28 July 2016

Third quarter results for the three months ended 30 June 2016

Managing through disruption

£m (unless otherwise stated)	**3 months ended 30 June 2016**	**3 months ended 30 June 2015**	**Change**	**Like-for-like[(ii)] change**
Revenue	1,850	1,950	-100	-154
Gross Margin	21.3%	20.4%	+0.9%	+0.7%
Underlying[(i)] Profit from Operations (Underlying EBIT)	2	30	-28	-22
EBIT Separately Disclosed Items	(27)	(27)	-	-
Reported Profit/(Loss) from Operations (EBIT)	(25)	3	-28	-22
Net Debt	(515)	(392)	-123	-16[(iii)]

Notes (i) 'Underlying' refers to trading results that are adjusted for separately disclosed items that are significant in understanding the on-going results of the Group. Separately disclosed items are explained on page 5

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

(iii) 'Like-for-like' net debt adjusts the prior year comparative for foreign exchange translation, the impact of changing finance lease arrangements, new equity investment and disposal proceeds to give a true, underlying change in Net Debt as described on page 6

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

Q3 performance in line with Q2 expectations

- Group revenue of £1,850 million, down 8%, reflecting impact of Turkey and Brussels
- Gross margin of 21.3%, an increase of 70 basis points, consistent with shift into differentiated product
- Underlying operating profit of £2 million, £22 million lower than last year

Summer 2016 bookings to destinations excluding Turkey up by 8%

- Bookings down by 5% overall due to continued weak demand for Turkey
- Growth to Spain and long-haul: Canaries (up 18%); Balearics (up 11%); and USA (up 30)%

Good progress in building the business for long-term growth

- Strengthening the quality of our holiday offering:
  - Positive response to "Casa Cook" hotel opening; more planned
  - Delivering significant increase in customer satisfaction. Net Promoter Score up across the Group; particularly strong performance in our 24-hour promise hotels
- New Operating Model, our Group-wide transformation programme, on track

Outlook

- Airlines Germany impacted by increased pricing pressure on short and medium haul routes
- Based on recent trading, and recognising a degree of uncertainty given the current disruptive market conditions, we now expect full-year underlying EBIT to be around £300 million, including foreign exchange translation benefits of £32 million

Peter Fankhauser, Chief Executive of Thomas Cook commented:

"Our financial result in the third quarter was in line with our expectations when we last reported in May, following the impact of the attack on Brussels airport in March and continued weak customer demand for Turkey, which has affected Airlines Germany in particular.

"Since the half year, we've taken action to further reduce our capacity to Turkey and increased sales of holidays to other areas, including the Western Mediterranean and long-haul destinations such as the USA. Growth to smaller destinations such as Bulgaria and Cuba is also strong.

“We are operating in a challenging geopolitical environment, with repeated disruption in some of our key source and destination markets. In addition, while Brexit has had no noticeable impact on our bookings so far, it has added to a general sense of uncertainty – for our business and our customers alike.

“Against this backdrop, our focus is to give customers great quality holidays as part of a package that provides the reassurance that they will be cared for at all points, from booking their holiday through to their return home. Our all-inclusive holidays in particular enable customers to enjoy their holidays without worrying about unexpected costs.

“Meanwhile, we continue to make good progress with our underlying strategy, with sales to our own-brand hotels up by 7% so far this year. Our Net Promoter Score – the metric we use to measure customer satisfaction – further improved across the Group, reflecting the actions we’ve taken to improve our customers’ holiday experience. We’ve seen a particularly strong performance in the 1,500 hotels where we’ve launched our 24-hour hotel satisfaction promise, with NPS so far 9 percentage points higher than in our other hotels.

“Overall, our improving operations and significantly stronger balance sheet give us the flexibility to navigate through the current market conditions. I am confident that our focus on strengthening our holiday offering, transforming our customer service, and bringing our businesses closer together, is laying strong foundations for future growth.”

Presentation to equity analysts

A conference call and webcast for investors and analysts will be held today at 09.30 (BST). The access details are as follows:

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

http://webcasts.thomascookgroup.com/thomascook011/default.asp

Forthcoming announcement date

The Group intends to issue a pre-close update on 27 September 2016.

Enquiries

Analysts & Investors	James Sandford, Thomas Cook Group	+44 (0) 20 7557 6433
	Tej Randhawa, Thomas Cook Group	+44 (0) 20 7557 6487
Media	Matthew Magee, Thomas Cook Group	+44 (0) 20 7294 7059
	Jenny Davey, Finsbury	+44 (0) 20 7251 3801

CURRENT TRADING

Summer 2016

Our Summer 2016 programme is 81% sold for the Group, 3% below the same period last year. Excluding Turkey, bookings are up by 8% across the Group as a whole, 2 percentage points better than when we last reported in May. Including Turkey, bookings remain unchanged from our last report, down by 5%.

While demand for most other destinations has been strong, demand for Turkey has been volatile and remains significantly below last year's levels. We have made further capacity cuts to Turkey for Summer 2016 and switched this into alternative destinations including Spain, Bulgaria, Greece, Cuba and the USA.

In the UK, bookings are 1% lower than last year. Package holiday pricing remains strong at 2% above last year, reflecting a focus on better quality product and a shift away from cheaper destinations. Overall UK average selling prices are down 4%, reflecting the planned growth in our seat-only business, which has lower average selling prices compared with package holidays.

Northern Europe bookings are 5% lower, in line with capacity cuts made as part of our destination strategy, and against a very strong performance in the comparative period last year. Pricing remains significantly ahead, up 4% compared to last year, reflecting strong demand for our differentiated holidays.

In Continental Europe, bookings are 9% lower than the same period last year, due to lower consumer confidence in the region as well as significantly lower demand in Belgium as a result of the Brussels terror attacks. Overall pricing is now 2% below last year's levels. In Germany, bookings remain 6% lower than this time last year, but we continue to outperform the wider tour operating industry.

Airlines Germany (Condor) bookings are 3% lower than last year, and pricing is down by 3%, impacted by overcapacity and increased pricing pressure due to intense competition in the short and medium haul market. We expect to see continued pressure on Condor during our fourth quarter as a result of these issues, but anticipate that further re-routing of Turkey capacity and cost efficiencies will improve Condor's performance in FY17.

Summer 2016	Year-on-Year Variation %			
	Bookings(i)	ASP(i)	% Sold(ii)	Bookings ex Turkey(i)
UK	-1%	-4%(iii)	80%	+11%
Northern Europe	-5%	+4%	88%	+7%
Continental Europe	-9%	-2%	84%	+6%
Airlines Germany	-3%	-3%	77%	+6%
Total	**-5%**	**-3%**	**81%**(iv)	**+8%**

Based on cumulative bookings to 16 July 2016

Notes: (i) Risk and non-risk customers
(ii) Risk customers only
(iii) UK average selling price is up by 2% for package holidays and down by 2% for seat-only, resulting in a 4% decline on a blended basis due to the change in mix
(iv) For the tour operator only, the Summer 2016 season is 84% sold, 3% lower than last year

Winter 2016/17

Although early in the booking cycle, holiday bookings for Winter 2016/17 are progressing well. In the UK, we have made a strong start to the season with bookings up by 19% and average selling prices in line with the prior year. Northern Europe bookings are flat whilst average selling prices are up 1%, against a strong comparative performance last year.

OUTLOOK

Trading patterns have remained broadly unchanged since the last update. Demand for Turkey has continued to suffer from geopolitical disruption and, as a result, we have further reduced capacity to Turkey and redeployed this mainly into the Western Mediterranean. In addition, Airlines Germany is being impacted by further pricing pressure caused by intense competition and weak demand, leading to lower yields in the short and medium haul market. As a result, based on recent trading, and recognising a degree of uncertainty given the current disruptive market conditions, we now expect full year underlying operating profit to be around £300 million. This includes the benefit of foreign exchange translation, which we now estimate to be £32 million (up from £20 million when we last reported in May).

Despite the near-term challenges, we remain confident that the actions we are taking to better position the business for the longer term – including improving the quality of our holiday offering, investing in our online proposition, and targeting efficiencies – will lead to further profitable growth.

OPERATING AND FINANCIAL REVIEW

£m	3 months ended 30 June 2016	3 months ended 30 June 2015	Change	Like-for-like Change
Revenue	1,850	1,950	-100	-154
Gross profit	394	399	-5	-18
Gross Margin (%)	21.3%	20.4%	+0.9%	0.7%
Operating expenses	(392)	(369)	-23	-4
Underlying profit from operations (Underlying EBIT)	**2**	**30**	**-28**	**-22**
EBIT Separately Disclosed Items	(27)	(27)	-	-
Loss from operations (EBIT)	**(25)**	**3**	**-28**	**-22**
Other income/expenditure	-	-	-	-
Net finance charges (underlying)	(35)	(37)	+2	+2
Separately disclosed finance charges	(4)	(10)	+6	+6
Loss before tax	**(64)**	**(44)**	**-20**	**-14**

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

Group revenue decreased by £154 million to £1,850 million, due to reduced sales to Turkey despite strong demand for Spain and long-haul destinations, and due to significantly lower demand in Belgium following the Brussels airport attack in March.

Group gross profit of £394 million was £18 million lower than last year, while gross margin of 21.3% represents an improvement of 70 basis points, consistent with our strategy to grow differentiated product.

Group underlying EBIT decreased by £22 million in the third quarter, to £2 million, following a significant fall in profits within Airlines Germany due to overcapacity and weak Turkey demand. We have also seen a sharp decline in profits in our Belgian business, within our Continental Europe segment.

EBIT Separately Disclosed Items comprised a £27 million charge during the quarter, which is in line with the prior year (Q3 2015: £27 million). This charge includes £17 million of restructuring costs, predominantly relating to implementation costs associated with delivering our New Operating Model.

Segmental EBIT Performance

Underlying EBIT by segment	UK	Continental Europe	Northern Europe	Airlines Germany	Corporate	Group
	£m	£m	£m	£m	£m	£m
3 months ended 30 June 2015 LFL	37	7	7	(12)	(15)	24
3 months ended 30 June 2016	34	(3)	15	(30)	(14)	2
3 months LFL change (£m)	**-3**	**-10**	**+8**	**-18**	**+1**	**-22**

Our UK business generated underlying EBIT of £34 million, a reduction of £3 million, due to shoulder season weakness resulting in lower load factors, partially mitigated through overhead savings.

Underlying EBIT in Continental Europe declined by £10 million to a loss of £3 million, compared to a profit last year of £7 million. As highlighted at our half year results in May, the Brussels airport attack in March disrupted our flying programme and caused lower demand for holidays, resulting in a sharp decline in profits.

Northern Europe improved underlying EBIT by £8 million, as the positive trading performance reported in the first half of the year continued. This was supported by stronger margins and tight control of operating costs, which compensated for lower volumes as a result of capacity reductions.

As previously reported, Condor, our German airline, has been significantly impacted by weak consumer demand and overcapacity on short and medium haul routes, especially to Turkey. As a result, seasonal underlying EBIT losses increased by £18 million to £30 million.

Cash flow

The cash flow statement and movements in Net Debt during the quarter are summarised as follows:

	Q3'16 £m	Q3'15 £m	Change £m
EBITDA	49	72	-23
Working Capital (i)	462	392	+70
Tax	(7)	(6)	-1
Pensions & Other	(17)	(16)	-1
Operating Cash flow	**487**	**442**	**+45**
Exceptional Items (ii)	(16)	(22)	+6
Capital Expenditure	(61)	(38)	-23
Net Interest Paid	(73)	(80)	+7
Free Cash Flow	**337**	**302**	**+35**

Opening Net Debt at 31 March 2016	**(825)**	**(700)**	**-125**
Q3 Net Cash Flow	337	302	+35
Non-cash movements in debt	(27)	6	-33
Closing Net Debt at 30 June 2016	**(515)**	**(392)**	**-123**

Notes (i) Aircraft related provision movements of £27m in Q3'16 are shown within working capital (Q3'15:£(18m))
(ii) Exceptional items include net proceeds from disposals of £6m in Q3'16 and £5m in Q3'15

Free cash flow of £337 million has improved by £35 million, due mainly to the timing of working capital movements, partially offset by lower EBITDA and higher capex.

Net debt at 30 June 2016 of £515 million has increased by £123 million since the same time last year. On a like-for-like basis, excluding the impact of exchange rate movements (£79 million), and other non-cash adjustments (£28 million), net debt is slightly higher than last year, increasing by £16 million.

Hedging of Fuel and Foreign Exchange

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

	Summer 16	Winter 16/17	Summer 17
Euro	89%	77%	49%
US Dollar	92%	90%	58%
Jet Fuel	96%	90%	73%

As at 30 June 2016

As Jet Fuel is priced in US Dollars, we buy forward the requisite amount of US Dollars from a mix of base currencies. For the full year FY16, we estimate that our net fuel costs will fall by around £90 million compared to FY15, and while this will put us in a strong price position, our prudent assumption is that we do not expect to retain these benefits.

The Group's policy is not to hedge the translation impact of profits generated outside the UK. If Q3 period end rates were applied for the remainder of FY16, there would be a positive year-on-year translation impact for the full year of approximately £32 million.

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

	Average Rate		Period End Rate	
	Q3'16	Q3'15	Q3'16	Q3'15
GBP/Euro	1.27	1.39	1.21	1.39
GBP/US Dollar	1.43	1.53	1.34	1.56
GBP/SEK	11.80	12.89	11.40	12.87

Thomas Cook Group

APPENDIX

Like-for-like analysis

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

To assist in understanding the impact of these factors and their influence on year on year progression, we consider 'like-for-like' adjusted changes from the 3 month period to 30 June 2015 to the 3 month period to 30 June 2016 in the analysis below.

Group	Revenue	Gross margin	Operating expenses	Underlying EBIT
	£m	%	£m	£m
3 months ended 30 June 2015	**1,950**	**20.4%**	**(368)**	**30**
Easter Timing	(49)	0.3%	-	(5)
Fuel	(17)	0.2%	-	-
Impact of Currency Movements	120	(0.3)%	(20)	(1)
3 months ended 30 June 2015 LfL	**2,004**	**20.6%**	**(388)**	**24**
3 months ended 30 June 2016	**1,850**	**21.3%**	**(392)**	**2**
3 month LfL change (£m)	**-154**	**+0.7%**	**-4**	**-22**

Underlying Revenue by segment (£m)	UK	Continental Europe	Northern Europe	Airlines Germany	Corporate	Group
3 months ended 30 June 2015	**669**	**868**	**223**	**280**	**(90)**	**1,950**
Easter Timing	(11)	(7)	(14)	(17)	-	(49)
Fuel	(4)	(1)	(3)	(9)	-	(17)
Impact of Currency Movements	-	77	18	25	-	120
3 months ended 30 June 2015 LfL	**654**	**937**	**224**	**279**	**(90)**	**2,004**
3 months ended 30 June 2016	**618**	**822**	**233**	**280**	**(103)**	**1,850**
3 month LfL change (£m)	**-36**	**-115**	**+9**	**+1**	**-13**	**-154**

Underlying EBIT by segment (£m)	UK	Continental Europe	Northern Europe	Airlines Germany	Corporate	Group
3 months ended 30 June 2015	**39**	**7**	**8**	**(9)**	**(15)**	**30**
Easter Timing	(2)	(1)	-	(2)	-	(5)
Impact of Currency Movements	-	1	(1)	(1)	-	(1)
3 months ended 30 June 2015 LfL	**37**	**7**	**7**	**(12)**	**(15)**	**24**
3 months ended 30 June 2016	**34**	**(3)**	**15**	**(30)**	**(14)**	**2**
3 month LfL change (£m)	**-3**	**-10**	**+8**	**-18**	**+1**	**-22**