stable	n/a	n/a

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.

Appendix 1 – Use of alternative performance measures

The Directors have adopted alternative performance measures, namely underlying EBIT, net debt, operating cash flow, free cash flow and net cash flow. The Directors believe that these measures provide additional useful information to shareholders on the underlying trends, performance and position of the Group. These measures are used for performance analysis. 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.

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.

Reconciliation to IFRS measures:

£m	FY16	FY15
Profit from operations	205	211
Separately disclosed items (Note 7)	103	99
Underlying EBIT	**308**	**310**

Management cash flow statement

The Group uses three non-statutory cash flow measures to manage the business. Operating Cashflow is net cash from operating activities excluding interest income, aircraft related costs and the cash effect of separately disclosed items impacting EBIT. Free Cash flow is cash from operating activities less capital expenditure and interest paid. In FY15 Free Cash flow also includes the net cash received on disposals. 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.

Reconciliation to IFRS measures:

£m	FY16	FY15
Underlying EBIT	**308**	**310**
IFRS depreciation and amortisation (Note 12 and 13)	204	174
IFRS share based payments	1	1
IFRS movement in working capital and provisions	(2)	102
Add back cash impact of separately disclosed items on working capital	(6)	37
IFRS Income taxes paid	(15)	(18)
IFRS additional pension contributions	(29)	(28)
Add back non cash impact of separately disclosed items	19	7
Operating Cash Flow	**480**	**585**

£m	FY16	FY15
IFRS net cash generated from operating activities	**391**	**474**
IFRS purchase of tangible assets	(117)	(130)
IFRS purchase of intangible assets	(89)	(70)
IFRS interest paid	(135)	(134)
IFRS proceeds on disposal of property, plant and equipment	9	3
IFRS proceeds from sale of associated undertakings	-	18
IFRS Investments in joint ventures & Associates	(3)	-
Free Cash Flow	**56**	**161**

£m	FY16	FY15
Free Cash Flow	56	161
IFRS net proceeds on the issue of shares (Note 26)	-	92
IFRS dividends paid to non-controlling interests	-	(6)
Net cash Flow	**56**	**247**

Net debt

The Directors have adopted a new net debt measure. 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.

Reconciliation to IFRS measures:

£m	FY16	FY15
Borrowings (Note 19)	(1,738)	(1,257)
Obligations under finance leases (Note 20)	(183)	(183)
Net derivative financial instruments (Note 21)	16	11
Cash and cash equivalents (Note 17)	1,776	1,301
Net Debt	**(129)**	**(128)**

* The FY15 net debt has been restated to reflect the new debt measure.

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Appendix 2 – Audited statutory information with comparatives

Group Income Statement

		Audited Year ended 30 September 2016			Audited Year ended 30 September 2015		
		Underlying results	**Separately disclosed items (note 4)**	**Total**	Underlying results	Separately disclosed items (note 4)	Total
	Notes	**£m**	**£m**	**£m**	£m	£m	£m
Revenue	3	**7,812**	**-**	**7,812**	**7,834**	**-**	**7,834**
Cost of providing tourism services		**(5,981)**	**(9)**	**(5,990)**	**(6,060)**	**(2)**	**(6,062)**
Gross profit		**1,831**	**(9)**	**1,822**	**1,774**	**(2)**	**1,772**
Personnel expenses		**(882)**	**(39)**	**(921)**	**(859)**	**(27)**	**(886)**
Depreciation and amortisation		**(204)**	**-**	**(204)**	**(174)**	**(1)**	**(175)**
Net operating expenses		**(437)**	**(40)**	**(477)**	**(431)**	**(47)**	**(478)**
Loss on disposal of assets		**-**	**(9)**	**(9)**	**-**	**(13)**	**(13)**
Amortisation of business combination intangibles	4	**-**	**(6)**	**(6)**	**-**	**(9)**	**(9)**
Profit from operations		**308**	**(103)**	**205**	**310**	**(99)**	**211**
Share of results of joint ventures and associates		**(1)**	**-**	**(1)**	**1**	**-**	**1**
Profit on sale of associated undertaking		**-**	**-**	**-**	**-**	**7**	**7**
Net investment income		**1**	**-**	**1**	**-**	**-**	**-**
Finance income	5	**6**	**-**	**6**	**10**	**-**	**10**
Finance costs	5	**(146)**	**(23)**	**(169)**	**(151)**	**(28)**	**(179)**
Profit before tax		**168**	**(126)**	**42**	**170**	**(120)**	**50**
Tax	6			**(33)**			**(31)**
Profit for the year				**9**			**19**
Attributable to:							
Equity holders of the parent				**12**			**23**
Non-controlling interests				**(3)**			**(4)**
				9			**19**
Basic earnings per share (pence)	8			**0.8**			**1.6**

Group Statement of Other Comprehensive Income

	Audited Year ended 2016 £m	Audited Year ended 2015 £m
Profit for the year	**9**	**19**
Other comprehensive income/(loss)		
Items that will not be reclassified to the Income Statement		
Actuarial (losses)/gains on defined benefit pension schemes	**(144)**	**143**
Tax on actuarial gains/(losses)	**30**	**(18)**
Items that may be reclassified subsequently to the Income Statement		
Foreign exchange translation losses	**(15)**	**(34)**
Fair value gains and losses		
Gains/(losses) deferred for the year	**53**	**(223)**
Tax on gains/(losses) deferred for the year	**5**	**48**
Losses transferred to the Income Statement	**105**	**88**
Tax on losses transferred to the Income Statement	**(21)**	**(24)**
Total net other comprehensive income/(loss) for the year	**13**	**(20)**
Total comprehensive income/(loss) for the year	**22**	**(1)**
Attributable to:		
Owners of the parent	**25**	**3**
Non-controlling interests	**(3)**	**(4)**
Total comprehensive income/(loss) for the year	**22**	**(1)**

Group Cash Flow Statement

	Audited Year ended 2016 £m	Audited Year ended 2015 £m
Profit before tax	**42**	**50**
Adjustments for:		
Net finance costs	163	169
Net investment income and share of results of joint ventures and associates	-	(1)
Profit on sale of associated undertakings	-	(7)
Depreciation, amortisation and impairment	216	184
Loss on disposal of assets	9	13
Share-based payments	1	1
Increase/(decrease) in provisions	1	(55)
Additional pension contributions	(29)	(28)
Interest received	6	10
(Increase)/decrease in working capital:		
Inventories	(7)	-
Receivables	(97)	139
Payables	101	17
Cash generated from operations	**406**	**492**
Income taxes paid	(15)	(18)
Net cash generated from operating activities	**391**	**474**
Proceeds on disposal of property, plant and equipment	9	3
Investment in joint ventures and associates	(3)	-
Purchase of tangible assets	(117)	(130)
Purchase of intangible assets	(89)	(70)
Proceeds from sale of associated undertakings	-	17
Net cash used in investing activities	**(200)**	**(180)**
Dividends paid to non-controlling interests	-	(6)
Interest paid	(135)	(134)
Draw down of borrowings	157	561
Repayment of borrowings	(340)	(450)
Payment of facility set-up fees	-	(18)
Net proceeds on the issue of ordinary shares	-	92
Repayment of finance lease obligations	(38)	(35)
Net cash (used in)/generated from financing activities	**(356)**	**10**
Net (decrease)/increase in cash and cash equivalents	**(165)**	**304**
Cash and cash equivalents at beginning of year	1,286	1,017
Effect of foreign exchange rate changes	113	(35)
Cash, cash equivalents and overdrafts at end of year	**1,234**	**1,286**

Group Balance Sheet

	Notes	Audited as at 2016 £m	Audited as at 2015 £m
Non-current assets			
Intangible assets		3,077	2,794
Property, plant and equipment			
- aircraft and aircraft spares		627	605
- other		222	202
Investments in joint ventures and associates		8	4
Other investments		1	1
Deferred tax assets		228	197
Pension asset		52	50
Trade and other receivables		58	55
Derivative financial instruments		26	15
		4,299	3,923
Current assets			
Inventories		43	32
Tax assets		4	3
Trade and other receivables		688	585
Derivative financial instruments		145	114
Cash and cash equivalents		1,776	1,301
		2,656	2,035
Total assets		6,955	5,958
Current liabilities			
Retirement benefit obligations		(8)	(7)
Trade and other payables	9	(2,177)	(1,979)
Borrowings		(891)	(219)
Obligations under finance leases		(42)	(35)
Tax liabilities		(40)	(22)
Revenue received in advance		(1,251)	(1,117)
Short-term provisions	10	(138)	(147)
Derivative financial instruments		(83)	(176)
		(4,630)	(3,702)
Non-current liabilities			
Retirement benefit obligations		(501)	(322)
Trade and other payables		(105)	(79)
Long-term borrowings		(847)	(1,038)
Obligations under finance leases		(141)	(148)
Non-current tax liabilities		(31)	(22)
Deferred tax liabilities		(51)	(46)
Long-term provisions	10	(255)	(210)
Derivative financial instruments		(3)	(23)
		(1,934)	(1,888)
Total liabilities		(6,564)	(5,590)
Net assets		391	368

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Group Balance Sheet continued

Equity	**Audited as at 2016 £m**	Audited as at 2015 £m
Called-up share capital	**69**	**69**
Share premium account	**524**	**524**
Merger reserve	**1,547**	**1,547**
Hedging and translation reserves	**115**	**(12)**
Capital redemption reserve	**8**	**8**
Accumulated losses	**(1,889)**	**(1,778)**
Investment in own shares	**(8)**	**(18)**
Equity attributable to equity owners of the parent	**366**	340
Non-controlling interests	**25**	**28**
Total equity	**391**	**368**

Group Statement of Changes in Equity

The movements in equity for the year ended 30 September 2016 were as follows:

	Share capital & share premium £m	Other reserves £m	Translation & hedging reserve £m	Accumulated losses £m	Attributable to equity holders of parent £m	Non-controlling interests £m	**Total £m**
Opening balance at 30 September 2014	504	1,517	133	(1,907)	247	38	285
Profit/(loss) for the year	-	-	-	23	23	(4)	**19**
Other comprehensive income/(loss) for the year	-	-	(145)	125	(20)	-	**(20)**
Total comprehensive income/(loss) for the year	-	-	(145)	148	3	(4)	**(1)**
Equity credit in respect of share-based payments	-	-	-	1	1	-	**1**
Exercise of shares - Employee Benefit Trust	-	20	-	(20)	-	-	**-**
Issue of shares – Fosun	89	-	-		89	-	**89**
Dividends to non-controlling interests	-	-	-	-	-	(6)	**(6)**
At 30 September 2015	**593**	**1,537**	**(12)**	**(1,778)**	**340**	**28**	**368**
Profit for the year	-	-	-	12	12	(3)	**9**
Other comprehensive income/(loss) for the year	-	-	127	(114)	13	-	**13**
Total comprehensive income/(loss) for the year	-	-	127	(102)	25	(3)	**22**
Exercise of shares - Employee Benefit Trust	-	10	-	(10)	-	-	**-**
Equity credit in respect of share-based payments	-	-	-	1	1	-	**1**
At 30 September 2016	**593**	**1,547**	**115**	**(1,889)**	**366**	**25**	**391**

Notes to the Financial Information

1. General information and basis of preparation

The financial information contained in this preliminary announcement, which comprises the Group Income Statement, Group Statement of Comprehensive Income, Group Cash Flow Statement, Group Balance Sheet, Group Statement of Changes In Equity and related notes, has been prepared on a going concern basis under the historical cost convention using the accounting policies set out in the 2016 Annual Report unless otherwise stated.

The financial information contained herein does not constitute the IFRS accounts of the Group within the meaning of section 435 of the Companies Act 2006. The IFRS accounts for the year ended 30 September 2016, on which the auditors have given an unqualified opinion, are expected to be available for members of the public on our website at www.thomascookgroup.com on 28th November 2016.

2. Accounting policies

The accounting policies adopted, are consistent with those of the annual financial statements for the year ended 30 September 2016, as described in those annual financial statements. No new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 October 2015 have had a material impact on the Group.

3. Segmental information

For management purposes, the Group is currently organised into four geographic operating divisions: UK, Continental Europe, Northern Europe, and Airlines Germany.

These divisions are the basis on which the Group reports its primary segment information. Certain residual businesses and corporate functions are not allocated to these divisions and are shown separately as Corporate.

These reportable segments are consistent with the presentation of information to the Group Chief Executive (chief operating decision maker) for the purpose of resource allocation and assessment of performance.

The primary business of all these operating divisions is the provision of leisure travel services and, accordingly, no separate secondary segmental information is provided.

Segmental information for these activities is presented below:

Year ended 30 September 2016	UK	Continental Europe	Northern Europe	Airlines Germany	Corporate	**Total**
	£m	£m	£m	£m	£m	**£m**
Revenue						
Segment sales	2,365	3,435	1,132	1,253	-	**8,185**
Inter-segment sales	(53)	(42)	(19)	(259)	-	**(373)**
Total revenue	2,312	3,393	1,113	994	-	**7,812**

3. Segmental information (continued)

	UK	Continental Europe	Northern Europe	Airlines Germany	Corporate	**Total**
	£m	£m	£m	£m	£m	**£m**
Result						
Underlying profit/(loss) from operations	**152**	**72**	**124**	**(10)**	**(30)**	**308**
Separately disclosed items	(45)	(42)	3	(3)	(10)	**(97)**
Amortisation of business combination intangibles	(4)	(2)	-	-	-	**(6)**
Segment Result	**103**	**28**	**127**	**(13)**	**(40)**	**205**
Share of results of joint ventures and associates						**(1)**
Net investment income						**1**
Finance income						**6**
Finance costs						**(169)**
Profit before tax						**42**
Tax						**(33)**
Profit for the year						**9**

Year ended 30 September 2015

	UK	Continental Europe	Northern Europe	Airlines Germany	Corporate	Total
	£m	£m	£m	£m	£m	£m
Revenue						
Segment sales	2,457	3,449	1,057	1,257	-	8,220
Inter-segment sales	(54)	(31)	(16)	(285)	-	(386)
Total revenue	2,403	3,418	1,041	972	-	7,834
Result						
Underlying profit/(loss) from operations	119	71	96	56	(32)	310
Separately disclosed items	(41)	(30)	(1)	(2)	(16)	(90)
Amortisation of business combination intangibles	(7)	(2)	-	-	-	(9)
Segment Result	71	39	95	54	(48)	211
Share of results of joint ventures and associates						1
Profit on sale of associated undertaking						7
Finance income						10
Finance costs						(179)
Profit before tax						50
Tax						(31)
Profit for the year						19

Inter-segment sales are charged at prevailing market prices.

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4. Separately disclosed items

	2016 £m	Re-presented 2015 £m
Affecting profit from operations		
New Operating Model implementation costs	**(50)**	(25)
Restructuring costs	**(20)**	(27)
Reassessment of contingent consideration	**-**	18
Onerous contracts and legal disputes	**(21)**	(35)
Amortisation of business combination intangibles	**(6)**	(9)
Other	**(6)**	(21)
	(103)	(99)
Affecting income from associates		
Profit on sale of associated undertakings	**-**	7
	-	7
Affecting finance income and costs		
Bond open market repurchase premium	**(6)**	-
Write off of unamortised bank facility set-up and related costs	**-**	(7)
Net interest cost on defined benefit obligation	**(7)**	(12)
Unwind of discount on provisions and other non-current liabilities	**(10)**	(9)
	(23)	(28)
Total separately disclosed items	**(126)**	(120)

New Operaing Model implementation and restructuring costs
Implementation costs relating to New Operating Model total £50m (2015: £25m). Restructuring costs of £20m (2015: £27m) largely relate to legacy rationalisation in the UK, France and Russia.

Onerous contracts and legal disputes
Onerous contracts and leases of £16m relates to a provision associated with loss-making UK stores. The provision follows the results of a strategic review of the UK store network. In addition, the Group has recognised a £5m charge in relation to a legal case.

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 consider that it should be disclosed separately to enable a full understanding of the Group's results.

Other
This amount includes write off of IT assets and loss on disposal of property, plant and equipment which arose from restructuring activities totalling £9m and incremental costs of £6m in relation to a damaged Condor aircraft temporarily removed from the fleet. This is offset by a £5m gain from the movement in forward points related to foreign exchange forward contracts and the 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.

4. Separately disclosed items (continued)

Finance related charges

The Group has provisions and other non-current liabilities arising from separately disclosed circumstances, primarily deferred acquisition consideration. A notional interest charge of £10m on the discounted value of such provisions is recognised within separately disclosed finance related charges. In addition, the Group incurred an interest charge of £6m as a result of the early repayment of £100m of the 2017 bond.

Interest income and charges arising on the Group's defined benefit pension schemes is £6m.

5. Finance income and costs

	2016	2015
	£m	£m
Underlying finance income		
Income from loans included in financial assets	-	1
Other interest and similar income	6	9
Underlying finance income	6	10
Underlying finance costs		
Bank and bond interest	(84)	(95)
Fee amortisation	(7)	(8)
Letters of credit	(18)	(15)
Other interest payable	(18)	(16)
	(127)	(134)
Underlying aircraft related finance costs		
Interest payable	(3)	(3)
Finance costs in respect of finance leases	(16)	(14)
	(19)	(17)
Underlying finance cost	(146)	(151)
Net underlying interest	(140)	(141)
Separately disclosed finance costs (note 4)		
Bond open market repurchase premium	(6)	-
Write off of unamortised bank facility set-up and related costs	-	(7)
Net interest cost on defined benefit obligation	(7)	(12)
Unwind of discount on provisions and other non-current liabilities	(10)	(9)
	(23)	(28)
Total net interest	(163)	(169)

6. Tax

Analysis of tax charge

	2016 £m	2015 £m
Current tax		
UK		
Corporation tax charge for the year	**6**	-
Adjustments in respect of prior periods	**2**	-
	8	-
Overseas		
Corporation tax charge for the year	**27**	29
Adjustments in respect of prior periods	**4**	(2)
	31	27
Total current tax	**39**	27
Deferred tax		
Tax (credit)/charge	**(6)**	4
Total deferred tax	**(6)**	4
Total tax charge	**33**	31

Included in the tax charge of £33m are tax credits of £8m (2015: £11m credit) which are directly associated to Separately Disclosed Items.

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 £14m has been credited directly to equity (2015: credit of £6m). UK corporation tax is calculated at 20% (2015: 20.5%) 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 £2,121m (2015: £1,935m) are available predominantly in France, Germany, Spain and the UK for offset against future profits.

7. Dividends

The Board recommends a dividend of 0.5p per share (2015: nil). The proposed final dividend is subject to approval by shareholders at the Annual General meeting and has not been included as a liability in the financial statements.

The proposed dividend is payable to all shareholders on the Register of Members on 10 March 2017.

The payment of this dividend will not have any tax consequences for the Group.

8. 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 4m shares held by the employee share ownership trusts (2015: 9m).

	2016	2015
Basic and diluted earnings per share	**£m**	£m
Net profit attributable to the owners of the parent	12	23
	millions	**millions**
Weighted average number of shares for basic earnings per share	1,530	1,487
Weighted average number of shares for diluted earnings per share*	1,531	1,487
	pence	**pence**
Basic and diluted earnings per share	0.8	1.6
Underlying basic and diluted earnings per share	**£m**	**£m**
Underlying net profit attributable to equity holders of the parent **	130	132
	Pence	**Pence**
Underlying basic earnings per share	8.5	8.9
Underlying diluted earnings per share	8.5	8.9

* 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. The remainder of the share schemes will be satisfied by the purchase of existing shares in the market and will therefore not result in any dilution of earnings per share

** Underlying net profit attributable to owners of the parent is derived from the continuing pre-exceptional profit before tax for the year ended 30 September 2016 of £168m (2015: £170m) and then deducting a notional tax charge of £41m (2015: £42m), and taking into account losses attributable to non-controlling interests of £3m (2015: £4m).

9. Trade and other payables

Included within the other payables (non-current liabilities) of £105m is £79m (2015: £73m) that represents the carrying value of the contingent obligation to acquire from The Co-operative Group and Midlands Co-operative (now Central England Co-operative) their shares (representing a 33.5% ownership interest) in the UK retail joint venture with the Company, formed by the merger of the three companies' high street retail stores in 2012. The discounted obligation was recognised at the time of the merger and its fair value is subsequently reassessed at each period end as the minority shareholders have the right, after 30 September 2016, to require the Company to acquire their shares. The Cooperative Group and Midlands Co-operative have a put option on their ownership interest and the Group has a similar call option over this interest. This can be exercised by either party from 1 December to 31 January of each year commencing from 1 December 2016.

10. Provisions

	Aircraft maintenance provisions	Off-market leases	Insurance and litigation	Reorganisation and Restructuring	Other provisions	Total
	£m	£m	£m	£m	£m	£m
At 30 September 2015	**241**	**11**	**75**	**6**	**24**	**357**
Additional provisions in the year	51	-	86	8	23	168
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	**284**	**5**	**71**	**3**	**30**	**393**

	2016	2015
	£m	£m
Included in current liabilities	138	147
Included in non-current liabilities	255	210
At 30 September	**393**	**357**

The aircraft maintenance provisions relate to maintenance on leased aircraft and spares used by the Group's airlines in respect of leases which include contractual return conditions. This expenditure arises at different times over the life of the aircraft with major overhauls typically occurring between two and ten years. The aircraft maintenance provisions are re-assessed 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.

Off-market leases relate to leases acquired through the Resorts Mallorca Hotels International S.L.U (Hi!Hotels) acquisition in the year ended 30 September 2015 and certain office locations which have commitments in excess of the market rate at the time of the transaction.

Insurance and litigation represents costs related to legal disputes, customer compensation claims (including EU261) and estimated costs arising through insurance contracts in the Group's subsidiary, White Horse Insurance Ireland DAC. Of the £86m charge recognised in the year, £5m has been classified as a Separately Disclosed Item within 'Onerous contracts and legal disputes'. For further details refer to Note 4.

Reorganisation and restructuring plans predominantly represent committed restructuring costs in the UK and Continental Europe segments.

Other provisions includes items such as onerous contracts, dilapidations and emissions trading liabilities. Of the £23m charge recognised in the year, £16m has been classified as a Separately Disclosed Item within 'Onerous contracts and legal disputes'. For further details refer to Note 4.