Thomas Cook Group plc
Annual Report & Accounts 2011

Taking action to strengthen our business.

Thomas Cook Group is one of the world's leading leisure travel groups, with sales of £9.8bn and 23.6m customers. We operate under six geographic segments in 22 countries and are number one or two in our core markets.

2011 has been a challenging year for Thomas Cook, largely due to the disappointing performance of our UK business and the impact caused by the disruption in the MENA region, particularly on our French business.

Our 2011 Annual Report is our platform to present to you the strength inherent in the scope of our business, together with the changes we have made and our plans to better position the Group for the future.

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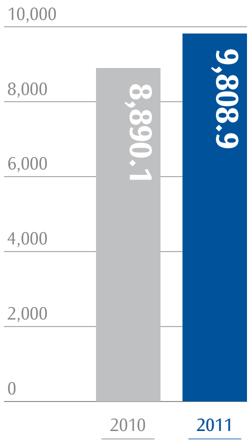
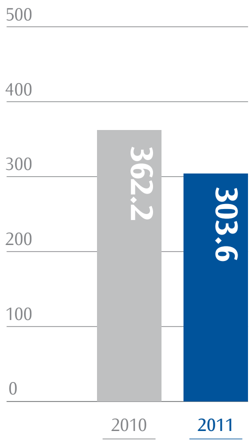
Financial summary[1]

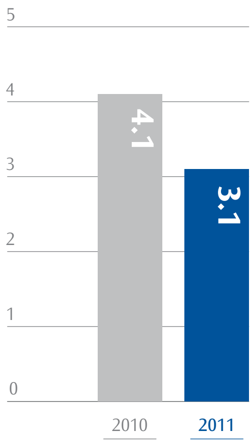
Revenue
£9,808.9m



Underlying profit from operations[2]
£303.6m

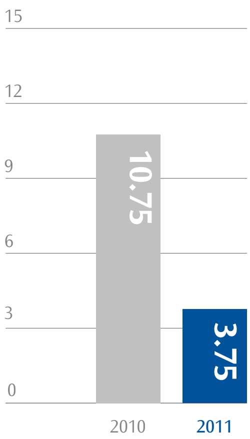


Underlying operating profit margin %[3]
3.1%

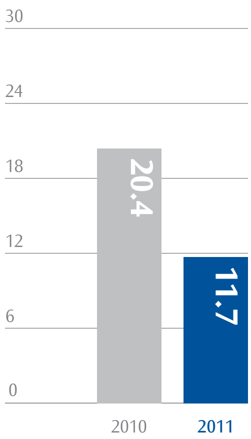


- The statutory loss from operations, stated after separately disclosed items affecting profit from operations was £267.0m (2010: £167.0m profit)

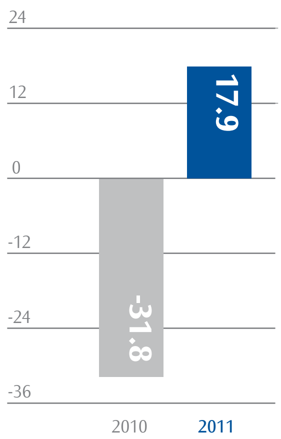
Dividend per share
3.75p



Underlying EPS[4]
11.7p



Free cash flow[5]
£17.9m



1 The Group statutory financial statements for the year ended 30 September 2011 and prior year comparatives are set out on pages 74 to 127.
2 Underlying profit from operations is defined as earnings before interest and tax, excluding all separately disclosed items. It also excludes our share of the results of associates and joint venture and net investment income.
3 The underlying operating profit margin is the underlying profit from operations (as above) divided by the external revenue.
4 Underlying basic earnings per share is calculated as net profit after tax, but before all separately disclosed items divided by the weighted average number of shares in issue during the period.
5 Free cash flow includes cash from operating activities, purchase and proceeds of disposal of tangible and intangible fixed assets and interest paid.

Chairman's statement

Taking action to strengthen our business.

DEAR SHAREHOLDER

This is my first report to shareholders following my appointment as Chairman on 1 December 2011. Since joining the Board at the beginning of October, I have spent my time meeting the members of the Group Executive Board and their management teams to gain a clear understanding of our operations, brands, management strength and opportunities. My initial observations are as follows:

- we have strong key brands in our respective markets: Ving, Neckermann, Thomas Cook and the corporate brand of Thomas Cook;
- there are opportunities to increase the sharing of best practices across the Group;
- we need a determined approach on cost and cash management on one side and the development of business opportunities on the other, which requires the making of strategic choices after proper consideration;
- we need to refresh and further strengthen the Board's composition; and
- we need to install a 'proper pay for proper performance' approach in respect of executive and senior management remuneration.

My initial observations will be further explored as I lead the Board in the conduct of a strategic review to secure our long-term future.

To say that 2011 was a challenging year for our Group is an understatement. Whilst our Northern Europe, Central Europe and Airlines Germany operating segments performed very well, the Group's result has been adversely affected by a disappointing performance in the UK and the impact caused by the disruptions in the Middle East and North Africa region ('MENA'), particularly on our French business. These events contributed to the Group requiring an additional £200m loan facility to help us through the seasonal cash low point at the end of December. This additional facility was secured at the end of November and the Board would like to extend its thanks to Paul Hollingworth and the Finance Team for their efforts.

The Board and the Group Executive Board are taking action to strengthen our business. We are focused on implementing a turnaround plan to create a stronger UK business and taking a number of decisive steps to substantially strengthen the Group's balance sheet. These priorities are fully described in the joint statement from the Group Chief Executive Officer and Group Chief Financial Officer on pages 6 to 11.

During the year, the Board was disappointed that management performance in certain areas fell short of the standards that we demand. Decisive action was taken, with changes at the Group Executive Board level as well as placing new senior management teams into both the UK and French operations. The Board is pleased that Sam Weihagen, who previously headed our successful Northern Europe Segment, was able to step into the role of Group Chief Executive Officer. The Group Executive Board under Sam's leadership has the full support of the Board. Together, we will take all the actions necessary to improve performance and embed the right culture, values and behaviours across the Group.

DIVIDEND

The Group paid an interim dividend of 3.75p per share on 7 October 2011. As previously announced, the Board will not declare any further dividend payments whilst the Group re-builds its balance sheet.

THE BOARD

As referred to above, I joined the Board as Chairman Designate on 1 October 2011 and, following Michael Beckett's retirement, became Chairman on 1 December 2011. I would like to thank Michael for his contribution to the Group.

During the year, a number of other changes were made to the composition of the Board:

- the Board was strengthened with the appointment of Martine Verluyten and Peter Marks as Non-Executive Directors on 9 May and 1 October 2011 respectively;
- Manny Fontenla-Novoa stood down from his role as Group Chief Executive Officer and resigned from the Board on 2 August 2011; and
- Sam Weihagen was appointed Group Chief Executive Officer on 2 August 2011, until a permanent successor can be found. Sam is a highly experienced and successful executive, who is greatly respected within the industry and our organisation. A search for a new Group Chief Executive Officer is underway (see page 51).

Together, these appointments bring a wealth of operational and financial experience across many markets and build on the diverse composition of the Board. I am currently conducting a review of the Board and expect to make changes to refresh and further strengthen its composition in the near-term.

EMPLOYEES

It has not been an easy year for our employees, with significant change brought about by business transformations, cost reduction programmes, and the disappointment of poor performance in parts of our business. Once again, our employees have demonstrated their utmost dedication to customer service, in particular when responding to the challenges brought about by the disruption in the MENA region. We continue to believe that our employees are our key differentiator in the competitive travel industry and the Board has confidence that they will deal with the challenges that we will undoubtedly face in the future. On behalf of the Board I would like to thank them for their dedication and high standards.

THE FUTURE

The uncertain economic environment, continued disruption in the MENA region and higher input costs, particularly fuel, will contribute to another challenging year. The Board and the Executive team will conduct a strategic review, whilst remaining focused on the implementation of the UK turnaround plan, cost management, cash flow and strengthening the balance sheet.

Frank Meysman
Chairman
13 December 2011

Where we operate

Leveraging the diverse geographic spread of our business

While it is well documented that the UK segment has under-performed this year, Thomas Cook has some excellent businesses in other regions that performed well and grew customers and profits.

The chart opposite illustrates the balance of profits from across our operations. Each operating segment is an important contributor to the Group profit. This year, Northern Europe, together with our Central Europe and Airlines Germany segments delivered strong growth, providing support to the Group result.

UK including Ireland, India and Middle East:

UK performance was poor and a new management team has reviewed operations and developed a turnaround plan to rebuild profitability.

Financial highlights

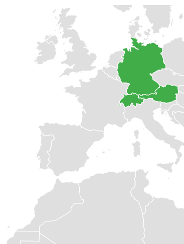
Revenue*	Underlying profit from operations**	Underlying operating profit margin***
£3,255.0m	£34.1m	1.0%
2010: £3,143.4m	2010: £107.5m	2010: 3.4%

Key facts

- 7.8m[1] passengers
- 1,103[2] retail outlets
- 40 aircraft
- 73.8% controlled distribution
- 30.1% internet distribution

Central Europe:

Another year of solid progress, boosted by a strong economic backdrop and the successful integration of newly acquired, Turkish tour operating specialist Öger.



Financial highlights

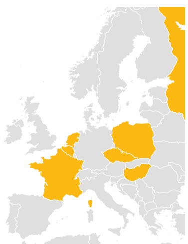
Revenue*	Underlying profit from operations**	Underlying operating profit margin***
£2,348.8m	£69.8m	3.0%
2010: £1,973.4m	2010: £58.6m	2010: 3.0%

Key facts

- 4.1m passengers
- 1,348 retail outlets
- 22.5% controlled distribution
- 6.9% internet distribution

West & East Europe:

Impacted by performance of the French business, where results were hit heavily by lower demand for holidays to the important French-speaking North African destinations.



Financial highlights

Revenue*	Underlying profit from operations**	Underlying operating profit margin***
£1,901.6m	£40.4m	2.1%
2010: £1,698.4m	2010: £82.0m	2010: 4.8%

Key facts

- 3.2m passengers
- 1,076 retail outlets
- 5 aircraft
- 59.9% controlled distribution
- 23.8% internet distribution

See Appendix 1 on page 137 for key
Key facts: figures as at 30 September 2011

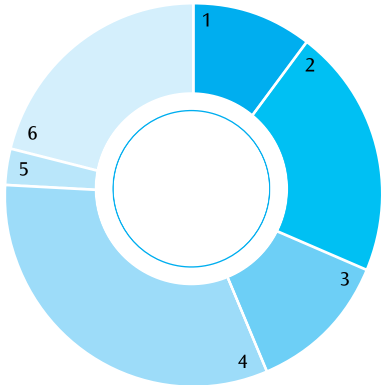
1 Includes 1.2m passengers in India and Egypt.
2 Includes 326 retail outlets in India and Egypt.
3 Includes independent travel bookings.
4 Includes in-house passengers of 2.1m.

Group underlying profit from operations[5]
£303.6m
2010: £362.2m

Group revenue
£9,808.9m
2010: £8,890.1m

Contribution to Group underlying profit from operations[6]

1. UK	£34.1m
2. Central Europe	£69.8m
3. West & East Europe	£40.4m
4. Northern Europe	£106.3m
5. North America	£10.5m
6. Airlines Germany	£69.3m



Northern Europe:

A consistent performer, Northern Europe achieved further growth in sales and profits by attracting more customers to its strong brands and popular holiday concepts.

Financial highlights

Revenue*	Underlying profit from operations**	Underlying operating profit margin***
£1,152.7m	£106.3m	9.2%
2010: £1,014.0m	2010: £91.7m	2010: 9.0%

Key facts

- 1.5m passengers
- 11 retail outlets
- 12 aircraft
- 85.7% controlled distribution
- 65.6% internet distribution

North America:

Volume growth in independent travel and overhead cost savings delivered improved profit on prior year.

Financial highlights

Revenue*	Underlying profit from operations**	Underlying operating profit margin***
£349.2m	£10.5m	3.0%
2010: £352.5m	2010: £9.1m	2010: 2.6%

Key facts

- 1.1m passengers
- 246 retail outlets
- 16.9% controlled distribution
- 36.4% internet distribution[3]

Airlines Germany:

Delivering its seventh successive year of profit growth, Condor increased capacity and successfully expanded its long haul routes.

Financial highlights

Revenue*	Underlying profit from operations**	Underlying operating profit margin***
£1,120.3m	£69.3m	6.2%
2010: £996.2m	2010: £51.1m	2010: 5.1%

Key facts

- 6.0m passengers[4]
- 35 aircraft
- Approximately one-third of seats sold in-house

5 Group underlying profit from operations is defined as earnings before interest and tax, excluding all separately disclosed items, our share of the results of associates and joint venture and net investment income.

6 The contribution of the Group has been based on the underlying profit from operations, including corporate costs of £26.8m.

Joint statement from the Group Chief Executive Officer and Group Chief Financial Officer

Sam Weihagen
Group Chief Executive Officer

Paul Hollingworth
Group Chief Financial Officer

In this section

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Thomas Cook has faced a second successive year of exceptional challenges. In 2010, we had to deal with the disruption caused by the volcanic ash cloud and, this year, the Arab Spring resulted in a dramatic fall-off in travel to the important MENA destinations. In addition, within the UK our customers have been faced with declining real incomes and, in many cases, employment uncertainty. Against this difficult backdrop, we have taken action to develop and embed a turnaround programme in our underperforming UK operating segment with the intention of significantly improving profitability through stabilising the business whilst focusing on value for our customers. In spite of these difficulties, many of our operating segments such as Northern and Central Europe and Airlines Germany delivered good results. We are also taking steps to substantially strengthen our balance sheet.

Whilst we have been faced with challenging external circumstances, our performance in the UK and France has fallen well below our own expectations. We have taken action and put in place new management teams in both these markets.

We have also completed a review of our balance sheet which has resulted in £428m of impairments and write-downs, the majority of which are non-cash and relate to impairment of goodwill in our UK and Canadian businesses and a write-down of IT assets.

Despite the challenging economic environment, there remain significant opportunities to improve our performance. Many of these opportunities for improved performance are within the UK and we are in the process of implementing a significant turnaround plan, designed to substantially improve our profitability and deliver £110m of fully annualised improvement to profitability, with a phased build-up over the next three years.

As announced on 25 November 2011, the Group agreed a new £200m bank facility and a further relaxation of the financial covenants to provide additional headroom. The Board is aligned on the need to achieve a substantial reduction in the Group's net debt and as previously announced, we have already undertaken several steps to improve our balance sheet, including:

- implementing a £200m non-core asset disposal programme in July, which has already realised £35m of net proceeds with a disposal agreed which will result in a further circa £81m net debt reduction; and
- suspending further dividend payments until the balance sheet is re-built.

The Group will be commencing a strategic review which will consider further actions to accelerate the rate of debt reduction.

REVENUE AND UNDERLYING RESULTS

Group revenue for the twelve months to 30 September 2011 was £9,809m (2010: £8,890m), up 10% (8% on a constant currency basis). Revenue benefited from a modest volume uplift and price increases in part due to change in mix. In addition, the acquisition of Öger Tours by Central Europe and Intourist by West & East towards the end of the year added circa £341m to revenues during the period.

Group underlying profit from operations was £304m, a decrease of £58m on the prior year. The Group achieved improved underlying profits from operations in Northern Europe of £106m (up £15m), in Central Europe of £70m (up £11m) and in Airlines Germany of £69m (up £18m). However, disruption to our important MENA destinations adversely impacted Group underlying profit from operations by an estimated £80m, and of that impact, circa £32m was incurred in France where 40% of bookings are typically to North Africa. As a result, underlying profit from operations for West & East Europe was £42m lower than prior year at £40m. Underlying profit from operations in the UK segment was £73m down on prior year at £34m as a result of both the MENA impact and a squeeze on margins. Having completed a thorough review of the UK business, a turnaround plan to improve performance is now being implemented and is set out below.

The Group's underlying net interest charge for the year was £122m, reflecting higher average debt following the refinancing of the Group's original bank facility in 2010 with a combination of bonds and bank debt with longer and varied maturities.

SEPARATELY DISCLOSED ITEMS

Included within separately disclosed items of £573m is a £428m charge as a result of a balance sheet review. Whilst clearly a substantial sum, this amount is largely of a non-cash nature. As part of our year end review process and given the reduction in Group profitability, we undertook a review of the carrying value of goodwill and certain other assets.

Full details of all separately disclosed items can be found in the Financial Review on page 32 and note 5 to the accounts. Cash exceptional costs were £90m, £68m lower than prior year.

EARNINGS

Taking account of the lower underlying operating profit and the separately disclosed items, the Group recorded a statutory loss before tax of £398m compared with a profit of £42m last year and the reported loss after tax was £518m (2010: £3m profit).

The underlying basic earnings per share was 11.7p (2010: 20.4p) and the basic loss per share was 60.7p (2010: 0.3p).

CASH FLOW AND BALANCE SHEET

The Group continued to focus on improving its cash management, delivering a £50m improvement in free cash flow to £18m. This was ahead of prior year despite increased losses, largely driven by lower capital expenditure.

The Group cash outflow (before changes in debt) was £80m, as the payment of dividends and acquisition spend was greater than the free cash inflow. Net debt at 30 September 2011 was £891m (2010: £804m).

UK TURNAROUND

Background and overview

Within the UK business in FY11, 74% of the revenue came from the mainstream segment, but all the underlying profit was generated by the independent business. Following the deterioration in the financial performance and outlook for the UK operating segment during the year, the Board changed the UK management and initiated a thorough review of the business with the aim of substantially improving performance.

Despite the erosion of merger benefits and the input cost inflation the business has faced, the new management team sees a significant opportunity for Thomas Cook to operate more profitably in the UK overseas holiday market. The market is large, mainstream package travel continues to be an important component and independent travel is forecast to grow. The UK business has significant capabilities across both mainstream and independent travel. However, the business has become overly complex and too volume driven.

To stabilise the business and re-build profitability, the UK management team has begun implementation of a turnaround plan. The plan is intended to optimise the UK airline, refocus product strategy, improve yield management, rationalise distribution and improve operational efficiency. In addition, the business will take action to deliver higher growth and better returns from its independent operations which accounted for 26% of UK revenues.

Joint statement from the Group Chief Executive Officer and Group Chief Financial Officer continued

ESTIMATED IMPROVEMENTS AND COSTS OF OUR UK TURNAROUND PLAN

The table below shows the anticipated annual improvement in profitability and the outlay in costs of our UK turnaround plan:

£m	FY 12	FY 13	FY 14	Annualised run rate
UK turnaround				
– Cumulative improvements	35	70	100	110
– Costs to achieve	30	20	10	

Estimated improvements and costs

The UK turnaround plan is expected to deliver a fully annualised improvement in profitability of £110m, with a phased build-up over the next three years for a total estimated cost of circa £60m.

The actions expected to deliver the largest cumulative improvement to profitability are those associated with refocusing product strategy, improving yield management and rationalising distribution.

On a fully annualised basis, management estimate that approximately 60% of the improvement to profitability will come from cost actions and 40% from actions focused on managing revenue and margin more effectively.

The achievability of the improvements and the estimated costs of achieving such improvements, relate to future actions and circumstances which, by their nature, involve risks, uncertainties and other factors and may be different than anticipated.

Actions to deliver the UK turnaround plan

The initial steps taken to deliver the UK turnaround plan have included simplifying the UK organisational structure, facilitating faster decision making and establishing a transformation team to lead and track the approved changes. To deliver the turnaround plan, management have highlighted the following key aims and action points:

1. Optimise the UK airline (£10m improvement)

The expectation is to reduce Winter season losses, increase flexibility in Summer season flying and better manage seat-only volumes by reducing the size of the UK's integrated airline. Overall, the aim is to reduce the amount of in-house flying and for Summer 12 we are targeting around 85% vs 93% for Summer 11.

To achieve this, a consultation is underway to implement a proposed reduction in the UK fleet from 41 to 35 aircraft and a realignment of cabin crew grades which will reduce fixed

Strengthening our Group Executive Board

To be a successful business today, we need leadership from the top.

Sam Weihagen has led the Group Executive Board since August 2011, after stepping into the role of Group Chief Executive Officer until a permanent successor to the former Group Chief Executive Officer is found. Sam is hugely experienced both in the travel industry and within the Group, having been Deputy Group Chief Executive Officer since 2010 and, prior to that, having led our successful Northern Europe segment from 2001.

Since taking up his new position, Sam has worked closely with Ian Ailles and Phil Aird-Mash, who joined the Group Executive Board during the year as UK Chief Executive Officer for Mainstream Travel and Independent Travel respectively. Together, they have undertaken a thorough review of our UK segment and set out a turnaround plan to re-build profitability.

From 1 January 2012, it has also been decided that management and reporting of the West & East operating segment will be split. Susan Duinhoven, who is currently Chief Executive Officer of Thomas Cook Netherlands, will join the Group Executive Board as Chief Executive Officer of a new West Europe operating segment, comprising France, Belgium and the Netherlands. In addition, management of our operations in Russia, Poland, the Czech Republic and Hungary will transfer to the leadership of Peter Fankhauser, Chief Executive Officer of our Central Europe segment. Following these changes, Thomas Döring, formerly Chief Executive Officer of the West & East segment, who started building the Group Online Travel Agency (OTA) function a year ago, will turn his full attention to Group e-commerce and hotel-only business.

Anne Billson-Ross also joined the Group Executive Board during the year, following her promotion to Group & UK Human Resources Director. Anne replaced Paul Wood, our former Group HR Director, who resigned from the Group Executive Board to take on the challenge of an operational role within the UK business. Jürgen Büser, Group Strategy Director, and Ian Derbyshire, Chief Executive Officer, UK also resigned from the Group Executive Board to pursue opportunities outside Thomas Cook.

The Group Executive Board has continued to show strong leadership throughout the year and we would like to thank them for their energy and resolve.

lease and maintenance costs by £22m. The proposed aircraft cuts are focused in long haul which has a disproportionate risk profile.

2. Refocus the product strategy in mainstream package holidays (£15m improvement)

The UK business will consolidate its hotel portfolio and seek to build upon its successful exclusive and differentiated product concepts.

The business has cut over 500 under-performing hotels for Summer 12 from a portfolio of over 2,200 hotels in Summer 11. We have boosted this by adding 90 hotels, almost half of which are exclusive to the UK or offer differentiated features. The hotel portfolio will be further reduced to circa 1,500 hotels over the next three years, with the aim of concentrating customers into fewer, higher performing hotels to drive stronger supplier relationships, higher customer satisfaction rates and efficiency benefits.

The aim is to increase the share of differentiated product from the current 31% to 50% of mainstream holiday sales over the next three years, which we believe should deliver an incremental margin of circa £25 per customer compared to non-differentiated product, vs £18 per customer in FY11. The intention is to build upon the UK's successful concepts, including Style, Aquamania and SunStar, which grew in aggregate by 39% to 800,000 passengers during 2011 and generate significantly higher customer satisfaction.

3. Improve yield management (£35m improvement)

Yield management has not been effective, with high frequency price changes driven by volume coupled with high discounting at the point of sale which resulted in margin erosion. Going forward, the focus will be on increasing margins by improving central yield management capabilities and by implementing clear parameters in retail discounting.

To drive yield management improvement, the business is extending its existing yield management system across all UK tour operator products and implementing a new system for seat-only flight products. In addition, the business is strengthening its control processes, management information and yield tools to bolster its trading strategy and gain more benefit from better yields on its early season sales and in the lates market, closer to customer departure.

Retail discounting has not been adequately linked to yield management. As a result, management estimate the business has lost considerable margin opportunity, for example, by unnecessary retail discounting on high demand product. To remedy this, retail discounting policies and incentives will be closely aligned with central yield decisions and focused on products where it is clear consumers need incentives to buy.

From left to right:
Back row: Michael Friisdahl, Thomas Döring, Pete Constanti, Phil Aird-Mash, Ralf Teckentrup, Anne Billson-Ross, Ian Ailles, Peter Fankhauser, Lars Löfgren, Derek Woodward, Susan Duinhoven.

Front row: Sam Weihagen, Paul Hollingworth.

See page 42 for full biographies

Joint statement from the Group Chief Executive Officer and Group Chief Financial Officer continued

4. Rationalise distribution (£25m improvement in the Joint Venture)

Increasing the proportion of in-house distribution is strategically important as it reduces external commission costs, provides better yield control and drives higher repeat business. The UK business high street retail shops are particularly important for package holiday sales, with 48% of package holiday sales made through this channel in 2011. Given the importance of high street retail, the UK business recently sought to bolster its position through its retail joint venture with The Co-operatives which completed on 4 October. This is expected to increase controlled distribution to 84% for mainstream. To realise cost synergies from the joint venture, we have begun the process of consolidating our back offices and systems.

A thorough review of the profitability of the UK business' combined retail estate of 1,300 shops shows the current need for a phased closure of circa 200 under-performing shops where leases expire within the next two years. We will continue to review the performance of the remaining portfolio as leases come up for expiry and more customers move online. In addition, we will continue with the modernisation programme of our remaining stores to ensure that the brand retains customer appeal.

We are continuing to invest in our online offering and are in the process of upgrading and re-launching our websites in time for peak trading. We also expect to see the current 25% share of total UK online bookings increase to between 40% and 50% over time. Improvements made to our UK websites are intended to help to achieve this.

5. Operational excellence (£25m improvement)

Reviewing the performance of the business highlighted significant operational inefficiencies, driven by a siloed structure combined with overlapping, manual processes. We are now focused on operational excellence and are seeking to improve productivity, remove manual processes where appropriate and focusing on cost effectiveness.

In total, the UK management has identified 20 projects across the business where they believe they can improve operational effectiveness, spanning retail and call centre staff rostering, the introduction of paperless ticketing and a reduction in brochure wastage. Most of these projects are expected to complete within the next 12 months, with a £10m benefit in FY12.

> **"To stabilise the business and rebuild profitability, the UK management team has begun implementation of a turnaround plan."**

6. Independent business

The independent business has grown substantially in recent years, largely through acquisitions. This has led to a collection of businesses which are not well coordinated and, in some cases have been significant underperformers. The focus now is on improving the management of these businesses and better integrating them in order to leverage off each other and achieve the growth that is forecast for this market.

There are two distinct operating models, risk and non-risk, and in total they carried 2.9m passengers in the financial year ended 30 September 2011. The risk model has many similarities to the mainstream business, with niche concept products across the activity, youth and sport brands. The non-risk model, which includes accommodation only, dynamic and scheduled packages, has been driving the growth in recent years and is expected to continue to do so.

We are taking further action in the niche specialist businesses, targeting an increase in passenger volumes and improvement in margin. Neilson, for example, is expecting to increase the number of its activity holiday properties from 8 to 10 and expects to drive a 22% increase in passengers as a result. The youth brand Club 18-30 has been expanding its concepts and now includes music festival formats such as NOMUD and the Big Reunion, which are expected to continue to grow.

Growth in the non-risk business is supported by growth in the market environment. The management team is targeting an increase in market share through better leveraging the UK's distribution platform and increasing awareness of the breadth of products available under the umbrella Thomas Cook brand. Our bed banks, Hotels4U and Medhotels, which have grown strongly are currently mainly wholesale and have performed well. There is also a significant opportunity to sell direct to the consumer and better allow customers to create dynamic packages with Gold Medal, our flight consolidator and ancillary business providers.

STRENGTHENING THE BALANCE SHEET

Since early 2010, Thomas Cook has been subject to a number of external shocks, most notably the closure of European airspace due to volcanic ash clouds in April 2010, and more recently the political and civil unrest in the important MENA region destinations, the combination of which have significantly reduced the Group's financial flexibility. We have also seen a more recent deterioration in trading as concerns over the Eurozone economy start to impact consumer confidence.

Against this backdrop, the Board is undertaking a strategic review with the objective of delivering a substantial reduction in net debt over the next 18 months.

The Board has already taken the following steps to improve the Group's liquidity position and reduce its net debt:

Amendment of the Group's existing bank facilities

On 25 November 2011, we announced that we had reached agreement with our banking group to amend the terms of our existing bank facilities to widen our financial covenants and increase financial flexibility for the Group until March 2013. In addition, we agreed a new £200m facility to provide additional headroom. This replaces the £100m short-term facility announced on 21 October 2011 and is available until April 2013.

Non-core asset disposal programme

On 12 July 2011, the Group announced its intention to dispose of certain hotel and surplus assets, which are expected to generate net proceeds of up to £200m over a six to eighteen month period. To date, the Group has completed four disposals. These include its share of the sale of certain hotel assets in Spain; its minority stake in Jacaranda, a hotel in Tenerife; Moranda, a vacant hotel in Mexico and its Dutch retail business. These four transactions will reduce the Group's net debt by £35m.

In addition, on 12 December, the Group signed a binding agreement for the sale of its interest in HCV, the indirect owner of five hotels and a golf course in Spain. This transaction is expected to reduce the Group's net debt by a further circa £81m. The transaction is subject to shareholder approval and is expected to complete in the first quarter of 2012.

The Group continues to review options for the sale of other non-core assets.

Suspension of dividends

On 29 September 2011, the Board announced its decision not to declare any further dividend payments whilst the Group re-builds its balance sheet. In the 2010/11 financial year the Group paid out dividends of £92m.

PEOPLE

We are immensely grateful to all our people for their efforts this year, particularly those within our operating segments and markets who have improved their results and achieved a better performance even in spite of the significant disruption from the MENA situation.

The implementation of the UK turnaround plan will inevitably affect our people and while it will offer new opportunities for many, it is expected to result in an overall reduction of our UK workforce. We appreciate how unsettling change can be and will work to minimise both the uncertainty and the negative impact for those adversely affected.

OUTLOOK

The first half of the current financial year and in particular the first quarter is expected to be adversely impacted by the uncertain economic environment across Europe, input cost inflation and the ongoing disruption in MENA. In addition, the acquisition of The Co-operatives and Intourist will add to seasonal losses in the first half given that these businesses earn all their profit over the summer months. We have taken action to cut capacity and costs where appropriate. In the second half results should begin to see the benefits of the UK turnaround plan. Overall, we expect it to be another challenging year given the economic backdrop and we will focus hard on strengthening the balance sheet and improving the performance of our UK business.

Sam Weihagen
Group Chief Executive Officer
13 December 2011

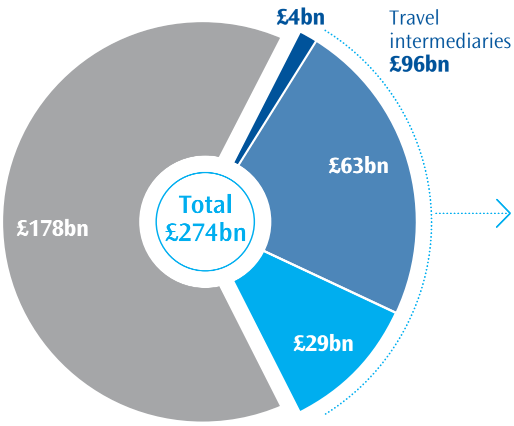
Paul Hollingworth
Group Chief Financial Officer
13 December 2011

Market review

Despite restrained growth in recent years, the long-term outlook for the international tourism industry remains attractive.

OVERALL TRAVEL MARKET 2010: CORE MARKET[1] TRENDS

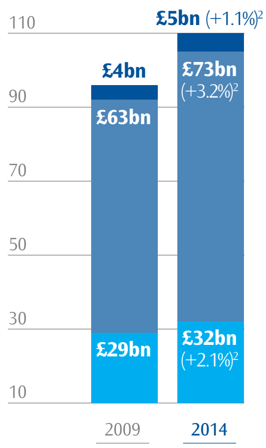
There are two distinct segments in the leisure travel market: direct suppliers and travel intermediaries. Direct suppliers are the airlines, hotels and cruise companies that sell directly to the customer. Thomas Cook operates in the travel intermediary segment, made up of travel agents and tour operators.



- Direct suppliers
- Financial services
- Independent travel
- Mainstream travel

MAINSTREAM V INDEPENDENT

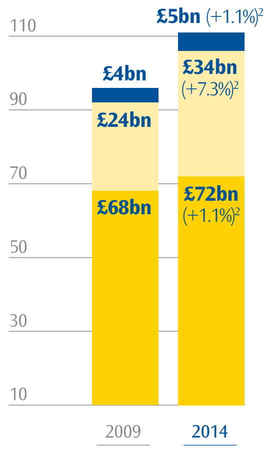
The mainstream travel market will continue to grow in real terms; however, independent travel will drive the majority of growth.



- Financial services
- Independent travel
- Mainstream travel

ONLINE GROWTH

Online growth is predicted to be faster than offline growth in mainstream and independent.



- Financial services
- Online
- Offline

Source: Euromonitor

1 Thomas Cook top ten source markets comprising UK, Germany, France, Belgium, the Netherlands, the four Nordic countries and Canada.

2 Real Compound Annual Growth Rate 2009 to 2014.

Growth in international tourism is closely correlated to economic growth and has enjoyed strong and sustained growth for most of the last three decades. The long-term trend has been for international leisure travel to outpace the general economy. While the global financial crisis in 2008 and subsequent contraction in gross domestic product and employment across many Western economies, combined with fuel and currency volatility, have restrained growth in recent years, the long-term outlook for the industry remains attractive.

In relation to the Group's top 10 source markets of the UK, Germany, France, Belgium, the Netherlands, the four Nordic countries and Canada, it is estimated by Euromonitor that:

- the intermediary travel market, which totalled approximately £96bn in 2009, is expected to grow by 2.8% each year from 2009 in real terms to reach approximately £110bn by 2014;
- the market for mainstream package holidays, which comprised approximately £29bn of the total intermediary market in 2009, is expected to show modest but further real growth of approximately 2.1% each year from 2009 to approximately £32bn in 2014;
- independent travel, comprising approximately £63bn of the total intermediary market in 2009, is forecast to grow by 3.2% each year from 2009 in real terms to approximately £73bn in 2014; and
- internet distribution is estimated to increase its share of intermediary sales from approximately 25% in 2009 to approximately 31% in 2014.

Alongside our more established markets, leisure travel demand is increasing rapidly in the fast-growing economies of Russia, India and China, offering good opportunities for further growth.

Our strategy is designed to capture value and growth from each of these key areas.

Our business model

We offer a wide range of mainstream and independent holiday options, together with a selection of travel-related financial services. We adapt our business model to the characteristics of individual markets. Our scale provides opportunity to drive economies in sourcing and operations.

HOW WE CREATE VALUE

We create value by selling three product categories which are distributed through multiple channels, both in-house and through third-parties. Additionally we sell third-party products for which we receive a commission.

Our products

Mainstream

Our core product category is mainstream charter packages where two or more components of travel, such as flights, hotels and transfers, are bundled together and offered for sale as a single product through various distribution channels. For mainstream package holidays, the customer pays the holiday deposit and balance to Thomas Cook before departure. Thomas Cook then typically pays its airline partner close to departure and the hotel accommodation provider after the holiday is complete.

Independent

Independent travel products encompass holiday components, dynamic packaging and scheduled tours and give customers greater flexibility to tailor their holiday to meet their own requirements in terms of destination, duration, variety and quality. Thomas Cook aggregates holiday or component content from a wide range of suppliers and sells this either to other travel agents on a business-to-business basis or direct to consumers. Thomas Cook does not own the inventory but is paid a commission by the holiday or component provider based on the price of the booking.

Travel-related financial services

Our travel-related financial services include foreign exchange and travel assurance and are bought by customers alongside their holiday purchases.

Our multi-channel distribution

Retail

In most of the Group's operating segments, retail stores remain a significant distribution channel for mainstream package holidays and, in the UK, Thomas Cook and The Co-operatives have recently merged their travel retail networks to create the UK's largest travel retailer.

Online

Online is an increasingly important channel for the distribution of both mainstream package holidays and independent travel products. During 2010, Thomas Cook brought together its existing online activities in the UK, Germany, France, the Netherlands and Belgium into a pan-European Online Travel Agency (OTA), based in London.

Adapting our business model in our individual markets

The Group operates different business models within each of its major markets.

In the UK, Northern Europe, and in Belgium in the West & East Europe operating segment, the primary business model is that of a vertically integrated charter tour operator, based on use of the Group's own airlines, and distribution of products principally through in-house retail, internet and call centres.

In most other Continental European markets, where the Group has either a smaller volume of customers or a lower market share, the vertically integrated business model is less effective and ownership of an airline is not considered a prerequisite for successful tour operations.

In Germany, the Condor airline provides aircraft seats to Thomas Cook's German tour operator on an arms-length basis, and also sells directly to other tour operators and seat-only customers.

Our strategy

Our strategy is to maximise value from our more mature mainstream package travel operations and to capitalise on our scale by continuing to seek a leading position in the growing independent travel segment.

This strategy is supported by a multi-channel distribution approach and, within this, the Group has placed a strong emphasis on both in-house retail operations and growing e-commerce through development of a central OTA.

Our focus is to drive growth organically and reduce net borrowings by improving operating and free cash flow generation, with an emphasis on protecting margin rather than market share. Where appropriate to advance our strategy, we have entered into mergers and acquisitions that have offered value-creating consolidation opportunities in existing markets or growth opportunities in new product areas or markets.

MAINSTREAM PACKAGE TRAVEL

Our key objectives in mainstream package travel are to improve product mix and reduce costs, thus driving an improvement in margin.

Product mix

Product mix is a key factor in attracting and retaining mainstream customers and in driving higher margins. Within each of our operating segments, we are focused on optimising the proportion of exclusive hotels, differentiated and unique-concept holidays and replicating successful formats across a range of destinations. As these products are developed and offered exclusively by the Group, they do not lend themselves to direct price comparison. To the extent that customers value their unique features, these products also tend to encourage earlier booking and higher loyalty. As a result, exclusive and differentiated products attract a higher average selling price and margin than our more standard packages.

- This year, we have expanded exclusive and differentiated bookings as a proportion of total package holiday bookings from 35% to 45% in the UK; and from 45% to 47% in West & East Europe. The exclusive and differentiated proportion has remained constant at 28% and 90% in Central Europe and Northern Europe respectively.

Cost management

Cost management is another important element in a successful mainstream package holiday operation. Accommodation and non-fuel aviation costs were approximately £3.3bn and £2.8bn respectively in the financial year ended 30 September 2011, so a relatively modest movement can have a significant impact on performance. In these areas, the Group has taken action to coordinate purchasing across its segments, leveraging its combined scale.

- This year, working together across the Group, we agreed a replacement and harmonisation programme for our narrow body aircraft fleet onto the Airbus 320 family. The programme will run between 2012 and 2017. It will improve fuel efficiency and reduce maintenance costs, increase interoperability and improve customer experience. It delivers optimum flexibility by sourcing new aircraft through a combination of firm and flexible orders with the manufacturer and through accessing the aircraft leasing market.
- In addition, we successfully completed our airline synergy project, delivering a further £19m of incremental annualised savings in our fleet running costs. This project included a wide range of measures such as implementation of best practice in fuel efficiency.

INDEPENDENT TRAVEL

Our principal objective with independent travel has been to grow revenues and profits by expanding the product range to include accommodation and flight components that customers can buy separately, by growing scheduled packages and by investing in dynamic packaging capabilities that enable travel agents or individual customers to combine their chosen components into a package at the point of sale.

As part of this strategy, we have made a number of important acquisitions in recent years, including the acquisition of accommodation and flight consolidators Hotels4U.com, Med Hotels and Gold Medal in the United Kingdom, and TriWest in Canada.

DISTRIBUTION

The Group operates a multi-channel distribution strategy, selling through its own and third-party channels. The Group's own distribution channels comprise retail stores, online via various Group websites and call centres.

In-house distribution gives the Group greater control over the volume and cost of distributing its products and, over the last three years, the Group has increased in-house distribution of package holidays from 51% to 53% of bookings.

In most of the Group's operating segments, retail stores remain a significant distribution channel for mainstream package holidays. However, over time, the Group's strategy is to increase the share of mainstream package holidays sold online; the internet is now the primary channel for the distribution of Thomas Cook's mainstream package holidays in Northern Europe.

Immediately following the financial year end, Thomas Cook and The Co-operatives merged their high street networks to create the UK's largest high street travel retailer.

To expand online sales of both mainstream and independent products, during 2010 we brought our existing online activities in the UK, Germany, France, the Netherlands and Belgium together into a central organisation, the OTA, which is based in London. With approximately 256 employees, the OTA brings together specialists from within the Group with new talent from across the online industry. Since its inception in 2010, the OTA has improved online sales and delivered a number of important developments:

- online distribution of the Group's mainstream package holidays has increased from 22% of total bookings in 2009 to 25% in 2011;
- gross transaction value of OTA bookings has grown 35% from approximately £857m in 2009 to approximately £1,155m in 2011;
- a common technology platform which is being rolled out across the Group's key websites will consolidate the previous 17 platforms on to one to improve functionality, stability and efficiency; and
- significant improvements to the graphical user interface, including better search functionality and more comprehensive product and price information, will be deployed across all sites in the coming months to drive better customer experience and conversion rates.

Group key performance indicators

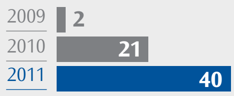
In order to measure progress against our strategy, the Board and senior management team monitor a range of key performance indicators.

Airline synergies

Aim Deliver £35m annualised savings in Group aviation costs (non-fuel) and ongoing efficiency

Progress £19.4m incremental annualised savings achieved in the year ended 30 September 2011

Annualised savings £m



Independent travel*

Aim Increase independent travel sales as a proportion of Group revenue

Progress Independent travel sales were lower at 25% of Group revenue

Group revenue %

Controlled distribution

Aim Increase in-house distribution of mainstream travel products

Progress In-house sales of mainstream travel products increased to 53%

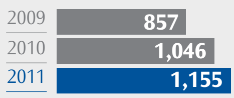
Share of in-house distribution %

Online Travel Agency (OTA)

Aim Develop a top three position in the European OTA market, targeting gross bookings with a value of around £3.5bn

Progress 10% year-on-year increase in OTA gross bookings value to £1,155m

Gross bookings value £m

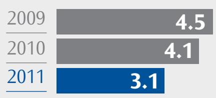


Group underlying operating profit margin

Aim Increase Group operating profit margin over the medium-term

Progress Margin fell to 3.1%, principally as a result of difficult trading in the UK and the impact of disruption in the MENA region, particularly in France

Group operating profit margin %



* Independent travel has been redefined to exclude UK seat-only sales and to include Club 18-30 and Neilson.

Operating review: UK

UK performance was poor and a new management team has reviewed operations and developed a turnaround plan to rebuild profitability.

Brands

Mainstream

- Thomas Cook
- Thomas Cook Style Collection
- Direct Holidays
- Manos – the Greek specialist
- Airtours
- Sentido Hotels & Resorts
- Cruise Thomas Cook

Independent

- Thomas Cook
- Elegant Resorts
- Thomas Cook Sport
- Gold Medal
- flythomascook.com
- Thomas Cook Signature
- medhotels.com
- flexibletrips
- Cresta
- Thomas Cook Ireland
- Club 18-30
- Swiss Travel Service
- hotels4u.com
- Thomas Cook Tours
- Neilson

Distribution

- Thomas Cook
- The co-operative travel
- Co-op Travel
- Ilkeston Co-op Travel

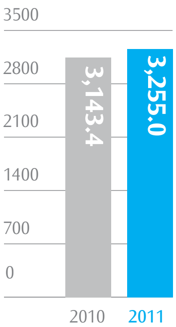
UK AT A GLANCE
FINANCIAL HIGHLIGHTS[1]
Key performance indicators

	FY11	FY10	Change
Mass market risk			
Passengers[†]			+1.5%
Capacity[††]			+1.9%
Average selling price[#]			+2.4%
Load factor[†††]			-0.1%
Brochure mix[##]			+1.7%
Controlled distribution[‡‡]	**73.8%**	71.8%	+2.8%
Internet distribution[‡‡]	**30.1%**	31.1%	-3.2%

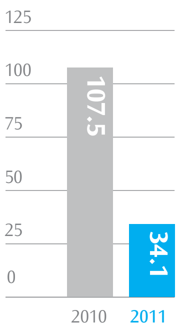
Product mix

	FY11	FY10	FY09	FY08
Medium haul	**74%**	75%	72%	65%
4 and 5 star	**50%**	47%	44%	41%
All inclusive	**54%**	50%	41%	31%
Exclusive and differentiated	**45%**	35%	32%	–

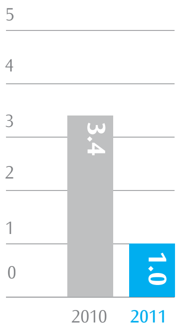
Revenue*
£3,255.0m
+3.6%



Underlying profit from operations**
£34.1m
-68.3%



Underlying operating profit margin***
1.0%
-70.6%



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See Appendix 1 on page 137 for key

Ian Ailles – Chief Executive Officer, Mainstream, UK
Phil Aird-Mash – Chief Executive Officer, Independent, UK

The results of our UK segment reflect significant underperformance during a very difficult year. Underlying profit from operations was reduced to £34.1m (2010: £107.5m) and the underlying operating profit margin reduced to 1.0% (2010: 3.4%). Within the overall UK segment, operations in the UK generated £3,199m revenue and underlying operating profit of £19.5m with operations in India and Egypt generating the balance. The adverse impact of political unrest in the MENA region on the UK business' profit from operations for the year was £15.2m.

External trading conditions were tough as consumer sentiment deteriorated and we faced significant input cost increases but these external factors were exacerbated by internal operating inefficiency and a lack of responsiveness. As described in more detail elsewhere in this report a new management team was appointed during the year and a thorough review of the business undertaken. This has identified significant opportunities to improve performance through actions including optimising distribution, improving yield management and product strategy.

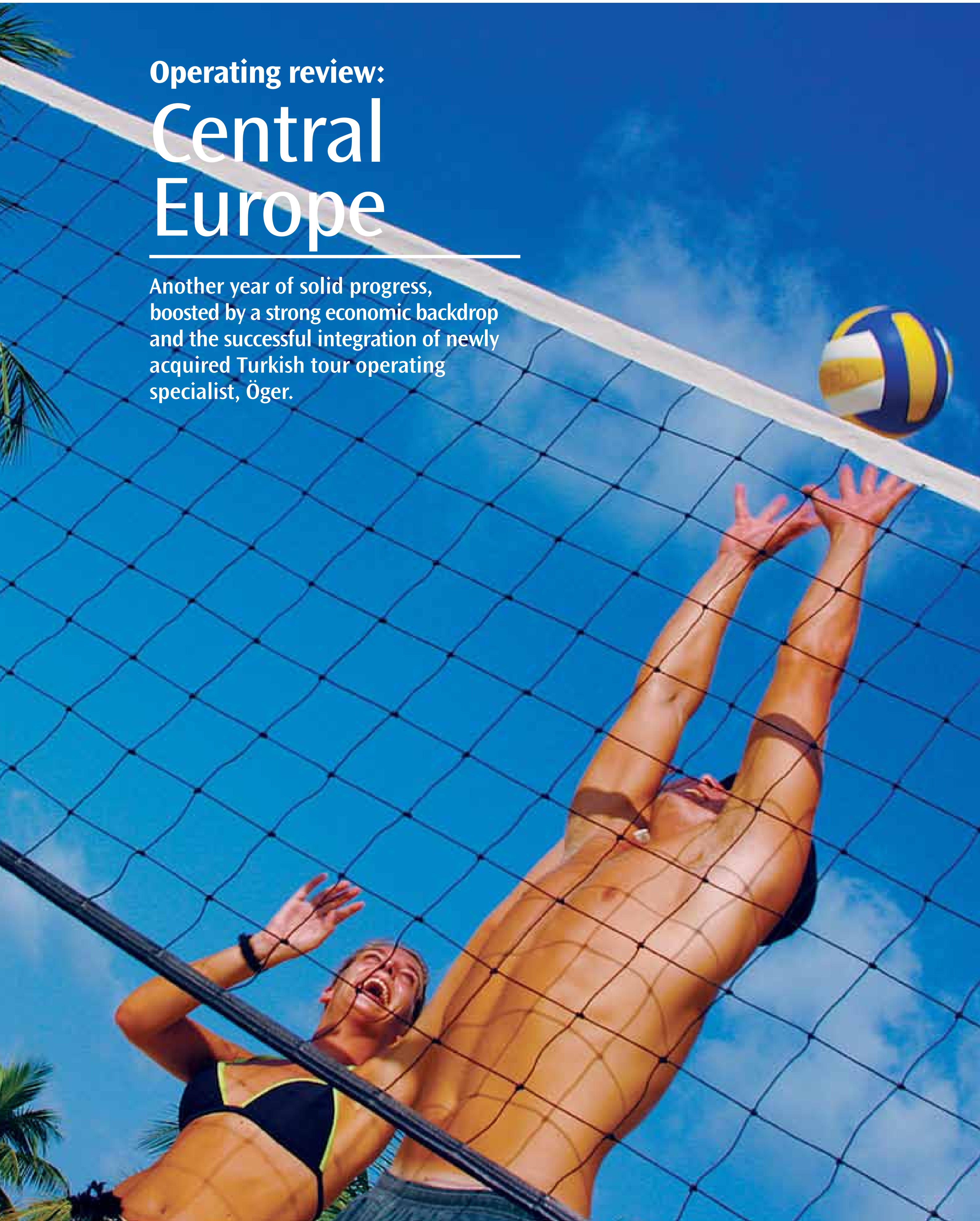
Our tour operators suffered most from increased input costs and were unsuccessful in passing these on to customers due to price sensitivity resulting from a combination of low consumer confidence and increased competitive pressure. However, our UK airline delivered a strong operational performance with good on-time statistics and significant operating cost savings. Following the overall deterioration in trading and the management changes, we undertook a review of the UK balance sheet and have identified several areas where recovery of the carrying value of assets at the previous year end was no longer considered achievable or where recognition of additional liabilities was considered appropriate. The overall impact of this reassessment was £49.7m and given its size and impact, it has been disclosed separately within the Group results.

The increase in mainstream passengers of 1.5% to 3.7m and capacity of 1.9% was principally in short haul as passengers moved away from medium haul travel due to the MENA disruption. Similarly it was in short haul and long haul that we saw the largest increases in average selling price, although this was insufficient to cover the effect of the higher input costs.

Controlled distribution of our mass market holidays rose to 73.8% (2010: 71.8%), primarily due to increased call centre and controlled retail bookings. Internet distribution of mass market products continued to grow in absolute terms but following higher growth in other channels it represented 30.1% of departed passengers, down from 31.1% in the previous year. The Co-op transaction completed on 4 October 2011, adding further to our network of controlled distribution. Although the transaction has been anticipated for a considerable period of time, exchange of detailed operating information was necessarily restricted prior to completion and our plans to integrate the additional outlets and maximise efficiency and synergies are now being fully developed and implemented.

Our Independent businesses had a mixed year with good growth in Hotels4U and our Essentials businesses but margin and volume pressure in Gold Medal. Gold Medal faced aggressive competition in its markets and a decline in the effectiveness of key third party agents which was exacerbated by poor systems which made recognition of the underlying margin performance difficult.

Our Indian and Egyptian businesses, which are included in the UK segment for reporting purposes, reported underlying profit from operations broadly in line with the prior year. Thomas Cook India is benefiting from improving economic conditions with passenger and foreign exchange transactions both ahead. Egypt has seen declining activity which has affected gross profit but good cost management has mitigated the impact on its profit from operations.



Operating review:
Central Europe

Another year of solid progress, boosted by a strong economic backdrop and the successful integration of newly acquired Turkish tour operating specialist, Öger.

Dr Peter Fankhauser – Chief Executive Officer, Central Europe

"Our Central Europe segment delivered another good result this year, with continued growth in dynamic packaging."

CENTRAL EUROPE AT A GLANCE
FINANCIAL HIGHLIGHTS[1]

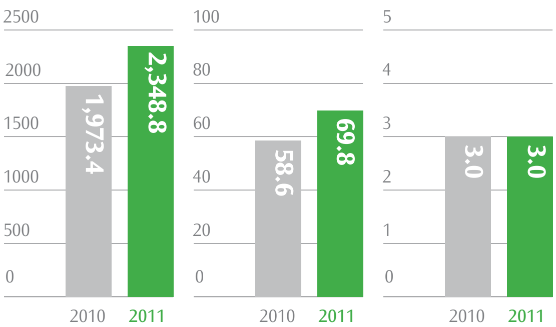
Key performance indicators

	FY11	FY10	Change
Mass market			
Passengers†			+14.0%
Flight inclusive			+16.5%
Non-flight inclusive			+8.3%
Average selling price#			+3.3%
Controlled distribution‡‡	22.5%	23.7%	-5.1%
Internet distribution‡‡	6.9%	7.2%	-4.2%

Revenue*
£2,348.8m
+19.0%

Underlying profit from operations**
£69.8m
+19.1%

Underlying operating profit margin***
3.0%



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Brands

Our Central Europe segment delivered another good result this year with underlying profit from operations up 19.1% to £69.8m (2010: £58.6m) and an underlying operating margin of 3.0% maintained. The adverse impact of disruption due to the unrest in the MENA region on underlying profit from operations was £4.9m and the benefit from exchange translation was £4.1m. The overall margin we achieved in Germany (including Airlines Germany) improved from 4.1% to 4.4%.

Currency-adjusted revenue growth was 16.9% and the acquisition of Öger Tours at the start of this financial year drove the largest element of this increase, comprising 12.1%. The integration of the Turkish specialist tour operator has been successfully managed and the business added £8.6m to profit from operations for the segment. Revenue growth was also driven by a move towards flight inclusive products causing a mix effect on the average selling price. Underlying average selling prices of both flight inclusive and non-flight inclusive were also increased as cost increases were passed on to customers.

The segment continued to see growth in dynamic packaging, adding further to the existing flexibility of the business model which has enabled it to perform well despite the disruption arising from MENA and the competitive price pressure in the German market.

The reported proportion of departed passenger bookings through controlled and internet distribution has fallen in the year as a result of the inclusion of Öger Tours, which will increase bookings through our controlled distribution networks in the future. Excluding Öger Tours, controlled and internet bookings were ahead of the prior year by 0.8% and 4.1% respectively.

Operating review:

West & East Europe

Impacted by the performance of the French business, where results were hit heavily by lower demand for holidays to the important French-speaking, North African destinations.

Dr Thomas Döring – Chief Executive Officer, e-Commerce and West & East Europe

"Our West & East segment has been particularly affected by the political unrest in the MENA region."

WEST & EAST EUROPE AT A GLANCE FINANCIAL HIGHLIGHTS[1]

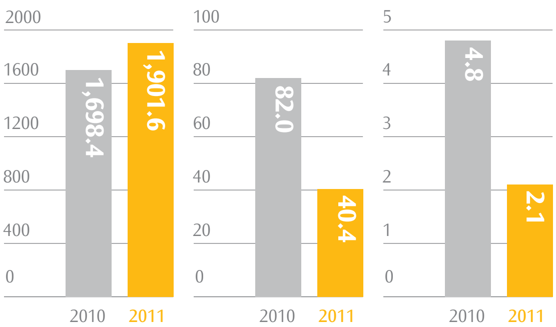
Key performance indicators

	FY11	FY10	Change
Mass market			
Passengers†			+2.0%
Flight inclusive			+3.7%
Non-flight inclusive			-0.5%
Average selling price#			+0.2%
Controlled distribution‡‡	59.9%	56.9%	+5.3%
Internet distribution‡‡	23.8%	21.4%	+11.2%

Revenue*
£1,901.6m
+12.0%

Underlying profit from operations**
£40.4m
-50.7%

Underlying operating profit margin***
2.1%
-56.3%



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See Appendix 1 on page 137 for key

Brands

Our West & East Europe segment has been particularly affected by the political unrest in the MENA region as it is an important destination for these source markets, making up around a quarter of the Mainstream programme for the segment overall and 40% of the Mainstream programme for France. West & East underlying profit from operations was £40.4m (2010: £82.0m) and the impact on this result of the MENA disruption is estimated at £43.5m and the benefit from exchange translation was £4.7m. Within this, France recorded an underlying loss from operations of £11.3m (2010: £34.4m profit), with MENA estimated to have reduced French profits by £32m. The underlying operating profit margin for the segment fell to 2.1% (2010: 4.8%).

Currency-adjusted revenue in West & East Europe increased by 9.5% year on year, in part due to the impact of the Russian acquisition as well as increases in most markets, driven by an increase in passenger numbers and changes in product mix towards higher priced, flight-inclusive holidays and away from non-flight inclusive tours. The acquisition of Intourist's tour operating and retail network in Russia was completed on 12 July 2011 and that business' summer trading has added £98.9m to revenue and £2.3m to the underlying profit from operations for the year. The segment has driven increased volumes through e-commerce channels during the year with consequent increases in related IT and marketing expenses. These increased costs together with general inflationary pressures have been partially offset by the reassessment of certain aircraft related liabilities.

Following the deterioration in trading and a change of management in our French business, the carrying value of certain assets and liabilities that had been recognised at the previous year end has been reassessed. It is now considered that certain accounting judgements regarding collectability of assets and recognition of liabilities were incorrect. Revision of these accounting judgements and a generally more cautious approach in light of current trading conditions has resulted in a charge totalling £13.4m in the year and the more cautious approach has been maintained in the judgements made at 30 September 2011. Due to the one-off nature of the £13.4m additional charge this year, it has been included within separately disclosed items.

Operating review:

Northern Europe

A consistent performer, Northern Europe achieved further growth in sales and profits by attracting more customers to its strong brands and popular holiday concepts.

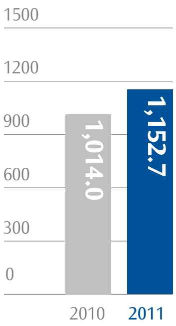
Lars Löfgren – Chief Executive Officer, Northern Europe

"Our Northern Europe segment delivered its best ever results, and has industry-leading operating margins."

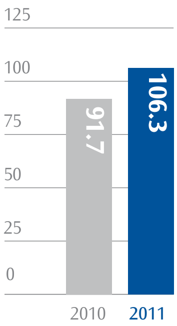
NORTHERN EUROPE AT A GLANCE
FINANCIAL HIGHLIGHTS[1]
Key performance indicators

	FY11	FY10	Change
Mass market risk			
Passengers[†]			+7.0%
Capacity[††]			+6.3%
Average selling price[#]			+0.4%
Load factor[†††]			+0.7%
Brochure mix[##]			+2.5%
Controlled distribution[‡‡]	**85.7%**	84.4%	+1.5%
Internet distribution[‡‡]	**65.6%**	60.7%	+8.1%

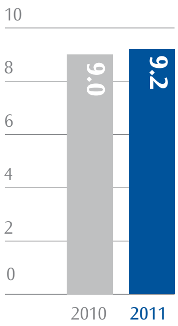
Revenue*
£1,152.7m
+13.7%



Underlying profit from operations**
£106.3m
+15.9%



Underlying operating profit margin***
9.2%
+2.2%



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See Appendix 1 on page 137 for key

Brands

Our Northern Europe segment delivered its best ever results with underlying profit from operations of £106.3m (2010: £91.7m) almost 16% ahead of the prior year and underlying operating margin further improved to 9.2% (2010: 9.0%). This success was driven by the continued focus on providing exclusive and differentiated products and on operational efficiency and cost control; enabling the business to continue to improve its performance despite strong competition.

Currency-adjusted revenue was up 4.2% on the prior year, driven by volume growth, with average selling prices remaining broadly in line with the prior year. The negative impact of the political unrest in the MENA region on the underlying profit from operations was £4.9m and the benefit from exchange translation was £8.9m.

Northern Europe's industry-leading operating margin is in part due to the high proportion of its bookings taken through controlled and internet distribution and it has again experienced strong growth in this area. Controlled distribution through owned websites, shops and call centres accounted for 85.7% (2010: 84.4%) of departed passengers and, within that amount, internet sales grew to 65.6% in the year.

Operating review:
North America

Volume growth in independent travel and overhead cost savings delivered improved profit on prior year.

Brands

Mainstream

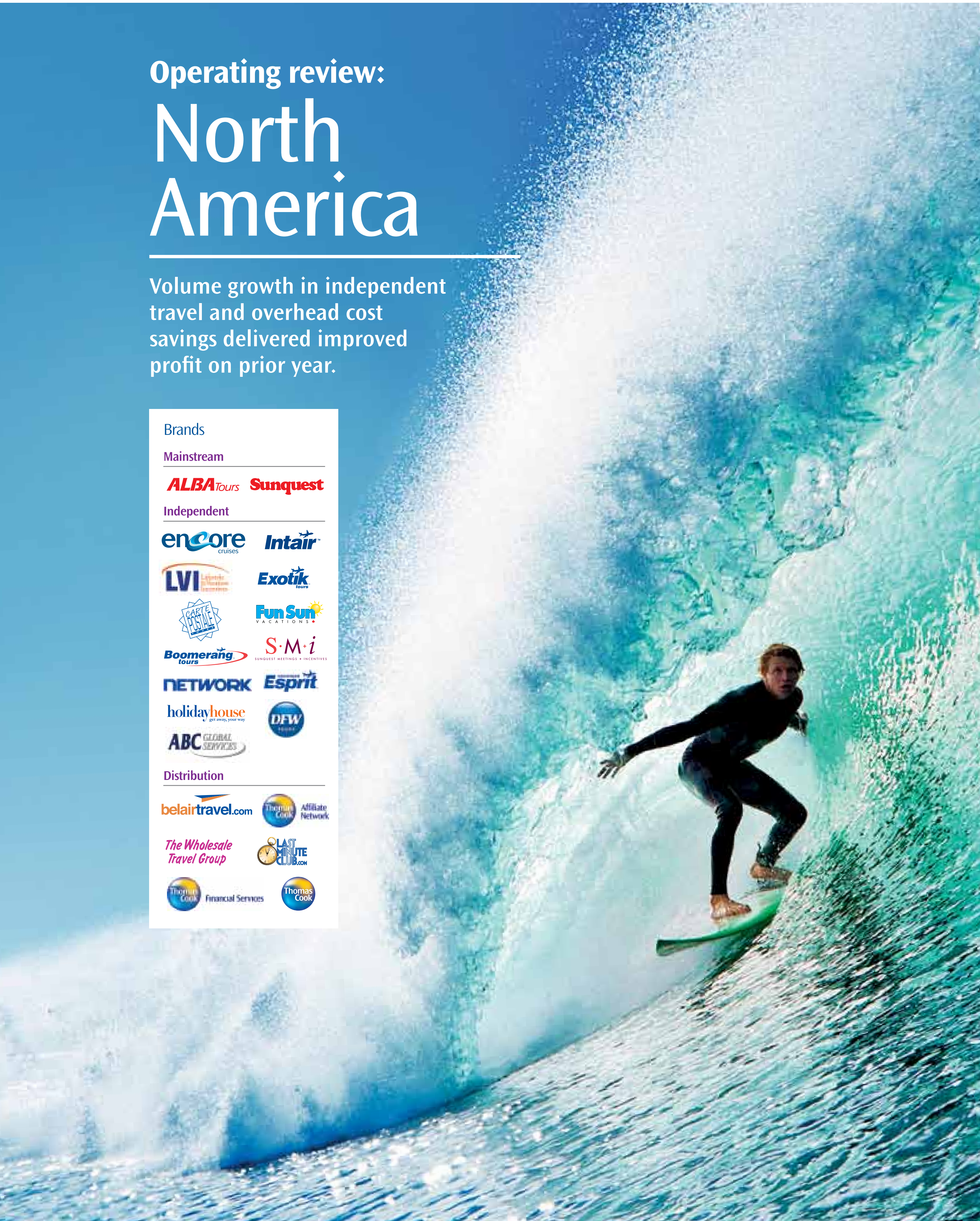
ALBA Tours, Sunquest

Independent

encore cruises, Intair, LVI, Exotik tours, Carte Postale, Fun Sun Vacations, Boomerang tours, S·M·i, Network, Esprit, holidayhouse, DFW, ABC Global Services

Distribution

belairtravel.com, Thomas Cook Affiliate Network, The Wholesale Travel Group, Last Minute Club.com, Thomas Cook Financial Services, Thomas Cook



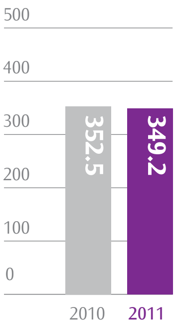
Michael Friisdahl – Chief Executive Officer, North America

"Our North American segment performed ahead of the prior year, and our Independent operation has continued to grow passenger volumes."

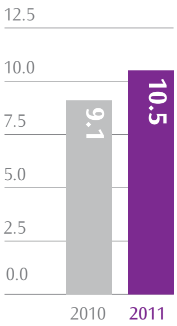
NORTH AMERICA AT A GLANCE
FINANCIAL HIGHLIGHTS[1]
Key performance indicators

	FY11	FY10	Change
Mass market risk			
Passengers†			-4.4%
Capacity††			-6.4%
Average selling price#			-9.0%
Load factor†††			+2.2%
Brochure mix##			-3.0%
Controlled distribution‡‡	**16.9%**	14.3%	+18.2%
Internet distribution‡‡	**36.4%**	36.7%	-0.8%

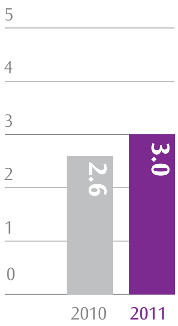
Revenue*
£349.2m
-0.9%



Underlying profit from operations**
£10.5m
+15.4%



Underlying operating profit margin***
3.0%
+15.4%



1 The Group statutory financial statements for the year ended 30 September 2011 and prior year comparators are set out on pages 74 to 127.

See Appendix 1 on page 137 for key

Note: Internet and controlled distribution percentages include independent travel bookings.

Our North American segment performed ahead of the prior year helped by an exchange translation benefit of £0.9m, with underlying profit from operations of £10.5m (2010: £9.1m) despite the continuing difficult market conditions for its Mainstream business. This business continues to experience lower margins due to the strong price competition resulting from overcapacity and to address this we have focused on growing the sales of our exclusive and differentiated products and cost reduction. The start of our new flying arrangements with Jazz, following the collapse of our principal seat provider in the previous year, has provided significant savings in flying costs and substantial improvements in customer satisfaction.

Revenue in North America fell, on a currency-adjusted basis, by 4.6% with passenger volumes and average selling prices down. In our mass market tour operator we focused on maximising sales of available seats and saw a consequent increase in load factors.

Our Independent operation has continued to grow passenger volumes and has seen improved average selling prices and margins such that it now contributes more than 70% of the North American passenger volumes. Within this business our dynamic booking engine, Travelgenie, has continued to perform well and now accounts for 17% of our Independent land sales.

Controlled distribution rose to 42.6% following the start in January of our licensing agreement to operate Sears Travel. The integration of this operation is on track and delivering significant benefits. Later in the year we signed an agreement with the Advantage consortium of independent travel agencies, which has added 90 stores to our franchise network. 2011 is the first year we have been able to use the Thomas Cook brand in Canada and we are confident that its strength will benefit our products in this competitive market.

Overhead cost reductions of approximately £5m were delivered during the year to help keep our cost base low. Efficiency was improved by further adoption of technology-based solutions.

Operating review:
Airlines Germany

Delivering its seventh successive year of profit growth, Condor increased capacity and successfully expanded its long haul routes.

Ralf Teckentrup – Chief Executive Officer, Airlines Germany

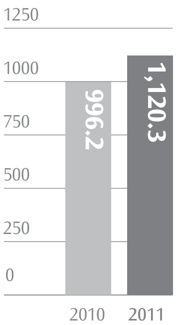
"Our Airlines Germany segment delivered another strong set of results, and cost savings were achieved in our ongoing efficiency programme."

AIRLINES GERMANY AT A GLANCE
FINANCIAL HIGHLIGHTS[1]

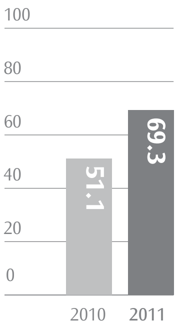
Key performance indicators

	FY11	FY10	Change
Revenue – external[*]	**801.6**	708.4	+13.2%
Revenue – internal[*]	**318.7**	287.8	+10.8%
Total revenue[*]	**1,120.3**	996.2	+12.5%
Sold seats[‡‡‡]			
Thomas Cook tour operators			+3.7%
3rd party tour operators			-3.9%
External seat only			+18.5%
Total sold seats			+5.7%
Sold seats[‡‡‡]			
Europe (excl. cities)			+3.6%
Long haul			+15.5%
Total sold seats			+5.7%
Capacity[††]			+7.5%
Yield[###]			+3.8%
Seat load factor[†††]			+0.5%

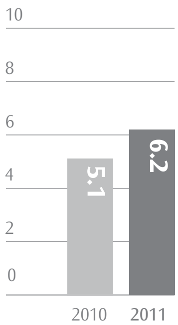
Revenue*
£1,120.3m
+12.5%



Underlying profit/(loss) from operations**
£69.3m
+35.6%



Underlying operating profit margin***
6.2%
+21.6%



1 The Group statutory financial statements for the year ended 30 September 2011 and prior year comparators are set out on pages 74 to 127.

See Appendix 1 on page 137 for key

Brands

Condor
www.condor.com

Our Airlines Germany segment delivered another strong set of results with underlying profit from operations up 35.6% to £69.3m (2010: £51.1m) and underlying operating margin growing from 5.1% to 6.2%. This improvement was achieved despite the introduction of a new German air passenger tax and strong competition in Germany.

Total revenue was 12.5% higher at £1,120.3m, with currency-adjusted total revenue 11.6% ahead following the expansion of long haul capacity. The profitable growth to long haul destinations drove the 18.5% increase in seat only sales and the 3.8% increase in average yield, which excludes the effect of the new air passenger tax. The adverse impact of the disruption in the MENA region on profits was estimated at £11.7m and the benefit from exchange translation was £3.7m.

Increased maintenance, landing and training costs were offset by cost savings from the segment's ongoing efficiency programme and a refund of overcharged security fees. In addition, the segment result benefited from lower depreciation (£6m) and participation in the Group wide airline synergies project which delivered savings of £9.5m.

Risk management

Thomas Cook Group plc, like all businesses, faces risks and uncertainties as we conduct our operations and execute our strategy.

KEY RISKS IN 2011

- Liquidity risk
- Global economic downturn
- Market and competitive pressures
- Turnaround plan for the UK business
- Security and political unrest in tourist destinations

We place great importance on internal control and risk management, and the system and framework that the Board has put in place is described in the Corporate Governance Report on page 54.

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

During the year the focus has been on the key risks of liquidity, the management of capacity in response to difficult trading conditions (particularly in the UK and in France), the consequences from the civil and political unrest in the MENA region and the need to refresh much of the Group's information technology infrastructure.

Over the year we have significantly improved the mitigation of certain risks including the closure of the UK final salary pension scheme, further development of business continuity plans and the renegotiation of banking facilities.

The focus next year is expected to remain on market-related risks and on delivering the initial actions of the turnaround plan for the UK business.

PRINCIPAL OPERATIONAL AND STRATEGIC RISKS

RISKS	IMPACT	MITIGATION
Downturn in the global economy and in the economies of our source markets leading to a reduction in demand for our products and services For further information see pages 6 to 27	Pressure on volumes and margins	Flexible and asset-light business model: • Aircraft operating leases with staggered maturity profiles • Committed hotel capacity is minimised • Changes in capacity can be made late into the booking season • Tight cost discipline with ability to cut costs further if necessary
Fall in demand for traditional package tours and competition from internet distributors and low-cost airlines For further information see pages 6 to 27	Reduction of revenue and pressure on margins	Strategy: • Maximise value from mainstream packages (improved product mix, increased margins, reduced costs) • Become a leading provider of independent travel • Increase online distribution (as part of a multi-channel approach) • Ensure our own in-house airlines remain cost competitive
Failure to implement the UK turnaround plan For further information see pages 7 to 11	Projected cost savings and profitability improvements not realised	• Board review of progress and implementation timescales for projects on key focus areas of airline, product strategy, yield, distribution, operational excellence, independent business • Initiatives planned to generate £110m annualised improvement to profitability following a phased build-up over three years

PRINCIPAL OPERATIONAL AND STRATEGIC RISKS CONTINUED

RISKS	IMPACT	MITIGATION
Any significant damage to the Group's reputation or brands For further information see pages 6 to 27	Loss of trust, reduced sales and loss of profits	• Regular review of the risks within propositions and destinations • Checks that supplier performance meets brand requirements • Checks on accuracy of brochures, marketing materials and prices • Review of customer satisfaction statistics and complaint handling • Board review of significant issues
Environmental risks and regulations For further information see pages 35 to 39 and in the full online Sustainability Report which can be found, from February 2012, at www.thomascookgroup.com/sustainability	Change in travel patterns and potential damage to the Group's reputation or brands	• Full sustainability programme as detailed in the Sustainability Report
A major health and safety incident For further information see pages 35 to 39 and in the full online Sustainability Report which can be found, from February 2012, at www.thomascookgroup.com/sustainability	Loss of trust, reduced sales and loss of profits	• Health and safety management embedded in each business with central coordinating function complemented by destination audits • Group Health & Safety strategy in place, which is regularly reviewed by the Health, Safety & Environmental Committee
Loss of, or difficulty in replacing, senior talent For further information see pages 38 to 39	Unplanned loss of critical talent from key positions adversely impacting business performance both in the short and medium-term	• Regular succession and talent reviews within each business segment • Succession planning established for senior roles – periodic review by the Board • Competitive package and career development opportunities with key roles identified
Natural catastrophe including closure of airspace	Loss of business and risk of loss of life or injury	• Tried and tested emergency procedures in place to react quickly, including evacuation if necessary • Ability to switch to other markets and change capacity at short notice
Disruption to information technology systems or infrastructure, premises or business processes	Business disruption and loss of profits	• Close management of service levels and change processes • Vulnerability reviews of systems and infrastructure • Business continuity management and disaster recovery arrangements • Contract with Accenture provides one point of contact and control for the majority of the Group's information technology infrastructure
Performance failure by outsourced partners and third-party suppliers	Business disruption and loss of profits	• Service level agreements and service issue management in place • Confirmation of key supplier business continuity arrangements

Risk management continued

PRINCIPAL FINANCIAL RISKS

RISKS	IMPACT	MITIGATION
Liquidity and counterparty credit risks For further information see pages 31 to 34 and in Note 23 to the Financial Statements	Difficulty in meeting financial commitments as they fall due	• Actively managed Board-approved counterparty and treasury policies • High focus on cash management throughout the organisation • Short and medium-term cash flow forecasting and headroom tracking
Extent of borrowings For further information see pages 31 to 34 and in Note 20 to the Financial Statements	Operational restrictions due to size of debt service obligations	• Refinancing and reduction of net borrowing levels
Commodity risk: fuel, foreign currency and interest rate risks For further information see pages 31 to 34 and in Note 23 to the Financial Statements	Costs incurred may not be recovered from customers Increase in currency denominated costs (i.e. jet fuel and hotels) Increase or uncertainty in financing costs	• Selling price flexibility (surcharges) and scenario planning • Actively managed Board-approved hedging and treasury policies
Breakdown in internal controls For further information see the Corporate Governance Report on pages 43 to 55	Financial loss, accounting errors or fraud	• System of internal control in place, which is continually monitored • Internal audit activity
Tax risk For further information see Note 25 to the Financial Statements	Inability to utilise prior year losses resulting in higher taxation charge	• Regular monitoring of forecasts and high risk areas that may affect the value of deferred tax assets
Pension liabilities For further information see Note 35 to the Financial Statements	Additional funding for retirement schemes may restrict investment within the business	• Monitoring of pension scheme assets and liabilities and agreed timescales for funding any deficit

PRINCIPAL OTHER RISKS

RISKS	IMPACT	MITIGATION
Security, political or terrorist risks in key tourist destination markets	Potential loss of bookings, increased costs	• Ongoing monitoring by management • Flexible and asset-light business model providing ability to switch to other markets and change capacity at short notice
Legal and regulatory risks (in particular relating to licences and regulations for airlines, package holidays and consumer protection)	Inability to trade due to loss of licence Substantial fines and damage to reputation	• Active legal and regulatory management programme in place
Competition law and anti-trust	Substantial fines and loss of reputation	• Specific training programme on competition law across the Group with monitoring of compliance

Financial review

Against a very difficult trading backdrop, the Group achieved a £49.7m improvement in free cash flow and going forward we are fully focused on strengthening the balance sheet.

FINANCIAL RESULTS AND PERFORMANCE REVIEW

£m (unless otherwise stated)	Year ended 30 September 2011	Year ended 30 September 2010	Year-on-year change
Revenue	9,808.9	8,890.1	+918.8
Underlying profit from operations[1]	303.6	362.2	-58.6
Share of results of associates and joint venture	(2.3)	3.2	-5.5
Net investment loss	(4.8)	(1.5)	-3.3
Finance charges	(121.9)	(116.1)	-5.8
Underlying profit before tax	174.6	247.8	-73.2
Separately disclosed items	(572.8)	(206.1)	-366.7
(Loss)/profit before tax	(398.2)	41.7	-439.9
Underlying earnings per share (p)	11.7	20.4	-8.7
Basic loss per share (p)	(60.7)	(0.3)	-60.4
Dividend per share (p)	3.75	10.75	-7.0
Free cash flow[2]	17.9	(31.8)	+49.7
Net debt	890.9	803.6	87.3

1 Underlying profit from operations is defined as earnings before interest and tax, and has been adjusted to exclude all separately disclosed items. It also excludes our share of the results of associates and joint venture and net investment income.

2 Free cash flow includes cash from operating activities, purchase and proceeds of disposal of tangible and intangible fixed assets and interest paid.

INCOME STATEMENT

Revenue and underlying profit from operations

Group results were heavily impacted by the disruption caused by the Arab Spring on our important MENA destinations, particularly in our French source market, and a poor performance from our UK business.

Group revenue for the year increased by 10.3% to £9,808.9m (8.1% at constant currency). Revenue benefited from a modest volume uplift and price increases in part due to change in mix. In addition, the acquisition of Öger Tours by Central Europe and Intourist by West & East Europe towards the end of the year added circa £341m to the Group's revenues during the period. Group revenue was derived 74% from mainstream travel, 25% from independent travel and 1% from financial services. 52% of passengers bought mainstream travel products and 48% of passengers bought independent travel products.

Group underlying profit from operations was £303.6m, a decrease of £58.6m on the prior year. We estimate that disruption to our important MENA destinations adversely impacted underlying profit from operations by circa £80m and of that impact, around £32m was incurred in France where around 40% of sales are typically to North Africa in a given financial year. Underlying profit from operations in the UK segment was £73m down on the prior year as a result of both the MENA impact and a squeeze on margins. UK margins were down as a result of rising input costs and price competition as customers' disposable incomes were squeezed by tough economic conditions. As commented on elsewhere in this report, we are currently implementing a UK turnaround plan. Offsetting these adverse results were improved underlying profits from operations in Northern and Central Europe and Condor, our German airline.

The main drivers of the year on year fall in underlying profit were:

£m	
2010 Group underlying profit from operations	**362.2**
Trading	(30.1)
Increase in fuel and accommodation costs	(18.5)
Cost and lost margin impact of MENA disruption	(80.2)
Lost margin impact of Volcanic Ash Cloud disruption in FY10	29.2
Cost savings	84.0
Inflation, depreciation, exchange translation and other	(43.0)
2011 Group underlying profit from operations	**303.6**

It is estimated that exchange translation has positively impacted the translation of our overseas operations results into Sterling by circa £22m.

Financial review continued

SEPARATELY DISCLOSED ITEMS

	Year ended 30 September 2011 £m	Year ended 30 September 2010 £m	Year-on-year reduction/ (increase) £m
Affecting profit from operations			
Exceptional operating items (excluding balance sheet review and impairment)	(101.9)	(166.3)	64.4
IAS 39 fair value re-measurement	(5.9)	2.0	(7.9)
Amortisation of business combination intangibles	(34.3)	(30.9)	(3.4)
	(142.1)	**(195.2)**	**53.1**
Balance sheet review and impairment	(428.1)	–	(428.1)
	(570.2)	**(195.2)**	**(375.0)**
Affecting income from associates and JVs			
Profit on disposal of associates	10.3	–	10.3
Affecting net finance costs			
Exceptional finance charges	(3.8)	(18.2)	14.4
IAS 39 fair value re-measurement	(9.1)	7.3	(16.4)
	(12.9)	**(10.9)**	**(2.0)**
Total	**(572.8)**	**(206.1)**	**(366.7)**

Separately disclosed items

Separately disclosed items consist of exceptional operating and finance items (including the impact of a review of balance sheet carrying values), IAS 39 fair value re-measurement, profit or loss on disposal of associates and the amortisation of business combination intangibles. These are costs or profits that have arisen in the year which management believes are not the result of normal operating performance. They are therefore disclosed separately to give a more comparable view of the year-on-year underlying trading performance.

The table above summarises the separately disclosed items, which have been included in the full year accounts. Further details are provided in note 5 to the accounts.

Exceptional operating items

Exceptional operating items (excluding balance sheet review and impairment) were £101.9m (2010: £166.3m), of which £57.3m relates to restructuring programmes mainly in the UK (£28.8m) and West & East Europe (£16.6m) operating segments. £37.6m is provision in relation to a disagreement with HM Revenue & Customs regarding place of business. A breakdown of the remaining balance of £7.0m is set out in note 5 to the accounts.

As part of our year end review process and given the reduction in Group profitability, we have undertaken a review of the carrying value of goodwill and certain other assets. In total, the write-down is £428.1m and is largely of a non-cash nature. £278.7m is impairment of goodwill, mainly in relation to our UK and Canadian businesses and reflects a decrease in management's estimates of the likely future profitability and cash flows of those businesses. £86.3m relates to other intangible assets, principally in respect of the historic costs associated with a long-running major IT project that has yet to be fully commissioned by the Group's incumbent provider and which management believe to carry increased costs, execution risk and timeframe to delivery which exceed the previously anticipated benefits. Following the management changes in our UK business and the substantial deterioration in trading within our French operation, we have carried out a balance sheet review of those businesses, which has resulted in net balance sheet write-downs of £63.1m.

IAS 39 fair value re-measurement

IAS 39 (as amended) requires the time value element of options used for hedging the Group's fuel and foreign currency exposure to be written off to the income statement as incurred. As this is purely a timing issue but can give rise to significant, unpredictable gains and losses in the income statement, management has decided to separately disclose the impact in the income statement to assist readers of the accounts in better understanding the underlying business development. For consistency, we also separately disclose the timing effect within net finance charges of marking to market the forward points on our foreign currency hedging. We have therefore separately disclosed a loss of £5.9m in the operating result (2010: gain of £2.0m) and a loss of £9.1m in net finance costs (2010: gain of £7.3m).

CASH AND LIQUIDITY

£m	Year ended 30 September 2011 £m	Year ended 30 September 2010 £m	Year-on-year reduction / (increase) £m
Net cash from operating activities	288.6	299.4	(10.8)
Capital expenditure (net of disposals)	(172.4)	(266.1)	93.7
Interest paid	(98.3)	(65.1)	(33.2)
Free cash flow	**17.9**	**(31.8)**	**49.7**
Acquisition of businesses	(19.2)	(27.2)	8.0
Disposal of businesses	3.2	–	3.2
Dividends received	5.9	–	5.9
Dividends paid	(92.0)	(59.7)	(32.3)
Other items (net)	4.1	2.2	1.9
Net cash outflow	**(80.1)**	**(116.5)**	**36.4**

Amortisation of business combination intangibles

During the year, we incurred non-cash costs of £34.3m (2010: £30.9m) in relation to the amortisation of business combination intangibles. £22.2m of the amortisation relates to the merger of Thomas Cook and MyTravel and represents the amortisation of brand names, customer relationships and computer software. The remaining £12.1m relates to other acquisitions made post-merger.

Income from associates and joint ventures

Our share of the results of associates and joint ventures, which comprises mainly hotel participations, was a loss of £2.3m (2010: profit of £3.2m). This result largely reflects deteriorating trading in a business that has now been sold. The prior year result included the £2.0m reversal of a previous impairment.

Net investment loss

The net investment loss in the year was £4.8m (2010: £1.5m) and mainly comprised a £3.8m impairment of an investment in a German tour operator, Aldiana.

Net finance costs

Net finance costs (excluding separately disclosed items) amounted to £121.9m, an increase of £5.8m on the prior year. The increase reflects higher levels of average borrowings and a rise in the level of fixed interest charges following the bond issues in April 2010. These increases have been partly offset by a reduction in other interest, including, in relation to the Group's defined benefit pension schemes.

Tax

The tax charge for the year was £119.8m (2010: £38.9m). Excluding the effect of separately disclosed items, change in tax rates and the impairment of a deferred tax asset, this represents an effective tax rate of 41.0% (2010: 27.6%) on the underlying profit for the year. An impairment to the deferred tax asset has arisen in the year reflecting the reduced likelihood of utilising UK taxable losses within an acceptable time period.

Total taxable losses available to carry forward in the Group at 30 September 2011 were £2.1bn and as at 30 September 2011 deferred tax assets were recognised with respect to £0.7bn of this amount.

Earnings per share and dividends

The underlying basic earnings per share was 11.7p (2010: 20.4p). The basic loss per share was 60.7p (2010: 0.3p).

The interim dividend for the year of 3.75p per share was paid on 7 October 2011. As previously announced, the Board has decided not to declare any further dividend payments whilst the Group rebuilds the balance sheet. The total dividend per share for the year is therefore 3.75p (2010: 10.75p).

CASH AND LIQUIDITY

Despite the decline in profitability, the Group recorded a substantial cash inflow from operating activities of £288.6m and a £49.7m increase in free cash flow during the period. The improvement in free cash flow was the result of significantly lower capital expenditure mainly because the prior year included payments of £66.2m to acquire two aircraft, which were previously on operating leases. The increase in interest paid of £33.2m mainly reflects the first annual interest payment due on the Group's Euro and Sterling bonds, which were launched in April 2010. Acquisition of businesses outflow of £19.2m follows the acquisition of Öger Tours a Turkish specialist operating out of Germany, our joint venture stake in Intourist in Russia and deferred consideration on prior year acquisitions, Gold Medal and Hotels4U. The increase in dividends is a result of timing of payments with only the final dividend for 2009 being paid out in 2010, whereas for 2011 the cash flow includes payment of both the 2010 interim and final dividend. Following the payment of the recent interim dividend in October 2011, the Group has announced a suspension of dividend payments until it has rebuilt the balance sheet.

Financial review continued

Net debt (being cash less borrowings, overdrafts and finance leases) at the year end was £890.9m (2010: £803.6m). Headroom under the banking facilities as at 30 September 2011 was £821m compared to £890m as at 30 September 2010. It should be noted that £50m was repaid under the term loan agreement just after the year end, during October 2011.

SEGMENTAL PERFORMANCE REVIEW

Segmental performance presented in the Operating Review on pages 16 to 27 is based on underlying financial performance before separately disclosed items.

TREASURY ACTIVITIES

The Group's Treasury Department has primary responsibility for treasury activities and these are reported regularly to the Board. The Group Treasury function is subject to periodic independent reviews and audits, which are then presented to the Audit Committee.

Treasury policies

The Group is subject to financial risks in respect of changes in fuel prices, foreign exchange rates and interest rates. It is also exposed to counterparty credit risk and availability of credit facilities within its business operations. To manage these risks, the Board has approved clearly defined treasury policies covering hedging activities, responsibilities and controls. The policies are reviewed regularly to ensure that they remain appropriate for the underlying commercial risks. The policies also define which financial instruments can be used by the Group to hedge these risks. The use of derivative financial instruments for speculative purposes is strictly prohibited.

Management of liquidity risk and financing

Group Treasury's primary objective is to ensure that the Group is able to meet its financial commitments as they fall due. This involves preparing a medium-term cashflow forecast using the annual budget and three-year plan and ensuring that the Group has sufficient available cash and headroom under its committed facilities. In addition, a rolling 13-week cashflow forecast is used to manage the Group's short-term cash and borrowing positions.

Borrowing facilities

The Group's funding arrangements include a €400m bond maturing in June 2015 and a £300m bond maturing in June 2017, both issued in April 2010. In addition, the Group has committed bank credit facilities totalling £1.2bn provided by a syndicate of banks. These comprise a £150m amortising term loan, a revolving credit facility of £850m and, as announced on 25 November 2011, a new £200m facility agreed with a syndicate of banks to provide additional liquidity around the seasonal cash low points in December this year and next. During the year the amortising term loan and revolving credit facilities were extended by one year and now mature in May 2014. The new £200m facility matures in April 2013 and replaces the £100m short-term facility announced on 21 October 2011. In addition, certain amendments to the terms of its committed bank facilities have been agreed, principally to provide greater financial flexibility for the Group by increasing the headroom under its financial covenants. As at 30 September 2011, the average remaining term of the bonds and committed bank credit facilities was 3.2 years (2010: 3.7 years).

Guarantee facilities

In addition to debt facilities, the Group has a requirement for bonding and guarantee facilities, principally for consumer protection guarantees. The Group has £200m of committed bonding and guarantee facilities provided by seven of the syndicate banks. During the year, these guarantee facilities were extended and now mature in May 2013.

Counterparty credit risk

The Group enters into fuel, foreign exchange and interest rate derivative contracts and deposits surplus cash with approved banks and financial institutions with strong credit ratings. Each counterparty has a credit limit authorised by the Board and credit risk is reduced by spreading the deposits and derivative contracts across a number of counterparties.

Our Sustainability

"To be a successful business, we need to be sustainable. That means embedding sustainability within our Company and everything we do. We are committed to building on our progress so far and continuing on our sustainability journey."

Sam Weihagen
Group Chief Executive Officer

OUR GROUP VISION

- To ensure the longevity of our business by delivering sustainable and profitable growth.
- To integrate sustainability into everything that we do – every product we sell, every customer's holiday experience, every employee's role.
- To make dreams come true for everyone involved in our business, today and for the future.

KEY ACHIEVEMENTS IN 2011

- Our UK airline worked closely with all our base airports to gain their commitment to recycling and establish the necessary infrastructure to maximise in-flight waste recycling.
- We launched networks of sustainability and environmental champions across the Group to promote and engage our people in sustainability.
- We developed a Group-wide child protection policy.
- We developed a Group-wide vision and strategy along with some stretching 2020 targets.
- We became the first global tour operator to subscribe to Travelife.

OUR SUSTAINABILITY STRATEGY

We believe that the success of our business rests on our commitment to be economically, environmentally and socially sustainable. Our approach is to maximise the benefits that our business brings, while minimising the adverse impacts of our operations.

Our sustainability strategy is centred on the key areas which we believe contribute to a sustainable business model: people, marketplace (encompassing customers and suppliers), environment and communities.

Our strategy diagram shows how these four areas are interlinked and together create a truly sustainable business.

Within each of these four areas are a number of material issues. Many of these are managed by our sustainability team, while some, such as customer health and safety, are managed within other areas of the business.

MANAGING SUSTAINABILITY

The Board, through the Health, Safety & Environmental Committee and Group Executive Board, sets the Group's sustainability strategy. Robust management systems and policies support the implementation of our sustainability strategy.

Over 2010/11, we made good progress in embedding sustainability further into the business and continued to refine our key issues within the four strategic areas listed below.

We set up our Group Working Party on Sustainability ('GWPS'), in 2010 for strategic decision-making. Over 2011, we made progress in developing a global approach to sustainability, encouraging sustainability leadership across the Group and sharing best practice across our operations internationally.

Across the Group, we communicate on sustainability to our people using the intranet, emails, employee magazines and newsletters. We also have networks of sustainability champions across the Group, who take a leadership role in shaping the sustainability focus of their business.

Our sustainability continued

STAKEHOLDER ENGAGEMENT

Engaging with stakeholders enables us to understand their interests and concerns, and to discuss and explain our position. This informs our sustainability strategy and ensures we are focusing on the most important issues and driving our performance.

We held a formal stakeholder consultation in 2011 where we asked for opinions on our strategy, our reporting and our key issues. Stakeholders from UK-based and international sustainability and tourism associations, environmental and wildlife charities, and governmental and academic organisations took part. Topics discussed included:

- tackling human rights issues in supply chains through greater collaboration within the tourism sector;
- the accountability of senior management for delivering the Group's sustainability strategy and targets; and
- the need for clearer and more accessible results of the Group's sustainability performance.

The discussions with stakeholders have informed our sustainability strategy and we will look to conduct more stakeholder consultations in the future.

OUR PERFORMANCE

The following table shows our performance to date against our 2011 Group targets.

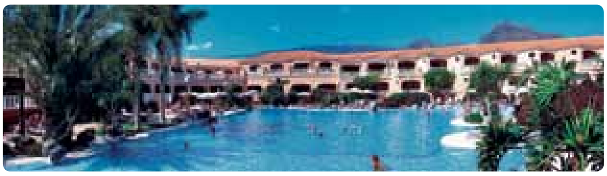
TARGET	PROGRESS
Marketplace – Customers	
• To include sustainability messages on all Group consumer websites	Achieved – UK, Central Europe, Northern Europe, Belgium and North America
Marketplace – Suppliers	
• To subscribe to a Group-wide supply chain management tool	Achieved – Travelife
Environment – Emissions and energy	
• To establish a baseline for Group energy use	Achieved
• Airlines to reduce CO_2 emissions by 0.5% on FY2009/10	Achieved
Environment – Resource use and waste	
• To implement a recycling programme within all Group corporate offices	Partially achieved
• All Group business segments to measure and report waste produced	Partially achieved
• To engage with base airports to implement recycling of in-flight waste	Achieved
• To reduce water consumption by 2% per guest night in Group owned/controlled hotels	Not achieved
• Business mileage travelled by car to be measured and reported across all business segments	On track
Communities	
• To develop a Group policy on child protection	Achieved
• Each business segment to develop a charitable strategy for home communities	Agreement made on types of charitable giving but strategy not fully developed in all segments
People	
• Each business segment to have a network of environmental ambassadors/an environmental committee	Achieved – UK, North America, Northern Europe, Belgium, Central Europe
• To include sustainability in the business objectives of key overseas staff	In Quality Assurance Manager job description

Overall we have made good progress against our 2011 targets. The direction set by the GWPS has led to improved performance, which has resulted in meeting more of our Group targets. In the coming year we will continue to address those targets which we did not meet.

We have improved data collection processes across the business this year, which will help us to continue to set challenging targets going forward.

Further details on progress, including towards segment-specific targets and our Group-wide 2020 targets, will be included in the full online Sustainability Report 2011 www.thomascookgroup.com/sustainability, which will be published in February 2012.

Our Marketplace



Customers

Every area of our business is fully committed to providing the highest levels of customer service. We engage with our customers and deal with them honestly, transparently and fairly. We measure our success through customer satisfaction surveys and use this invaluable feedback to help us continually improve.

Customer health and safety is our priority. All our operations are tightly regulated and we aim to minimise risk and improve our processes wherever possible, for example through our:

- ISO 9001 quality management standard; and
- Thomas Cook Group Preferred Practice programme, which focuses on improving health and safety by globally coordinating information and reporting systems with local policies and decision making. Suppliers must sign up to the programme standards and are audited against them.

We aim to raise awareness of sustainability with our customers by using Travelife logos in our brochures and marketing material, so our customers can easily recognise those hotels that actively protect and support their local environment and communities.

Suppliers

It is important to manage our supply chain sustainably to build trust, increase efficiency and reduce costs and risks.

In 2011, the whole Group subscribed to Travelife, an industry-wide initiative which audits properties against social and environmental criteria and offers awards. This allows us to have a consistent approach to encouraging best practice worldwide.

Around the Group, 135 hotels hold Travelife awards. We have been working to improve our own hotels so that we can lead by example:

- All ten of our Sunwing hotels have Travelife gold awards. Before moving to the Travelife system, Sunwing was the first company to receive EU Ecolabels in every country of operation.
- Our SENTIDO brand launched an ambitious programme to have all hotels (33 at present) at a Travelife award level by 2013. In addition, we will train managers of hotels with gold awards to achieve even more and set best practice standards. SENTIDO subscribed to Travelife in June 2011 and already has seven hotels at award level.
- Hi! Hotels have subscribed to Travelife and are working towards achieving awards on audit.

Our Environment

Environmental management

We manage our environmental performance through our Group Environmental Policy. Some of our operating companies have formal environmental management systems such as ISO 14001 to which the UK and Scandinavian airlines are accredited.

In 2010/11, we improved data collection processes around the Group and set up a temporary database for better analysis and reporting. We have researched and analysed various options for the sustainability database best suited to our business, and will confirm this in the coming year.

Emissions and energy

Most of our carbon emissions are from aircraft although our airlines are among the most efficient worldwide due to our high load factors. We continually implement carbon reduction initiatives such as equipping planes with winglets to create substantial fuel savings.

Our energy consumption includes electricity and gas used in our buildings and vehicle fuel used in business travel. We installed smart meters in our UK retail stores to show energy use. This instant access to data has already led to implementation of energy-saving measures, for example, resetting the heating timers to match occupancy levels in one store saved an estimated 30 tonnes of CO_2 a year thus demonstrating the link between sustainable operations and financial efficiency.

Resource use and waste

While our priority is to avoid waste, where waste is inevitable, our aim is to reuse or recycle. Our airlines have engaged with our base airports to arrange the necessary recycling infrastructure thereby maximising our in-flight waste recycling and diverting a significant amount of waste from landfill.

Read more in our Sustainability Report 2011.
www.thomascookgroup.com/sustainability

Our sustainability continued

Our Communities

Our business longevity depends on the health and prosperity of the communities in which we work. We are developing a Group-wide community strategy which will cover source markets and destination communities. Key focus areas will include children and education, health and the environment, as well as attributing resources for disaster and emergency relief. Full details of our community contributions including charitable giving, volunteering and gifts in-kind will be disclosed in the full online Sustainability Report which will be published in February 2012. The Group-wide cash charitable donations for the year totalled £128,000.

In destination communities in particular, it is our responsibility to promote and safeguard children's welfare. We must raise awareness among our people, customers, suppliers and other stakeholders, ensuring they are suitably informed and trained to identify and react effectively when child safety may be at risk.

In 2011 a Group-wide child protection policy was developed and approved. Further to the policy, the Group will also sign up to 'The Code' – an industry-driven code of conduct for the protection of children from sexual exploitation in travel and tourism.

Our People

OUR EMPLOYEES AND VALUES

Our business depends on our people offering our customers great service every day. We have 31,000 employees across 22 countries. Working within a single Group culture they are focused around a common set of values, which guide how we do business and work together.

Our vision 'we go further to make dreams come true' is embedded amongst our people through the promotion of the PROUD values, a set of five values which are the cornerstone of the actions of our people. These values are reinforced through all of our people processes and through PROUD awards, which recognise individuals and teams who have gone further to make dreams come true for our customers.

ENGAGEMENT AND INVOLVEMENT

Whilst current business performance creates uncertainty and change for many of our people, we are committed to ensuring that Thomas Cook is a great place to work and is able to attract and retain the people who will deliver business success. Nobody is better placed to tell us how we are doing than our people. A fifth annual Group-wide employee engagement survey run by an independent specialist third-party has recently been conducted and the results are being analysed by management at Group and segment level.

The survey gives all employees the opportunity to share their open and honest views on how they feel about working for the Company, what we are doing well and how they believe we could improve. In 2010, we recorded a response rate of 77% which is our highest yet and indicates the value our employees place on providing their feedback. The level of engagement increased again this year remaining significantly higher than internationally recognised benchmarks. As important, employees' understanding of our Values, the 'how we do business' was rated as 'Excellent'.

Within segments, actions are developed in response to survey results. In Northern Europe, leaders' reward is directly linked to the outcome of the engagement survey for their area and all managers are targeted on an 80%+ score, with clear support and development in place to support those who have yet to meet the target.

Regular communication with our employees is key to ensuring that everyone remains focused on the Group's agenda. The Company commits to using a range of communication and feedback channels.

In Condor, regular 'webchat' sessions are available for the employees to engage directly with the segment Chief Executive Officer and his leadership team. In Central Europe, a key focus has also been improving leaders' skills in actively seeking and receiving direct feedback from their teams.

As our business evolves, there will be developments that directly impact our people and we are committed to consulting on these via our internal consultation forums, through discussion with our European Works Council and local representative groups.

DIVERSITY AND INCLUSION

A key strength of our organisation is our diversity – we believe it is an essential part of how we do business and we continue to ensure that we meet the needs of our equally diverse customer base.

We operate in 22 countries, employing people from a wide range of backgrounds and countries. Recent appointments to the Board and to the Group Executive Board have increased diversity, in terms of skills and experience, internationality and gender, in line with the recommendations of the Davies Report, entitled 'Women on Boards'. The leadership teams and segment boards are also diverse, which improves the sharing of best practice and insight from different countries across the Group. With new appointments we seek to further increase the breadth and depth of knowledge.

The underlying principle of our approach to diversity is that we do not tolerate any form of unlawful discrimination, and aim to reflect the diversity of the communities in which we operate. We are committed to treating people fairly and ensuring that our employment policies are free from any form of unlawful discrimination against existing or potential employees.

The Equality and Human Rights Commission positively acknowledged the work done by our UK segment to further develop a culture based on equality and diversity, clearly aligned to our business strategy. A key part of this has been the diversity e-learning programme that has been delivered to segment leaders, and which will be further rolled out to all UK employees in the coming months.

To support our employees with young families our German business has developed an innovative public/private partnership with local government to establish a crèche on the Thomas Cook campus. This successful initiative provides great facilities for families in the area, with 30% of places available to Thomas Cook employees at a subsidised rate.

BUILDING THE TALENT PIPELINE – ATTRACTION, DEVELOPMENT AND RETENTION

Continuing to develop our colleagues and plan succession is vital to being able to deliver our business goals.

Our talent management and succession plans are continually reviewed and updated, and each year the Board and Group Executive Board evaluate succession coverage and strength in our key leadership positions across the Group.

In 2011, we commenced a programme to benchmark our senior talent against international standards and put in place targeted development plans for each individual. This will ensure that we have the best possible talent leading the business now, whilst ensuring that our rising talent is developed to meet our future capability requirements.

During the year we have strengthened the pipeline by appointing talented external hires at senior levels and have promoted internal talent into key roles. Our Online Travel Agency ('OTA') strategic initiative has recruited well over 100 talented individuals, many of whom are industry experts from leading online organisations. Leadership development has high priority at all levels and across all segments. Development is supported through a broad range of activities including secondments, coaching, mentoring and international business school programmes. For example:

- Both Thomas Cook Central Europe and Condor have well established relationships with universities across Germany, and offer sandwich courses and apprenticeship opportunities to rising talent. Condor has a partnership with the University of Applied Sciences Frankfurt. The Bachelor of Arts (B.A.) Aviation Management was launched in September 2011 providing an opportunity for talented students to combine academic study at university with an equal amount of on-the-job development at Condor sites across Europe and North America.
- The UK is investing heavily in developing its senior management population and has a well-established partnership with Loughborough University who deliver the Thomas Cook Diploma in Leadership and Management for our senior leadership population. Accessibility to training programmes has increased with the launch in the UK of L&D online this year which enables our people to access learning and development 24 hours a day, every day of the year. The web-based system provides online learning programmes, reading material, links to informative websites and incorporates the Product Academy which offers up-to-the-minute information on our products, so our people can better serve our customers.
- In India, the Centre of Learning has been established to build a talent pool for Thomas Cook, as well as the wider leisure industry. Acting as an additional revenue stream, the organisation offers development programmes in a variety of travel-related subjects and through the open courses offered enables the business to strengthen links across the sector as well as the opportunity to spot and acquire rising talent.
- As well as formal development programmes, we offer work placements and secondments to broaden people's knowledge base and provide further stretch. As an official supporter of the London 2012 Olympics and Paralympic Games, we have the unique opportunity of being able to offer a number of our people exciting secondments to critical roles involved in the organisation of the Olympics through our partnership with LOCOG, and around 300 opportunities as 'Games Time' staff where they can actually work as part of the Thomas Cook team supporting our customers.

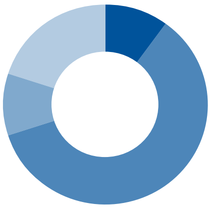
PERFORMANCE AND REWARD

Effective performance management is central to developing our high-performance culture, and is a core responsibility of our leaders. Our managers have a vital role to play in coaching, motivating and inspiring their teams through clear objective setting and regular feedback. All of our segments run well-established annual performance review programmes, with more regular feedback sessions throughout the year where line managers provide feedback and coaching to help people develop the right skills and address any challenges they may face in meeting performance standards. These processes are underpinned by our values, and guide how we coach our people to get the best from themselves and others.

Many of our employees have an element of their reward directly linked to their personal performance through Company bonus programmes, further reinforcing the link between achievement of their personal objectives, performance of the business and their reward. Share ownership is encouraged and although share price performance has been disappointing during the year, the Company remains committed to operating share plans across the Group to drive greater alignment between employees' and shareholders' interests. The Company also operates Sharesave on an international basis which it believes is a responsible way to facilitate employee share ownership across the whole employee base, whilst providing security from downside exposure for those less financially able to withstand share price volatility.

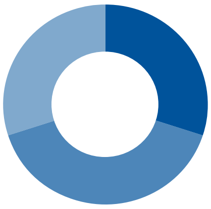
Board of Directors

BOARD COMPOSITION



- Chairman
- Independent Non-Executive Directors
- Non-Executive Director
- Executive Directors

BOARD TENURE



- < 1 year
- 1-4 years
- > 4 years

FRANK MEYSMAN (59)

Title: Non-Executive Chairman

Appointment: October 2011

Committee memberships: Chairman of Nominations Committee

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

External appointments: Chairman of Betafence and JBC N.V. (Belgium). He is also an Independent Representative Director of Picanol N.V., Warehouses De Pauw (WDP) and Spadel S.A.

ROGER BURNELL (61)

Title: Senior Independent Director

Appointment: March 2007

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

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

External appointments: Non-Executive Director of Coventry Building Society.

COMMITTEE MEMBERSHIPS

AUDIT COMMITTEE

David Allvey (Chairman)
Roger Burnell
Bo Lerenius

REMUNERATION COMMITTEE

Peter Middleton (Chairman)
Roger Burnell
Bo Lerenius

HEALTH, SAFETY & ENVIRONMENTAL COMMITTEE

Roger Burnell (Chairman)
Dawn Airey
David Allvey
Sam Weihagen

NOMINATIONS COMMITTEE

Frank Meysman (Chairman)
Dawn Airey
David Allvey
Roger Burnell
Bo Lerenius
Peter Marks
Peter Middleton
Martine Verluyten

SAM WEIHAGEN (61)

Title: Group Chief Executive Officer

Appointment: November 2009

Committee memberships: Chairman of Group Executive Board, Member of Health, Safety & Environmental Committee

Skills & experience: Sam Weihagen was appointed as Group Chief Executive Officer in August 2011, prior to which he was Deputy to the Group Chief Executive Officer since 2009. He was appointed Chairman, Northern Europe and Chairman of the Thomas Cook AG Board in January 2011. Sam was Chief Executive Officer, Northern Europe between 2001 and 2010 and he was an Executive Director of MyTravel Group plc for three years prior to the merger.

Sam has 36 years' experience in the travel industry.

External appointments: None

PAUL HOLLINGWORTH (51)

Title: Group Chief Financial Officer

Appointment: January 2010

Committee memberships: Member of Group Executive Board

Skills & experience: Prior to joining the Company as Group Chief Financial Officer, Paul Hollingworth was Chief Financial Officer of Mondi Group. He was previously Group Finance Director of BPB plc and prior to that Group Finance Director of De La Rue plc and Ransomes plc.

External appointments: Non-Executive Director of Electrocomponents plc.

DAWN AIREY (51)

Title: Independent Non-Executive Director

Appointment: April 2010

Committee memberships: Member of Nominations Committee and Health, Safety & Environmental Committee

Skills & experience: Dawn Airey has over 26 years' experience in the media industry and has held senior positions at some of the UK's leading media companies. She is currently President of CLT-UFA UK Television Limited within the RTL Group. Until August 2010, she was the Chair and Chief Executive Officer of Five TV, after joining the company from her role as Managing Director, Global Content at ITV plc. Between 2004 and 2008, she was also an Independent Non-Executive Director of easyJet plc.

External appointments: Chair of the Grierson Trust. Dawn also sits on the Board of the British Library.

DAVID ALLVEY (66)

Title: Independent Non-Executive Director

Appointment: March 2007

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

Skills & experience: David Allvey was a Non-Executive Director of MyTravel Group plc between 2003 and 2007. Prior to this he was Group Finance Director of Barclays Bank plc, B.A.T Industries plc and Chief Operating Officer of Zurich Financial Services AG.

External appointments: Chairman of Costain Group PLC and Arena Coventry Limited. He is also Senior Independent Director of Intertek Group plc and Friends Life Group plc.

BO LERENIUS (65)

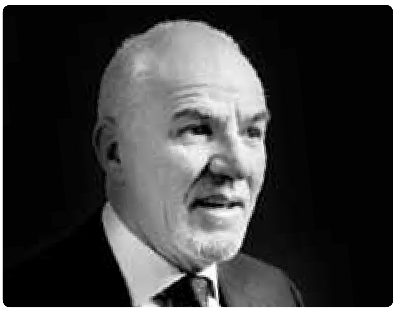
Title: Independent Non-Executive Director

Appointment: July 2007

Committee memberships: Member of Audit Committee, Nominations Committee and Remuneration Committee

Skills & experience: Between 1985 and 1992, Bo Lerenius was Group President and Chief Executive of Swedish listed building materials group, Ernstromgruppen. From 1992 to 1999, he was Chief Executive and subsequently Vice Chairman of Stena Line, following which he was Group Chief Executive of Associated British Ports Holdings plc until 2007.

External appointments: Non-Executive Chairman of Koole Tanktransport BV and Brunswick Rail and Non-Executive Director of G4S plc. He is also Honorary Vice President of the Swedish Chamber of Commerce for the UK and is an adviser to the infrastructure fund of Swedish venture capital group, EQT.



PETER MARKS (62)

Title: Non-Executive Director

Appointment: October 2011

Committee memberships: Member of Nominations Committee

Skills & experience: Peter Marks has over 44 years' experience in the retail industry and has managed a broad range of businesses and functions. He was appointed to his current role as Group Chief Executive, The Co-operative Group in 2007, prior to which he held a number of senior positions, including Chief Executive, United Co-operatives between 2002 and 2007 and Chief Executive, Yorkshire Co-operatives from 2000 to 2002.

External appointments: He is on the Board of a number of Co-operative Group companies, including The Co-operative Bank plc.

PETER MIDDLETON (71)

Title: Independent Non-Executive Director

Appointment: November 2009

Committee memberships: Chairman of Remuneration Committee, Member of Nominations Committee

Skills & experience: Peter Middleton has extensive experience across the global travel and finance industries, having been CEO of Thomas Cook between 1987 and 1992, CEO of Lloyd's of London between 1992 and 1995 and CEO of Salomon Brothers International Limited between 1995 and 1998. Since 2000, Peter has been Chairman of a number of small listed and private companies in a range of industries.

External appointments: None.

MARTINE VERLUYTEN (60)

Title: Independent Non-Executive Director

Appointment: May 2011

Committee memberships: Member of Nominations Committee

Skills & experience: Martine Verluyten has held a number of senior finance positions across the telecommunications, electronics and materials sectors and has significant international financial and IT expertise. Until November 2011, she was the Chief Financial Officer of Umicore, a Brussels-based materials technology group, a position she held since 2006. Prior to joining Umicore, she was Group Controller and subsequently Chief Financial Officer of the mobile telephone operator Mobistar, after joining the company in 2000 from Raychem, a material science company.

External appointments: Board member of Incofin cvso. Martine also chairs the Audit Committee of the Flemish Region in Belgium.

Group Executive Board

SAM WEIHAGEN (61)

Title: Group Chief Executive Officer

Skills & experience: Please see Directors' biographies on pages 40 and 41.

PAUL HOLLINGWORTH (51)

Title: Group Chief Financial Officer

Skills & experience: Please see Directors' biographies on pages 40 and 41.

IAN AILLES (46)

Title: Chief Executive Officer, Mainstream, UK

Skills & experience: Ian Ailles joined the Company in his current role in January 2011. Between 2007 and 2010, he held a number of senior positions at Wyndham Exchange and Rentals, formerly as Chief Finance & Operations Officer, EMEAI and latterly as Managing Director, European Rentals. Prior to that, Ian worked for Thomas Cook UK & Ireland for nine years in a variety of senior roles.

He is Chairman of the Federation of Tour Operators and also serves as the Treasurer of the Travel Foundation. Ian has over 14 years' experience in the travel industry.

PHIL AIRD-MASH (36)

Title: Chief Executive Officer, Independent, UK

Skills & experience: Phil Aird-Mash joined the Company in his current role in April 2011. Prior to that, he completed his MBA and held a number of senior positions at Airtours plc (2004 to 2005), MyTravel Group plc (2005 to 2008) and XL Leisure Group plc (2008 to 2009), where he gained considerable experience in corporate restructuring. Phil has over 15 years' experience in the travel industry.

ANNE BILLSON-ROSS (43)

Title: Group & UK Human Resources Director

Skills & experience: Anne joined the Company in 2004 and was appointed to her current role in April 2011. Prior to that, she held a number of senior HR roles within the UK HR department, including HR Director, UK & Ireland from September 2008. Before joining Thomas Cook, Anne worked for British Sky Broadcasting as Head of Human Resources & Development from 1997 to 2003; she also spent five years at Natwest Bank plc from 1992 to 1997.

PETE CONSTANTI (45)

Title: Chief Executive Officer, Group Destination Management

Skills & experience: Pete Constanti joined the Company in 1996 and was appointed to his current role in November 2009. Prior to that, he held a number of senior roles within the Group, including Chief Executive Officer, Mainstream Travel, UK & Ireland between 2008 and 2009. Pete has over 28 years' experience in the travel industry, previously working for ILG and Sunworld, where he was Human Resources Director.

DR THOMAS DÖRING (42)

Title: Chief Executive Officer, e-Commerce and West & East Europe

Skills & experience: Thomas Döring joined the Company in 2001 and has been responsible for the Western and Eastern European markets since 2006. In addition, Thomas was appointed Chief Executive Officer, e-Commerce in May 2010 to lead the development of the OTA. Prior to that, he held a number of senior positions within the Group and before joining the Company, Thomas spent seven years with Roland Berger Strategy Consultants, latterly as a partner.

SUSAN DUINHOVEN (46)

Title: Chief Executive Officer, Netherlands

Skills & experience: Susan Duinhoven joined the Company in 2010 as Chief Executive Officer, Netherlands. From January 2012, Susan will join the Group Executive Board as Chief Executive Officer of a new West Europe operating segment, comprising France, Belgium and the Netherlands. Prior to joining Thomas Cook she worked for Unilever, McKinsey & Company, European Directories and Readers Digest.

DR PETER FANKHAUSER (51)

Title: Chief Executive Officer, Central Europe

Skills & experience: Peter Fankhauser joined the Company in 2001 and was appointed to his current role in 2007. Prior to that, he held a number of senior executive roles within the Group and before joining Thomas Cook, he was an Executive Board member of Kuoni Reisen Holding AG in Zürich and Chief Executive Officer of LTU Group in Düsseldorf.

MICHAEL FRIISDAHL (49)

Title: Chief Executive Officer, North America

Skills & experience: Michael Friisdahl joined the Company in 2000 and was appointed to his current role in 2005. Prior to that, he held a number of senior roles in the Company and was previously a partner and Chief Executive Officer of The Holiday Network, which was acquired by Airtours International in 2000. Michael has over 28 years' experience in the travel industry.

LARS LÖFGREN (53)

Title: Chief Executive Officer, Northern Europe

Skills & experience: Lars Löfgren joined the Company in 1986 and was appointed to his current role in January 2011. Prior to that, he held a number of senior roles within the Group, formerly as Chief Operating Officer, Thomas Cook Northern Europe from 2010. Lars has over 25 years' experience in the travel industry.

RALF TECKENTRUP (54)

Title: Chief Executive Officer, Airlines Germany

Skills & experience: Ralf Teckentrup joined the Company in his current role in 2004. Prior to that, he held a number of senior positions with Lufthansa AG.

DEREK WOODWARD (53)

Title: Group Company Secretary

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

Corporate governance report

DEAR SHAREHOLDER

I am pleased to take this opportunity, as your newly appointed Chairman, to confirm my strong belief in the importance of applying the highest standards of corporate governance in the conduct of our business. Clear lines of responsibility, accountability for decision making and overall performance, with both internal and external transparency, are the essential features of a quality system of governance. It is for the Board to show leadership and to set the tone, so that by our example we guide our management and employees in the way they carry out their roles on an ongoing basis.

Under my leadership, the Board and its Committees will continue to apply the principles of corporate governance in the UK Corporate Governance Code ('the Code').

During the year and prior to my appointment, the Board made sound progress in a number of important areas of governance as highlighted below. The Board believes these developments will stand the Group in good stead as it addresses the challenges ahead.

- Roger Burnell, our Senior Independent Director, led a Chairman Succession process, which resulted in my appointment as Chairman from 1 December 2011, upon the retirement of Michael Beckett.
- The Board took further steps to refresh and strengthen its composition with the appointment of Martine Verluyten and Peter Marks as Non-Executive Directors.
- The Board took immediate action to appoint Sam Weihagen as Group Chief Executive Officer, upon the departure of Manny Fontenla-Novoa.
- We have strengthened our Group Executive Board and new senior management teams have been appointed in the UK and France.
- The Board refreshed its appointments policy, a copy of which can be found on our website at www.thomascookgroup.com and described on page 51. Appointments made during the year have been made in line with that policy and have further strengthened the diverse composition of the Board. The Board endorses the aims of the Davies' Report entitled 'Women on Boards' and, when considering appointments in the future, will aim to build on its current firm foundations.
- The Board made progress in respect of the actions agreed following its 2010 Board and Committee evaluation, particularly in respect of Board composition as described above and Talent Management and Succession Planning in respect of the Executive Directors, the members of the Group Executive Board and their direct reports. In line with these plans, we have appointed from within the organisation a new Chief Executive Officer in the Northern Europe segment, a new Group Human Resources Director and, with effect from 1 January 2012, a Chief Executive Officer for the new West Europe segment.

As the new Chairman, I have embarked upon a number of initiatives to build on the above:

- I am conducting a review of the Board and expect to make changes to refresh and further strengthen its composition in the near-term;
- I am leading a process to identify and appoint a permanent Group Chief Executive Officer with the assistance of an international search and selection firm;
- I have reviewed the output from the Summer 2011 Board evaluation and intend to lead a Board discussion at the beginning of 2012 to address the issues raised;
- Our 2012 Board and Committee evaluation exercise will be conducted with the assistance of external facilitators; and
- The Board has agreed to introduce deferral and claw-back in respect of future senior executive bonus payments.

Throughout the year, Michael Beckett and some of the Non-Executive Directors had significant engagement with our major shareholders on a range of issues, which the Board found both helpful and productive. I have already started to meet with some shareholders and I can confirm that under my leadership, our practice of engagement will continue in the future.

Frank Meysman
Chairman
13 December 2011

Corporate governance report continued

This report sets out how the Company applied the principles of the Code and the extent to which the Company complied with the provisions of the Code in the year to 30 September 2011. During the year, the Company fully complied with the provisions of the Code, except for Provision B6.3, which requires the Non-Executive Directors to carry out a performance evaluation of the Chairman, and Provision B7.1, which requires all the directors of FTSE 350 companies to be subject to annual election by shareholders. The Board is committed to complying with these two provisions in the current financial year.

THE GROUP'S BUSINESS MODEL AND STRATEGY

The Group's business model and strategy are summarised on pages 13 to 15 of this Report.

THE BOARD OF DIRECTORS

An effective Board of Directors leads and controls the Group and has a schedule of matters reserved for its approval. This schedule and the terms of reference for the Audit, Remuneration, Nominations, and Health, Safety & Environmental Committees are available on request and on the Company's website at www.thomascookgroup.com. The powers of the Directors are set out in the Company's Articles of Association. These are also available on the Company's website.

The Board is specifically responsible for:

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

At its meetings during the year, the Board discharged its responsibilities as listed above. In particular, the Board reviewed:

- the operational performance of each of the Group's segments. Performance and strategy are continually monitored and reviewed by the Board and periodic updates are presented by the segment Chief Executive Officers and their senior management teams;
- the UK segment transformation plan;
- financial performance and treasury metrics, including cash flow and net debt forecasts;
- the Group's financing arrangements, leading to the establishment of a Euro commercial paper funding programme and, in the current financial year, the amendment of the Group's banking agreements;
- the Group's annual budget and three-year plan;
- the backdrop to the 12 July 2011 update to the market;
- external financial and narrative reporting, and investor feedback;
- the Group-wide airline fleet replacement programme;
- the requirements of the EU Trading Emissions scheme and the Group's exposure and compliance approach;
- the Group's governance arrangements in response to developing legal and governance proposals and requirements;
- the requirements of the new UK Bribery Act and the approval of a new anti-bribery policy and associated procedures;
- M&A opportunities and proposals and the financial performance of acquisitions;
- the Group's IT strategy and transformation programme and other major IT projects including IT security;
- the Group's fuel hedging strategy and policy and other treasury policies;
- the structure and process for identifying, managing and monitoring risks across the Group and the effectiveness of the Group's system of internal control;
- the Group's health & safety and environmental policies;
- the Group's anti-fraud policy;
- succession plans in respect of the Chairman, Executive Directors, members of the Group Executive Board and their direct reports;
- the Group's policy in respect of Board appointments; and
- the Directors' conflicts of interest register.

BOARD MEETINGS AND ATTENDANCE

The Board has regular scheduled meetings throughout the year and supplementary meetings are held as and when necessary. The Board held nine scheduled and 10 unscheduled supplementary meetings during the year. A table detailing individual Director attendance at scheduled Board and Committee meetings during the year is set out below. The Chairman and each Non-Executive Director have provided assurance to the Board that they remain fully committed to their respective roles and can dedicate sufficient time to meet what is expected of them.

The table below shows the number of scheduled Board and Committee meetings attended by each Director out of the number convened during the time served by each Director on the Board or relevant Committee during the year.

Current Directors

Name	Board	Nominations Committee[1]	Audit Committee	Remuneration Committee	Health, Safety & Environmental Committee
Sam Weihagen	8/9	–	–	–	–
Paul Hollingworth	9/9	–	–	–	–
Dawn Airey	7/9	1/3	–	–	3/5
David Allvey	9/9	3/3	4/4	–	5/5
Roger Burnell	9/9	3/3	4/4	6/6	5/5
Bo Lerenius	9/9	3/3	4/4	6/6	–
Peter Middleton	9/9	3/3	–	6/6	–
Martine Verluyten[2]	3/3	1/1	–	–	–

Notes

Frank Meysman and Peter Marks joined the Board post year-end on 1 October 2011 and have therefore not been included in the attendance table above.

1 In addition to the three meetings of the Nominations Committee referred to above, there were a further eight meetings of the Nominations Committee that dealt with Chairman Succession. These eight meetings were chaired by Roger Burnell, the Senior Independent Director and were not attended by Michael Beckett.

2 Martine Verluyten joined the Board on 9 May 2011 and was appointed to the Nominations Committee on the same day.

Former Directors who served during the year

Name	Board	Nominations Committee	Audit Committee	Remuneration Committee	Health, Safety & Environmental Committee
Manny Fontenla-Novoa[1]	7/7	–	–	–	4/5
Michael Beckett[2]	9/9	3/3	–	–	–

Notes

1 Manny Fontenla-Novoa resigned on 2 August 2011.

2 Michael Beckett retired on 30 November 2011.

BOARD COMPOSITION

As at 30 September 2011, the Board comprised the Chairman, two Executive Directors and six Independent Non-Executive Directors. Biographical details of all Directors can be found on pages 40 and 41 and on the Company's corporate website at www.thomascookgroup.com.

THE CHAIRMAN

Michael Beckett was Chairman of the Company throughout the year. Frank Meysman was appointed Chairman Designate with effect from 1 October 2011. He assumed the role of Chairman from 1 December 2011, following Michael Beckett's retirement from the Board.

The roles of the Chairman and Group Chief Executive Officer are separate and distinct and each has a written statement of his respective responsibilities, a summary of which can be found on the Company's corporate website at www.thomascookgroup.com.

THE SENIOR INDEPENDENT DIRECTOR

Roger Burnell was the Senior Independent Director throughout the year and, as such, is available to shareholders should they have concerns that cannot be resolved through the normal channels involving the Executive Directors or the Chairman.

Corporate governance report continued

CHANGES TO THE BOARD

Changes to the Board during the year were as follows:

As part of an orderly succession and retirement programme, Sam Weihagen, formerly Chief Executive Officer, Northern Europe and Deputy to the Group Chief Executive Officer, relinquished his role as Chief Executive Officer, Northern Europe and reduced his time commitment to two and a half days per week from 1 January 2011. He was appointed Group Chief Executive Officer and reverted back to full-time working upon the resignation of Manny Fontenla-Novoa on 2 August 2011.

Martine Verluyten was appointed to the Board on 9 May 2011 as an Independent Non-Executive Director. Frank Meysman and Peter Marks were appointed to the Board as Chairman Designate and a Non-Executive Director respectively, on 1 October 2011.

The search, selection and appointment process in respect of the above and the search for a new Group Chief Executive Officer is fully described in the section on the Nominations Committee on page 51.

DIRECTOR INDEPENDENCE

At its September 2011 Board meeting, as part of its annual review of corporate governance against the Code, the Board considered the independence of the Non-Executive Directors against the criteria specified in the Code and determined that Dawn Airey, David Allvey, Roger Burnell, Bo Lerenius, Peter Middleton and Martine Verluyten were independent.

The Board reached its determination of independence in respect of Peter Middleton, notwithstanding the receipt by him of a pension of £60,523 per year from the Thomas Cook Pension Plan, a defined benefit pension scheme. This pension is fully funded and accrued in the period 1987 to 1992 when he was CEO of Thomas Cook. The Board recognises that being in receipt of a pension from the Group's pension scheme gives rise to a potential conflict, which it has authorised as permitted by the Company's Articles of Association, subject to the condition that he does not participate in any discussion or decision regarding any of the Group's pension schemes. The Board believes that Peter Middleton is independent in all other respects and also believes that this condition is sufficient to maintain his independence.

The Board recognises that Peter Marks as Group Chief Executive of The Co-operative Group, which is a partner in the UK retail joint venture, is not independent. Frank Meysman was independent on appointment.

RE-APPOINTMENT OF DIRECTORS

In accordance with the Code and the Company's Articles of Association, all Directors are subject to election by shareholders. Non-Executive Directors are initially appointed for a three-year term and, subject to rigorous review by the Nominations Committee and re-election by shareholders, can serve up to a maximum of three such terms.

At the AGM held in February 2011, the Company did not comply with Provision B7.1, which requires all the directors of FTSE 350 companies to be subject to annual election by shareholders. The Board intends to comply with this provision in the future.

OPERATION OF THE BOARD

Senior executives below Board level attended relevant parts of Board meetings in order to make presentations on their areas of responsibility. This gives the Board access to a broader group of executives and helps the Directors make assessments of the Group's succession plans.

In addition to the papers circulated prior to each meeting, Directors were provided between meetings with relevant information on matters affecting the business. Such updates were carried out by a variety of methods, including conference calls amongst the full Board or between the Chairman and the Non-Executive Directors, and by way of the Group Company Secretary circulating papers and updates on relevant issues. During the year, the Chairman has held meetings with the Non-Executive Directors without the Executive Directors present.

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

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

BOARD EVALUATION

The Board recognises the benefit of a thorough evaluation process as a useful tool to highlight issues, track progress against targets and to determine and shape the focus of Board attention in the future.

A thorough evaluation of the Board and its Committees was conducted during the year. This was facilitated by the Group Company Secretary under the direction of the Chairman. The process involved each of the Directors completing a comprehensive questionnaire, which was structured to encourage both graded responses and narrative feedback in respect of a range of questions that focused on the following areas:

- Board and Committee composition and dynamics;
- knowledge and information;
- agenda and time management;
- Board support;
- strategic development and oversight;
- delegation of authority;
- risk management;
- corporate responsibility;
- human resource management;
- executive remuneration;
- performance of Executive and Non-Executive Directors;
- Committee structure and performance; and
- priorities for change.

Upon receipt of the completed forms, the Group Company Secretary compiled a report in September 2011, drawing out the key themes and issues that were raised and formulated a number of recommendations for consideration.

The Board recognised that progress had been made in respect of actions agreed following our 2010 Board and Committee evaluation, particularly with regard to Board composition and talent management and succession planning in respect of the Executive Directors, the members of the GEB and their direct reports. As mentioned elsewhere in this report, new senior management teams were put in place in the UK and France and, as part of succession planning and development, a new Chief Executive Officer in the Northern Europe segment and a new Group Human Resources Director were appointed during the year.

The evaluation exercise highlighted a number of issues and themes that should be addressed in order to improve the effectiveness of the Board. Ordinarily, the report prepared by the Group Company Secretary would be debated by the Board and a set of actions would be agreed for implementation. However, in view of the forthcoming change of Chairman, it was agreed that the report would first be given to the Chairman Designate to provide him with a timely insight into the issues being faced by the Board. The Chairman Designate then used the report as the basis of his discussions with each of the Directors with a view to developing and improving Board effectiveness under his leadership. The results of the evaluation and Frank Meysman's observations and proposed approach will be debated at the first Board meeting following his appointment as Chairman on 1 December 2011. The Board intends to carry out an externally facilitated Board evaluation process in 2012.

Each of the Committees has reviewed the relevant feedback from the evaluation exercise and has agreed an action plan to improve their effectiveness in the future. The Committee evaluations and action plans will be subject to review by Frank Meysman and debate by the Board as above.

In view of the forthcoming retirement of the current Chairman, the Non-Executive Directors did not carry out a Chairman evaluation. The Board intends to comply with the relevant provision of the Code in the current financial year.

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

BOARD TRAINING AND INDUCTION

An induction programme tailored to meet the needs of individual Directors is provided for each new Director. Overall, the aim of the induction programme is to introduce new Directors to the Group's business, its operations and its governance arrangements. Such inductions typically include meetings with senior management, visits to the Company's business segments, and the receipt of presentations on key business areas and relevant documentation.

Corporate governance report continued

Directors also receive training throughout the year, both at Board and Committee meetings and by way of attendance at external conferences and seminars. At Board meetings and, where appropriate, Committee meetings, the Directors receive regular updates and presentations on changes and developments to the business, and to the legislative and regulatory environments. During the year, the Board was provided with:

- updates on the economic and business environment in each of the segments;
- a briefing on the EU Trading Emissions scheme and the Group's exposure and compliance approach;
- a briefing on the new Bribery Act, the Group's anti-bribery policy and the process being undertaken to ensure that adequate procedures are in place to prevent bribery;
- presentations on IT security;
- briefings on Lord Davies' report 'Women on Boards' and the Financial Reporting Council's report 'Guidance on Board Effectiveness'; and
- members of the Health, Safety & Environmental Committee and some of the other Non-Executive Directors attended a destination visit to Mallorca to gain an insight into the practical application of the Company's health and safety practices.

DIRECTORS' CONFLICTS OF INTEREST

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

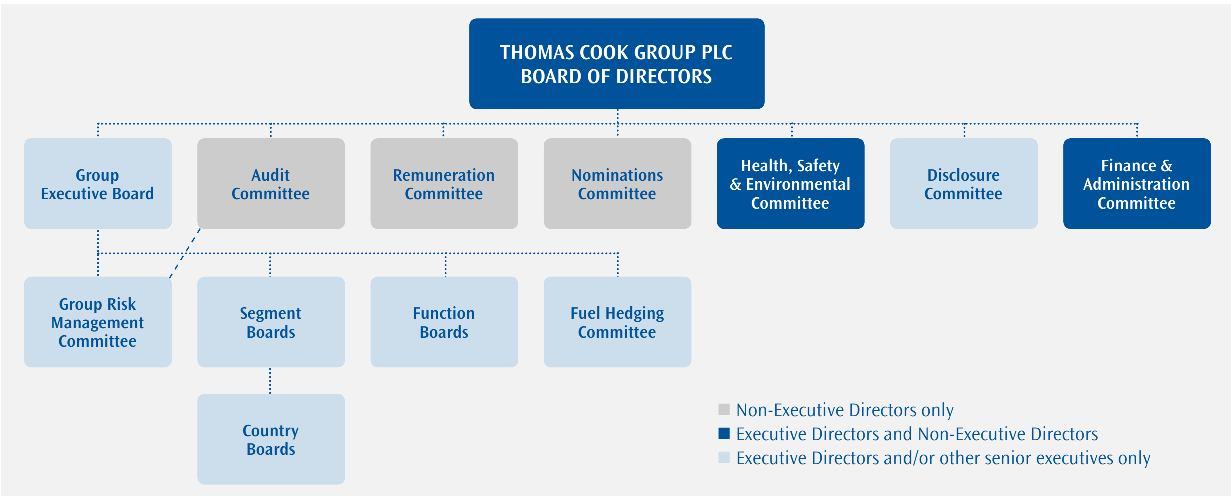
The Board has established a set of guiding principles on managing conflicts and has agreed a process to identify and authorise conflicts. As part of that process, it has also agreed that the Nominations Committee should review the authorised conflicts every six months, or more frequently if a new potential conflict situation materialises. The Nominations Committee and Board applied the above principles and process throughout the year to 30 September 2011 and confirm that these have operated effectively. When authorising a potential conflict in respect of Peter Middleton, the Board specified a condition that he should not participate in any discussion or decision regarding any of the Group's pension schemes. The potential conflict is more fully described in the section on Director Independence on page 46.

THE GROUP GOVERNANCE STRUCTURE

The Board has delegated authority to its Committees on specific aspects of management and control of the Group. The papers in respect of the Audit, Remuneration, Nominations, Health Safety & Environmental, and Disclosure Committees are circulated to all the Non-Executive Directors, regardless of Committee membership. Matters discussed and agreed at those Committees, the Group Executive Board and the Finance & Administration Committee are reported to the next Board meeting.

GROUP EXECUTIVE BOARD

The Group Chief Executive Officer chairs the Group Executive Board which meets at least eight times a year to oversee the strategic development and operational management of the Group's businesses. The Group Chief Financial Officer is also a member of the Group Executive Board. The other current members of the Group Executive Board, together with their biographies, are set out on page 42.



AUDIT COMMITTEE

Chairman
David Allvey*

Other members
Roger Burnell
Bo Lerenius

Meetings
Four

Meetings also regularly attended by+
Sam Weihagen (Group Chief Executive Officer)
Paul Hollingworth (Group Chief Financial Officer)
Derek Woodward (Group Company Secretary)
PricewaterhouseCoopers LLP ('PwC')
Ernst & Young LLP ('E&Y')

Role of the Committee

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

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

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

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

* David Allvey is considered by the Board to have recent and relevant financial experience as required by the Code.
\+ Prior to his retirement on 30 November 2011, Michael Beckett regularly attended the Audit Committee meetings.
\+ Prior to his resignation on 2 August 2011, Manny Fontenla-Novoa regularly attended the Audit Committee meetings.

Composition of the Committee

There have been no changes to the composition of the Committee during the year.

Principal activities during the year

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

- the full and half-year results (including accounting issues and judgements) and the interim management statements issued during the year;
- information in support of the statements in relation to going concern and disclosure of information to the auditors;
- the Group's system of internal control, receiving reports from management, the external auditors and the internal auditors (see section headed 'Risk management and internal control' on page 54);
- internal audit reports;
- the annual work plan for each of the internal and external auditors;
- the Group's main risks and mitigating actions;
- the Group's business continuity plans and the work plan and timetable for further development;
- the Group's treasury policies, including the management of related risk;
- the prevention, detection and reporting of fraud and the Group's anti-fraud and ethics policies;
- IT security and security in relation to retail shops;
- the risks and accounting treatment of major business projects;
- the performance of the internal auditors, leading to the re-appointment of E&Y as the Group's internal auditors;
- proposals for engaging the external auditors to carry out non-audit related work (see page 50);
- the Committee's work plan for the year ahead and a review of historic activity against the Committee's terms of reference; and
- the rotation of the lead audit partner.

Corporate governance report continued

External auditors

There is a policy in place which requires all material non-audit work proposed to be carried out by the external auditors to be pre-authorised by the Committee in order to ensure that the provision of non-audit services does not impair the external auditors' independence or objectivity. The policy, which is appended as a schedule to the Audit Committee's terms of reference, is published on the Company's website at www.thomascookgroup.com. An analysis of the fees earned by the Group's auditors for audit and non-audit services is disclosed in Note 8 to the financial statements. PwC were re-appointed by shareholders at the AGM held on 11 February 2011. Upon the recommendation of the Audit Committee, PwC will be proposed for re-election by shareholders at the AGM to be held on 8 February 2012. PwC have confirmed their independence as auditors of the Company in a letter addressed to the Directors. In accordance with the APB's Ethical Standard 3, regarding lead audit partner rotation, during the year John Minards rotated from his position as Senior Statutory Auditor and was replaced by John Ellis.

NOMINATIONS COMMITTEE

Chairman
Frank Meysman

Meetings
Three ordinary meetings and eight in respect of Chairman Succession

Other members
Dawn Airey
David Allvey
Roger Burnell (chaired meetings related to Chairman's succession)
Bo Lerenius
Peter Marks
Peter Middleton
Martine Verluyten

Meetings also regularly attended by*
Anne Billson-Ross (Group Human Resources Director) (only in respect of Chairman and Group CEO succession)
Derek Woodward (Group Company Secretary)

Role of the Committee

The Board has delegated to the Committee responsibility for reviewing and proposing appointments to the Board and for recommending any other changes to the composition of the Board or the Board Committees. The principal responsibility of the Committee is to make recommendations to the Board on all new appointments to the Board, as well as Board balance and composition. The Committee ensures that there is clarity in respect of the role description and capabilities required for such appointments. The Committee is also responsible for reviewing, at least every six months, or more frequently if required, the Directors' potential conflicts and for making recommendations to the Board in respect of authorising such matters.

The full terms of reference of the Committee are available at www.thomascookgroup.com or from the Group Company Secretary at the registered office.

* Prior to his resignation on 2 August 2011, Manny Fontenla-Novoa regularly attended the Nominations Committee meetings.

Composition of the Committee

The Chairman and all of the Non-Executive Directors are members of the Committee. Michael Beckett, the former Chairman, was Chairman of the Committee throughout the year and until his retirement on 30 November 2011. Martine Verluyten was appointed as a member of the Committee on being appointed to the Board on 9 May 2011. Frank Meysman and Peter Marks joined the Committee upon their appointment to the Board on 1 October 2011.

Principal activities during the year

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

- considered the appointment of Sam Weihagen as Group Chief Executive Officer, to hold office until a permanent successor is found;
- undertook, under the leadership of the Senior Independent Director, a thorough Chairman Succession process, leading to the recommendation to the Board of the appointment of Frank Meysman as Chairman Designate from 1 October 2011 and as Chairman from 1 December 2011 (see opposite for details);
- considered the re-appointment of the Directors, before making a recommendation to the Board regarding their re-election;
- commenced and monitored the process to recruit additional Non-Executive Directors, leading to recommendations for the appointment of Martine Verluyten and Peter Marks; and
- considered Directors' potential conflicts (see page 48).

Board appointments policy

Appointments to the Board are made on merit, against objective criteria and with due regard for the benefits of diversity on the Board. This process is led by the Committee which, after evaluating the balance of skills, knowledge and experience of each Director, makes recommendations to the Board. In August 2011, the Board refreshed its appointments policy and reinforced its principle that appointments will continue to be made on merit, in line with our current and future requirements, and will reflect the international activity of our Group. The policy also recognises the benefits of diversity, including gender diversity. Appointments during the course of the year have been in line with that policy and have reinforced the diverse composition of the Board. The Board endorses the aims of the Davies' Report entitled 'Women on Boards' and when considering appointments in the future will, with the support of the Nominations Committee, aim to build on its firm foundations. A copy of the Group's Board appointments policy can be found on our website at www.thomascookgroup.com.

Chairman succession

During the year, the Nominations Committee conducted a rigorous and transparent Chairman Succession process in advance of Michael Beckett's planned retirement. The Committee, comprising the Independent Non-Executive Directors under the leadership of Roger Burnell, the Senior Independent Director, prepared a detailed job specification, candidate profile and timetable to ensure an orderly and efficient process. It appointed Egon Zehnder, an international search and selection firm, to assist with the identification of potential candidates, benchmarking and referencing. Towards the final stages of the process, the Committee took soundings from the Company's major shareholders and advisers to gain their views. At the end of the process the Board, upon the unanimous recommendation of the Committee, took the decision to appoint Frank Meysman as Chairman Designate with effect from 1 October 2011 and as Chairman from 1 December 2011. In reaching its decision, the Committee took account of Frank Meysman's extensive experience as a Non-Executive Director and Chairman, his successful executive career in international companies, both at the operational and strategic levels, his particular strength in marketing and his achievements in both brand building and product innovation.

Non-Executive appointments

In respect of the process to appoint a new Non-Executive Director to the Board, the Committee formulated a set of criteria, including the required skills and attributes for suitable candidates. This took account of the comments from the 2010 Board evaluation process and considered the current composition of the Board and the skills and attributes required in the future. Prior to the appointment of Martine Verluyten the Committee considered candidates brought to their attention from a wide range of professional firms and other sources. Although the appointment of Peter Marks, CEO of The Co-operative Group, was recommended by the Committee, he was identified as a candidate during the discussions prior to the agreement to form the UK retail joint venture with The Co-operative Group and Midlands Co-operative. Accordingly, an external search agent was not used. An international search and selection firm has been appointed to assist with the initiative, led by the Chairman, to refresh and further strengthen the Board's composition.

Group Chief Executive Officer succession

Upon the resignation on 2 August 2011 of Manny Fontenla-Novoa, Sam Weihagen was appointed Group Chief Executive Officer on an interim basis until a permanent successor could be appointed. Prior to that date, Sam Weihagen was the Deputy to the Group Chief Executive Officer and, until an orderly succession process at the end of 2010, had been the Chief Executive Officer, Northern Europe. He agreed to delay his planned retirement at the end of 2011 to allow as much time as was necessary for a thorough process, leading to the appointment of a permanent successor to the role of Group Chief Executive Officer.

The succession process to appoint a permanent Group Chief Executive Officer is being conducted by the Committee under the leadership of the Chairman, Frank Meysman. The Committee has approved a detailed job specification and candidate profile. An international search and selection firm has been appointed to assist the Committee with the identification of candidates, benchmarking and referencing.

Corporate governance report continued

HEALTH, SAFETY & ENVIRONMENTAL COMMITTEE

Chairman
Roger Burnell

Meetings
Five

Other members
Dawn Airey
David Allvey
Sam Weihagen

Meetings also regularly attended by*
Executives and Senior Managers with responsibility for health, safety and environmental matters

Derek Woodward (Group Company Secretary)
Beth Horlock (Acting Deputy Group Company Secretary)

Role of the Committee

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

The full terms of reference of the Committee are available at www.thomascookgroup.com or from the Group Company Secretary at the registered office.

* Prior to his retirement on 30 November 2011, Michael Beckett regularly attended Health, Safety & Environmental Committee meetings.
* Stephanie Mackie (Deputy Group Company Secretary) attended the meetings of the Committee up to the start of her maternity leave in January 2011.

Composition of the Committee

During the year, Manny Fontenla-Novoa was a member of the Committee until his resignation from the Board on 2 August 2011. Sam Weihagen was appointed a member of the Committee on 14 September 2011.

Principal activities during the year

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

- reviewed and agreed the Group's Sustainability Report for 2010;
- reviewed and monitored the Group's health and safety and sustainability strategies including performance against targets;
- approved future health and safety performance targets;
- took part in an overseas destination visit to Mallorca to gain an insight into the practical application of the Company's health and safety practices;
- reviewed current and future legislative requirements in relation to carbon reporting;
- approved a number of health and safety policies, including the Group's environmental and sustainability policies;
- reviewed the processes in place in respect of health and safety compliance in the area of customer accommodation;
- reviewed retail shop security;
- considered the risks and opportunities for the Group in respect of energy efficiency;
- reviewed key health and safety risks facing the Group and the mitigating actions taken;
- monitored progress in relation to the Group's programme of government affairs; and
- revised the Committee's terms of reference.

The Group's 2010 Sustainability Report is available at www.thomascookgroup.com/sustainability and contains the Group's health & safety and environmental policies, an explanation of how Thomas Cook manages sustainability and progress against targets. The 2011 Sustainability Report will be available at www.thomascookgroup.com in February 2012.

A summary of the approach and Group's performance in relation to sustainability is contained on pages 35 to 39 of the Directors' Report: Business Review.

REMUNERATION COMMITTEE

Chairman
Peter Middleton

Meetings
Six

Other members
Roger Burnell
Bo Lerenius

Meetings also regularly attended by*
David Allvey (Chairman, Audit Committee)
Anne Billson-Ross (Group Human Resources Director)
Judith Mackenzie (Group Head of Reward)
Derek Woodward (Group Company Secretary)

* Michael Beckett attended the meetings of the Committee until his retirement as Chairman of the Company on 30 November 2011.
* Paul Wood, formerly Group Director, Human Resources, attended the meetings until March 2011.

A report detailing the composition, responsibilities and work carried out by the Remuneration Committee during the year, including an explanation of how it applies the principles of the Code in respect of Executive Directors' remuneration, is included within the Remuneration Report on pages 56 to 69.

Composition of the Committee

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

FINANCE & ADMINISTRATION COMMITTEE

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

DISCLOSURE COMMITTEE

The Board has established a Disclosure Committee which is responsible for implementing and monitoring systems and controls in respect of the management and disclosure of inside information in accordance with the Company's obligations under the UK Listing Authority's Disclosure and Transparency Rules. The Committee comprises the Group Chief Executive Officer, who is the Chairman, the Group Chief Financial Officer and the Group Company Secretary.

SHAREHOLDER COMMUNICATION AND ENGAGEMENT

The Board promotes open communication with shareholders. This is formalised within a framework of an investor relations programme conducted by the Group Chief Executive Officer, the Group Chief Financial Officer and the Investor Relations team. The programme included the presentation of preliminary and half-year results, which can be accessed on the Thomas Cook Group website at www.thomascookgroup.com along with financial reports, interim management statements, investor presentations and trading updates. The management team conducts regular meetings with institutional investors and welcomes the dialogue that this enables with shareholders. The Company makes every effort to ascertain investor perceptions of the Company and regular reports of investor and analyst feedback are provided to the Board. Additionally, the Board responds to ad hoc requests for information and all shareholders are entitled to attend the AGM, where they have an opportunity to ask questions of the Board.

During the year, Michael Beckett, the former Chairman met with a number of major institutional shareholders following both the market announcement on 12 July 2011 and the resignation of Manny Fontenla-Novoa on 2 August 2011 to discuss the backdrop to the profit warning, CEO succession and governance issues in general. Peter Middleton, the Chairman of the Remuneration Committee met with a number of major institutional shareholders and governance bodies to discuss remuneration matters, including the discretion that had been applied to the performance targets in respect of the 2007 Award under the Performance Share Plan (reported in the 2010 Remuneration Report). Roger Burnell, the Senior Independent Director also met a number of major institutional shareholders to discuss both of the above issues and Chairman Succession. These meetings were both helpful and productive. The Board was briefed on the content of the above discussions.

Corporate governance report continued

At its 2008 AGM, a resolution was passed allowing the Company to use its website and email as the primary means of communication with its shareholders. This arrangement provides significant benefits for shareholders and the Company in terms of timeliness of information, reduced environmental impact and cost. Shareholders may still opt to receive their communications in a paper format. The Company's corporate website contains information for shareholders, including share price information and news releases. It can be found at www.thomascookgroup.com.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognises its ultimate accountability for maintaining an effective system of internal control and risk management that is appropriate in relation to both the scope and the nature of the Group's activities and complies with the Turnbull Committee Guidance on the UK Corporate Governance Code (the 'Turnbull Guidance') and has approved the framework and the standards implemented. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, but not absolute, assurance against material misstatement or loss. The Board has delegated responsibility for the implementation of the Group risk management policy to the Group Risk Management Committee ('GRMC'), which is chaired by the Group Chief Financial Officer and comprises senior executives from across the Group.

Risk identification and reporting

Each of the six segments has a risk management committee, which meets regularly. By implementing the risk management policy, the segments are responsible for:

- maintaining and updating risk reporting;
- managing risk action implementation and measurement systems; and
- maintaining and reviewing risk performance and measurement systems.

Risk registers are compiled and submitted by each segment for review quarterly. In addition, a central risk register is maintained and updated by risk owners. The GRMC prepares a half-yearly risk report for the attention of the Audit Committee based on the feedback from the segment risk management committees and also a top down review of the risk register.

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

A schedule of the Group's principal risks and uncertainties, likely impacts on the Group and mitigating actions being taken by management is set out on pages 28 to 30 of the Directors' Report: Business Review.

Whistleblowing

The Group encourages employees to report any concerns which they feel need to be brought to the attention of management and has adopted a whistleblowing policy, as well as anti-bribery and theft and fraud reporting policies. These are published on the Group's intranet site, allowing such matters to be raised in confidence through the appropriate channels.

Code of ethics

The Group has a code of ethics which deals with:

- prohibitions on employees using their position for personal gain;
- prohibitions on improper business practices;
- a requirement for compliance with all internal approval and authorisation procedures and legal requirements; and
- a requirement to disclose potential conflicts of interest and potential related party contracts.

This code of ethics is contained within the Group's internal policies guide, which is available to all employees and, in particular, those with responsibility for procurement or other dealings with third-party suppliers. In addition, the Group Company Secretary is available for advice on any matter which may give rise to cause for concern in relation to the code of ethics.

The Group code of ethics is further reinforced by a disclosure of interests and benefits policy, which applies to senior executives in the Group. This supplements similar policies that are in place in each of the segments.

Review of system of internal control

During the year, the Board, through the work of the Audit Committee, has conducted a review of the Group's system of internal control. There is an ongoing process for the identification and evaluation of risk management and internal control processes which has been in place throughout the year and remains in place up to the date of the financial statements. This includes the process by which management prepares consolidated accounts. The work conducted by management and described on pages 54 to 55 is complemented, supported and challenged by the controls assurance work carried out independently by the external auditors, PwC, and the internal auditors, E&Y. Regular reports on control issues are presented to the Audit Committee by PwC and E&Y. The Board, in reviewing the effectiveness of the system of internal control, can confirm that necessary actions have been, or are being, taken to remedy any significant failings or weaknesses identified from that review.

GOING CONCERN

After making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, THE DIRECTORS' REMUNERATION REPORT AND THE FINANCIAL STATEMENTS

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

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state that the financial statements comply with IFRSs as adopted by the European Union.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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

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

DISCLOSURE OF INFORMATION TO AUDITORS

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

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL FINANCIAL STATEMENTS

Each of the Directors, who were in office at the date of this report, whose names and responsibilities are listed on pages 40 and 41, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report contained on pages 2 to 72 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Remuneration report

This report provides information on remuneration in four sections and aims to do so with clarity and transparency to convey the context and intent as well as the detail:

A. Governance

- Composition of the Remuneration Committee
- Terms of reference of the Remuneration Committee
- Meetings
- Main areas of focus
- Advisers

C. Remuneration by pay element

- Base salary
- Pensions
- Annual bonus
- Long-term incentives
- Service contracts
- External appointments
- Non-Executive Directors

B. Policy and approach

- Remuneration policy
- Overview of remuneration structure for Executive Directors:
  - Balance between fixed and variable remuneration
  - Performance graph
  - Group Chief Executive Officer's remuneration
- Shareholder consultation
- Risk assessment
- Pay and conditions across the Group

D. Audited information

- Directors' interests in shares
- Share options and share awards under long-term incentive plans
- Directors' remuneration
- Directors' pensions

DEAR SHAREHOLDER

After a year of great challenge for the Company, I am pleased to report on Directors' remuneration for the year to 30 September 2011.

Business performance, senior leadership changes and strategic change projects all impact remuneration. I have sought to steer a pragmatic course with the objectives of:

(a) operating a reward policy that allows the Company to attract, retain and incentivise the key talent that it needs (i) to deliver the recovery programmes in the under-performing parts of the business and (ii) to continue to deliver at and ahead of targets in the more strongly performing areas;

(b) ensuring that performance targets are aligned with business priorities and that outcomes under the various incentive plans are commensurate with achievement; and

(c) providing a measured response to current challenges. We might need to conduct a review of our remuneration policy once the new Chairman and the new Group Chief Executive Officer have had the opportunity to define the strategic priorities of the Company over the medium-term.

In delivering to the above objectives, I have been grateful for the views expressed by shareholders in consultation meetings, and these inputs have helped shape the actions taken. I would draw your attention to the following:

- The terms of the resignation of the Company's former Group Chief Executive Officer, Manny Fontenla-Novoa, provide for no vesting under short or long-term incentive plans and provide for no payments beyond those legally or contractually due to him.
- The Company is fortunate to have secured the services of the Deputy Group Chief Executive Officer, Sam Weihagen, to serve as Group Chief Executive Officer beyond his planned retirement date, until a permanent successor is found. His annualised total remuneration is consistent with the Company's target total remuneration pay positioning.
- No bonus payments will be made to any Executive Director in respect of the year ended 30 September 2011.
- The Board has agreed to introduce deferral and claw-back in respect of future senior executive bonus payments.
- The performance conditions in respect of awards made under the Performance Share Plan and the Co-Investment Plan in 2008 and 2009 have not been achieved. Accordingly, these awards have lapsed with no vesting.
- The Committee reviewed remuneration policy during the first half of the year and agreed a more focused approach to the list of companies with whom we conduct peer group comparison, but otherwise agreed no major changes to policy.

The Board will be submitting this Report for approval by shareholders at our Annual General Meeting on 8 February 2012.

Peter Middleton

Peter Middleton
Chairman, Remuneration Committee
13 December 2011

INFORMATION NOT SUBJECT TO AUDIT

A. GOVERNANCE

Composition

The following Independent Non-Executive Directors are members of the Remuneration Committee (the 'Committee'):

Peter Middleton (Chairman)
Roger Burnell
Bo Lerenius

There has been no change to the composition of the Committee during the financial year ended 30 September 2011 (the 'Year').

Terms of reference

The responsibilities of the Committee include:

- making recommendations to the Board on the Company's framework of executive remuneration and its cost;
- reviewing and determining, on behalf of the Board, the remuneration and incentive packages of the Executive Directors to ensure that they are appropriately rewarded for their individual contributions to Thomas Cook's overall performance; and
- formulating remuneration policy with regard to the strategic objectives and operational performance of the Company.

The terms of reference of the Committee are available on www.thomascookgroup.com or from the Group Company Secretary at the registered office.

Meetings

The Committee held six meetings during the Year. Attendance at those meetings is disclosed on page 45 of the Corporate Governance Report.

Main areas of focus

Matters discussed by the Committee during the Year included:

- the Group's remuneration policy, including a review of comparator companies used for benchmarking purposes;
- key trends in executive remuneration;
- the market competitiveness of the remuneration packages for Executive Directors;
- views expressed by institutional shareholder and governance bodies;
- resignation terms for the former Group Chief Executive Officer, Manny Fontenla-Novoa;
- reward arrangements for the current Group Chief Executive Officer, Sam Weihagen;
- annual bonus: achievement of the annual bonus targets for Executive Directors in respect of the previous financial year and the structure and targets of the annual bonus arrangements for the Year;
- long-term incentives: performance against targets set in respect of long-term incentive share awards granted in 2008, 2009 and 2010; and approval of the grants of new awards;
- review of risk in remuneration arrangements; and
- review of remuneration advisers.

Advisers

The Committee invites individuals to attend meetings, as it deems beneficial to assist it in reviewing matters for consideration. During the Year, these individuals included the Chairman of the Company, the Group Chief Executive Officer, the Group Human Resources Director, the Group Company Secretary and the Group Head of Reward. The Chairman of the Audit Committee also usually attends meetings to ensure that there is coordination on risk and accounting issues.

No Director or senior executive is present at meetings when his or her own remuneration arrangements are being discussed.

In the performance of its duties, the Committee seeks assistance from external advisers, where necessary, to ensure it is suitably advised. During the Year, Hewitt New Bridge Street ('HNBS') provided advice to the Committee in the following areas:

- trends in executive remuneration and review of the Company's remuneration policy and long-term incentive plans; and
- the benchmarking of remuneration and pension benefits for Executive Directors.

Alithos Limited ('Alithos') provided advice on the performance of the total shareholder return targets attached to the Company's long-term incentive schemes. Neither Alithos nor HNBS advises the Company in any other capacity.

Evaluation

The Committee evaluated its own performance, which took place at the time of the Board evaluation, details of which are on page 47.

Remuneration report continued

B. POLICY AND APPROACH

Remuneration policy

The Group's remuneration policy is to ensure that Directors and senior executives are rewarded in a way which attracts and retains management of the highest quality and motivates them to achieve the highest level of performance consistent with the best interests of the Group, its shareholders and employees.

In developing its remuneration policy, the Committee has had regard to the fact that the Group has significant international operations and, in order to compete in the global environment for the recruitment, retention and incentivisation of high-quality Executive Directors and senior managers, it must offer rewards which, on the basis of above average performance, offer upper quartile levels of reward.

The Committee will continually review the remuneration policy to ensure it remains effective, appropriate and continues to support the Group's objectives.

The Committee therefore sets its remuneration policy in view of, and applying, the following principles:

- The Group's objective is to deliver financial results which consistently outperform the average of the industry sector.
- The Group will look to retain and attract Directors and senior executives with above average skills and leadership potential.
- The Committee will look for the Group to provide above industry average total remuneration in line with above average performance.
- The Committee has determined that its policy for the design of remuneration arrangements for Executive Directors is that their base salary shall be set in line with the median of a peer group of companies with which the Company should properly be compared and that total remuneration (which is made up of base salary, benefits, bonuses and long-term incentive awards) shall be set in the upper quartile of the comparator group but subject to the attainment of appropriate and challenging performance criteria.
- The remuneration of each Executive Director will be based on performance (both of the Group and of the individual executive), potential (i.e. the executive's potential to grow in responsibility and performance) and scarcity (i.e. the availability of candidates to replace the executive should he leave the Group).
- The remuneration for Executive Directors will be highly geared towards performance with the proportion of "at risk" pay increasing disproportionately according to:
  – the level of personal performance.
  – the seniority of the Executive Director and his ability to influence results.
- The proportion between fixed and variable remuneration will typically be targeted at 30% fixed and 70% variable.

Overview of remuneration structure for Executive Directors

The remuneration of the Executive Directors in respect of the Year is set out in the audited section of this report.

For the Year, the remuneration of the Executive Directors comprised base salary, participation in the annual bonus and long-term incentive arrangements, other benefits including the provision of pension contributions or allowances, private medical insurance, income protection, death in service benefit and a car allowance. The only component of executive remuneration that is pensionable is base salary.

In benchmarking the remuneration of Executive Directors, the Remuneration Committee looks at pay levels at other travel and leisure sector companies and takes a broader view by considering pay at other companies of a similar size to Thomas Cook.

At its meeting in December 2011, the Committee agreed to increase the required minimum level of bonus deferral for its senior executives and to introduce claw-back provisions in respect of the deferred bonus.

(a) Balance between fixed and variable remuneration

The remuneration of Executive Directors is highly geared towards performance with the proportion of 'at risk' pay increasing according to:

- the seniority of the Executive Director and his ability to influence results; and
- the level of personal performance.

The performance related portion of remuneration rewards short-term and long-term performance separately, with the potential level of payment being heavily weighted in favour of the long-term. The relative importance of the fixed and variable elements of the remuneration packages of Executive Directors in circumstances of target and stretch performance, are shown in the chart opposite. The chart assumes:

(a) base salaries as at 30 September 2011;

(b) value of pension allowances and other benefits provided in the Year;

(c) annual bonus:

- 60% of full bonus paid at target performance;
- 100% of full bonus paid at maximum performance;

(d) Performance Share Plan: 25% of the award vests at target performance with 100% of the award vesting at maximum performance; and

(e) Co-Investment Plan: an initial investment of:

- at target performance, 10% of net of tax base pay;
- at maximum performance, the net of tax bonus paid above 100% of base salary.

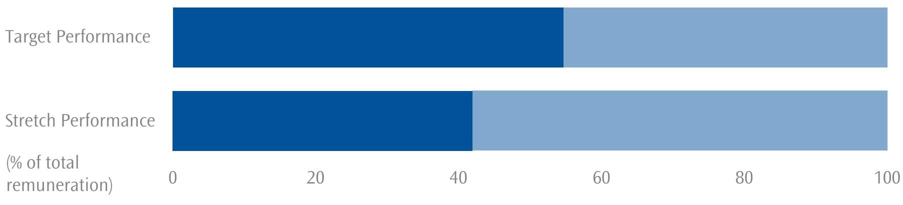
At the end of the three-year performance period, the initial investment will be matched (further details are disclosed on page 63):

- 0.5:1 at target performance;
- 3.5:1 at maximum performance.

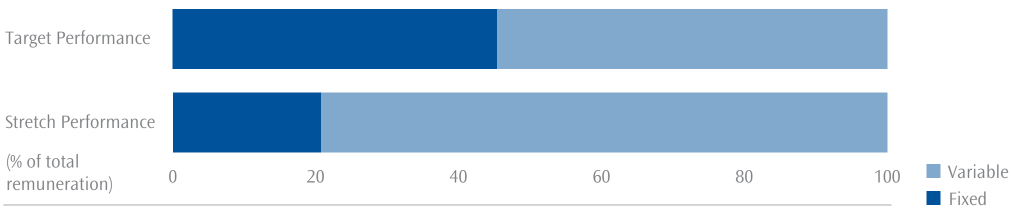
Further details of the remuneration of the Executive Directors in respect of the Year is set out in the audited section of this report.

Relative importance of fixed and variable remuneration

Group Chief Executive Officer

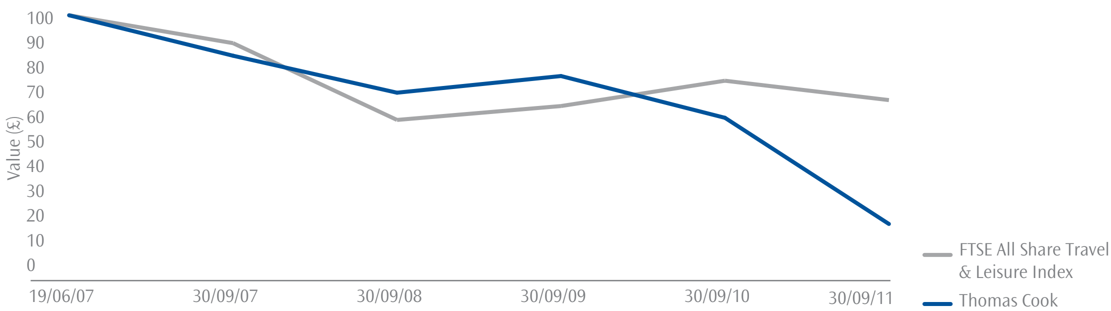


Group Chief Financial Officer



(b) Performance graph

The graph below shows the TSR for holders of Thomas Cook Group plc €0.10 ordinary shares for the period since listing on 19 June 2007, measured against the FTSE All Share Travel & Leisure Index. This index was chosen as a comparator because the Company has been a constituent of it throughout the period since listing. The calculation of TSR follows the provisions of the Regulations and is broadly the change in market price together with reinvestment of dividend income. This graph shows the spot value of £100 invested in Thomas Cook Group plc on 19 June 2007 compared with the value of £100 invested in the FTSE All Share Travel & Leisure Index. The intermediate points are the spot values on the Company's Financial Year ends.



(c) Group Chief Executive Officer's remuneration

Manny Fontenla-Novoa stood down as Group Chief Executive Officer with effect from 2 August 2011. The terms of the settlement were agreed by the Committee and by the Board and provided for no remuneration beyond that which was contractually or legally due to him. Manny Fontenla-Novoa's service contract contained a 12-month notice period. In accordance with its terms he received a payment in lieu of notice in respect of base salary, pension allowance and contractual benefits. No payment was made in respect of annual bonus and all subsisting share awards have lapsed with no vesting. Total payments made to Manny Fontenla-Novoa after his resignation amount to £1,166,639, which is made up as follows:

- he continued to receive his salary, pension and certain benefits (private medical, life cover, personal accident, income protection, death in service pension and access to car and pool driver) in accordance with contractual terms for the period between his resignation and 4 November 2011. Payments made and benefits received during this period amounted to £315,525; and

Remuneration report continued

- on termination of his employment on 4 November 2011 it was agreed that a payment of £851,114 would be made to Manny Fontenla-Novoa, in full and final settlement of all amounts due. Due to deterioration of the Company's forecast year-end headroom position after agreement was reached, Mr Fontenla-Novoa agreed to a deferral of the due date for payment of this sum until after the seasonal cash low point at the end of December.

With the exception of medical cover, which is being continued until 1 April 2012, all other insured benefits ceased on termination of employment. Full details of the settlement given to the former Group Chief Executive Officer are included in the table of Directors' remuneration and relevant footnotes on pages 68 and 69.

Sam Weihagen, Deputy to the Group Chief Executive Officer, relinquished his additional role as Chief Executive Officer, Northern Europe from 1 January 2011 and became part-time with a view to retiring at the end of 2011. His remuneration was pro rated 50% to reflect his contractual commitments. Upon the Board's acceptance of the resignation of Manny Fontenla-Novoa, Sam Weihagen was asked to assume the role of Group Chief Executive Officer on an interim basis until a permanent successor is appointed. Sam Weihagen accepted and agreed to postpone his planned retirement, to relocate to London and to revert to full-time hours. The Committee, having regard for the Company's remuneration policy, the unique features of the interim appointment and also for market rates of pay for the position, set remuneration for the duration of this interim appointment. The key features of this remuneration are:

- base salary at a rate of: £750,000 per annum;
- maximum annualised bonus opportunity: 175% of base salary against clearly defined objectives;
- pension allowance: 25% of base salary; and
- benefits: accommodation in London, regular home leave flights, private health insurance, personal accident cover, death in service benefit.

Long-term incentives are not provided. The base salary has been set at a level below that of the former incumbent, but at slightly above median. Overall this produces a greater weighting on the fixed elements of remuneration than provided for under the remuneration policy. The Committee considered this appropriate to reflect the interim nature of the appointment and to recognise the willingness of Sam Weihagen to postpone his retirement. The maximum annual bonus opportunity and the pension allowance percentages are unchanged from his previous entitlement.

Shareholder engagement

During the Year, Peter Middleton met with a number of major shareholders to discuss remuneration matters. The meetings were helpful and productive and all matters raised were reported back to the Board at its next meeting. It is intended to continue with a level of engagement in the current financial year.

Risk assessment

During the Year, the Committee considered remuneration in relation to risk and concluded that the Group's remuneration policy and incentives were not incompatible with its risk policies and systems.

Pay and conditions across the Group

Thomas Cook is a large international business with diversified business interests across the travel and leisure sector. As such, we do not believe it is appropriate to establish direct correlation between pay and employment conditions of employees of the wider business and Directors' remuneration. Rather we seek to ensure that core principles are applied in determining remuneration at all levels across the Group. Core principles and features of broader remuneration practices include:

- employees, including the Executive Directors, are paid competitively and fairly by reference to the local market rate. Benchmarking is carried out to support pay positioning;
- through short and long-term incentive schemes, which operate throughout the organisation, overall pay is aligned to business strategy and performance. The Company is reviewing the operation of key performance related pay structures to increase alignment to business goals, improve consistency, transparency and fairness and ensure effective line of sight and cascade;
- the Company offers a range of benefits depending on employee location including pensions, flexible benefits, paid annual leave and healthcare insurance;
- the Company offers internal promotion opportunities;
- the Company promotes employment conditions that are commensurate with a good employer and with a high profile brand, including high standards of health and safety and policies on equal opportunity; and
- the Company promotes a wide range of best practice learning and development programmes to help people maximise their potential contribution to the business and be eligible for higher levels of reward and promotion opportunities.

C. REMUNERATION BY PAY ELEMENT

Base salary

In accordance with the Group's remuneration policy, the base salary of Executive Directors reflects the size and scope of their responsibilities. The Committee reviewed the base salary of the Executive Directors in November 2010 and agreed that they should remain unchanged. Changes to Sam Weihagen's base salary during the Year to reflect his changing role, are described in the section on Group Chief Executive Officer remuneration on page 60.

A review of market rates of base salary and total remuneration for Executive Directors was conducted in August 2011, which the Committee reviewed in September 2011. The Committee agreed that base salaries should remain at their current level and will be reviewed again in 2012.

The annual rates of base salary, as at 13 December 2011 (throughout the Year for Sam Weihagen), for the Executive Directors are shown in the table below:

Name	Role	**2011 '000**	2010 '000
Sam Weihagen[1]	Deputy Group Chief Executive Officer and Chief Executive Officer, Northern Europe	**SEK 5,600**	SEK 5,600
	Deputy to the Group Chief Executive Officer	**SEK 2,800**	–
	Group Chief Executive Officer	**GBP 750**	–
Paul Hollingworth	Group Chief Financial Officer	**GBP 480**	GBP 480

1 Sam Weihagen's base salary of 5.6m Swedish Krona equated at 30 September 2011 to a base salary of £527,538 and his salary of 2.8m Swedish Krona equated to £263,769 at the same date. Details of the periods of service in respect of each role are given in the service contracts section of this report on page 65.

Pensions

The Committee believes that the Executive Directors should be provided with competitive post retirement benefits. In respect of each Executive Director, the Company contributes an amount equivalent to 25% of base salary each year, either into a pension scheme or as a cash allowance.

Sam Weihagen is entitled to a bridging pension payable under a defined benefit pension scheme between the ages of 60 and 65 of 70% of his final salary* and a lifetime pension payable from 65 of 30% of his final salary* less the Swedish state pension. From age 60, when the Company's contributions to the above pension ceased, Sam Weihagen was paid a salary supplement of 25% of his base pay. Since reaching age 60, Sam Weihagen has not drawn any of his bridging pension, which will be subject to actuarial adjustment once it is drawn. The table on page 69 discloses these arrangements.

*SEK 5,600,000 as at 31 December 2010.

Annual bonus

The Committee believes that it is important to incentivise Executive Directors on a short-term basis with an annual cash bonus, earned on the attainment of stretching performance targets. These targets are set by the Committee at the start of the financial year. Should all objectives be achieved in full, the maximum annual bonus opportunity for all Executive Directors is 175% of base salary. Of the maximum bonus payable in respect of the Year:

(i) 37.5% was linked to the attainment of Group financial targets, earned on a pro rata basis by reference to the achievement of those targets;

(ii) 25% was linked to the attainment of quarterly Group free cash flow targets;

(iii) 12.5% was linked to the achievement of a significant reduction in the level of exceptional items; and

(iv) 25% was linked to the attainment of individual financial and non-financial targets including those relating to strategic change projects and executive succession planning.

The Committee determines the extent to which it considers the objectives have been met and the annual bonus payable. Achievement of Group financial targets is required as a hurdle before achievement against other performance targets are measured. For the Year, the Group financial targets were not met and the Committee determined that no bonus would be payable to any of the Executive Directors.

The annual bonus for the year ended 30 September 2012 will be structured in the following way:

(i) 40% to be linked to the attainment of Group financial targets;

(ii) 35% to be linked to the attainment of quarterly Group free cash flow targets; and

(iii) 25% to be linked to the attainment of individual financial and non-financial objectives.

Long-term incentives

The Committee believes that influencing long-term performance and the close alignment of Executive Directors' remuneration with the interests of shareholders is an important element of the Company's remuneration policy. Therefore, the following two share-based long-term incentive plans, both of which have been approved by shareholders, have been designed to reward and retain Executive Directors and key senior executives over the longer-term, whilst also aligning with the interests of the Company's shareholders.

Remuneration report continued

In line with market practice, awards vest three years after the award date, providing the participant is still employed by a company within the Group and to the extent that the performance target has been met. Unless there are exceptional circumstances, awards are made annually within 42 days of the Company's annual financial results being announced. No award can be made under either plan later than 10 years after the anniversary of the adoption date and options are not exercisable later than 10 years after the date of the award. Neither plan has a performance target retest provision.

(a) Thomas Cook Group plc 2007 Performance Share Plan ('PSP')

In January 2011, PSP awards with a face value equal to the following percentages of base salary were made to the Executive Directors:

Name	Percentage of base salary
Paul Hollingworth[1]	200
Sam Weihagen	150
Manny Fontenla-Novoa	175

1 As an exception to the remuneration policy the Committee agreed that Paul Hollingworth would receive an award equal to 200% of base salary for the first two years following his appointment. Thereafter, his awards will revert to 150% of base salary.

Awards with a face value of 100% or less of base salary were also made to other senior executives.

(b) Thomas Cook Group plc 2008 Co-Investment Plan ('COIP')

Under the COIP, Executive Directors and key executives must purchase the Company's shares out of their bonus. If the bonus paid is below 100% of salary, 10% of the participant's net base salary (or the whole of the net bonus if less) must be invested. If the bonus paid is above 100% of base salary, all of the bonus payable above 100% of base salary (subject to the minimum investment of 10% of net base salary) must be used to acquire shares. Participants can also choose to invest a further part of their bonus to purchase shares. The shares purchased, on either a voluntary or a mandatory basis, are referred to as Lodged Shares. Participants may receive up to three and a half Matching Shares for every one Lodged Share at the end of the performance period subject to the satisfaction of the performance target. The requirement for compulsory investment under the COIP will cease once the value of all shares held by a participant reaches a value equal to 200% of base salary. This level of shareholding must be maintained.

In December 2011, the Remuneration Committee and the Board approved changes to the COIP which will take effect for awards made in respect of the 2011/12 bonus year. These will increase the level of mandatory investment to 25% of gross base salary, reduce the maximum match from three and a half Matching Shares to two Matching Shares for every one Lodged Share and include claw-back rights in respect of the Lodged Shares.

The number of Lodged Shares held by each Executive Director and the percentage of base salary that represents (based on a market value of 39.89p per share as at 30 September 2011) is detailed below:

Name	Number of Lodged Shares held	Percentage of base salary
Sam Weihagen	101,715	5.4
Paul Hollingworth	103,897	8.6

Vesting of awards under long-term incentive plans

The performance measurement period in respect of awards granted under the PSP and COIP in 2008 ended during the Year. As the targets had not been met, the Committee determined that no part of the awards would vest. At its meeting in October 2011, the Committee made the same determination in respect of PSP and COIP awards granted in 2009 as it was clear that these targets would similarly not be met. Under the terms of Manny Fontenla-Novoa's departure, none of his Matching Shares, awarded under the COIP, vested.

Award grants in 2011/12

It is intended to make awards under the PSP and COIP in the current financial year.

Performance conditions attached to long-term incentive plans

Following the consultation, the Board sought shareholder approval for new performance targets to attach to PSP and COIP awards at the AGM on 25 March 2010. This resolution was passed with 99.8% of the vote.

The Committee adopted these targets for awards granted in February 2010. Following a review of the continued appropriateness of these targets, the Committee concluded that they remained appropriate and adopted these targets again for awards granted in January 2011.

The Committee will review the performance conditions attached to any future awards to ensure they are stretching and that the interests of the Executive Directors and senior management are aligned with shareholders. It is currently intended that further awards granted during the current financial year will have the same performance targets as were attached to awards granted in February 2010 and January 2011.

Details of the performance targets attached to each PSP and COIP award are detailed in the table opposite. A further explanation of the selection of the different performance measures is given on page 64.

Year of Award	Vesting criteria	Performance targets over three-year period
Performance Share Plan		
2008 and 2009	50% – Total Shareholder Return ranked against the comparator group	Full vesting for upper quartile ranking. Zero vesting for sub-median ranking. Vesting will increase on a straight line basis from 25% to 100% of the TSR linked part of the initial award for ranking between median and upper quartiles.
	50% – Earnings Per Share	March 2008 award: Full vesting for adjusted EPS of 33 pence or above. Zero vesting for EPS below 28 pence. Vesting will increase on a straight line basis from 25% to 100% of the EPS linked part of the initial award for EPS between 28 pence and 33 pence. January and June 2009 awards: The same vesting schedule applies as for the March 2008 award but the EPS target is 35 pence to 40 pence.
2010 and 2011	50% – Total Shareholder Return ranked equally against the following comparator groups: • the 50 companies at the bottom of the FTSE 100 and the 50 companies at the top of the FTSE 250; and • sector specific comparator group. (see page 64)	Full vesting for upper quartile ranking. Zero vesting for sub-median ranking. Vesting will increase on a straight line basis from 25% to 100% of the TSR linked part of the initial award for ranking between median and upper quartiles. Each comparator group determines 25% of the award.
	50% – Earnings Per Share	Full vesting for EPS growth of 14% or greater. Zero vesting for EPS growth of less than 6%. Vesting will increase on a straight line basis from 25% to 100% of the EPS linked part of the award for EPS growth between 6% and 14%.
Co-Investment Plan		
2008 and 2009	100% – Earnings Per Share	June 2008 award: Vesting of up to 2.5 Matching Shares for adjusted EPS of 33 pence or above. Zero vesting for EPS below 28 pence. Vesting will increase on a straight line basis from 0.5 Matching Shares to 2.5 Matching Shares for EPS between 28 pence and 33 pence subject to the ROIC ratchet (see below). January, June and August 2009 awards: The same vesting schedule applies as for the June 2008 awards but the EPS target is 35 pence to 40 pence.
2010 and 2011	50% – Earnings Per Share	Vesting of up to 2.5 Matching Shares for EPS growth of 14% or greater. Zero vesting for EPS growth of less than 6%. Vesting will increase on a straight line basis from 25% to 100% of the EPS linked part of the award for EPS growth between 6% and 14%.
	50% – Total Shareholder Return ranked equally against the following comparator groups: • the 50 companies at the bottom of the FTSE 100 and the 50 companies at the top of the FTSE 250; and • sector specific comparator group. (see page 64)	Vesting of up to 2.5 Matching Shares for upper quartile ranking. Zero vesting for sub-median ranking. Vesting will increase on a straight line basis from 25% to 100% of the TSR linked part of the initial award for ranking between median and upper quartiles. Each comparator group determines 25% of the award.
2008, 2009, 2010 and 2011	Return On Invested Capital achievement	If ROIC is below 4% no Matching Shares will vest. If ROIC is between 4% and 6%, a reduction of up to 40% is applied on a straight line basis. If ROIC is between 6% and 10%, Matching Shares vest according to EPS performance only (EPS and TSR performance for the 2010 award) (overall opportunity of up to 2.5 times a participant's investment). If ROIC is between 10% and 14%, an uplift of up to 40% is applied on a straight line basis, subject to a maximum uplift of 40% for ROIC in excess of 14%. This will increase the matching ratio to 3.5 Matching Shares for every one Lodged Share.

Remuneration report continued

Total shareholder return

The Committee selected relative TSR as a performance condition under the PSP and the COIP as it considered it to be aligned with shareholder interests. The TSR performance of the Company is measured relative to that of companies in the following comparator groups:

- PSP 2008 and 2009: the comparator group consists of the 50 companies at the bottom of the FTSE 100 and the 50 companies at the top of the FTSE 250 ('the FTSE comparator group'). This was chosen as it is a broad group of companies of similar size and against which the performance of the Company's management should be judged; and
- PSP and COIP 2010 and 2011: two comparator groups as follows:
  - the FTSE comparator group; and
  - a tailored peer group of international travel operators (see details below). The Committee believes that this second comparator group improves the relevance of the performance target to participants.

The constituent members of both of the comparator groups are determined on the date the awards are made. At the end of the performance period, TSR calculations will be performed by the Company's external advisers using the 90-day average share price at the start and end of the performance period.

The sector specific comparator group applied to the 2010 and 2011 PSP and COIP awards consists of the following companies:

Company name	Country of main listing	Company name	Country of main listing
Accor SA	France	Air Berlin PLC	Germany
Air France KLM SA	France	Avis Budget Group Inc	US
Avis Europe plc[1]	UK	British Airways Plc[2]	UK
Carnival Corp	US	Deutsche Lufthansa AG	Germany
easyJet plc	UK	Expedia Inc	US
Flight Centre Limited	Australia	Hogg Robinson Group plc	UK
Holidaybreak plc	UK	Intercontinental Hotels Group PLC	UK
Kuoni Reisen Holding AG	Switzerland	Millennium & Copthorne Hotels plc	UK
Priceline.com Inc	US	Royal Caribbean Cruises Ltd	US
Ryanair Holdings plc	Ireland	SAS AB	Sweden
Transat A.T. Inc	Canada	Trigano SA	France
Tui Travel PLC	UK		

1 Avis Europe plc ('Avis') was acquired by Avis Budget Group, by means of a Scheme of Arrangement, which became effective on 3 October 2011. Under the terms of the PSP and COIP's performance targets the position of Avis was established at the date the scheme of arrangement became effective and its position frozen.

2 British Airways Plc ('BA') delisted from the London Stock Exchange on 24 January 2011 following its merger with Iberia. Under the terms of the PSP and COIP's performance targets the position of BA was established at the date of the merger and its position frozen.

Earnings per share

The Committee selected EPS as a performance condition under the PSP and the COIP as it is regarded as a good reflector of business performance.

- PSP and COIP 2008 and 2009: the Committee was advised that an absolute target was considered more appropriate than a percentage growth target as there was little historic data for the Company, having only been established in 2007. The EPS target range was set by reference to early consensus forecasts.
- PSP and COIP 2010 and 2011: the EPS target was set as a compound annual growth rate over a three-year period.

EPS will be derived from the income statement for the last financial year ending prior to the end of the performance period.

Return on invested capital

ROIC in relation to the COIP: ROIC was chosen to measure the efficiency of the use of the Group's capital in achieving the underlying earnings target. The ROIC ranges were set by reference to the Weighted Average Cost of Capital used by the Group for the purposes of impairment testing. ROIC will be calculated over the three-year performance period by taking the post tax operating profit over the performance period and dividing this by the sum of the opening capital for each year in the period.

Change of control and other circumstances

In the event of a change of control, the awards under both the PSP and COIP shall vest at the Committee's discretion taking into account the period of time for which the award has been held by participants and the extent to which performance conditions have been achieved since the award date after an independent valuation of performance to date. Where options have been granted, participants would have six months following the change of control to exercise their options, to the extent permitted by the Committee. On the death of a participant or in the case of early termination of a participant's employment where the Committee has used its discretion, participants (or their representatives) would have twelve and six months respectively to exercise their options, to the extent permitted by the Committee.

Funding of share plans

It is the Company's current intention to satisfy the requirements of its share plans in the method best suited to the interests of the Company, either by acquiring shares in the market or, subject to institutional shareholder guidelines, issuing new shares. The Committee has agreed that it is prudent and appropriate to hedge the shares awarded under the PSP and the matching element awarded under the COIP. As at 30 September 2011, 3,863,970 shares were held in the Thomas Cook Group plc 2007 Employee Benefit Trust, which represents 13% of share incentive awards held on that date and 0.4% of the total issued share capital. The level of hedging will be kept under review. Subject to the rules of the plans, awards cannot be made if awards under any discretionary employee share plan operated by Thomas Cook Group plc in the preceding ten-year period would exceed 5% of the Company's issued share capital at that time.

The Trustee would not normally vote at general meetings on the Thomas Cook Group plc shares held in the Employee Benefit Trust and did not vote at the AGM held in February 2011.

Service contracts

Each of the Executive Directors, who served during the Year, has or had a service contract with the Company or one of its subsidiary companies. The date of the current service contract and notice period for each Executive Director are set out below:

Name	Date of contract
Current Directors	
Sam Weihagen	2 August 2011
Paul Hollingworth	12 November 2009
Former Directors	
Manny Fontenla-Novoa	30 January 2008

During the Year Sam Weihagen has served under three different contracts:

- Up to 31 December 2010: Chief Executive Officer, Northern Europe and Deputy to the Group Chief Executive Officer;
- 1 January to 1 August 2011: Deputy Group Chief Executive Officer; and
- 2 August 2011 onwards: Group Chief Executive Officer (interim). The notice period for Sam Weihagen serving in this role is three months, but the stated intention of the parties is that the appointment shall last until a successor is selected.

The notice period for Paul Hollingworth is 12 months. The Committee believes that this is appropriate given the need to retain the specialist skills that the Executive Directors bring to the business and to achieve continuity in the Company's senior management. Either the Executive Director or the Company may terminate employment by giving the relevant period of written notice and the Company may pay compensation in lieu of notice. Under its terms of reference, it is the Committee's responsibility to determine the basis on which the employment of an Executive Director is terminated. The Committee aims to avoid rewarding poor performance and to take a robust line on reducing compensation to reflect any obligation to mitigate loss on the part of the departing Executive Director. There is no clause in the Executive Directors' contracts providing them with additional protection in the form of compensation for severance as a result of change of control.

Manny Fontenla-Novoa served as an Executive Director until his resignation as Group Chief Executive Officer with effect from 2 August 2011. His employment was subsequently terminated in line with contractual terms which provided for a notice period of 12 months or payment in lieu thereof.

External appointments

The Company recognises the benefits to the individual, and to the Group, of Executive Directors taking on external appointments as non-executive directors. Subject to the approval of the Committee and to such conditions as the Committee may, in its discretion, attach, an Executive Director may accept such appointments at other companies or similar advisory or consultative roles. The Committee has set a limit of one external appointment for each Executive Director, to a FTSE 100 or FTSE 250 company, or an international company of a similar size, unless there is justification for a further appointment.

Paul Hollingworth, Group Chief Financial Officer, is a non-executive director of Electrocomponents plc. For the Year he received a fee of £53,750 from Electrocomponents plc, which he is allowed to retain.

Non-Executive Directors

The Committee is responsible for determining the fees for the Chairman of the Company. The fees for the other Non-Executive Directors are set by the Board. No Director votes on his or her own remuneration.

The Non-Executive Directors' fees were reviewed during the Year. The fees were benchmarked against other companies in the FTSE 350 and, following the review, it was agreed that no increase in the fees should be made, but a further review will take place in 2012. Non-Executive Directors do not participate in any bonus plans, are not eligible to participate in any long-term incentive plans and no pension contributions are made on their behalf.

Remuneration report continued

The annual rates of Non-Executive Director fees are shown in the table below:

Position	Annual fees £000
Chairman*	275
Non-Executive Director	60
Additional fee for the Chair of the Audit Committee	20
Additional fee for the Chair of the Remuneration Committee	20
Additional fee for the Chair of the Health, Safety & Environmental Committee	10

* This is the annual rate of fees payable to Frank Meysman, who became Chairman on 1 December 2011. The annual rate of fees paid to the former Chairman was £250,000.

The fees paid to the Chairman and the Non-Executive Directors in respect of the Year are set out in the audited section of this report.

Non-Executive Directors, including the Chairman, do not hold service contracts. Each of the Non-Executive Directors has been appointed pursuant to a letter of appointment. The appointments under these letters continue until the expiry dates set out below unless terminated for cause or on the period of notice stated below:

Name	Date of letter of appointment	Expiry date	Notice period
Frank Meysman	1 October 2011	N/A	6 months
Dawn Airey	12 April 2010	11 April 2013	6 months
David Allvey	22 November 2010	10 April 2012	6 months
Roger Burnell	22 November 2010	10 April 2012	6 months
Bo Lerenius	22 November 2010	30 June 2013	6 months
Peter Marks	1 October 2011	30 September 2014	6 months
Peter Middleton	30 November 2009	29 November 2012	6 months
Martine Verluyten	9 May 2011	8 May 2014	6 months

INFORMATION SUBJECT TO AUDIT

Directors' interests in shares

The following table shows the beneficial interests of the Directors who held office at the end of the Year in the €0.10 ordinary shares of the Company:

	Ordinary shares at 30 September 2011	Ordinary shares at 1 October 2010 or on appointment
Directors as at 30 September 2011		
Executive Directors[1]		
Paul Hollingworth	**153,897**	83,568
Sam Weihagen	**152,385**	89,680
Non-Executive Directors[2]		
Michael Beckett	**225,000**	45,000
Dawn Airey	**10,000**	10,000
David Allvey	**–**	–
Roger Burnell	**53,692**	3,692
Bo Lerenius	**20,000**	20,000
Peter Middleton	**1,000**	1,000
Martine Verluyten	**–**	–

1 The holdings of the Executive Directors include shares held as Lodged Shares under the COIP: 103,897 held by Paul Hollingworth and 101,715 held by Sam Weihagen.

2 Frank Meysman purchased 100,000 ordinary shares in the Company on 30 September 2011, prior to his appointment as Chairman Designate on 1 October 2011. Peter Marks does not currently hold shares in the Company.

As at the date of his resignation on 2 August 2011, the financial year-end of 30 September 2011, and the date of this report the former Group Chief Executive Officer, Manny Fontenla-Novoa, held 958,398 ordinary shares in the Company.

Share options and share awards under long-term incentive plans

The following tables show, in respect of each person who served as a Director at any time during the Year, the number of ordinary shares of €0.10 each that were the subject of a share option at the start of the Year and at the end of the Year (or on the date of resignation). Holdings relate to the PSP and COIP. Options under the PSP and COIP are awarded as 'nil cost'. All share options shown in the tables below as held by the former Group Chief Executive Officer, Manny Fontenla-Novoa, lapsed subsequent to his resignation.

The following table gives details of PSP awards held by Executive Directors who served during the Year:

Name	Date of award	Number of options awarded	Share price used to calculate award (pence)	Number of share options exercised	Number of share options lapsed	Date of exercise	Share price on date of exercise (pence)	Total as at 30 September 2011 or on date of resignation
Paul Hollingworth	12 February 2010	411,134	234	–	–	–	–	411,134
	10 January 2011	486,815	197	–	–	–	–	486,815
Sam Weihagen	12 July 2007	61,387	333	–	–	–	–	61,387
	11 March 2008	121,588	283	–	121,588	–	–	0
	9 January 2009	227,394	188	–	–	–	–	227,394
	12 February 2010	315,979	234	–	–	–	–	315,979
	10 January 2011	198,621	197	–	–	–	–	198,621
Manny Fontenla-Novoa	12 July 2007	52,500	333	52,500	–	10 January 2011	195	0
	11 March 2008	389,576	283	–	389,576	–	–	0
	9 January 2009	791,223	188	–	–	–	–	791,223
	12 February 2010	637,044	234	–	–	–	–	637,044
	10 January 2011	754,310	197	–	–	–	–	754,310

Manny Fontenla-Novoa exercised options over 52,500 ordinary shares on 10 January 2011. On the same day, he sold 26,830 shares at a price of 194.8p, to cover income tax liability and NICs and commission costs. The total pre-tax gain on exercise was £102,270. He retained the remaining 25,670 shares after exercise.

For UK participants, £30,000 of awards can be made and held under a HMRC approved Company Share Option Sub-Plan ('CSOSP'). The following table gives details of awards made under the CSOSP in conjunction with the PSP:

	9 January 2009	12 February 2010	Total held at 30 September 2011 or on date of resignation
Paul Hollingworth	–	12,847	12,847
Manny Fontenla-Novoa	15,957	–	15,957
Option price (pence)	188	234	

At the date of exercise, to the extent that there is a gain on the HMRC approved options, PSP options will be forfeited to the same value.

The exercise periods in respect of the options held under the PSP and CSOSP awards set out in the tables above are set out below:

Date of Award	Earliest exercisable date	Expiration date
12 July 2007	12 July 2010	12 July 2017
9 January 2009	9 January 2012	9 January 2019
12 February 2010	12 February 2013	12 February 2020
10 January 2011	10 January 2014	10 January 2021

Vesting of awards made under the PSP in 2007, 2008 and 2009 (including the HMRC approved options) is dependent on 50% Total Shareholder Return ranked against the FTSE 50 to 150 comparator group and 50% growth in Earnings Per Share. During the Year, the 2008 award lapsed as the performance target had not been met. Between the end of the Year and the date of this report, it became apparent that the EPS target in respect of the 2009 PSP award had not been achieved and that the TSR target would not be achieved. Therefore, the PSP awards made in 2009 have lapsed. Vesting of awards made under the PSP in 2010 and 2011 (including the HMRC approved options) is dependent on 25% TSR ranked against the FTSE 50 to 150 comparator group, 25% TSR ranked against the sector specific comparator group and 50% growth in Earnings Per Share. Further information on the performance conditions is detailed on pages 63 and 64.

Remuneration report continued

The following table gives details of the maximum number of Matching Shares each Executive Director can receive under the COIP if the performance conditions are met in full. Details of the Lodged Shares purchased under the COIP are included in the Directors' interests in shares table on page 66:

Name	Date of award	Total number of Matching Shares awarded	Number lapsed during the Year	Total held at 30 September 2011 or on date of resignation	End of vesting period	Expiration date
Paul Hollingworth	12 February 2010	222,435		222,435	12 February 2013	12 February 2020
	21 May 2010	70,052		70,052	21 May 2013	21 May 2020
	10 January 2011	71,151		71,151	10 January 2014	10 January 2021
Sam Weihagen	12 January 2009	36,379		36,379	12 January 2012	12 January 2019
	12 February 2010	205,156		205,156	12 February 2013	12 February 2020
	21 May 2010	70,000		70,000	21 May 2013	21 May 2020
	10 January 2011	44,467		44,467	10 January 2014	10 January 2021
Manny Fontenla-Novoa	25 June 2008	591,535	591,535	0	25 June 2011	N/A
	12 January 2009	618,775	–	618,775	12 January 2012	12 January 2019
	13 August 2009	318,174		318,174	13 August 2012	13 August 2019
	12 February 2010	1,099,052		1,099,052	12 February 2013	12 February 2020
	21 May 2010	350,269		350,269	21 May 2013	21 May 2020
	10 January 2011	968,121		968,121	10 January 2014	10 January 2021

Vesting of Matching Shares awarded under the COIP in 2008 and 2009 was dependent on growth in EPS and Return on Invested Capital achievement. During the Year, the 2008 award lapsed as the performance target had not been met. Between the end of the Year and the date of this report, it became apparent that the performance target in respect of the 2009 COIP award had not been achieved. Therefore, the Matching Shares in respect of the 2009 awards have lapsed. Vesting of Matching Shares awarded under the COIP in 2010 and 2011 is dependent on growth in EPS, TSR ranked against the comparator groups and Return on Invested Capital achievement. Further information on the performance conditions is detailed on pages 63 and 64.

The following table gives details of the awards held by the Executive Directors under the Sharesave Scheme:

Name	Date of award	Option price (pence)	Number of options awarded	Date from which the option may be exercised	Date on which the option expires
Manny Fontenla-Novoa	22 June 2010	181	4,972	1 August 2013	31 January 2014

None of the Directors of the Company held any interest in any other securities of Thomas Cook Group plc during the Year. In the period between 30 September 2011 and 13 December 2011, there were no changes in the Directors' interests referred to above.

The mid-market price of the Company's ordinary shares at the close of business on 30 September 2011 was 39.89p and the range during the Year was 204.80p to 33.78p. These mid-market prices are as quoted on the London Stock Exchange.

Directors' remuneration

Details of the remuneration of the Directors for services to the Company for the Year are disclosed below.

Name	Base salary/fees £000	Annual bonus payments[1] £000	Pay in lieu of pension[2] £000	Benefits[3] £000	Payments after service as a Director £000	Total emoluments 2011 £000	Total emoluments 2010 £000
Executive Directors							
Paul Hollingworth	480	–	120	27	–	627	974
Sam Weihagen[4]	416	–	26	11	–	453	1,117
Non-Executive Directors*							
Dawn Airey	60	–	–	–	–	60	28
David Allvey	80	–	–	–	–	80	80
Roger Burnell	70	–	–	–	–	70	70
Bo Lerenius	60	–	–	–	–	60	60
Peter Middleton[5]	80	–	–	–	–	80	60
Martine Verluyten[6]	24	–	–	–	–	24	–
Past Executive Directors							
Manny Fontenla-Novoa[7]	714	–	151	129	199	1,193	2,348
Past Non-Executive Directors							
Michael Beckett[8]	250	–	–	–	–	250	250
Total	2,234	–	297	167	199	2,897	4,987

1 Annual bonus entitlement is up to 175% of salary for each of the Executive Directors. No bonuses were paid in respect of the Year.
2 The pay in lieu of pension which is paid as a salary supplement to Manny Fontenla-Novoa, Paul Hollingworth and Sam Weihagen is treated as a separate non-salary benefit and is excluded from the calculation of bonus entitlement and share plan award calculations.
3 Benefits received by all Executive Directors include private medical insurance and life assurance and car allowance. For the period from 2 August 2011, Sam Weihagen receives accommodation and home leave flights, but no car allowance. Manny Fontenla-Novoa additionally received income protection and death in service pension insurances. The cost of premiums for these benefits were paid by the Company and are included within the benefits total.
4 Sam Weihagen was paid in Swedish Krona for the period to 1 August 2011. His emoluments have been converted into Sterling at the average exchange rate for the Year of 10.4.
5 Peter Middleton also received a pension of £60,523 in the Year from the Thomas Cook Defined Benefit Pension Scheme. This pension is fully funded and accrued in the period 1987 to 1992 when he was CEO of Thomas Cook. See page 46 of the Corporate Governance Report for further information.
6 Martine Verluyten joined the Board on 9 May 2011.
7 Manny Fontenla-Novoa left office on 2 August 2011 and was on garden leave from 3 August to 4 November when his employment was terminated. Total payments made to Mr Fontenla-Novoa after his resignation as a Director amount to £1,166,639 comprising £198,781 in respect of the period to 30 September 2011 (included in the table opposite), £116,744 from 1 October 2011 to 4 November and £851,114 as payment in lieu of the balance of his 12-month notice period.
8 Michael Beckett retired from the Board on 30 November 2011.
* Frank Meysman and Peter Marks were both appointed to the Board on 1 October 2011. Neither received any remuneration for the year ended 30 September 2011.

Directors' pensions

The Company contributes for each of the Executive Directors into either a pension scheme or as a cash allowance an amount equivalent to 25% of their annual base salary. To the extent that this is provided as a cash allowance it is disclosed in the Directors' remuneration table as pay in lieu of pension.

For the period to August 2011 an amount equal to 25% of Sam Weihagen's then base salary was paid as a contribution into an insurance-based defined contribution scheme with Skandia AB. For the period from August 2011 to 30 September 2011, Sam Weihagen was paid the 25% as a cash allowance.

	Pension contribution for the year ended 30 September 2011
Sam Weihagen	SEK 816,667

SEK 816,667 converts to a contribution of £78,255 at 30 September 2011.

Paul Hollingworth is paid the 25% as a cash allowance.

Manny Fontenla-Novoa was an active member of the Thomas Cook Pension Plan, a defined benefit pension scheme that closed to future accrual on 31 March 2011. Salary above that which was pensionable under the rules of his plan was paid as a cash allowance. Since the plan closed, part of his pension allowance was paid into the Thomas Cook UK DC Pension Scheme and the balance was paid as a cash allowance.

	Defined contribution pension contribution for the year ended 30 September 2011
Manny Fontenla-Novoa	£3,417

Name	Accrued pension at 30 Sep 2011 £ pa	Increase in accrued pension during 2011 £ pa	Increase in accrued pension during 2011 (net of inflation) £ pa	Transfer value of accrued pension at 30 Sep 2011 £	Transfer value of accrued pension at 1 Oct 2010 £	Director's contribution during 2011 £	Increase in transfer value during 2011 net of Director's contribution £
Manny Fontenla-Novoa	27,090	1,530	738	546,231	480,138	3,375	62,718

This report on remuneration has been approved by the Board of Directors and signed on its behalf by:

Peter Middleton

Peter Middleton
Chairman, Remuneration Committee
13 December 2011

Other disclosures

SHARE CAPITAL

The Company has the following two classes of shares in issue:

Name	Number of Shares in issue
Ordinary shares of €0.10 each	874,990,495
Deferred shares of £1 each	50,000

The ordinary shares carry the right to the profits of the Company available for distribution and to the return of capital on a winding up of the Company. The ordinary shares carry the right to attend and speak at general meetings of the Company; each share holds the right to one vote. The ordinary shares are admitted to trading on the Official List of the London Stock Exchange. The ordinary shares make up the significant majority of the share capital as at 30 September 2011. The deferred shares carry no right to the profits of the Company. On a winding up, the holders of the deferred shares would be entitled to receive an amount equal to the capital paid up on each deferred share. The holders of the deferred shares are not entitled to receive notice, attend, speak or vote (whether on a show of hands or on a poll) at general meetings of the Company.

As part of the £200m bank facility announced on 25 November 2011 the Company issued Warrants to certain of its lenders giving holders the right, at any time until 22 May 2015, to subscribe for up to an aggregate of approximately 43m ordinary shares (representing approximately 4.9% of the issued share capital of the Company at the date of issue) at a subscription price per share of 19.875 pence. As at 12 December 2011 none of the Warrantholders had exercised their Subscription Rights in respect of the Warrants.

AUTHORITY TO PURCHASE SHARES

The Company currently does not have authority to purchase its own shares.

SHARE TRANSFER RESTRICTIONS

The Articles of Association (the 'Articles') are designed to ensure that the number of the Company's shares held by non-EEA nationals does not reach a level which could jeopardise the Company's entitlement to continue to hold or enjoy the benefit of any authority, permission, licence or privilege which it, or any of its subsidiaries, holds or enjoys and which enables an air service to be operated (each an "Operating Right"). In particular, EC Council Regulation 1008/2008 on licensing of air carriers requires that an air carrier must be majority-owned and effectively controlled by EEA nationals.

The Articles allow the Directors, from time to time, to set a "Permitted Maximum" on the number of the Company's shares which may be owned by non-EEA nationals at such level as they believe is in compliance with the Operating Rights, provided that the Permitted Maximum shall not be less than 40% of the total number of issued shares.

The Company maintains a separate register (the "Separate Register") of shares in which non-EEA nationals, whether individuals, bodies corporate or other entities have an interest (such shares are referred to as "Relevant Shares" in the Articles). An interest in this context is widely defined (see below). The Directors may require relevant members or other persons to provide them with information to enable them to determine whether shares are, or are to be treated as, Relevant Shares. If such information is not provided then the Directors will be able, at their discretion, to determine that shares to which their enquiries relate be treated as Relevant Shares. Registered shareholders will also be obliged to notify the Company if they are aware either (a) that any share they hold ought to be treated as a Relevant Share for this purpose; or (b) that any share they hold which is treated as a Relevant Share should no longer be so treated. In this case, the Directors shall request such information and evidence as they require to satisfy themselves that the share should not be treated as a Relevant Share and, on receipt of such evidence, shall remove particulars of the share from the Separate Register. If the Directors determine that such action is necessary to protect any Operating Right due to the fact that an Intervening Act (an "Intervening Act" being the refusal, withholding, suspension or revocation of any Operating Right or the imposition of materially inhibiting conditions or limitations on any Operating Right in either case, by any state or regulatory authority) has taken place or is contemplated, threatened or intended, or the aggregate number of Relevant Shares is such that an Intervening Act may occur or the ownership or control of the Company is such that an Intervening Act may occur, the Directors may, among other things:

- identify those shares which give rise to the need to take action and treat such shares as affected shares ("Affected Shares") (see below); or
- set a Permitted Maximum on the number of Relevant Shares which may subsist at any time (which may not, save in the circumstances referred to below, be lower than 40% of the total number of issued shares) and treat any Relevant Shares in excess of this Permitted Maximum as Affected Shares (see below). The Directors may serve a notice (an "Affected Share Notice") in respect of any Affected Share. An Affected Share Notice can, if it so specifies, have the effect of depriving the registered holder of the right to attend, vote and speak at general meetings which he would otherwise have had as a consequence of holding such shares. Such an Affected Share Notice can, if it so specifies, also require the recipient to dispose of the Affected Shares (so that the Relevant Shares will then cease to be Affected Shares) within 21 days or such longer period as the Directors may determine. The Directors are also given the power to sell such Affected Shares themselves where there is non-compliance with an Affected Share Notice at the best price reasonably obtainable at the relevant time on behalf of the shareholder.

In deciding which shares are to be dealt with as Affected Shares the Directors, in their sole opinion, will determine which Relevant Shares may give rise to the fact of risk of an Intervening Act occurring and, subject to any such determination, will have regard to the chronological order in which particulars of Relevant Shares have been, or are to be, entered in the Separate Register unless to do so would in the sole opinion of the Directors be inequitable. If there is a change in any applicable law or the Company or any subsidiary receives any direction, notice or requirement from any state or regulatory authority, which, in either case, necessitates such action to overcome, prevent or avoid an Intervening Act, then the Directors may either:

- lower the Permitted Maximum to the minimum extent that they consider necessary to overcome, prevent or avoid an Intervening Act; or
- resolve that any Relevant Shares shall be treated as Affected Shares. The rights of the Directors referred to above apply until such time as the Directors resolve that grounds for the making of a determination have ceased to exist, whereupon the Directors must withdraw such determination. The Permitted Maximum is set at 40%. This Permitted Maximum may be varied by the Directors. If the Directors resolve to vary the Permitted Maximum to deal with shares as Affected Shares or relax the ownership limitations, they shall publish in at least one national newspaper in the United Kingdom (and in any other country in which the shares are listed) notice of the determination and of any Permitted Maximum.

The Directors shall publish, from time to time:

- information as to the number of shares particulars of which have been entered on the Separate Register; and
- any Permitted Maximum which has been specified.

As at 30 September 2011, 110,944 ordinary shares (0.013%) were held on the Separate Register.

The Directors may not register any person as a holder of shares unless such person has furnished to the Directors a declaration, together with such evidence as the Directors may require, stating (a) the name and nationality of any person who has an interest in any such share and, if the Directors require, the nature and extent of such interest; or (b) such other information as the Directors may from time to time determine.

The Directors may decline to register any person as a shareholder if satisfactory evidence of information is not forthcoming. Existing holders of Shares will be recorded on the Special Register unless and until they have certified, to the satisfaction of the Company, that they are EEA nationals.

A person shall be deemed to have an interest in relation to Thomas Cook Group plc shares if:

- such person has an interest which would (subject as provided below) be taken into account, or which he would be taken as having, in determining for the purposes of Part 22 of the Companies Act 2006 whether a person has a notifiable interest; or
- he has any such interest as is referred to in Part 22 of the Companies Act 2006 but shall not be deemed to have an interest in any shares in which his spouse or any infant, child or stepchild (or, in Scotland, pupil or minor) of his is interested by virtue of that relationship or which he holds as a bare or custodian trustee under the laws of England, or as a simple trustee under the laws of Scotland, and interest shall be construed accordingly.

PROVISIONS OF CHANGE OF CONTROL

The Company has a £1.2bn Group Banking Facility Agreement (the "Agreement") in place, which provides that, on any change of control of the Company, the Lenders under the Agreement are entitled to negotiate (for a period not exceeding 30 days) terms for continuing the facilities but, where agreement on new terms cannot be reached, any such Lender is entitled to: (i) receive a repayment of amounts owing to such Lender; and (ii) cancel all of its commitments under the Agreement. The amendments to the Agreement dated 21 October 2010, 15 July 2011 and 2 December 2011 did not affect these provisions regarding change of control.

The Company has a 50.1% stake in ITC Travel Investments as part of a joint venture with VAO Intourist and Intourist Overseas Limited. Under the terms of the joint venture agreement, if a change of control of the Company occurs, the other shareholders which are party to the agreement are entitled to issue an irrevocable notice in writing to the Company requiring it to purchase all of their shares at a prescribed default value.

CONTRACTUAL ARRANGEMENTS

The Group has contractual arrangements with numerous third parties in support of its business activities. The disclosure in this report of information about any of those third parties is not considered necessary for an understanding of the development, performance or position of the Group's businesses.

POLITICAL DONATIONS

The Company did not make any political donations during the financial year (2010: nil).

CHARITABLE DONATIONS

The Company made cash donations of £5,000 to Leeds Metropolitan University and £25,000 to Just a Drop Charity during the financial year (in 2010 the Company made a donation of £125,000 to the Travel Foundation).

Other disclosures continued

SUPPLIER PAYMENT POLICY

It is the Company's policy to comply with the terms of payment agreed with its suppliers. Where payment terms are not negotiated, the Company endeavours to adhere to suppliers' standard terms. As at 30 September 2011, the Company had no trade creditors (2010: nil).

MAJOR SHAREHOLDINGS

As at 12 December 2011, the Company had been notified, in accordance with rule 5 of the Disclosure Rules and Transparency Rules of the UK Listing Authority, of the following major shareholdings in the ordinary share capital of the Company:

Name	Number of shares held	Percentage of issued capital (%)
Marathon Asset Management LLP	59,283,472	6.78
Invesco Ltd	45,085,133	5.15
BlackRock Inc	42,946,657	4.91
AXA S.A.	42,030,117	4.80
Lloyds Banking Group plc	40,869,697	4.67
Massachusetts Financial Services Company	40,726,189	4.65
Standard Life Investments Ltd	35,491,827	4.06

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP have expressed their willingness to be re-appointed as auditors of the Company. Upon the recommendation of the Audit Committee, resolutions to re-appoint them as the Company's auditors and to authorise the Directors to determine their remuneration will be proposed to the 2012 Annual General Meeting.

The Directors' Report comprising pages 2 to 72 has been approved and is signed by order of the Board by:

Derek Woodward
Group Company Secretary
13 December 2011

REGISTERED OFFICE

6th Floor South
Brettenham House
Lancaster Place
London WC2E 7EN

REGISTERED NUMBER

6091951

Independent auditors' report to the members of Thomas Cook Group plc

We have audited the financial statements of Thomas Cook Group plc for the year ended 30 September 2011, which comprise the Group income statement, the Group statement of comprehensive income, the Group and Company cash flow statement, the Group and Company balance sheet, the Group and Company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2011 and of the Group's loss and Group's and parent company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the parent company.

Under the Listing Rules we are required to review:

- the Directors' statement in relation to going concern; and
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

John Ellis
Senior Statutory Auditor,
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
13 December 2011

Group income statement
For the year ended 30 September 2011

	notes	Year ended 30 September 2011 Underlying results £m	Year ended 30 September 2011 Separately disclosed items (note 5) £m	Year ended 30 September 2011 Total £m	Year ended 30 September 2010 Underlying results £m	Year ended 30 September 2010 Separately disclosed items (note 5) £m	Year ended 30 September 2010 Total £m
Revenue	3	9,808.9	–	9,808.9	8,890.1	–	8,890.1
Cost of providing tourism services		(7,648.9)	(62.3)	(7,711.2)	(6,746.5)	(80.9)	(6,827.4)
Gross profit		2,160.0	(62.3)	2,097.7	2,143.6	(80.9)	2,062.7
Personnel expenses	4	(1,068.2)	(55.1)	(1,123.3)	(1,052.8)	(12.8)	(1,065.6)
Depreciation and amortisation	12/13	(167.1)	–	(167.1)	(152.8)	–	(152.8)
Net operating expenses	6	(621.1)	(413.9)	(1,035.0)	(575.8)	(68.8)	(644.6)
Loss on disposal of assets	5	–	(4.6)	(4.6)	–	(1.8)	(1.8)
Amortisation of business combination intangibles	12	–	(34.3)	(34.3)	–	(30.9)	(30.9)
Profit/(loss) from operations	3	303.6	(570.2)	(266.6)	362.2	(195.2)	167.0
Share of results of associates and joint venture	14	(2.3)	–	(2.3)	3.2	–	3.2
Profit on disposal of associates	5	–	10.3	10.3	–	–	–
Net investment loss	14	(4.8)	–	(4.8)	(1.5)	–	(1.5)
Finance income	7	47.9	–	47.9	44.8	7.3	52.1
Finance costs	7	(169.8)	(12.9)	(182.7)	(160.9)	(18.2)	(179.1)
Profit/(loss) before tax	8	174.6	(572.8)	(398.2)	247.8	(206.1)	41.7
Tax	9			(119.8)			(38.9)
(Loss)/profit for the year				(518.0)			2.8
Attributable to:							
Equity holders of the parent				(520.7)			(2.6)
Non-controlling interests				2.7			5.4
				(518.0)			2.8
Loss per share (pence)							
Basic	11			(60.7)			(0.3)
Diluted	11			(60.7)			(0.3)

All revenue and results arose from continuing operations.

Group statement of comprehensive income

For the year ended 30 September 2011

	notes	Year ended 30 September 2011 £m	Year ended 30 September 2010 £m
(Loss)/profit for the year		**(518.0)**	2.8
Other comprehensive income and expense			
Acquisition costs accounted for under IFRS 3		**–**	(0.7)
Foreign exchange translation (losses)/gains	29	**(39.1)**	64.1
Actuarial gains/(losses) on defined benefit pension schemes	35	**41.0**	(58.2)
Tax on actuarial gains/(losses)	9	**(17.0)**	16.4
Fair value gains and losses			
Gains deferred for the year	29	**112.5**	62.6
Tax on gains deferred for the year	9	**(31.5)**	(18.2)
(Gains)/losses transferred to the income statement	29	**(34.2)**	69.4
Tax on (gains)/losses transferred to the income statement	9	**9.7**	(20.1)
Total comprehensive (expense)/income for the year		**(476.6)**	118.1
Attributable to:			
Equity holders of the parent		**(479.3)**	112.7
Non-controlling interests		**2.7**	5.4
Total comprehensive (expense)/income for the year		**(476.6)**	118.1

Group cash flow statement

For the year ended 30 September 2011

	notes	Year ended 30 September 2011 £m	Year ended 30 September 2010 £m
Cash flows from operating activities			
Cash generated by operations		**320.9**	324.1
Income taxes paid		**(32.3)**	(24.7)
Net cash from operating activities	30	**288.6**	299.4
Investing activities			
Dividends received from associates	14	**5.9**	–
Proceeds on disposal of associates	14	**3.2**	–
Proceeds on disposal of property, plant and equipment		**14.1**	7.8
Purchase of subsidiaries (net of cash acquired)	15	**(19.2)**	(27.2)
Purchase of tangible assets		**(118.5)**	(196.1)
Purchase of intangible assets		**(68.0)**	(77.8)
Movement on non-current financial assets		**4.7**	3.7
Additional loan investment		**(0.6)**	(1.2)
Movement on short-term securities		**–**	(0.3)
Net cash used in investing activities		**(178.4)**	(291.1)
Financing activities			
Interest paid		**(98.3)**	(65.1)
Dividends paid	10	**(91.8)**	(59.7)
Dividends paid to non-controlling interests		**(0.2)**	–
Draw down of borrowings		**485.0**	1,118.0
Repayment of borrowings		**(356.0)**	(959.5)
Payment of facility set-up fees		**(4.4)**	(20.5)
Repayment of finance lease obligations		**(16.7)**	(197.4)
Net cash used in financing activities		**(82.4)**	(184.2)
Net increase/(decrease) in cash and cash equivalents		**27.8**	(175.9)
Cash and cash equivalents at beginning of year		**316.8**	507.0
Effect of foreign exchange rate changes		**(2.9)**	(14.3)
Cash and cash equivalents at end of year		**341.7**	316.8
Liquid assets	18	**359.3**	339.6
Bank overdrafts	20	**(17.6)**	(22.8)
Cash and cash equivalents at end of year		**341.7**	316.8

Group balance sheet

At 30 September 2011

	notes	30 September 2011 £m	30 September 2010 £m
Non-current assets			
Intangible assets	12	**3,550.0**	3,828.9
Property, plant and equipment – aircraft and aircraft spares	13	**638.6**	655.2
– investment property	13	**18.0**	17.0
– other	13	**280.3**	336.1
Investments in associates and joint venture	14	**22.1**	38.6
Other investments	14	**13.4**	18.7
Deferred tax assets	25	**281.3**	383.2
Tax assets		**4.2**	5.5
Trade and other receivables	17	**153.0**	136.6
Derivative financial instruments	22	**12.6**	6.6
		4,973.5	5,426.4
Current assets			
Inventories	16	**38.7**	32.1
Tax assets		**40.2**	33.9
Trade and other receivables	17	**1,090.5**	972.9
Derivative financial instruments	22	**117.2**	85.2
Cash and cash equivalents	18	**359.3**	339.6
		1,645.9	1,463.7
Non-current assets held for sale	27	**70.4**	10.5
Total assets		**6,689.8**	6,900.6
Current liabilities			
Retirement benefit obligations	35	**(6.8)**	(6.7)
Trade and other payables	19	**(2,008.2)**	(1,821.2)
Borrowings	20	**(179.5)**	(106.3)
Obligations under finance leases	21	**(18.6)**	(16.0)
Tax liabilities		**(92.7)**	(93.2)
Revenue received in advance		**(1,167.2)**	(1,056.4)
Short-term provisions	26	**(187.6)**	(204.5)
Derivative financial instruments	22	**(88.2)**	(80.7)
		(3,748.8)	(3,385.0)
Liabilities related to assets held for sale	27	**(35.0)**	–

Group balance sheet continued

	notes	30 September 2011 £m	30 September 2010 £m
Non-current liabilities			
Retirement benefit obligations	35	**(324.2)**	(407.8)
Trade and other payables	19	**(42.4)**	(21.5)
Long-term borrowings	20	**(967.8)**	(956.4)
Obligations under finance leases	21	**(62.1)**	(64.5)
Non-current tax liabilities		**(0.6)**	–
Revenue received in advance		**(1.9)**	(0.9)
Deferred tax liabilities	25	**(120.9)**	(88.2)
Long-term provisions	26	**(193.5)**	(212.8)
Derivative financial instruments	22	**(9.4)**	(20.8)
		(1,722.8)	(1,772.9)
Total liabilities		**(5,506.6)**	(5,157.9)
Net assets		**1,183.2**	1,742.7
Equity			
Called-up share capital	28	**59.2**	57.7
Share premium account		**29.2**	8.9
Merger reserve		**1,617.8**	1,984.2
Hedging and translation reserves	29	**316.9**	299.5
Capital redemption reserve		**8.5**	8.5
Retained earnings deficit		**(871.4)**	(626.9)
Investment in own shares		**(13.3)**	(13.3)
Equity attributable to equity holders of the parent		**1,146.9**	1,718.6
Non-controlling interests		**36.3**	24.1
Total equity		**1,183.2**	1,742.7

These financial statements were approved by the Board of Directors on 13 December 2011.

Signed on behalf of the Board

Paul Hollingworth
Group Chief Financial Officer

Group statement of changes in equity

For the year ended 30 September 2011

	Share capital & share premium £m	Other reserves £m	Translation & hedging reserve £m	Retained earnings/ (deficit) £m	Attributable to equity holders of the parent £m	Non-controlling interests £m	Total £m
Opening balance at 1 October 2009	66.6	1,979.6	141.7	(487.2)	1,700.7	18.9	1,719.6
(Loss)/profit for the year	–	–	–	(2.6)	(2.6)	5.4	2.8
Other comprehensive income/(expense):							
Acquisition costs accounted for under IFRS 3	–	–	–	(0.7)	(0.7)	–	(0.7)
Foreign exchange translation gains	–	–	64.1	–	64.1	–	64.1
Actuarial losses on defined benefit pension schemes (net of tax)	–	–	–	(41.8)	(41.8)	–	(41.8)
Fair value gains and losses:							
Gains deferred for the year (net of tax)	–	–	44.4	–	44.4	–	44.4
Losses transferred to the income statement (net of tax)	–	–	49.3	–	49.3	–	49.3
Total comprehensive income/(expense) for the year	–	–	157.8	(45.1)	112.7	5.4	118.1
Equity credit in respect of share-based payments	–	–	–	8.1	8.1	–	8.1
Recognition of put option to non-controlling interest	–	–	–	(11.0)	(11.0)	–	(11.0)
Exchange difference on non-controlling interests	–	–	–	–	–	(0.2)	(0.2)
Purchase of own shares	–	(0.2)	–	–	(0.2)	–	(0.2)
Dividends	–	–	–	(91.7)	(91.7)	–	(91.7)
At 30 September 2010	66.6	1,979.4	299.5	(626.9)	1,718.6	24.1	1,742.7
(Loss)/profit for the year	**–**	**–**	**–**	**(520.7)**	**(520.7)**	**2.7**	**(518.0)**
Other comprehensive income/(expense):							
Foreign exchange translation losses	**–**	**–**	**(39.1)**	**–**	**(39.1)**	**–**	**(39.1)**
Actuarial gains on defined benefit pension schemes (net of tax)	**–**	**–**	**–**	**24.0**	**24.0**	**–**	**24.0**
Fair value gains and losses:							
Gains deferred for the year (net of tax)	**–**	**–**	**81.0**	**–**	**81.0**	**–**	**81.0**
Gains transferred to the income statement (net of tax)	**–**	**–**	**(24.5)**	**–**	**(24.5)**	**–**	**(24.5)**
Total comprehensive income/(expense) for the year	**–**	**–**	**17.4**	**(496.7)**	**(479.3)**	**2.7**	**(476.6)**
Equity debit in respect of share-based payments	**–**	**–**	**–**	**(3.2)**	**(3.2)**	**–**	**(3.2)**
Recognition of put options to non-controlling interests	**–**	**–**	**–**	**(20.6)**	**(20.6)**	**(8.2)**	**(28.8)**
Acquisition of ITC Travel Investments	**21.8**	**–**	**–**	**–**	**21.8**	**19.1**	**40.9**
Release of merger reserve	**–**	**(366.4)**	**–**	**366.4**	**–**	**–**	**–**
Derecognition of non-controlling interest	**–**	**–**	**–**	**2.1**	**2.1**	**(2.6)**	**(0.5)**
Exchange difference on non-controlling interests	**–**	**–**	**–**	**–**	**–**	**1.4**	**1.4**
Dividends	**–**	**–**	**–**	**(92.5)**	**(92.5)**	**(0.2)**	**(92.7)**
At 30 September 2011	**88.4**	**1,613.0**	**316.9**	**(871.4)**	**1,146.9**	**36.3**	**1,183.2**

Other reserves consist of the merger reserve, the capital redemption reserve and own shares held. The capital redemption reserve was created as a consequence of the share buy back programme during the year ended 30 September 2009.

The merger reserve arose on the reverse acquisition of Thomas Cook Group plc and MyTravel Group plc by Thomas Cook AG. In the case of Thomas Cook Group plc, the merger reserve represents the difference between the existing share capital and share premium of Thomas Cook AG and the share capital of Thomas Cook Group plc issued in exchange, and in the case of MyTravel Group plc, the merger reserve represents the difference between the fair value and the nominal value of the share capital issued by Thomas Cook Group plc.

Details of changes in hedging and translation reserves are set out in note 29.

Notes to the financial statements

1 GENERAL INFORMATION

Thomas Cook Group plc is a limited liability company incorporated and domiciled in England and Wales under the Companies Act 2006 and listed on the London Stock Exchange. The address of the registered office is 6th Floor South, Brettenham House, Lancaster Place, London, WC2E 7EN. The principal activities of the Group are discussed in the Directors' Report – Business Review on pages 2 to 39.

These consolidated financial statements were approved for issue by the Board of Directors on 13 December 2011.

2 ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRS and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to groups reporting under IFRS. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared under the historical cost convention, except for revaluation of certain financial instruments, investment property, share-based payments and defined benefit pension obligations.

The principal accounting policies applied in the preparation of the financial information presented in this document are set out below. These policies have been applied consistently to the periods presented unless otherwise stated.

Basis of preparation

Adoption of new or amended standards and interpretations in the current year

In the current year, the following new or amended standards have been adopted. Their adoption has not had a significant impact on the amounts reported or the disclosure and presentation in these financial statements, but may impact the accounting or the disclosure and presentation for future transactions and arrangements.

IFRS2 Amendment	"Share-based payments" is effective for annual reporting periods commencing on or after 1 January 2010. This amendment clarifies the scope and accounting for group cash-settled share-based payments.

New or amended standards and interpretations in issue but not yet effective

The following new standards, amendments to standards and interpretations that are expected to impact the Group, which have not been applied in these financial statements, were in issue, but are not yet effective:

IAS 24 Amendment	"Related parties" is effective for annual reporting periods commencing on or after 1 January 2011. The amendment clarifies the definition of related parties.
IFRIC 14 Amendment	"Prepayments of a minimum funding requirement" is effective for annual reporting periods commencing on or after 1 January 2011. The amendment remedies one of the consequences of IFRIC 14, whereby an entity under certain circumstances is not allowed to recognise an asset for the prepayment of a minimum funding requirement.

Management does not anticipate that the adoption of these new or amended standards and interpretations will have a material impact on the Group.

New or amended standards and interpretations in issue but not yet effective and not EU endorsed

The following new standards, amendments to standards and interpretations that are expected to impact the Group, which have not been applied in these financial statements, were in issue, but are not yet effective and are not EU endorsed:

IFRS 9	"Financial Instruments" is effective for annual reporting periods commencing on or after 1 January 2013. The standard will eventually replace IAS 39 but currently only details the requirements for recognition and measurement of financial assets.
IFRS 10	"Consolidated financial statements" is effective for annual reporting periods beginning on or after 1 January 2013. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within consolidated financial statements.
IFRS 11	"Joint arrangements" is effective for annual periods beginning on or after 1 January 2013. This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
IFRS 12	"Disclosure of interests in other entities" is effective for annual periods beginning on or after 1 January 2013. This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
IAS 19 (revised 2011)	"Employee benefits" is effective for annual periods beginning on or after 1 January 2013. This amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.

IAS 27 (revised)	"Separate financial statements" is effective for annual periods beginning on or after 1 January 2013. This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
IAS 28 (revised)	"Investments in associates and joint ventures" is effective for annual periods beginning on or after 1 January 2013. This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

Management is currently assessing the impact of adopting these new or amended standards and interpretations.

Basis of consolidation

The Group's financial statements consolidate those of the Company and its subsidiary undertakings. The results of subsidiaries acquired, or disposed of, are consolidated for the periods from, or to, the date on which control passed. Subsidiaries are entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Acquisitions are accounted for under the purchase method. Where a transaction is a business combination amongst entities under common control, the requirements of IFRS 3(R) are applied. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at fair value of the assets given, equity instruments issued, contingent consideration arrangements entered into, and liabilities incurred or assumed at the date of exchange. Directly attributable transaction costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. When the ownership of an acquired company is less than 100%, the non-controlling interest is measured as the proportion of the recognised net assets attributable to the non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill.

Where audited financial accounts are not coterminous with those of the Group, the financial information is derived from the last audited accounts available and unaudited management accounts for the period up to the Company's balance sheet date.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Interpretation guidance included within SIC Interpretation 12 "Consolidation – special purpose entities", indicates that certain special purpose entities (SPEs), which are involved in aircraft leasing arrangements with the Group, should be interpreted as being controlled by the Group, and therefore subject to consolidation, even though the Group has no direct or indirect equity interest in those entities. As a consequence, the Group has consolidated three (2010: three) SPEs that own four (2010: four) aircraft operated by the Group on operating leases. In addition, during 2009 the operations of the German airline were placed in a holding company in which the Group owns a 50.0023% direct interest. All risks and rewards continue to be held by the Group and, in accordance with accounting standards, the entity has been treated as being 100% controlled and fully consolidated by the Group.

Associates and joint ventures

Entities, other than subsidiaries, over which the Group exerts significant influence, but not control or joint control, are associates. Entities which the Group jointly controls with one or more other party under a contractual arrangement are joint ventures.

The Group's share of the results of associates and joint ventures is included in the Group income statement using the equity accounting method. Investments in associates and joint ventures are included in the Group balance sheet at cost, as adjusted for post-acquisition changes in the Group's share of the net assets of the entity, and including any goodwill identified on acquisition, net of any accumulated impairment loss. When the Group's shares of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provided evidence of an impairment of the asset transferred.

Intangible assets – goodwill

Goodwill arising on an acquisition represents any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. Goodwill is recognised as an asset, and is reviewed for impairment at least annually. Any impairment is recognised immediately in the Group's income statement and is not subsequently reversed. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The allocation of goodwill is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each segment in which it operates.

On disposal of a subsidiary, joint venture or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Notes to the financial statements continued

2 ACCOUNTING POLICIES CONTINUED

Intangible assets – other

Intangible assets, other than goodwill, are carried on the Group's balance sheet at cost less accumulated amortisation. Intangible assets with indefinite useful lives are not amortised. For all other intangible assets, amortisation is charged on a straight-line basis over the asset's useful life, as follows:

Brands	10 years to indefinite life
Customer relationships	1 to 15 years
Computer software	3 to 10 years

Other acquired intangible assets are assessed separately and useful lives established according to the particular circumstances.

Indefinite-lived intangible assets principally comprise those trademarks for which there is no foreseeable limit to the period over which they are expected to generate net cash inflows. These are considered to have an indefinite life, given the strength and durability of our brands and the level of marketing support. The nature of the industry we operate in is such that brand obsolescence is not common, if appropriately supported by advertising and marketing spend.

Intangible assets with indefinite useful lives are tested for impairment at least annually at the CGU level by comparing their carrying amount to their recoverable amount. All other intangible assets are assessed at each reporting date for indications of impairment. If such indications exist, the recoverable amount is estimated and compared to the carrying amount. If the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount and the impairment loss is recognised immediately in the income statement.

Property, plant and equipment

Except for investment property, property, plant and equipment is stated at cost, net of straight-line depreciation and any provision for impairment.

Where costs are incurred as part of the start-up or commissioning of an item of property, plant or equipment, and that item is available for use but incapable of operating in the manner intended by management without such a start-up or commissioning period, then such costs are included within the cost of the item. Costs that are not directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management are charged to the income statement as incurred.

Depreciation on property, plant and equipment, other than freehold land, upon which no depreciation is provided, is calculated on a straight-line basis and aims to write down their cost to their estimated residual value over their expected useful lives as follows:

Freehold buildings	40 to 50 years
Leasehold properties	Shorter of remaining lease period and 40 years
Aircraft	18 years (or remaining lease period if shorter)
Aircraft spares	5 to 15 years (or remaining lease period if shorter)
Other fixed assets	3 to 15 years

Estimated residual values and useful lives are reviewed annually.

Investment property comprises land and buildings which are held for long-term rental yields and capital growth. It is carried at fair value with changes in fair value recognised in the income statement. Investment property is valued annually by external qualified professional valuers in the countries concerned. In the event of a material change in market conditions between the valuation date and balance sheet date, an internal valuation is performed and adjustments made to reflect any material changes in fair value.

Non-current assets held for sale

The Group classifies non-current assets as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. To be classified as held for sale, the assets must be available for immediate sale in their present condition subject only to terms that are usual and customary for the sale of such assets, and their sale must be highly probable. Sale is considered to be highly probable when management is committed to a plan to sell the assets and an active programme to locate a buyer and complete the plan has been initiated at a price that is reasonable in relation to their current fair value, and there is an expectation that the sale will be completed within one year from the date of classification.

Non-current assets classified as held for sale are carried on the Group's balance sheet at the lower of their carrying amount and fair value less costs to sell.

Aircraft overhaul and maintenance costs

The cost of major overhauls of owned and finance leased engines, auxiliary power units and airframes is capitalised and then amortised over between two and ten years until the next scheduled major overhaul, except where the maintenance of engines and auxiliary power units is carried out under fixed rate contracts, in which case the cost is spread over the period of the contract. Provision is made for the future costs of major overhauls of operating leased engines, auxiliary power units and airframes by making appropriate charges to the income statement, calculated by reference to hours flown and/or the expired lease period, as a consequence of obligations placed upon the Group under the terms of certain operating leases.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost represents purchase price. Net realisable value represents the estimated selling price less all costs to be incurred in marketing, selling and distribution.

Revenue recognition and associated costs

Revenue represents the aggregate amount of gross revenue receivable from inclusive tours, travel agency commissions receivable and other services supplied to customers in the ordinary course of business. Revenue and direct expenses relating to inclusive tours arranged by the Group's leisure travel providers, including travel agency commission, insurance and other incentives, are taken to the income statement on holiday departure. Revenue relating to travel agency commission on third-party leisure travel products is also recognised on holiday departure. The costs attributable to producing brochures are expensed when the brochures are available to be sent to customers or retail outlets. Other revenue and associated expenses are taken to the income statement as earned or incurred. Revenue and expenses exclude intra-group transactions.

Income statement presentation and separately disclosed items

Profit or loss from operations includes the results from operating activities of the Group, before its share of the results of associates and joint ventures.

The Group separately discloses in the income statement: exceptional items; amortisation of business combination intangibles; and IAS 39 fair value re-measurement.

Exceptional items, namely items that are material either because of their size or their nature, and which are non-recurring, are presented within their relevant income statement category, but highlighted through separate disclosure. The separate reporting of exceptional items helps provide a full understanding of the Group's underlying performance.

Items which are included within the exceptional category include:

- profits/(losses) on disposal of assets or businesses and costs of acquisitions;
- costs of integration of significant acquisitions and other major restructuring programmes;
- significant goodwill or other asset impairments;
- material write-down of assets/reassessment of accruals, reflecting a more cautious evaluation in the light of current trading and economic conditions (excluding errors or prior year items);
- other individually material items that are unusual because of their size, nature or incidence.

Material business combination intangible assets were acquired as a result of the merger between Thomas Cook AG and MyTravel Group plc and other business combinations made in subsequent years. The amortisation of these intangible assets is significant and the Group's management consider that it should be disclosed separately to enable a full understanding of the Group's results.

IAS 39 fair value re-measurement includes movements in forward points related to foreign exchange forward contracts and time value of options in cash flow hedging relationships. Both items are subject to market fluctuations and unwind when the options or forward contracts mature and therefore are not considered to be part of the Group's underlying performance.

Notes to the financial statements continued

2 ACCOUNTING POLICIES CONTINUED

Finance income and costs

Finance income comprises interest income on funds invested, expected return on pension plan assets and changes in the fair value of held for trading interest-related derivatives.

Finance costs comprise interest costs on borrowings and finance leases, unwind of the discount on provisions, interest cost on pension plan liabilities, changes in the fair value of held for trading interest-related derivatives and the movement in forward points on outstanding foreign exchange forward contracts in cash flow hedging relationships.

The movement in forward points on outstanding foreign exchange forward contracts in cash flow hedging relationships is included as a separately disclosed item in the income statement under the description "IAS 39 fair value re-measurement".

Tax

Tax represents the sum of tax currently payable and deferred tax. Tax is recognised in the income statement unless it relates to an item recognised directly in equity, in which case the associated tax is also recognised directly in equity.

Tax currently payable is provided on taxable profits based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Provision is made for deferred tax so as to recognise all temporary differences which have originated but not reversed at the balance sheet date that result in an obligation to pay more tax, or a right to pay less tax, in the future, except as set out below. This is calculated on a non-discounted basis by reference to the average tax rates that are expected to apply in the relevant jurisdictions and for the periods in which the temporary differences are expected to reverse. The deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction does not affect either accounting or taxable profit or loss.

Deferred tax assets are assessed at each balance sheet date and are only recognised to the extent that their recovery against future taxable profits is probable. Deferred tax liabilities are recognised for the temporary differences of overseas subsidiaries, joint ventures and associates unless the Group is able to control the timing of the distribution of those earnings and it is probable that they will not be distributed in the foreseeable future.

Pensions

Pension costs charged against profits in respect of the Group's defined contribution schemes represent the amount of the contributions payable to the schemes in respect of the accounting period.

The Group also operates a number of defined benefit schemes. The pension liabilities recognised on the balance sheet in respect of these schemes represent the difference between the present value of the Group's obligations under the schemes (calculated using the projected unit credit method) and the fair value of those schemes' assets. Actuarial gains or losses are recognised in the period in which they arise within the statement of comprehensive income and expense. The current service cost, representing benefits accruing over the year, is included in the income statement as a personnel expense. The unwinding of the discount rate on the scheme liabilities and the expected return on scheme assets are presented as finance costs and finance income respectively. Past service costs are recognised immediately in the income statement in personnel expenses.

Foreign currency

Average exchange rates are used to translate the results of all subsidiaries, associates and joint ventures that have a functional currency other than Sterling. The balance sheets of such entities are translated at period end exchange rates. The resulting exchange differences are recorded through a separate component of equity.

Transactions in currencies other than the functional currency of an entity are translated at the exchange rate at the date of the transaction.

Foreign currency monetary assets and liabilities held at the period end are translated at period end exchange rates. The resulting exchange gain or loss is recorded in the income statement.

When a foreign entity is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Leases

Leases under which substantially all of the risk and rewards of ownership are transferred to the Group are finance leases. All other leases are operating leases.

Assets held under finance leases are recognised at the lower of the fair value of the asset and the present value of the minimum lease payments within property, plant and equipment on the balance sheet and depreciated over the shorter of the lease term or their expected useful lives. The interest element of finance lease payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

Borrowing costs

The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of qualifying assets requiring a substantial amount of time to be ready for the intended purpose.

Derivative financial instruments

Derivatives are recognised at their fair value. When a derivative does not qualify for hedge accounting as a cash flow hedge, changes in fair value are recognised immediately in the income statement. When a derivative qualifies for hedge accounting as a cash flow hedge, changes in fair value that are determined to be an effective hedge are recognised directly in the hedging reserve. Forward points on foreign exchange forward contracts and time value of options are not designated as part of the hedging relationship and therefore are recorded in the income statement within finance costs and costs of providing tourism respectively. Any ineffective portion of the change in fair value of a derivative in a cash flow hedge is recognised immediately in the income statement within net operating expenses.

For cash flow hedges, the associated cumulative gain or loss is removed from the hedging reserve and recognised in the income statement in the same period, or periods, during which the hedged forecast transaction affects the income statement.

Non-derivative financial instruments

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Group transfers the financial asset or when the contractual rights expire. Financial liabilities are derecognised when the obligation is discharged, cancelled or expires. The measurement of particular financial assets and liabilities is set out below:

Trade and other receivables

Trade and other receivables are recognised at their fair value and subsequently recorded at amortised cost using the effective interest method as reduced by allowances for estimated irrecoverable amounts. An allowance for irrecoverable amounts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows.

Available-for-sale financial assets

Available-for-sale financial assets are recognised and subsequently recorded at their fair value. Gains or losses (except for impairment losses and foreign exchange gains and losses) are recognised directly in equity until the financial asset is derecognised. At this point, the cumulative gain or loss previously recognised in equity is recognised in the income statement. Any impairment losses, foreign exchange gains or losses or dividends receivable are recognised in the income statement.

Held for trading investments

Short-term investments are classified as held for trading and are recognised and subsequently recorded at their fair value. Gains or losses are recognised in the income statement.

Notes to the financial statements continued

2 ACCOUNTING POLICIES CONTINUED

Other non-current asset investments

The fair value of investments in equity instruments that do not have a quoted market price in an active market are measured using an appropriate valuation technique. Where a fair value cannot be reliably measured, the investment is measured at cost. Loans and receivables are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Any impairment losses are recognised in the income statement.

Trade and other payables

Trade and other payables are initially recognised at their fair value and subsequently recorded at amortised cost using the effective interest method.

Borrowings

Interest bearing borrowings are initially recognised at their fair value net of any directly attributable transaction costs. They are subsequently recorded at amortised cost using the effective interest method.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, if it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions are recognised at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Where the effect of the time value of money is material, the provision is discounted to its present value.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to: either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Share-based payments

The Group issues equity-settled share options to certain employees as part of their total remuneration. The fair values of the share options are calculated at the date of grant, using an appropriate option pricing model. These fair values are charged to the income statement on a straight-line basis over the expected vesting period of the options, with a corresponding increase in equity.

Insurance contracts and reinsurance contracts

Premiums written relate to business incepted during the year, together with any differences between the booked premiums for prior years and those previously accrued, less cancellations. Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. Premiums are shown after the deduction of commission and premium taxes where relevant.

Claims and loss adjustment expenses are charged to the income statement as incurred based on the estimated liability for compensation owed to policyholders or third parties damaged by policyholders. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analysis for the claims incurred but not reported.

Contracts entered into by the Group with reinsurers, under which the Group is compensated for losses on one or more contracts issued by the Group, and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. The benefits to which the Group is entitled under its reinsurance contracts held are recognised as receivables from reinsurers. The Group assesses its reinsurance assets for impairment on an annual basis.

Receivables and payables are recognised when due. These include amounts due to and from insurance policyholders.

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, described above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements:

Residual values of tangible fixed assets
Judgements have been made in respect of the residual values and useful economic lives of aircraft included in property, plant and equipment. Those judgements determine the amount of depreciation charged in the income statement.

Recoverable amounts of goodwill and intangible assets with an indefinite life
Judgements have been made in respect of the amounts of future operating cash flows to be generated by certain of the Group's businesses in order to assess whether there has been any impairment of the amounts included in the balance sheet for goodwill or intangible assets with an indefinite life in relation to those businesses.

Special purpose entities
The nature of the relationship with certain special purpose entities involved in leasing aircraft to the Group shows that they should be interpreted as controlled by the Group, and therefore consolidated, even though the Group has no direct or indirect equity interest in those entities.

Key sources of estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of goodwill and intangible assets with an indefinite life
Determining whether goodwill or intangible assets with an indefinite life are impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit at a suitable discount rate in order to calculate present value.

Recoverable amounts of deposits and prepayments
Estimates have been made in respect of the volumes of future trading with hoteliers and the credit-worthiness of those hoteliers in order to assess the recoverable amounts of deposits and prepayments made to those hoteliers.

Aircraft maintenance provisions
Provisions for the cost of maintaining leased aircraft and spares are based on forecast aircraft utilisation, estimates of future maintenance costs and planned rollover and renewal of the aircraft fleet.

Tax
The Group operates in many tax regimes and the tax implications of its operations are complex. It can take several years for tax liabilities to be agreed with the relevant authorities. Tax assets and liabilities represent management's estimates of tax that will be payable or recoverable in the future and may be dependent on estimates of future profitability.

In addition, estimates have been made in respect of the probable future utilisation of tax losses, and deferred tax assets have been recognised as a result. The recoverability of these assets is dependent on the agreement of the losses with the relevant authorities and the estimates of future profitability.

Retirement benefits
The consolidated financial statements include costs in relation to, and provision for, retirement benefit obligations. The costs and the present value of any related pension assets and liabilities depend on such factors as life expectancy of the members, the salary progression of current employees, the returns that plan assets generate and the discount rate used to calculate the present value of the liabilities. The Group uses previous experience and impartial actuarial advice to select the values of critical estimates. The estimates, and the effect of variances in key estimates, are disclosed in note 35.

3 SEGMENTAL INFORMATION
For management purposes, the Group is currently organised into six geographic operating divisions: UK, Central Europe, West & East Europe, Northern Europe, North America 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 how information is presented to the Group Chief Executive (chief operating decision maker) for the purpose of resource allocation and assessment of performance.

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

Notes to the financial statements continued

3 SEGMENTAL INFORMATION CONTINUED

Segmental information for these activities is presented below:

Year ended 30 September 2011	UK £m	Central Europe £m	West & East Europe £m	Northern Europe £m	North America £m	Airlines Germany £m	Corporate £m	Total £m
Revenue								
Segment sales	3,281.8	2,402.6	1,910.7	1,159.2	349.2	1,120.3	–	10,223.8
Inter-segment sales	(26.8)	(53.8)	(9.1)	(6.5)	–	(318.7)	–	(414.9)
Total revenue	3,255.0	2,348.8	1,901.6	1,152.7	349.2	801.6	–	9,808.9
Result								
Underlying profit/(loss) from operations	34.1	69.8	40.4	106.3	10.5	69.3	(26.8)	303.6
Exceptional operating items	(321.0)	(6.6)	(34.3)	–	(76.7)	(3.3)	(88.1)	(530.0)
IAS 39 fair value re-measurement	1.6	(0.4)	2.3	(2.8)	–	(6.6)	–	(5.9)
Amortisation of business combination intangibles	(9.3)	(1.0)	(2.4)	(20.9)	(0.7)	–	–	(34.3)
Segment result	(294.6)	61.8	6.0	82.6	(66.9)	59.4	(114.9)	(266.6)
Share of results of associates and joint venture								(2.3)
Profit on disposal of associates								10.3
Net investment loss								(4.8)
Finance income								47.9
Finance costs								(182.7)
Loss before tax								(398.2)
Tax								(119.8)
Loss for the year								(518.0)
Other information								
Capital additions	49.4	14.7	18.8	17.1	7.4	78.2	25.8	211.4
Depreciation	42.6	6.2	3.7	15.5	1.5	56.8	0.5	126.8
Amortisation of intangible assets	19.6	5.2	6.8	1.2	2.3	0.3	4.9	40.3
Amortisation of business combination intangibles	9.3	1.1	2.3	20.9	0.7	–	–	34.3
Impairment of goodwill	210.3	–	–	–	68.4	–	–	278.7
Impairment of other intangible assets	1.0	–	–	–	–	–	82.9	83.9
Impairment of property, plant & equipment	9.9	–	–	–	–	–	–	9.9
Balance sheet								
Assets								
Segment assets	3,339.1	945.1	1,687.2	1,841.5	314.9	920.5	6,398.2	15,446.5
Inter-segment eliminations								(9,104.5)
								6,342.0
Investments in associates and joint ventures								22.1
Tax and deferred tax assets								325.7
Total assets								6,689.8
Liabilities								
Segment liabilities	2,592.3	1,182.7	1,377.8	915.1	206.0	599.2	5,509.3	12,382.4
Inter-segment eliminations								(8,318.0)
								4,064.4
Tax and deferred tax liabilities								214.2
Borrowings and obligations under finance leases								1,228.0
Total liabilities								5,506.6

Inter-segment sales are charged at prevailing market prices. Segment assets consist primarily of goodwill, other intangible assets, property, plant and equipment, trade and other receivables and cash and cash equivalents.

Segment liabilities comprise trade and other payables, revenue received in advance and provisions.

Capital additions comprise additions to other intangible assets (note 12) and property, plant and equipment (note 13).

The entity is domiciled in the UK. Revenue from external customers in the UK was £3,047.1 m (2010: £2,941.8m) which is derived from the 'UK' segmental revenue shown above but excluding external revenue in India, Egypt, Ireland and Spain-domiciled companies, which would otherwise be included in the UK segment. Revenue from external customers in Germany was £2,963.3m (2010: £2,511.2m).

The total of non-current assets, other than financial instruments and deferred tax (there are no employment benefits assets or rights arising under insurance contracts), located in the UK was £2,247.2m (2010: £2,346.7m).

Year ended 30 September 2010	UK £m	Central Europe £m	West & East Europe £m	Northern Europe £m	North America £m	Airlines Germany £m	Corporate £m	Total £m
Revenue								
Segment sales	3,150.5	2,024.0	1,707.8	1,016.6	352.5	996.2	–	9,247.6
Inter-segment sales	(7.1)	(50.6)	(9.4)	(2.6)	–	(287.8)	–	(357.5)
Total revenue	3,143.4	1,973.4	1,698.4	1,014.0	352.5	708.4	–	8,890.1
Result								
Underlying profit/(loss) from operations	107.5	58.6	82.0	91.7	9.1	51.1	(37.8)	362.2
Exceptional operating items	(93.7)	(8.8)	(29.4)	3.2	(17.5)	(13.9)	(6.2)	(166.3)
IAS 39 fair value re-measurement	(3.3)	–	(2.1)	0.7	0.1	6.6	–	2.0
Amortisation of business combination intangibles	(9.4)	–	(0.5)	(20.3)	(0.7)	–	–	(30.9)
Segment result	1.1	49.8	50.0	75.3	(9.0)	43.8	(44.0)	167.0
Share of results of associates and joint venture								3.2
Net investment loss								(1.5)
Finance income								52.1
Finance costs								(179.1)
Profit before tax								41.7
Tax								(38.9)
Profit for the year								2.8
Other information								
Capital additions	79.9	22.7	22.3	72.9	4.4	68.0	15.5	285.7
Depreciation	41.6	6.1	3.8	10.0	1.5	62.3	0.1	125.4
Amortisation of intangible assets	12.2	4.9	5.6	0.8	1.4	0.4	2.1	27.4
Amortisation of business combination intangibles	9.4	–	0.5	20.3	0.7	–	–	30.9
Impairment of property, plant & equipment	14.8	–	–	–	–	–	–	14.8

Notes to the financial statements continued

3 SEGMENTAL INFORMATION CONTINUED

	UK £m	Central Europe £m	West & East Europe £m	Northern Europe £m	North America £m	Airlines Germany £m	Corporate £m	Total £m
Balance sheet								
Assets								
Segment assets	3,752.1	1,410.1	1,036.4	1,765.0	370.6	756.9	4,332.6	13,423.7
Inter-segment eliminations								(6,984.3)
								6,439.4
Investments in associates and joint ventures								38.6
Tax and deferred tax assets								422.6
Total assets								6,900.6
Liabilities								
Segment liabilities	2,646.0	835.9	702.2	892.0	308.0	571.2	4,185.2	10,140.5
Inter-segment eliminations								(6,307.2)
								3,833.3
Tax and deferred tax liabilities								181.4
Borrowings and obligations under finance leases								1,143.2
Total liabilities								5,157.9

4 PERSONNEL EXPENSES

	2011 £m	2010 £m
Wages and salaries	**950.9**	902.0
Social security costs	**157.1**	112.9
Share-based payments – equity settled (see note 34)	**(3.2)**	8.1
Defined benefit pension costs (see note 35)	**19.1**	22.3
Curtailment gain (see note 35)	**(25.8)**	–
Defined contribution pension costs (see note 35)	**25.2**	20.3
	1,123.3	1,065.6

The average number of employees of the Group during the year was:	**2011 Number**	2010 Number
UK	**17,227**	17,686
Central Europe	**3,669**	3,608
West & East Europe	**3,427**	3,217
Northern Europe	**2,794**	2,680
North America	**1,275**	1,092
Airlines Germany	**2,517**	2,363
Corporate	**188**	101
	31,097	30,747

Disclosures of Directors' remuneration, share options, long-term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 and those specified for audit by the Financial Services Authority are on pages 66 to 69 within the Remuneration report and form part of these audited financial statements.

Disclosures in respect of remuneration of key management personnel are included in note 36.

5 SEPARATELY DISCLOSED ITEMS

	2011 £m	2010 £m
Exceptional operating items		
Property costs, redundancy and other costs incurred in business integrations and reorganisations	**(57.3)**	(35.4)
Provision for HMRC settlement	**(37.6)**	–
Aircraft-related separately disclosed items	**(16.4)**	(3.9)
Other separately disclosed operating items	**(10.5)**	(7.7)
Loss on disposal of assets	**(4.6)**	(1.8)
Net gain on pension plan curtailment (note 35)	**24.5**	–
Direct costs of volcanic ash cloud	**–**	(52.9)
Asset impairment and onerous lease provisions in Hi Hotels	**–**	(26.0)
Costs and write downs associated with Skyservice liquidation	**–**	(15.3)
Fuel-related separately disclosed items	**–**	(23.3)
	(101.9)	(166.3)
Impairment of goodwill	**(278.7)**	–
Impairment of other intangible assets and associated costs	**(86.3)**	–
Balance sheet reviews	**(63.1)**	–
Total exceptional operating items	**(530.0)**	(166.3)
Share of associates' exceptional items		
Profit on disposal of associates	**10.3**	–
	10.3	–
Exceptional finance costs		
Write off of unamortised bank facility set-up and related costs	**(0.9)**	(18.2)
Other exceptional interest charges	**(2.9)**	–
	(3.8)	(18.2)
Total exceptional items	**(523.5)**	(184.5)
IAS 39 fair value re-measurement		
Time value component of option contracts	**(5.9)**	2.0
Included within cost of providing tourism services	**(5.9)**	2.0
Forward points on foreign exchange cash flow hedging contracts	**(9.1)**	7.3
Included within finance income and costs	**(9.1)**	7.3
Amortisation of business combination intangibles	**(34.3)**	(30.9)
Total separately disclosed items	**(572.8)**	(206.1)

The £57.3m (2010: £35.4m) relates to the integration of acquisitions and other restructuring projects that have been undertaken across the Thomas Cook Group. The restructuring projects reflect changes made to underlying business processes and systems in the UK, Germany, the Western Europe markets and Canada to improve efficiency across the Group.

The provision of £37.6m relates to a dispute with HM Revenue & Customs regarding place of business.

Aircraft-related separately disclosed items of £16.4m (2010: £3.9m) include £9.9m for impairment of aircraft, as disclosed in note 13 and costs associated with the UK fleet restructure programme.

Other separately disclosed operating items of £10.5m (2010: £7.7m) include acquisition costs and losses resulting from other exceptional operating events that are not expected to recur in future years.

Notes to the financial statements continued

5 SEPARATELY DISCLOSED ITEMS CONTINUED

During the year the Group recognised impairment losses on goodwill totalling £278.7m in relation to its UK, North America and India segments to reflect a decrease in the likely future profitability and cash flows of those businesses. The Group also wrote down the carrying value of purchased and internally generated computer software, giving rise to an impairment loss of £83.9m. Details of these impairments are disclosed in note 12. The £86.3m above also includes £2.4m for the recognition of provisions for onerous contracts in respect of the impaired assets.

The £63.1m relates to UK and France balance sheet reviews which were carried out following management changes in our UK business and the substantial deterioration of trading within our French operation. The review of the UK balance sheet identified several areas where recovery of the carrying value of assets was no longer considered achievable or where recognition of additional liabilities was considered appropriate. The overall impact of this reassessment was £49.7m. Deterioration of trading and a change of management in our French business led to the reassessment of certain assets and liabilities that had been recognised at the previous year end. It is now considered that certain accounting judgements regarding collectability of assets and recognition of liabilities were incorrect. Revision of these accounting judgements has resulted in a charge totalling £13.4m in the year.

The £10.3m profit on disposal of associates relates to the disposal by Central Europe of minority stakes in two hotel management companies, as disclosed in note 14.

Other exceptional interest charges include interest incurred upon recognition of the provision for HMRC settlement and other adjustments to interest arising as a result of the balance sheet reviews.

Exceptional operating items have been included in the income statement as follows:

	2011 £m	2010 £m
Cost of providing tourism services	**(56.4)**	(82.9)
Personnel expenses	**(55.1)**	(12.8)
Net operating expenses	**(413.9)**	(68.8)
Loss on disposal of assets	**(4.6)**	(1.8)
Total exceptional operating items	**(530.0)**	(166.3)

6 NET OPERATING EXPENSES

	2011 £m	2010 £m
Advertising expenses	**180.5**	164.8
Rents and expenses for building maintenance	**146.6**	143.8
Information technology costs	**86.7**	84.1
Travel expenses and ancillary personnel expenses	**67.0**	63.9
Telecommunications costs	**37.3**	42.8
Legal and consultancy fees	**49.0**	46.9
Impairment of current and non-current assets	**379.9**	13.7
Insurance	**15.7**	14.8
Training expenses	**12.2**	10.6
Other taxes	**33.6**	2.5
Other operating expenses	**26.5**	56.7
	1,035.0	644.6

7 FINANCE INCOME AND COSTS

	2011 £m	2010 £m
Underlying finance income		
Income from loans included in financial assets	**0.2**	0.7
Other interest and similar income	**5.3**	5.3
Expected return on pension plan assets (note 35)	**42.1**	37.9
Fair value gains on derivative financial instruments	**0.3**	0.9
	47.9	44.8
Underlying finance costs		
Interest payable	**(97.5)**	(80.9)
Finance costs in respect of finance leases	**(6.4)**	(12.7)
Interest cost on pension plan liabilities (note 35)	**(54.7)**	(54.8)
Discounting of provisions and other non-current liabilities	**(11.2)**	(12.5)
	(169.8)	(160.9)
Exceptional finance costs		
Write off of unamortised bank facility set-up and related costs	**(0.9)**	(18.2)
Other exceptional interest charges	**(2.9)**	–
	(3.8)	(18.2)
IAS 39 fair value re-measurement		
Forward points on foreign exchange cash flow hedging contracts	**(9.1)**	7.3

8 (LOSS)/PROFIT BEFORE TAX

(Loss)/profit before tax for the year has been arrived at after charging/(crediting):

		2011 £m	2010 £m
Exceptional operating items (note 5)		**530.0**	166.3
Including: Impairment of goodwill		**278.7**	–
Impairment of other intangible assets		**83.9**	–
Impairment of property, plant and equipment		**9.9**	14.8
Depreciation of property, plant and equipment	– owned assets	**103.8**	74.7
	– held under finance leases	**23.0**	50.7
Amortisation of intangible assets		**40.3**	27.4
Amortisation of business combination intangibles		**34.3**	30.9
Cost of inventories recognised as expense		**42.5**	41.0
Profit on disposal of associates		**(10.3)**	–
Operating lease rentals payable	– hire of aircraft and aircraft spares	**128.5**	134.0
	– other	**112.2**	127.8
Net foreign exchange losses/(gains)		**4.4**	(16.3)
Personnel expenses (note 4)		**1,123.3**	1,065.6
Auditors' remuneration (see next page)		**5.2**	2.9

Notes to the financial statements continued

8 (LOSS)/PROFIT BEFORE TAX CONTINUED

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below:

	2011 £m	2010 £m
PricewaterhouseCoopers LLP		
Fees payable to the Company's auditors for the audit of the Company's financial statements	**0.3**	0.2
Fees payable to the Company's auditors and their associates for the audit of the Company's subsidiaries pursuant to legislation	**2.3**	2.0
Total audit fees	**2.6**	2.2
Other services pursuant to legislation	**0.4**	0.3
Tax services	**0.1**	0.1
Information technology services	**0.1**	–
Valuation and actuarial services	**0.1**	0.1
Recruitment and remuneration services	**1.7**	–
All other services	**0.2**	0.2
Total non-audit fees	**2.6**	0.7
Total fees	**5.2**	2.9

In addition to the above, £61,000 (2010: £56,000) has been incurred in respect of the audits of the Group pension schemes.

Fees paid to the Company's auditors and their associates for services other than the statutory audit of the Company are not disclosed in subsidiaries' accounts since the consolidated accounts of the subsidiaries' parent, Thomas Cook Group plc, are required to disclose non-audit fees on a consolidated basis.

A description of the work of the Audit Committee is set out in the Corporate Governance report on pages 49 to 50 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

Recruitment and remuneration services mainly relate to pension work performed in the UK for the closure of defined benefit pension schemes.

9 TAX

		2011 £m	2010 £m
Analysis of tax charge			
Current tax			
UK	corporation tax charge for the year	**–**	1.6
	adjustments in respect of prior periods	**(6.8)**	–
		(6.8)	1.6
Overseas	corporation tax charge for the year	**35.1**	32.5
	adjustments in respect of prior periods	**0.3**	5.1
		35.4	37.6
Total current tax		**28.6**	39.2
Deferred tax			
	tax charge/(credit) for the year	**73.8**	(1.1)
	adjustments in respect of prior periods	**17.4**	0.8
Total deferred tax		**91.2**	(0.3)
Total tax charge		**119.8**	38.9

	2011 £m	2010 £m
Tax reconciliation		
(Loss)/profit before tax	**(398.2)**	41.7
Expected tax charge at the UK corporation tax rate of 27% (2010: 28%)	**(107.5)**	11.7
Income not liable for tax	**(19.3)**	(13.9)
Expenses not deductible for tax purposes	**9.8**	6.3
Impairment for which no tax relief is due	**100.1**	–
Losses and other timing differences for which tax relief is not available	**76.4**	50.9
Utilisation of tax losses not previously recognised	**(10.8)**	(6.3)
Recognition of losses not previously recognised	**(34.6)**	(24.9)
Derecognition of deferred tax previously recognised	**94.1**	–
Difference in rates of tax suffered on overseas earnings	**(8.6)**	(0.2)
Impact of changes in tax rates (note 25)	**9.2**	8.6
Other	**0.1**	0.8
Income tax charge in respect of prior periods	**10.9**	5.9
Tax charge	**119.8**	38.9

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 £38.8m has been charged directly to equity (2010: £21.9m). UK corporation tax is calculated at 27% (2010: 28%) of the estimated assessable loss for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Surplus losses not recognised in deferred tax of £1,427.3m (2010: £888.2m) are available in the UK and Germany for offset against future profits.

10 DIVIDENDS

The following dividends have been deducted from equity in the year:

	2011 £m	2010 £m
Final dividend paid for 2010 of 7p per share (2009: 7p)	**59.8**	59.7
Interim dividend for 2011 of 3.75p per share (2010: 3.75p)	**32.7**	32.0
	92.5	91.7

The interim dividend for 2011 was paid to shareholders in October 2011.

On 29 September 2011 the Directors announced that they would not propose any further dividend payments whilst the Group rebuilds its balance sheet.

11 EARNINGS PER SHARE

The calculations for earnings per share, based on the weighted average number of shares, are shown in the table below. The weighted average number of shares shown excludes 3.8m shares held by the employee share ownership trusts (2010: 4.5m).

Basic and diluted loss per share	2011 £m	2010 £m
Net loss attributable to equity holders of the parent	**(520.7)**	(2.6)

	millions	millions
Weighted average number of shares for basic loss per share	**858.2**	853.8
Weighted average number of shares for diluted loss per share	**858.2**	853.8

	pence	pence
Basic loss per share	**(60.7)**	(0.3)
Diluted loss per share	**(60.7)**	(0.3)

Notes to the financial statements continued

11 EARNINGS PER SHARE CONTINUED

Underlying basic and diluted earnings per share	2011 £m	2010 £m
Underlying net profit attributable to equity holders of the parent*	**100.3**	174.0

	millions	millions
Weighted average number of shares for basic earnings per share	**858.2**	853.8
Effect of dilutive potential ordinary shares – share options**	**1.9**	0.8
Weighted average number of shares for diluted earnings per share	**860.1**	854.6

	pence	pence
Underlying basic earnings per share	**11.7**	20.4
Underlying diluted earnings per share	**11.7**	20.4

* Underlying net profit attributable to equity holders of the parent is derived from the pre-exceptional profit before tax for the year ended 30 September 2011 of £174.6m (2010: £247.8m) and deducting a notional tax charge of £71.6m (2010: £68.4m).

** Awards of shares under the Thomas Cook Performance Share Plan, Buy As You Earn Scheme, Restricted Share Plan and Co-Investment Plan will be satisfied by shares held in trust and therefore are potentially dilutive. The remainder of the share schemes will be satisfied by the purchase of existing shares in the market and will therefore not result in any dilution of earnings per share.

12 INTANGIBLE ASSETS

	2011 £m	2010 £m
Goodwill	**2,981.6**	3,216.3
Business combination intangible assets	**393.3**	384.3
Other	**175.1**	228.3
	3,550.0	3,828.9

Goodwill

Cost	£m
At 1 October 2009	3,305.9
Additions	15.2
Reassessment of goodwill	(1.5)
Exchange differences	7.6
At 30 September 2010	3,327.2
Additions (note 15)	68.6
Reassessment of goodwill (note 15)	(1.6)
Exchange differences	(5.2)
At 30 September 2011	**3,389.0**
Accumulated impairment losses	
At 1 October 2009	117.3
Exchange differences	(6.4)
At 30 September 2010	110.9
Impairment charge for the year	278.7
Exchange differences	17.8
At 30 September 2011	**407.4**
Carrying amount	
At 30 September 2011	**2,981.6**
At 30 September 2010	3,216.3

The carrying value of goodwill is analysed by business segment as follows:

	2011 £m	2010 £m
UK*	**1,868.0**	2,094.7
Central Europe	**106.1**	61.4
West & East Europe	**156.9**	132.6
Northern Europe	**722.0**	731.1
North America	**106.9**	174.8
Airlines Germany	**21.7**	21.7
	2,981.6	3,216.3

* The carrying value of goodwill in the UK segment is comprised of the UK (£1,698.6m), India (£150.1m) and Egypt (£19.3m).

In accordance with accounting standards, the Group tests the carrying value of goodwill for impairment annually and whenever events or circumstances change.

Impairment testing is performed by comparing the carrying value of each cash-generating unit (CGU) to the recoverable amount, determined on the basis of the CGU's value in use. The value in use is based on the net present value of future cash flow projections discounted at pre-tax rates appropriate for each CGU. The Group's CGUs are determined by geographical market and consist of UK, India, Egypt, Central Europe, West & East Europe, Northern Europe, North America and Airlines Germany.

The value in use calculations use cash flow projections based on the most recent annual budgets and three-year plans for each of the CGUs. In determining these projections the Board has approved budgets which they consider to be prudent and reflect the trading environment in which each CGU operates. Cash flow forecasts for years beyond the three-year plan are extrapolated at an estimated average long-term nominal growth rate.

The key assumptions used in the value in use calculations are as follows:

- a pre-tax discount rate of between 9.2% and 11.1% reflecting the specific risks of each CGU
- a long-term nominal terminal growth rate of 2% for all CGUs with the exception of Egypt (5%)

As a result of the value in use calculations performed at 30 September 2011, an impairment charge of £278.7m (2010: £nil) was booked against the carrying value of the Group's goodwill. The impairment losses were recognised within operating expenses in the Group's income statement.

A breakdown of the impairment charge is presented below. Management believes the assumptions applied in each test were prudent and appropriate for that CGU. However, any sensitivity to these assumptions would result in a change to the recoverable amount.

	Goodwill impairment charge £m	Pre-tax discount rate used %	Long-term growth rate
UK	206.8	9.29	2%
North America	68.4	9.23	2%
India	3.5	10.33	2%
	278.7		

Notes to the financial statements continued

12 INTANGIBLE ASSETS CONTINUED

The value in use calculations remain sensitive to reasonably possible changes in the key assumptions. The table below sets out the impact changes to the key assumptions would have had for the segments where goodwill has been impaired during the year:

Sensitivity to a change in assumption

	Increase/(decrease) in impairment		
	£1.0m decrease in cash flow £m	1% increase in rate £m	1% decrease in rate £m
UK growth rate	–	(210.1)	159.4
UK pre-tax discount rate	–	175.5	(231.7)
UK cash flows – each and every year	13.6	–	–
North America growth rate	–	(25.3)	19.1
North America pre-tax discount rate	–	21.2	(28.0)
North America cash flows – each and every year	13.9	–	–
India growth rate	–	(29.3)	23.0
India pre-tax discount rate	–	25.7	(32.8)
India cash flows – each and every year	12.0	–	–

Management believe that any reasonable change in assumptions would not cause the carrying value of the remaining segment CGUs to exceed their recoverable amount.

Business combination intangibles

	Brands and customer relationships £m	Order backlog £m	Computer software £m	Other £m	Total £m
Cost					
At 1 October 2009	469.0	41.1	14.8	3.1	528.0
Exchange differences	15.0	(0.1)	0.9	0.5	16.3
At 30 September 2010	484.0	41.0	15.7	3.6	544.3
Additions (note 15)	45.8	0.5	–	–	46.3
Exchange differences	(4.3)	–	(0.1)	(0.3)	(4.7)
At 30 September 2011	**525.5**	**41.5**	**15.6**	**3.3**	**585.9**
Amortisation					
At 1 October 2009	75.5	41.0	8.3	–	124.8
Charge for the year	27.1	0.1	3.6	0.1	30.9
Exchange differences	3.5	(0.1)	0.9	–	4.3
At 30 September 2010	106.1	41.0	12.8	0.1	160.0
Charge for the year	30.7	0.5	3.0	0.1	34.3
Exchange differences	(1.5)	–	(0.2)	–	(1.7)
At 30 September 2011	**135.3**	**41.5**	**15.6**	**0.2**	**192.6**
Carrying amount					
At 30 September 2011	**390.2**	**–**	**–**	**3.1**	**393.3**
At 30 September 2010	377.9	–	2.9	3.5	384.3

The initial valuation of business combination intangibles is based on applicable projected future cash flows discounted at an appropriate discount rate. Customer relationships are being amortised over periods of 1 to 15 years and computer software over a period of 4 years. Order backlog has been amortised over the period from acquisition to departure. Other includes fair value attributed to a foreign exchange licence from the acquisition of Thomas Cook India, which is being amortised over 25 years.

Indefinite-lived intangible assets principally comprise those trademarks for which there is no foreseeable limit to the period over which they are expected to generate net cash inflows. These trademarks are related to the core brands of each segment and are considered to have an indefinite life, given the strength and durability of our brands and the level of marketing support. The nature of the industry we operate in is such that brand obsolescence is not common if appropriately supported by advertising and marketing spend. The Group annually tests the carrying value of indefinite-lived intangibles for impairment on a value in use basis consistent with that disclosed for goodwill earlier in this note.

The carrying value of brands with an indefinite life is analysed by business segment as follows:

	2011 £m	2010 £m
UK	**70.6**	70.6
Central Europe	**15.9**	–
West & East Europe	**32.4**	23.4
Northern Europe	**132.9**	134.6
North America	**23.4**	22.3
	275.2	250.9

Other intangible assets

	Computer software and concessions		Other	
	Purchased £m	Internally generated £m	Purchased £m	Total £m
Cost				
At 1 October 2009	238.4	134.1	7.0	379.5
Additions	28.2	43.5	13.1	84.8
Disposals	(6.2)	(0.6)	–	(6.8)
Exchange differences	(11.6)	(1.9)	0.3	(13.2)
At 30 September 2010	248.8	175.1	20.4	444.3
Additions	38.7	31.8	1.0	71.5
Acquisitions (note 15)	0.1	–	–	0.1
Transfer to non-current assets held for sale (note 27)	(0.1)	–	–	(0.1)
Disposals	(1.2)	(0.4)	–	(1.6)
Exchange differences	(1.2)	(0.2)	–	(1.4)
At 30 September 2011	**285.1**	**206.3**	**21.4**	**512.8**
Amortisation				
At 1 October 2009	118.5	81.0	2.1	201.6
Charge for the year	10.4	16.4	0.6	27.4
Disposals	(5.5)	(0.3)	–	(5.8)
Exchange differences	(5.7)	(1.5)	–	(7.2)
At 30 September 2010	117.7	95.6	2.7	216.0
Charge for the year	14.4	20.4	5.5	40.3
Impairment losses	83.4	0.5	–	83.9
Disposals	(0.9)	–	–	(0.9)
Exchange differences	(1.6)	–	–	(1.6)
At 30 September 2011	**213.0**	**116.5**	**8.2**	**337.7**
Carrying amount				
At 30 September 2011	**72.1**	**89.8**	**13.2**	**175.1**
At 30 September 2010	131.1	79.5	17.7	228.3

Computer software is amortised on a straight-line basis over its estimated useful life of between three and ten years. Concessions include the value of licences granted to the Group, as well as copyrights and trademarks and similar items. Licences are amortised over the period of the licence, up to a maximum of ten years. Other items are amortised over their estimated useful lives of between three and five years. The impairment loss of £83.4m in respect of purchased computer software and concessions is principally in respect of the historic costs associated with a long running major IT project that has yet to be fully commissioned by the Group's incumbent provider. The Directors consider that the costs, execution risks and timeframe to delivery exceed the previously anticipated benefits. As required by accounting standards, a review of the recoverable amount was performed on a fair value less cost to sell basis and was determined by reference to its value in an active market taking into account the customised nature of the assets. The impairment loss was booked against other intangible assets and recognised within operating expenses in the Group's income statement against the UK and Corporate reporting segments.

Notes to the financial statements continued

13 PROPERTY, PLANT AND EQUIPMENT

	Aircraft and aircraft spares £m	Investment property £m	Other property, plant and equipment: Freehold land and buildings £m	Short leaseholds £m	Other fixed assets £m	Other Total £m
Cost						
At 1 October 2009	1,713.4	18.0	243.8	187.0	260.7	691.5
Additions	154.2	–	10.5	10.7	25.5	46.7
Acquisitions	–	–	–	–	0.1	0.1
Disposals	(51.7)	–	(2.7)	(4.7)	(9.3)	(16.7)
Exchange differences	(76.1)	(1.0)	(12.3)	(4.0)	(10.9)	(27.2)
At 30 September 2010	1,739.8	17.0	239.3	189.0	266.1	694.4
Additions	97.6	–	3.1	11.5	27.7	42.3
Acquisitions (note 15)	–	–	–	–	0.5	0.5
Transfer to non-current assets held for sale (note 27)	–	–	(64.2)	–	(52.8)	(117.0)
Revaluation	–	1.0	–	–	–	–
Disposals	(62.8)	–	(0.1)	(4.5)	(7.7)	(12.3)
Exchange differences	(2.4)	–	(1.0)	(0.6)	(1.3)	(2.9)
At 30 September 2011	**1,772.2**	**18.0**	**177.1**	**195.4**	**232.5**	**605.0**
Accumulated depreciation and impairment						
At 1 October 2009	1,085.1	–	71.0	116.6	156.8	344.4
Charge for the year	98.3	–	6.3	10.3	10.5	27.1
Provision for impairment	–	–	–	–	14.8	14.8
Disposals	(45.7)	–	(2.5)	(3.1)	(8.4)	(14.0)
Exchange differences	(53.1)	–	(4.3)	(2.5)	(7.2)	(14.0)
At 30 September 2010	1,084.6	–	70.5	121.3	166.5	358.3
Charge for the year	90.7	–	5.9	11.0	19.2	36.1
Provision for impairment (note 5)	9.9	–	–	–	–	–
Transfer to non-current assets held for sale (note 27)	–	–	(20.4)	–	(38.7)	(59.1)
Disposals	(49.9)	–	–	(3.6)	(5.4)	(9.0)
Exchange differences	(1.7)	–	(0.4)	(0.2)	(1.0)	(1.6)
At 30 September 2011	**1,133.6**	**–**	**55.6**	**128.5**	**140.6**	**324.7**
Carrying amount						
At 30 September 2011	**638.6**	**18.0**	**121.5**	**66.9**	**91.9**	**280.3**
At 30 September 2010	655.2	17.0	168.8	67.7	99.6	336.1

Freehold land with a cost of £26.1m (2010: £37.5m) has not been depreciated.

The net book value of aircraft and aircraft spares includes £123.8m (2010: £111.8m) in respect of assets held under finance leases.

The net book value of other property, plant and equipment includes £12.7m (2010: £14.1m) in respect of assets held under finance leases.

The investment property was revalued on the basis of market value by £1m in September 2011. This followed an external professional valuation performed in the Netherlands. Market value represents the figure that would appear in a hypothetical contract of sale between a willing buyer and a willing seller. Market value is estimated without regard to costs of sale.

Capital commitments

	2011 £m	2010 £m
Capital expenditure contracted but not provided for in the accounts	**31.6**	38.9

In addition, the Group is contractually committed to the acquisition of twelve new Airbus A321 aircraft which have a list price of $96m each, before escalations and discounts. These aircraft are scheduled for delivery in 2014 and will be the first aircraft to be delivered as part of the fleet replacement programme announced last year.

14 NON-CURRENT ASSET INVESTMENTS

		Other Investments		
	Associates and joint venture £m	Available-for-sale financial assets £m	Loans & receivables £m	Total other investments £m
Cost				
At 1 October 2010	66.8	8.8	13.9	22.7
Acquisitions (note 15)	–	1.0	–	1.0
Disposals	(6.1)	(0.1)	–	(0.1)
Group's share of associates' and joint venture's loss for the year	(2.3)	–	–	–
Interest received	–	–	(3.6)	(3.6)
Dividend from associate	(11.8)	–	–	–
Additional loan investment	0.6	–	1.0	1.0
Exchange differences	(0.4)	0.1	–	0.1
At 30 September 2011	**46.8**	**9.8**	**11.3**	**21.1**
Amounts written off or provided				
At 1 October 2010	28.2	4.0	–	4.0
Disposals	(3.5)	(0.1)	–	(0.1)
Impairment losses	–	3.8	–	3.8
At 30 September 2011	**24.7**	**7.7**	**–**	**7.7**
Carrying amount				
At 30 September 2011	**22.1**	**2.1**	**11.3**	**13.4**
At 30 September 2010	38.6	4.8	13.9	18.7

Associates

Investments in associates at 30 September 2011 included a 40% interest in Activos Turisticos S.A., an incoming agency and hotel company based in Palma de Mallorca, Spain, a 25% interest in Hotelera Adeje S.L., a hotel company based in Santa Cruz, Tenerife, and a 25.1% interest in Oasis Company SAE, a hotel company in Egypt.

During the year, the Group disposed of its 40% interest in Hispano Alemana de Management Hotelero S.A., and its 25% interest in COPLAY 95 S.L.; both hotel management companies. The combined proceeds on disposal were £12.9m of which £3.2m was received in cash.

In the current year the Group has also recognised dividends from associates of £11.8m in relation to its 40% interest in Activos Turisticos S.A., £5.9m of which has been received in cash.

Joint venture

The Group's joint venture entity is Thomas Cook Personal Finance Limited. This is a joint venture arrangement with Barclays Bank, the Group's share being 50%.

Notes to the financial statements continued

14 NON-CURRENT ASSET INVESTMENTS CONTINUED

Summarised financial information in respect of the associates and joint venture is as follows:

	2011 Joint venture £m	2011 Associates £m	2010 Joint venture £m	2010 Associates £m
Total assets	**75.3**	**157.8**	99.6	248.6
Total liabilities	**(98.5)**	**(70.5)**	(121.6)	(117.8)
Net (liabilities)/assets	**(23.2)**	**87.3**	(22.0)	130.8
Group's share of net (liabilities)/assets	**(11.6)**	**24.2**	(11.0)	41.6
Revenue	**9.5**	**96.0**	7.6	142.5
(Loss)/profit for the year	**(1.2)**	**(0.1)**	(2.4)	6.5
Group's share of associates' and joint venture's (loss)/profit for the year	**(0.6)**	**(1.7)**	(1.2)	2.4
Net impairment reversals recognised by the Group	**–**	**–**	–	2.0
Group's share of associates' and joint venture's (loss)/profit after tax	**(0.6)**	**(1.7)**	(1.2)	4.4

The financial statements of the associates are made up to 31 December each year, being their financial reporting date. For the purposes of applying the equity method of accounting for 2011, the financial statements of these undertakings for the year ended 31 December 2010 have been used together with management accounts for the period from 1 January 2011 to 30 September 2011.

Other investments

Available-for-sale financial assets include £nil in respect of a 24.9% interest in Aldiana GmbH, a German tour operator. During the year, the Group recognised an impairment loss of £3.8m (2010: £1.7m) on its investment in Aldiana. This is shown in net investment loss in the income statement. Aldiana is not accounted for under the equity method as the Group does not have significant influence over its activities.

During the year ended 30 September 2011, the Group recognised income from available-for-sale financial assets of £0.5m (2010: £0.2m). There is no active market for the available-for-sale financial assets, consequently they are recorded at cost.

In addition to the above, net investment loss for the year of £4.8m (2010: £1.5m) includes a loss on disposal of other available-for-sale financial assets of £1.5m (2010: £nil). These assets were recorded within non-current trade and other receivables in the prior year balance sheet.

Loans and receivables of £11.3m are in respect of the Group's investment, as a member of Airline Group, in the UK National Air Traffic Services (NATS). The investment comprises ordinary shares accruing interest at 8% in the Airline Group.

15 SUBSIDIARIES AND ACQUISITIONS

A list of the significant investments in subsidiaries, including the name, country of incorporation, description and proportion of ownership interest, is given in note 17 to the Company's separate financial statements. All of the subsidiary undertakings have been consolidated in the Group accounts.

Acquisitions made during the year

Öger Tours GmbH

On 1 October 2010, the Group acquired 100% of Öger Tours GmbH, a German tour operator specialising in the sale of package holidays from Germany to Turkey. The purchase price was £10.3m of which £4.2m was paid in cash with the remaining consideration being liabilities assumed as part of the acquisition.

Details of the net assets acquired are set out in the table below:

	Carrying amount before business combination £m	Fair value adjustment £m	Amount recognised at acquisition date £m
Net assets acquired			
Intangible assets	–	23.3	23.3
Property, plant and equipment	0.2	–	0.2
Investments	0.8	–	0.8
Trade and other receivables	12.7	–	12.7
Cash and cash equivalents	14.8	–	14.8
Trade and other payables	(78.2)	–	(78.2)
Provisions	(0.2)	–	(0.2)
Deferred tax liability	–	(6.7)	(6.7)
	(49.9)	16.6	(33.3)
Goodwill			43.6
Total consideration			**10.3**

Satisfied by:	
Cash	4.2
Liabilities assumed	6.1
	10.3

The acquired businesses contributed revenue of £242.1m and net profit of £8.6m to the Group for the period from acquisition to 30 September 2011.

The goodwill of £43.6m reflects anticipated benefits from gaining an increased share of the German market, greater presence in Turkey as a destination and substantial cost savings within the Central Europe segment.

ITC Travel Investments SL

On 12 July 2011, the Group acquired 50.1% of the share capital of ITC Travel Investments SL, a company established to enable a joint venture between VAO Intourist and the Group. VAO Intourist is one of Russia's most renowned travel companies and provides Thomas Cook with entry into a fast-growing Russian market which has strong demand for beach and family holidays, particularly to Turkey and Egypt. The acquired business is being fully consolidated as the Group is able to exercise control over the joint venture entity and its subsidiaries.

The consideration was satisfied by cash of US$10m and the issue of new shares in Thomas Cook Group plc, adjusted for a receivable resulting from contingent consideration. Contingent consideration represents the Group's right to $15.0m or a further 25% of the issued share capital from VAO Intourist in the event that certain trading conditions exist in the next financial year.

Notes to the financial statements continued

15 SUBSIDIARIES AND ACQUISITIONS CONTINUED

Details of the net assets acquired are set out in the table below:

	Carrying amount before business combination £m	Fair value adjustment £m	Amount recognised at acquisition date £m
Net assets acquired			
Intangible assets	–	22.1	22.1
Property, plant and equipment	0.3	–	0.3
Investments	0.2	–	0.2
Trade and other receivables	41.3	–	41.3
Cash and cash equivalents	5.7	–	5.7
Trade and other payables	(49.6)	–	(49.6)
Short-term borrowings	(3.5)	–	(3.5)
Deferred tax asset/(liability)	2.0	(4.4)	(2.4)
	(3.6)	17.7	14.1
Less: non-controlling interest			(19.1)
			(5.0)
Goodwill			23.8
Total consideration			**18.8**

Satisfied by:	
Cash	6.2
Contingent consideration	(9.2)
Issue of shares	21.8
	18.8

The purchase price of each asset component of the acquisition represents its provisional fair value, based on management's best estimates. The amount indicated above for trade and other receivables represents the fair value of the acquired receivables and is equal to the gross contractual cash flows, all of which are expected to be recoverable.

The acquired business contributed revenue of £98.9m and net loss of £0.2m to the Group for the period from acquisition to 30 September 2011.

If the acquisition had occurred on 1 October 2010, it would have contributed £266.2m to consolidated revenue and £(9.1)m to consolidated net profit.

The provisional goodwill of £23.8m reflects the anticipated benefits from gaining access to the Russian travel market.

Algarve Tours – Agência de Viagens e Turismo, Lda

On 20 September 2011, the Group acquired 100% in Algarve Tours – Agência de Viagens e Turismo, Lda. The company acquired is an incoming agency based in Portugal and was purchased for a cash consideration of £1.2m. Given the timing of completion it was not practical to provide a breakdown of the net assets acquired nor of any fair value adjustments.

Changes to the prior period acquisitions

Think W3 Ltd

During the year the fair value adjustments relating to the Think W3 Ltd (trading as Essential Travel) acquisition were amended.

The Directors do not consider the amendments to be material to the Group. Consequently the prior year comparatives have not been restated as required by IFRS 3 Revised 'Business Combinations'.

Had the prior year comparatives been restated the fair value amendments would have had the following impact as at the date of acquisition (30 April 2010) and as at 30 September 2010:

	At date of acquisition £m	At 30 September 2010 £m
Balance sheet		
Intangible assets:		
Decrease in goodwill	(0.7)	(0.7)
Increase in business combination intangibles	1.0	1.0
Increase in deferred tax liability	(0.3)	(0.3)
	–	–

Hotels4U.com contingent consideration

The contingent consideration for the Hotels4U acquisition has been reassessed in light of changes to the expected timing of future cash flows. In accordance with IFRS 3 (issued 2004) 'Business Combinations' goodwill has decreased by £0.9m in the current year.

Net cash outflow from acquisitions

	Current year acquisitions £m	Gold Medal £m	Hotels4U £m	Total £m
Net cash outflow from acquisitions				
Cash consideration for shares	(11.6)	–	–	(11.6)
Payment of contingent and deferred consideration	–	(23.5)	(4.6)	(28.1)
Cash and cash equivalents acquired (net of overdraft)	20.5	–	–	20.5
Total consideration	8.9	(23.5)	(4.6)	(19.2)

16 INVENTORIES

	2011 £m	2010 £m
Goods held for resale	**15.4**	13.2
Raw materials and supplies	**23.3**	18.9
	38.7	32.1

17 TRADE AND OTHER RECEIVABLES

	2011 £m	2010 £m
Non-current assets		
Trade receivables	**0.1**	0.1
Other receivables	**28.4**	7.8
Deposits and prepayments	**115.8**	124.0
Loans	**4.1**	2.0
Securities	**2.3**	2.7
Amounts owed by associates and participations	**2.3**	–
	153.0	136.6

Current assets		
Trade receivables	**377.5**	351.7
Other receivables	**80.2**	88.2
Deposits and prepayments	**555.0**	461.8
Loans	**26.5**	27.0
Amounts owed by associates and participations	**5.0**	2.8
Other taxes	**46.3**	41.4
	1,090.5	972.9

Notes to the financial statements continued

17 TRADE AND OTHER RECEIVABLES CONTINUED

The average credit period taken on invoicing of leisure travel services is 13 days (2010: 13 days). No interest is charged on the receivables. The credit risk in respect of direct receivables from customers is limited as payment is required in full before the services are provided. In the case of travel services sold by third-party agents, the credit risk depends on the creditworthiness of those third parties, but this risk is also limited because of the relatively short period of credit.

Deposits and prepayments include amounts paid in advance to suppliers of hotel and other services in order to guarantee the provision of those supplies. The Group's current policy is that deposits and prepayments will normally be made for periods of up to two years in advance. There is a credit risk in respect of the continued operation of those suppliers during those periods. Deposits and prepayments also include £41.8m (2010: £47.5m) of deposits on aircraft lease arrangements which are primarily attributable to the UK airline.

Securities include money market securities amounting to £2.3m (2010: £2.7m) purchased as collateral against liabilities arising from part-time retirement contracts at Thomas Cook AG, which are classified as available-for-sale financial assets.

The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Allowances for doubtful debts in respect of trade receivable balances are managed in the business units where the debts arise and are based on local management experience. Factors that are considered include the age of the debt, previous experience with the counterparty and local trading conditions. Trade receivables arise from individual customers as well as businesses in the travel sector. The Directors do not consider there to be significant concentration of credit risk relating to trade and other receivables.

Movement in allowances for doubtful receivables

	2011 £m	2010 £m
At beginning of year	**55.8**	61.2
Additional provision	**11.6**	8.8
Exchange differences	**(0.2)**	(2.5)
Acquisitions	**1.9**	(0.1)
Receivables written off	**(3.5)**	(1.7)
Unused amounts released	**(4.2)**	(9.9)
At end of year	**61.4**	55.8

At the year end, trade and other receivables of £153.4m (2010: £173.3m) were past due but not impaired.

The analysis of the age of these financial assets is set out below:

	2011 £m	2010 £m
Less than one month overdue	**65.2**	91.4
Between one and three months overdue	**40.0**	38.0
Between three and twelve months overdue	**44.5**	23.2
More than twelve months overdue	**3.7**	20.7
	153.4	173.3

Trade and other receivables are not subject to restrictions on title and no collateral is held as security.

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair values.

18 CASH AND CASH EQUIVALENTS

	2011 £m	2010 £m
Cash at bank and in hand	**348.6**	289.9
Term deposits with a maturity of less than three months	**10.7**	49.7
	359.3	339.6

Cash and cash equivalents largely comprise bank balances denominated in Sterling, Euro and other currencies for the purpose of settling current liabilities as well as balances arising from agency collection on behalf of the Group's travel agencies.

Included within the above balance are the following amounts considered to be restricted:

- £60.3m (2010: £46.3m) held within escrow accounts in Canada, Switzerland and the Czech Republic in respect of local regulatory requirements;
- £11.6m (2010: £17.1m) of cash held by White Horse Insurance Ireland Limited, the Group's captive insurance company; and
- £13.1m (2010: £11.1m) of cash held in countries where exchange control restrictions are in force (India, Egypt, Tunisia and Morocco), net of cash available to repay local debt in those countries.

The Directors consider that the carrying amounts of these assets approximate to their fair value.

19 TRADE AND OTHER PAYABLES

	2011 £m	2010 £m
Current liabilities		
Trade payables	**1,124.4**	1,007.6
Amounts owed to associates and participations	**5.7**	7.0
Social security and other taxes	**74.0**	54.6
Accruals and deferred income	**603.1**	569.2
Other payables	**201.0**	182.8
	2,008.2	1,821.2
Non-current liabilities		
Accruals and deferred income	**6.4**	9.1
Other payables	**36.0**	12.4
	42.4	21.5

The average credit period taken for trade purchases is 59 days (2010: 55 days).

The Directors consider that the carrying amounts of trade and other payables approximate to their fair value.

20 BORROWINGS

	2011 £m	2010 £m
Short-term borrowings		
Unsecured bank loans and other borrowings	**93.1**	44.2
Unsecured bank overdrafts	**17.6**	22.8
	110.7	67.0
Current portion of long-term borrowings	**68.8**	39.3
	179.5	106.3

	2011 £m	2010 £m
Long-term borrowings		
Bank loans and bonds – repayable within one year	**68.8**	39.3
– repayable between one and five years	**672.9**	650.4
– repayable after five years	**294.9**	306.0
	1,036.6	995.7
Less: amount due for settlement within one year shown under current liabilities	**(68.8)**	(39.3)
Amount due for settlement after one year	**967.8**	956.4

Notes to the financial statements continued

20 BORROWINGS CONTINUED

Borrowings by class

	2011 Current £m	2011 Non-current £m	2010 Current £m	2010 Non-current £m
Group committed credit facility (including transaction costs)	**43.6**	**207.7**	–	185.9
Aircraft-related bank loans (including transaction costs)	**36.1**	**107.2**	32.0	93.5
Other bank borrowings	**99.8**	**17.0**	74.3	41.9
Issued bonds (including transaction costs)	**–**	**635.9**	–	635.1
	179.5	**967.8**	106.3	956.4

As at 30 September 2011 the bank facilities comprised of a £200 million term loan, repayable in annual instalments of £50m commencing in October 2011, and a revolving credit facility of £850 million. As at 30 September 2011, the £200m term loan (2010: £200m) was drawn down and £69.3m (2010: £4.2m) was drawn under the revolving credit facility.

The Directors consider that the fair value of the Group's borrowings with a carrying value of £1,147.3m is £938.9m (2010: carrying value £1,062.7m; fair value £1,081.6m). The fair values quoted were determined on the basis of the interest rates for the corresponding terms to maturity or repayment as at the year end. The fair values of the issued bonds have been derived using the quoted market price as at 30 September 2011. For items maturing in less than one year, the Directors consider that the fair value is equal to the carrying amount.

Other borrowings with a carrying value of £22.1m (2010: £nil) and a fair value of £22.3m are related to non-current assets classified as held for sale and are presented in accordance with IFRS 5 (see note 27).

During the year £6.3m (2010: £11.4m) of the capitalised transaction costs have been recognised within finance costs in the income statement.

Borrowing facilities

As at 30 September 2011, the Group had undrawn committed debt facilities of £781m (2010: £846m). Whilst these facilities have certain financial covenants they are not expected to prevent full utilisation of the facilities if required.

The Group complied with its covenants throughout the year.

21 OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments 2011 £m	Minimum lease payments 2010 £m	Present value of minimum lease payments 2011 £m	Present value of minimum lease payments 2010 £m
Amounts payable under finance leases:				
Within one year	**21.6**	19.4	**18.6**	16.0
Between one and five years	**54.3**	54.5	**46.3**	47.0
After five years	**22.8**	25.4	**15.8**	17.5
	98.7	99.3	**80.7**	80.5
Less: future finance charges	**(18.0)**	(18.8)	**–**	–
Present value of lease obligations	**80.7**	80.5	**80.7**	80.5

	2011 £m	2010 £m
Less: amount due for settlement within 12 months (shown under current liabilities)	**(18.6)**	(16.0)
Amount due for settlement after 12 months	**62.1**	64.5

The currency analysis of amounts payable under finance leases is:

	2011 £m	2010 £m
Euro	**15.9**	16.6
US Dollar	**64.5**	63.5
Indian Rupee	**0.3**	0.4
	80.7	80.5

Finance leases principally relate to aircraft and aircraft spares.

No arrangements have been entered into for contingent rental payments.

The Directors consider that the fair value of the Group's finance lease obligations with a carrying value of £80.7m was £82.6m at 30 September 2011 (2010: carrying value £80.5m; fair value £82.0m). The fair values quoted were determined on the basis of the interest rates for the corresponding terms to repayment as at the year end.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

Sub-lease rentals receivable

During the year, one aircraft (2010: two) held under a finance lease was sub-let on an operating lease for the whole or part of the year.

22 FINANCIAL INSTRUMENTS

Carrying values of financial assets and liabilities

The carrying values of the Group's financial assets and liabilities as at 30 September 2011 and 30 September 2010 are as set out below:

At 30 September 2011	**Held for trading £m**	**Derivative instruments in designated hedging relationships £m**	**Loans & receivables £m**	**Available-for-sale £m**	**Financial liabilities at amortised cost £m**
Non-current asset investments	**–**	**–**	**11.3**	**2.1**	**–**
Trade and other receivables	**–**	**–**	**612.8**	**2.3**	**–**
Cash and cash equivalents	**–**	**–**	**359.3**	**–**	**–**
Trade and other payables	**–**	**–**	**–**	**–**	**(1,832.3)**
Borrowings	**–**	**–**	**–**	**–**	**(1,147.3)**
Obligations under finance leases	**–**	**–**	**–**	**–**	**(80.7)**
Derivative financial instruments	**(9.9)**	**42.1**	**–**	**–**	**–**
	(9.9)	**42.1**	**983.4**	**4.4**	**(3,060.3)**

At 30 September 2010	Held for trading £m	Derivative instruments in designated hedging relationships £m	Loans & receivables £m	Available-for-sale £m	Financial liabilities at amortised cost £m
Non-current asset investments	–	–	13.9	4.8	–
Trade and other receivables	–	–	571.8	2.7	–
Cash and cash equivalents	–	–	339.6	–	–
Trade and other payables	–	–	–	–	(1,634.0)
Borrowings	–	–	–	–	(1,062.7)
Obligations under finance leases	–	–	–	–	(80.5)
Derivative financial instruments	2.7	(12.4)	–	–	–
	2.7	(12.4)	925.3	7.5	(2,777.2)

Derivative financial instruments

The fair values of derivative financial instruments as at 30 September 2011 were:

	Interest rate swaps £m	Currency contracts £m	Fuel contracts £m	Total £m
At 1 October 2009	(21.1)	(5.2)	(104.8)	(131.1)
Movement in fair value during the year	12.0	(27.4)	136.8	121.4
At 1 October 2010	(9.1)	(32.6)	32.0	(9.7)
Movement in fair value during the year	6.1	72.1	(36.3)	41.9
At 30 September 2011	**(3.0)**	**39.5**	**(4.3)**	**32.2**

Notes to the financial statements continued

22 FINANCIAL INSTRUMENTS CONTINUED

	2011 £m	2010 £m
Non-current assets	**12.6**	6.6
Current assets	**117.2**	85.2
Current liabilities	**(88.2)**	(80.7)
Non-current liabilities	**(9.4)**	(20.8)
	32.2	(9.7)

Fair value hierarchy

The fair value of the Group's financial instruments are disclosed in hierarchy levels depending on the valuation method applied. The different methods are defined as follows:

Level 1: valued using unadjusted quoted prices in active markets for identical financial instruments

Level 2: valued using techniques based on information that can be obtained from observable market data

Level 3: valued using techniques incorporating information other than observable market data as at least one input to the valuation cannot be based on observable market data.

The fair value of the Group's financial assets and liabilities at 30 September 2011 are set out below:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Currency contracts	–	73.6	–	73.6
Fuel contracts	–	56.3	–	56.3
Securities	–	2.3	–	2.3
Financial liabilities				
Currency contracts	–	(34.1)	–	(34.1)
Fuel contracts	–	(60.6)	–	(60.6)
Interest rate swaps	–	(3.0)	–	(3.0)
At 30 September 2011	**–**	**34.5**	**–**	**34.5**

The fair value of the Group's financial assets and liabilities at 30 September 2010 are set out below:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Currency contracts	–	52.4	–	52.4
Fuel contracts	–	39.4	–	39.4
Securities	–	2.7	–	2.7
Financial liabilities				
Currency contracts	–	(85.0)	–	(85.0)
Fuel contracts	–	(7.4)	–	(7.4)
Interest rate swaps	–	(9.1)	–	(9.1)
At 30 September 2010	–	(7.0)	–	(7.0)

The Group uses derivative financial instruments to hedge significant future transactions and cash flows denominated in foreign currencies. The Group enters into foreign currency forward contracts, swaps and options in the management of its exchange rate exposures.

Currency hedges are entered into between 12 and 24 months in advance of the forecasted requirement.

As at 30 September 2011, the Group had in place currency hedging derivative financial instruments with a maximum maturity of April 2013.

The Group also uses derivative financial instruments to mitigate the risk of adverse changes in the price of fuel. The Group enters into fixed price contracts (swaps) and net purchased options in the management of its fuel price exposures.

Fuel price hedges are entered into up to a maximum of 24 months in advance of forecasted consumption of fuel.

As at 30 September 2011, the Group had in place fuel price hedging derivative financial instruments with a maximum maturity of April 2013.

In addition, the Group uses derivative financial instruments to manage its interest rate exposures. The Group enters into interest rate swaps to hedge against interest rate movements in connection with the financing of aircraft and other assets. The Group also enters into cross currency interest rate swaps to hedge the interest rate and the currency exposure on US Dollar external borrowings. Interest rate swaps and cross currency interest rate swaps are designated as cash flow hedges.

As at 30 September 2011, the maximum maturity of interest rate derivatives was February 2017.

The fair values of the Group's derivative financial instruments have been calculated using underlying market prices available on the 30 September 2011.

During the year, a gain of £35.7m (2010: £69.4m loss) was transferred from the hedging reserve to the income statement following recognition of the hedged transactions. The amount included in each line item in the income statement is shown below. In addition, a loss of £9.1m was recognised in the income statement in respect of the forward points on foreign exchange cash flow hedging contracts (2010: £7.3m gain) and a loss of £5.9m in respect of the movement in the time value of options in cash flow hedging relationships (2010: £2.0 gain).

		2011 £m	2010 £m
Cost of providing tourism services:			
	– release from hedge reserve	**40.6**	(66.0)
	– time value on options	**(5.9)**	2.0
Finance (costs)/income:			
	– release from hedge reserve	**(4.9)**	(3.4)
	– forward points on foreign exchange cash flow hedging contracts	**(9.1)**	7.3

During the year a loss of £9.9m (2010: £49.6m gain) was taken directly to the income statement in respect of held for trading derivatives that are used to hedge Group balance sheet exposure. This has been recorded within net foreign exchange loss for the year of £4.4m (2010: £16.3m gain) which is included within cost of providing tourism services.

23 FINANCIAL RISK

The Group is subject to risks related to changes in interest rates, exchange rates, fuel prices, counterparty credit and liquidity within the framework of its business operations.

Interest rate risk

The Group is subject to risks arising from interest rate movements in connection with its bank debt, aircraft financing and cash investments. Interest rate swaps are used to manage these risks and are usually designated as cash flow hedges of the interest rate.

Exchange rate risk

The Group has activities in a large number of countries and is therefore subject to the risk of exchange rate fluctuations. These risks arise in connection with the procurement of services in destinations outside the source market. In addition, US Dollar exposure arises on the procurement of fuel and operating supplies for aircraft, as well as investments in aircraft.

The Group requires subsidiaries to identify and appropriately hedge all trading exposures in line with established treasury policies.

The Group uses currency forwards, currency swaps and plain vanilla currency options to manage currency risks and these are usually designated as cash flow hedges of forecast future transactions.

Fuel price risk

Exposure to fuel price risk arises due to flying costs incurred by the Group's aircraft. The Group requires subsidiaries to identify and properly hedge all exposures in line with established treasury policies.

The Group uses commodity derivative contracts, including fixed price contracts (swaps) and net purchased options, to manage fuel price risk and these are usually designated as cash flow hedges of the fuel price.

Notes to the financial statements continued

23 FINANCIAL RISK CONTINUED

The market risks that the Group is subject to have been identified as interest rate risk, exchange rate risk and fuel price risk. The impact of reasonably possible changes in these risk variables on the Group, based on the period end holdings of financial instruments, have been calculated and are set out in the tables below. In each case it has been assumed that all other variables remain constant. As at 30 September 2011, the sensitivity of these risks to the defined scenario changes are set out below:

Interest rate risk

	2011 Impact on profit before tax £m	2011 Impact on equity £m	2010 Impact on profit before tax £m	2010 Impact on equity £m
1% (2010: 1%) increase in interest rates	(7.1)	–	(4.6)	–
0.25% (2010: 0.25%) decrease in interest rates	1.8	–	1.1	–

Exchange rate risk

	2011 Impact on profit before tax £m	2011 Impact on equity £m	2010 Impact on profit before tax £m	2010 Impact on equity £m
5% strengthening of Euro	11.2	23.8	21.2	26.6
5% weakening of Euro	(13.8)	(21.3)	(23.8)	(26.5)
5% strengthening of US Dollar	7.2	70.9	2.6	64.3
5% weakening of US Dollar	(6.6)	(63.9)	(2.5)	(58.1)

Fuel price risk

	2011 Impact on profit before tax £m	2011 Impact on equity £m	2010 Impact on profit before tax £m	2010 Impact on equity £m
20% increase in fuel price	5.6	94.9	(2.7)	105.3
20% decrease in fuel price	(15.5)	(78.0)	(12.2)	(83.4)

Liquidity risk

The liquidity position of the Group is significantly influenced by the booking and payment pattern of customers. As a result, liquidity is at its lowest in the winter months and at its highest in the summer months. The Group manages the seasonal nature of its liquidity by making use of its bank revolving credit facility.

Short-term liquidity is primarily invested in bank deposits.

Financial liabilities are analysed below based on the time between the year end and their contractual maturity. The amounts shown are estimates of the undiscounted future cash flows and will differ from both carrying value and fair value.

At 30 September 2011	Amount due in less than 3 months £m	Amount due between 3 and 12 months £m	Amount due between 1 and 5 years £m	Amount due in more than 5 years £m	Total £m
Trade and other payables	1,603.9	137.7	88.8	1.9	1,832.3
Borrowings	143.5	38.3	794.8	431.7	1,408.3
Obligations under finance leases	3.9	17.7	54.3	22.8	98.7
Derivative financial instruments:					
– payable	1,858.3	2,250.2	397.7	–	4,506.2
– receivable	(1,843.6)	(2,233.7)	(395.8)	–	(4,473.1)
	1,766.0	210.2	939.8	456.4	3,372.4

At 30 September 2010	Amount due in less than 3 months £m	between 3 and 12 months £m	between 1 and 5 years £m	in more than 5 years £m	Total £m
Trade and other payables	1,505.5	118.0	8.2	2.3	1,634.0
Borrowings	22.8	89.0	797.0	468.5	1,377.3
Obligations under finance leases	4.4	15.0	54.6	25.4	99.4
Derivative financial instruments:					
– payable	1,589.0	2,223.0	568.0	0.1	4,380.1
– receivable	(1,589.1)	(2,185.4)	(550.6)	–	(4,325.1)
	1,532.6	259.6	877.2	496.3	3,165.7

For all gross settled derivative financial instruments, such as foreign currency forward contracts and swaps, the pay and receive leg has been disclosed in the table above. For net settled derivative financial instruments, such as fuel swaps and options, the fair value as at the year end of those instruments in a liability position has been disclosed in the table above. Trade and other payables include non-financial liabilities of £218.3m (2010: £208.2m) which have not been analysed above.

Counterparty credit risk

The Group is exposed to credit risk in relation to deposits, derivatives with a positive fair value and trade and other receivables. The maximum exposure in respect of each of these items at the balance sheet date is their carrying value. The Group assesses its counterparty exposure in relation to the investment of surplus cash, fuel contracts, foreign exchange and interest rate hedging contracts and undrawn credit facilities. The Group uses published credit ratings, credit default swap prices and share price performance in the previous 30-day period to assess counterparty strength and therefore to define the credit limit for each counterparty.

The Group's approach to credit risk in respect of trade and other receivables is explained in note 17.

24 INSURANCE

Management of insurance risk

Incidental to its main business, the Group, through its subsidiary White Horse Insurance Ireland Limited, issues contracts that transfer significant insurance risk and that are classified as insurance contracts. As a general guideline, the Group defines as significant insurance risk the possibility of having to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

Business written includes standard commercial risks for the Group and travel insurance for both Group and non-Group customers.

The principal nature of travel insurance risks is one of short-term, low value and high volume. Underwriting performance is monitored on an ongoing basis and pricing reviewed annually for each individual contract. Exposure is capped by specific limits within the insurance policy and by using reinsurance contracts for any claims in excess of these retention limits. Commercial policies with the Group are subject to policy excesses and single event and aggregate limits.

Insurance risk is spread across several European countries where the Group operates including the UK, Ireland and Continental Europe.

When estimating the cost of claims outstanding at the year end, the principal assumption underlying the estimates is the Group's past development pattern. This includes assumptions in respect of historic claims costs, average claims handling expenses and market developments. The Group also uses an independent actuary to review its liabilities to ensure that the carrying values are adequate. Any changes to these variables are not expected to have a material effect on the Group financial statements.

The Group operates a reinsurance policy approved by the White Horse Insurance Ireland Ltd Board of Directors which ensures that reinsurers have a financial stability rating of B+ (A M Best) or above. The Group has assessed these credit ratings as being satisfactory in diminishing the Group's exposure to the credit risk of its insurance receivables.

Notes to the financial statements continued

24 INSURANCE CONTINUED

Income and expenses arising directly from insurance contracts

	2011 £m	2010 £m
Revenue		
Net earned premium income	**11.5**	9.3
Deposit interest	**0.1**	0.1
	11.6	9.4

	2011 £m	2010 £m
Expenses		
Claims incurred	**10.4**	16.1
Other operating expenses	**2.4**	1.0
	12.8	17.1

Assets and liabilities arising directly from insurance contracts

	2011 £m	2010 £m
Assets		
Receivables arising out of direct insurance operations	**2.7**	4.8
Prepayments	**0.1**	0.1
	2.8	4.9

	2011 £m	2010 £m
Liabilities		
Deferred income arising from unearned premiums	**2.0**	2.2
Claims accruals	**9.4**	8.9
Insurance premium tax payable	**1.6**	1.7
Other creditors	**0.1**	0.4
Accruals and deferred income	**2.1**	0.9
	15.2	14.1

Reconciliation of movement in insurance liabilities

	Deferred income arising from unearned premiums £m	Claims accruals £m
At 1 October 2010	2.2	8.9
Net earned premium income	(11.5)	–
Premiums written	11.3	–
Claims incurred	–	10.4
Claims paid	–	(9.9)
At 30 September 2011	**2.0**	**9.4**

25 DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting year:

	Aircraft finance leases £m	Retirement benefit obligations £m	Fair value of financial instruments £m	Other temporary differences £m	Tax losses £m	Total £m
At 1 October 2009	25.8	81.2	35.6	(34.5)	215.4	323.5
(Charge)/credit to income	(28.6)	(14.5)	(0.9)	2.4	41.8	0.2
Credit/(charge) to equity	–	16.4	(38.3)	–	–	(21.9)
Reclassifications	–	(7.5)	1.4	5.0	1.1	–
Exchange differences	1.1	(5.4)	7.7	(7.9)	(2.3)	(6.8)
At 30 September 2010	(1.7)	70.2	5.5	(35.0)	256.0	295.0
(Charge)/credit to income	(5.5)	(12.2)	5.5	(5.4)	(73.6)	(91.2)
Charge to equity	–	(17.0)	(21.8)	–	–	(38.8)
Reclassifications	–	(1.5)	–	1.5	–	–
Acquisitions (note 15)	–	–	–	(9.1)	–	(9.1)
Transferred to assets held for sale	–	–	–	0.6	–	0.6
Exchange differences	–	(1.4)	5.1	0.2	–	3.9
At 30 September 2011	**(7.2)**	**38.1**	**(5.7)**	**(47.2)**	**182.4**	**160.4**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2011 £m	2010 £m
Deferred tax liabilities	**(120.9)**	(88.2)
Deferred tax assets	**281.3**	383.2
	160.4	295.0

At the balance sheet date, the Group had unused tax losses of £2,116.5m (2010: £1,820m) available for offset against future profits. Deferred tax assets have only been recognised where there is sufficient probability that there will be future taxable profits against which the assets may be recovered. The decrease in recognised tax losses in the year relates to the review of the UK balance sheet which identified items whose recoverability is considered unlikely. No deferred tax asset has been recognised in respect of tax losses of £1,427.3m (2010: £888.2m) due to the unpredictability of future profit streams.

Other temporary differences on which deferred tax has been provided primarily relate to the difference in book to tax value on qualifying tax assets, provisions for which tax relief was not originally available, and fair value accounting on properties acquired as part of the merger.

In addition, the Group had unused other temporary differences in respect of which no deferred tax asset has been recognised amounting to £229.0m (2010: £186.1m), also due to the unpredictability of future profit streams.

Deferred tax liabilities were offset against the corresponding deferred tax assets where both items fell within the responsibility of the same tax authority.

The deferred tax assets and liabilities at the year end, without taking into consideration the offsetting balances within the same jurisdiction, are £292.6m and £132.2m respectively.

The March 2011 Budget Statement announced a proposed reduction in the main rate of UK corporation tax from 27% to 26% from 1 April 2011 and a further reduction to 25% effective from 1 April 2012. Finance Act 2011 included legislation confirming this rate change and the effect has been to reduce the deferred tax assets by £9.2m as at 30 September 2011 (2010: £8.6m).

The Budget Statement also proposed a further reduction in the main rate of corporation tax in the UK, to be enacted at a rate of 1% per year to 23% by 1 April 2014. The overall effect of the further changes from 25% to 23%, if applied to the deferred tax balance at 30 September 2011, would be to reduce the deferred tax asset by approximately £14.2m.

Notes to the financial statements continued

26 PROVISIONS

	Aircraft maintenance provisions £m	Other provisions £m	Total £m
At 1 October 2010	204.8	212.5	417.3
Additional provisions in the year	59.7	64.2	123.9
Unused amounts released in the year	(6.1)	(39.7)	(45.8)
Acquisitions (note 15)	–	0.2	0.2
Unwinding of discount	–	7.6	7.6
Utilisation of provisions	(44.0)	(70.6)	(114.6)
Exchange differences	1.6	(9.1)	(7.5)
At 30 September 2011	**216.0**	**165.1**	**381.1**
Included in current liabilities	73.2	114.4	187.6
Included in non-current liabilities	142.8	50.7	193.5
At 30 September 2011	**216.0**	**165.1**	**381.1**
Included in current liabilities	87.1	117.4	204.5
Included in non-current liabilities	117.7	95.1	212.8
At 30 September 2010	204.8	212.5	417.3

The aircraft maintenance provisions relate to maintenance on leased aircraft and spares used by the Group's airlines in respect of leases which include contractual return conditions. This expenditure arises at different times over the life of the aircraft with major overhauls typically occurring between two and ten years (see accounting policies for more details).

Other provisions relate to provisions for off-market leases, onerous contracts, deferred and contingent consideration and future obligations, including those arising as a result of reorganisation and restructuring plans that are irrevocably committed, including severance payments and provisions for social security compensation plans.

Provisions included in non-current liabilities are principally off-market lease provisions, that are expected to be utilised over the term of those contracts which extend up to ten years from the balance sheet date, and deferred and contingent consideration arising on acquisitions.

27 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	2011 £m	2010 £m
Assets		
Property, plant and equipment:		
– land and buildings	53.4	10.5
– other fixed assets	14.1	–
Intangible assets	0.1	–
Trade and other receivables	2.2	–
Tax assets	0.1	–
Inventories	0.5	–
	70.4	10.5

	2011 £m	2010 £m
Liabilities		
Retirement benefit obligations	1.5	–
Trade and other payables	10.2	–
Borrowings	22.1	–
Obligations under finance leases	0.1	–
Tax liabilities	0.3	–
Revenue received in advance	0.2	–
Deferred tax liabilities	0.6	–
	35.0	–

In the current year the assets and liabilities of Hoteles y Clubs Vacaciones S.A., a 51% owned, consolidated subsidiary of TC Touristik GmbH, reported within the Central Europe segment, have been classified as held for sale. A term sheet has been agreed on the disposal and the Group expects to complete the sale within the next 12 months.

In 2009 the Group gained legal title to a hotel property in Mexico as settlement of an outstanding loan for CAD 16.6m. The carrying amount at 30 September 2011 is £9.6m (2010: £10.5m). During the year, contracts have been exchanged on the sale of the property and it is expected to complete within the next 12 months.

28 CALLED-UP SHARE CAPITAL

	2011 £m	2010 £m
Allotted, called-up and fully paid		
874,990,495 ordinary shares of €0.10 each (2010: 858,292,947)	59.2	57.7
Allotted, called-up and partly paid		
50,000 deferred shares of £1 each, 25p paid (2010: 50,000)	–	–

Contingent rights to the allotment of shares

As at 30 September 2011, options to subscribe for ordinary shares were outstanding with respect to the Thomas Cook Group plc 2007 Performance Share Plan, the Thomas Cook Group plc 2008 Co-Investment Plan, the Thomas Cook Restricted Share Plan and the Thomas Cook Group plc 2008 Save As You Earn Scheme. For further details refer to note 34. On exercise, the awards of shares under these plans will be satisfied by either purchases in the market of existing shares or, subject to institutional guidelines, issuing new shares.

Own shares held in trust

Shares of the Company are held under trust by EES Trustees International Limited in respect of the Thomas Cook Group plc 2007 Performance Share Plan, the Thomas Cook Group plc 2008 Co-Investment Plan and the Thomas Cook Restricted Share Plan and are held by Equiniti Share Plan Trustees Limited in connection with the Thomas Cook Group plc Buy As You Earn Scheme. In accordance with IFRS, these are treated as Treasury Shares and are included in "other reserves" in the balance sheet.

The number of shares held at 30 September 2011 by EES Trustees International Limited and Equiniti Share Plan Trustees Limited was 3,863,970 (2010: 4,282,801) and 128,316 (2010: 69,602) respectively. The cumulative cost of acquisition of these shares was £13.3m (2010: £13.3m) and the market value at 30 September 2011 was £1.6m (2010: £7.5m). Shares held by the trust have been excluded from the weighted average number of shares used in the calculation of earnings per share.

Notes to the financial statements continued

28 CALLED-UP SHARE CAPITAL CONTINUED

Issue of company shares

During the year, the Group issued 16,697,548 ordinary shares as part consideration for the agreement to acquire a 50.1% stake in ITC Travel Investments SL. Details of this transaction are provided in note 15.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, sell assets to reduce debt or issue new shares. In the year the Directors have set an objective of strengthening the balance sheet of the Group through substantially reducing its net debt over the next two to three years. To achieve this aim the Directors have decided to embark on an asset disposal programme and to suspend future dividend payments until such a time as the balance sheet is sufficiently rebuilt.

The capital structure of the Group consists of debt, cash and cash equivalents (as shown in note 31) and equity attributable to equity holders of the parent (as shown in the Group balance sheet). At the balance sheet date the Group had total capital of £2,061.7m (2010: £2,522.2m).

29 HEDGING AND TRANSLATION RESERVES

	Hedging reserve £m	Available-for-sale investments £m	Translation reserve £m	Total £m
At 1 October 2009	(109.1)	(2.2)	253.0	141.7
Foreign exchange translation gains	–	–	64.1	64.1
Fair value gains deferred for the year	62.1	0.5	–	62.6
Fair value losses transferred to the income statement	69.4	–	–	69.4
Tax on fair value gains and losses and transfers	(38.8)	0.5	–	(38.3)
At 30 September 2010	(16.4)	(1.2)	317.1	299.5
Foreign exchange translation losses	–	–	(39.1)	(39.1)
Fair value gains deferred for the year	112.5	–	–	112.5
Fair value (gains)/losses transferred to the income statement	(35.7)	1.5	–	(34.2)
Tax on fair value gains and losses and transfers	(21.5)	(0.3)	–	(21.8)
At 30 September 2011	**38.9**	**–**	**278.0**	**316.9**

30 NOTE TO THE CASH FLOW STATEMENT

	2011 £m	2010 £m
(Loss)/profit before tax	(398.2)	41.7
Adjustments for:		
Finance income	(47.9)	(52.1)
Finance costs	182.7	179.1
Net investment loss	4.8	1.5
Profit on disposal of associates	(10.3)	–
Share of results of associates and joint venture	2.3	(3.2)
Depreciation of property, plant and equipment	126.8	125.4
Amortisation of intangible assets	40.3	27.4
Amortisation of business combination intangibles	34.3	30.9
Impairment of assets	372.5	14.8
Write up in value of investment property	(1.0)	–
Loss on disposal of assets	4.6	1.8
Share-based payments	(3.2)	8.1
Other non-cash items	(24.5)	38.8
Decrease in provisions	(26.2)	(50.1)
Income received from other non-current investments	0.5	0.3
Additional pension contributions	(21.0)	(16.0)
Interest received	5.6	6.0
Operating cash flows before movements in working capital	242.1	354.4
Increase in inventories	(7.0)	(9.4)
Increase in receivables	(40.5)	(85.6)
Increase in payables	126.3	64.7
Cash generated by operations	320.9	324.1
Income taxes paid	(32.3)	(24.7)
Net cash from operating activities	**288.6**	299.4

Cash and cash equivalents, which are presented as a single class of assets on the face of the balance sheet, comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

Notes to the financial statements continued

31 NET DEBT

	At 1 October 2010 £m	Cash flow £m	Transfer to liabilities related to assets held for sale £m	Acquisitions £m	Other non-cash changes £m	Exchange movements £m	**At 30 September 2011 £m**
Liquidity							
Cash and cash equivalents	339.6	23.0	–	–	–	(3.3)	**359.3**
	339.6	23.0	–	–	–	(3.3)	**359.3**
Current debt							
Bank overdrafts	(22.8)	4.8	–	–	–	0.4	**(17.6)**
Short-term borrowings	(44.2)	(86.8)	0.2	(3.5)	42.1	3.1	**(89.1)**
Loan note	(18.5)	21.0	–	–	(6.5)	–	**(4.0)**
Current portion of long-term borrowings	(20.8)	12.6	2.8	–	(63.5)	0.1	**(68.8)**
Borrowings classified as held for sale	–	–	(22.1)	–	–	–	**(22.1)**
Obligations under finance leases classified as held for sale	–	–	(0.1)	–	–	–	**(0.1)**
Obligations under finance leases	(16.0)	16.7	–	–	(19.2)	(0.1)	**(18.6)**
	(122.3)	(31.7)	(19.2)	(3.5)	(47.1)	3.5	**(220.3)**
Non-current debt							
Long-term borrowings	(952.8)	(50.4)	19.1	–	15.1	1.2	**(967.8)**
Loan note	(3.6)	–	–	–	3.6	–	**–**
Obligations under finance leases	(64.5)	–	0.1	–	4.0	(1.7)	**(62.1)**
	(1,020.9)	(50.4)	19.2	–	22.7	(0.5)	**(1,029.9)**
Total debt	(1,143.2)	(82.1)	–	(3.5)	(24.4)	3.0	**(1,250.2)**
Net debt	**(803.6)**	**(59.1)**	**–**	**(3.5)**	**(24.4)**	**(0.3)**	**(890.9)**

32 OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

The Group as lessee	**Property and other 2011 £m**	**Aircraft and aircraft spares 2011 £m**	**Total 2011 £m**	Property and other 2010 £m	Aircraft and aircraft spares 2010 £m	Total 2010 £m
Within one year	**107.6**	**99.3**	**206.9**	112.9	109.4	222.3
Later than one and less than five years	**251.3**	**154.3**	**405.6**	296.3	177.8	474.1
After five years	**108.0**	**171.7**	**279.7**	110.9	–	110.9
	466.9	**425.3**	**892.2**	520.1	287.2	807.3

Operating lease payments principally relate to rentals payable for the Group's retail shop and hotel properties and for aircraft and spares used by the Group's airlines.

Shop leases are typically negotiated for an average term of five years.

Leases for new aircraft are typically negotiated for an average term of 12 years; leases for second hand aircraft and extensions are typically considerably shorter.

After the year end, several extensions have been signed as part of the fleet rollover. This results in increasing the within-one-year obligation by £1.4m and the one-to-five year obligation by £10.8m.

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

The Group as lessor	Property 2011 £m	Aircraft 2011 £m	Total 2011 £m	Property 2010 £m	Aircraft 2010 £m	Total 2010 £m
Within one year	**2.8**	**–**	**2.8**	2.5	–	2.5
Later than one and less than five years	**11.5**	**–**	**11.5**	6.9	–	6.9
After five years	**1.4**	**–**	**1.4**	3.2	–	3.2
	15.7	**–**	**15.7**	12.6	–	12.6
Rental income earned during the year was:	**4.7**	**3.6**	**8.3**	3.2	5.4	8.6

Certain of the Group's retail and other properties and aircraft, that are not being used in the Group's businesses, are sub-let on the best terms available in the market for varying periods, with an average future committed period of 4.8 years for property (2010: 5.9 years) and nil months for aircraft (2010: nil months).

At 30 September 2011, no aircraft held under operating leases (2010: nil) were sub-let by the Group.

33 CONTINGENT LIABILITIES

	2011 £m	2010 £m
Contingent liabilities	**124.7**	118.8

Contingent liabilities primarily comprise guarantees, letters of credit and other contingent liabilities, including contingent liabilities related to structured aircraft leases, all of which arise in the ordinary course of business. The amounts disclosed above represent the Group's contractual exposure.

The Group complies with all the standards relevant to consumer protection and formal requirements in respect of package tour contracts and has all the necessary licences for the various sales markets. The customers' right to reimbursement of the return travel costs and amounts paid in case of insolvency or bankruptcy on the part of the tour operator or travel agency is guaranteed in all Thomas Cook sales markets in line with local legislation and within the various guarantee systems applied. In the United Kingdom, there is a fund mechanism whereby travel companies are required to collect and remit a small charge for each protected customer upon booking. Customer rights in relation to Thomas Cook Group in Germany, Belgium and Austria are guaranteed via an insolvency insurance system, in Ireland, Scandinavia and France via guarantees provided by banks and insurance companies, and in the Netherlands via a guaranteed fund. In North America, customer payments are held in escrow accounts until the obligations of the tour operator or travel agent have been completed.

34 SHARE-BASED PAYMENTS

The Company operates five equity-settled share-based payment schemes, as outlined below. The total income recognised during the year in respect of equity-settled share-based payment transactions was £3.2m (2010: £8.1m expense).

The Thomas Cook Group plc 2007 Performance Share Plan (PSP) and the HM Revenue & Customs Approved Company Share Option Sub-Plan (CSOSP)

Executive Directors and senior executives of the Company and its subsidiaries are granted options to acquire, or contingent share awards of, the ordinary shares of the Company. The awards will vest if performance targets for adjusted earnings per share (EPS) and total shareholder return (TSR) are met during the three years following the date of grant. Subject to vesting conditions, the options are exercisable up to ten years after the date of grant.

The Thomas Cook Group plc 2008 Co-Investment Plan (COIP)

Executive Directors and senior executives may be required to purchase the Company's shares using a proportion of their net bonus (Lodged Shares). For each Lodged Share purchased participants may receive up to 3.5 Matching Shares if performance targets for EPS, return on invested capital (ROIC) and TSR are met during the three years following the date of grant. Subject to vesting conditions, the options or contingent share awards are exercisable up to ten years after the date of grant.

The Thomas Cook Group plc 2008 Save As You Earn Scheme (SAYE)

Eligible employees across the Group were offered options to purchase shares in the Company by entering into a three or four year savings contract. The option exercise price was set at a 10% (2010 grant) or 20% (2008 grant) discount to the market price at the offer date. Options are exercisable during the six months after the end of the savings contract.

34 SHARE-BASED PAYMENTS CONTINUED

The Thomas Cook Group plc 2008 HM Revenue & Customs Approved Buy As You Earn Scheme (BAYE)

Eligible UK tax-paying employees are offered the opportunity to purchase shares in the Company by deduction from their monthly gross pay. For every ten shares an employee buys in this way, the Company will purchase one matching share on their behalf. At 30 September 2011, 128,316 matching shares had been purchased (2010: 69,602).

The Thomas Cook Group plc Restricted Share Plan (RSP)

Senior executives of the Company and its subsidiaries are granted options to acquire, or contingent share awards of, the ordinary shares of the Company. Executive Directors are excluded from receiving awards under the RSP. The Company will determine at the date of award whether the award will be subject to a performance target and the date of vesting. Subject to any vesting conditions, the options or contingent share awards are exercisable up to ten years after the date of grant.

The movements in options and awards during the year and prior year were:

	2011				
	PSP	**COIP**	**SAYE**	**CSOSP**	**RSP**
Outstanding at beginning of year	**18,686,727**	**8,600,129**	**7,294,552**	**796,123**	**–**
Granted	**8,021,142**	**2,995,380**	**–**	**212,968**	**518,439**
Exercised	**(417,871)**	**–**	**–**	**–**	**–**
Cancelled	**–**	**(119,126)**	**(1,432,980)**	**–**	**–**
Forfeited	**(8,809,120)**	**(5,484,632)**	**(253,037)**	**(234,497)**	**(5,135)**
Outstanding at end of year	**17,480,878**	**5,991,751**	**5,608,535**	**774,594**	**513,304**
Exercisable at end of year	**174,233**	**–**	**2,222,467**	**–**	**–**
Exercise price (£)	**nil**	**nil**	**1.81-2.15**	**1.88-2.34**	**nil**
Average remaining contractual life (years)	**8.3**	**8.5**	**1.5**	**7.8**	**9.5**

The weighted average share price at the date of exercise for the options exercised during the year ended 30 September 2011 was £1.81.

	2010			
	PSP	COIP	SAYE	CSOSP
Outstanding at beginning of year	15,025,776	4,630,851	3,155,112	879,018
Granted	7,017,596	4,934,780	4,544,329	12,847
Exercised	(846,063)	–	(705)	–
Cancelled	–	(857,500)	(344,819)	–
Forfeited	(2,510,582)	(108,002)	(59,365)	(95,742)
Outstanding at end of year	18,686,727	8,600,129	7,294,552	796,123
Exercisable at end of year	587,085	–	–	–
Exercise price (£)	nil	nil	1.81 –2.15	1.88 –2.34
Average remaining contractual life (years)	8.5	8.9	2.5	8.3

The weighted average share price at the date of exercise for the options exercised during the year ended 30 September 2010 was £2.43.

The fair value of options and awards subject to adjusted EPS and ROIC performance targets was determined by the use of Black-Scholes models and the fair value of options subject to TSR performance targets was determined by the use of Monte Carlo simulations. For options and awards granted during the year the key inputs to the models were:

	2011			
	PSP	COIP	SAYE	CSOSP
Weighted average share price at measurement date	£1.70	£1.89	£1.65	£1.67
Weighted average exercise price	nil	nil	£1.97	nil
Expected volatility	48%	48%	48%	31%
Expected volatility of comparator group	25%–121%	25%–121%	25%–121%	n/a
Expected correlation with comparator group	35%	35%	35%	n/a
Weighted average option life (years)	3	3	3	1
Weighted average risk-free rate	1.7%	1.7%	1.7%	0.8%
Expected dividend yield	7%	6%	7%	7%
Weighted average fair value at date of grant	£1.15	£1.30	£0.28	£1.56

	2010			
	PSP	COIP	SAYE	CSOSP
Weighted average share price at measurement date	£2.33	£2.25	£2.01	£2.34
Weighted average exercise price	nil	nil	£1.81	£2.34
Expected volatility	50%	50%	50%	50%
Expected volatility of comparator group	26% –121%	26% –121%	n/a	26% –121%
Expected correlation with comparator group	32%	32%	n/a	32%
Weighted average option life (years)	3	3	3.3	3
Weighted average risk-free rate	2.0%	1.9%	1.6%	2.0%
Expected dividend yield	6%	6%	6%	6%
Weighted average fair value at date of grant	£1.62	£1.57	£0.46	£0.55

Expected volatility has been based on the historic volatility of the Company's shares and the shares of other companies in the same or related sectors.

35 RETIREMENT BENEFIT SCHEMES

Pension schemes for the employees of the Thomas Cook Group consist of defined contribution plans and defined benefit plans, with the defined benefit plans being both funded and unfunded. The obligations arising from defined contribution plans are satisfied by contribution payments to both private and state-run insurance providers.

Unfunded defined benefit pension obligations

Unfunded defined benefit pension obligations primarily relate to the Group's employees in the German businesses of Thomas Cook AG and the Condor Group. Provisions are established on the basis of commitments made to those employees for old-age and transitional pensions based on the legal, tax and economic circumstances of the individual countries and on the period of employment and level of remuneration of the respective employees.

Provisions for pensions and similar obligations totalling £188.6m (2010: £205.6m) were attributable to the pension commitments of the Condor Group (Condor Flugdienst GmbH, Condor Berlin GmbH and CF GmbH). For employees who joined a Condor Group company prior to 1995, the total pension commitment of the pensions authority of the German federal government and regional states was adjusted and maintained in the form of a company pension scheme. The flight crews were additionally entitled to a transitional provision for the period between the termination of their in-flight employment and the time they became eligible for a state-run or company pension. In both cases, the benefit commitment depended on the final salaries of the employees concerned prior to the termination of their in-flight employment (final salary plan). Employees who joined a Condor Group company from 1995 onwards participate in a company pension scheme under which the pension entitlements are based on the average salaries of those employees (average salary plan). The Condor Group also has retirement obligations arising from individual commitments and transitional provisions. In accordance with IAS 19, all these commitments are classified as unfunded defined benefit obligations and classified as such in these financial statements.

The Condor Group defined benefit plans have been closed to new entrants (with the exception of pilots) since 2004.

There are additional unfunded defined benefit obligations comprising individual commitments to executive staff at Thomas Cook Group and obligations in respect of past service for employees in Sweden.

The unfunded pension schemes are accounted for as part of liabilities for retirement benefit obligations in the balance sheet.

Notes to the financial statements continued

35 RETIREMENT BENEFIT SCHEMES CONTINUED

The following weighted average actuarial assumptions were made for the purpose of determining the unfunded defined benefit obligations:

	2011 %	2010 %
Discount rate for scheme liabilities	**4.99%**	4.70%
Expected rate of salary increases	**1.65%**	1.93%
Future pension increases	**1.50%**	1.69%

The mortality tables 2005 G drawn up by Prof. Dr. Klaus Heubeck were used as the basis for the mortality assumptions used in arriving at the present value of the pension obligations at 30 September 2011. These assume a life expectancy for members currently aged 60 of 22.96 years for men and 27.55 years for women.

Amounts recognised in the income statement in respect of these defined benefit schemes are as follows:

	2011 £m	2010 £m
Current service cost	**11.2**	8.1
Past service cost	**0.3**	–
Gain on settlements	**(2.4)**	–
Curtailment gain	**–**	(2.0)
Interest cost on scheme liabilities	**11.3**	11.4
Total included in income statement	**20.4**	17.5

Service costs, gains on settlement and curtailment gains have been included in personnel expenses in the income statement and the unwinding of the discount rate of the expected retirement benefit obligations has been included in finance costs. Actuarial gains and losses have been reported in the statement of comprehensive income.

Changes in the present value of unfunded pension obligations were as follows:

	2011 £m	2010 £m
At beginning of year	**239.1**	208.9
Current service cost	**11.2**	8.1
Past service cost	**0.3**	–
Interest cost	**11.3**	11.4
Benefits paid	**(6.1)**	(6.2)
Settlements	**(8.5)**	(7.2)
Curtailments	**–**	(2.0)
Actuarial (gains)/losses	**(17.5)**	36.5
Exchange difference	**(2.0)**	(10.4)
At end of year	**227.8**	239.1

Funded defined benefit pension obligations

The pension entitlements of employees of Thomas Cook UK and employees in Norway and the Netherlands are provided through funded defined benefit schemes, where pension contributions are paid over to the schemes and the assets of the schemes are held separately from those of the Group in funds under the control of trustees. Pension costs are assessed in accordance with the advice of qualified actuaries in each country. The fair value of the pension assets in each scheme at the year end is compared with the present value of the retirement benefit obligations and the net difference reported as a pension asset or retirement benefit obligation as appropriate. Pension assets are only recognised to the extent that they will result in reimbursements being made or future payments being reduced.

Funded defined benefit pension obligations have been determined on the basis of assumptions relevant to each country.
The weighted averages of these were:

	2011 %	2010 %
Discount rate for scheme liabilities	**5.13%**	4.97%
Inflation rate	**3.13%**	3.20%
Expected return on scheme assets	**5.78%**	6.07%
Expected rate of salary increases	**4.34%**	4.68%
Future pension increases	**2.86%**	3.20%

The Thomas Cook UK Pension Plan accounts for approximately 90% (2010: 97%) of the total funded defined benefit obligations. The mortality assumptions used in arriving at the present value of those obligations at 30 September 2011 are based on the PMA92/PFA92 tables with medium cohort improvements and a minimum future longevity improvement per year of 1%, adjusted for recent mortality experience. The mortality assumptions adopted for the plan liabilities indicate a further life expectancy for members currently aged 65 of 22.7 years for men and 25.8 years for women.

On 31 March 2011, the UK defined benefit schemes closed to all active members and pension provision will now be through a defined contribution scheme. The closure of the schemes resulted in a cessation of future pension benefit accrual and a consequent curtailment gain of £25.8m, which has been recognised in the income statement.

Amounts recognised in the income statement in respect of these defined benefit schemes are as follows:

	2011 £m	2010 £m
Current service cost	10.0	16.2
Curtailment gain	(25.8)	–
Expected return on scheme assets	(42.1)	(37.9)
Interest cost on scheme liabilities	43.4	43.4
Total included in the income statement	**(14.5)**	21.7

Service costs and curtailment gains have been included in personnel expenses in the income statement and the unwinding of the discount rate of the expected retirement benefit obligations has been included in finance costs. The expected return on scheme assets has been included in finance income.

The actual return on scheme assets was £18.2m (2010: £66.2m).

Actuarial gains and losses have been reported in the statement of comprehensive income.

Changes in the present value of funded defined benefit obligations were as follows:

	2011 £m	2010 £m
At beginning of year	878.8	784.1
Current service cost	10.0	16.2
Interest cost	43.4	43.4
Benefits paid	(19.4)	(18.7)
Transfers	6.4	2.4
Curtailments	(25.8)	–
Expenses paid	(1.5)	(1.5)
Contributions paid by plan participants	1.7	3.4
Actuarial (gains)/losses	(47.4)	49.9
Exchange difference	0.3	(0.4)
At end of year	**846.5**	878.8

Changes in the fair value of scheme assets were as follows:

	2011 £m	2010 £m
At beginning of year	703.4	621.9
Expected return on scheme assets	42.1	37.9
Contributions from the sponsoring companies	33.9	31.3
Contributions paid by plan participants	1.7	3.4
Actuarial (losses)/gains	(23.9)	28.2
Benefits paid	(19.4)	(18.7)
Transfers	6.5	1.4
Expenses paid	(1.5)	(1.5)
Exchange difference	0.5	(0.5)
At end of year	**743.3**	703.4

Notes to the financial statements continued

35 RETIREMENT BENEFIT SCHEMES CONTINUED

Following the 2008 actuarial valuation of the Thomas Cook UK pension plan, a six-year Recovery Plan was agreed with the pension trustees to fund the actuarial deficit. In line with that agreement, Thomas Cook UK committed to make additional quarterly payments totalling £105.6m through to June 2014. During the year ended 30 September 2011, Thomas Cook UK paid four instalments totalling £21.0m in line with the recovery plan. Quarterly payments totalling £22.3m will be made during the year ending 30 September 2012. The Group is expected to make aggregate contributions to its funded defined benefit schemes of £28.7m during the year commencing 1 October 2011.

The fair value of scheme assets at the balance sheet date is analysed as follows:

	2011 Long-term rate of return %	**2011 £m**	2010 Long-term rate of return %	2010 £m
Equities	**7.1**	**279.9**	7.5	287.6
Property	**5.6**	**68.2**	5.9	65.1
Fixed interest gilts	**4.0**	**217.7**	4.2	202.1
Hedge funds	**7.1**	**116.4**	7.5	93.4
Other	**6.2**	**61.1**	6.7	55.2
At end of year		**743.3**		703.4

The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group.

The expected rates of return on scheme assets have been calculated as the weighted average rate of return on each asset class. The return on each asset class is taken as the market rate of return.

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit pension schemes is as follows:

	2011 £m	2010 £m
Present value of funded defined benefit obligations	**846.5**	878.8
Fair value of scheme assets	**(743.3)**	(703.4)
Deficit on funded retirement benefit obligations	**103.2**	175.4
Present value of unfunded defined benefit obligations	**227.8**	239.1
Scheme deficits recognised in the balance sheet	**331.0**	414.5
This amount is presented as follows:		
Current liabilities	**6.8**	6.7
Non-current liabilities	**324.2**	407.8
	331.0	414.5

The cumulative net actuarial losses recognised in the statement of comprehensive income at 30 September 2011 were £322.9m (2010: £363.9m).

The history of the experience gains and losses of the schemes is as follows:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligations	**1,074.3**	1,117.9	993.0	771.2	810.4
Fair value of scheme assets	**(743.3)**	(703.4)	(621.9)	(581.7)	(635.2)
Scheme deficits	**331.0**	414.5	371.1	189.5	175.2
Experience adjustments on scheme liabilities	**(9.4)**	(10.1)	(7.7)	2.7	2.0
Experience adjustments on scheme assets	**(24.1)**	27.6	(13.7)	(116.6)	11.2

Defined contribution schemes

There are a number of defined contribution schemes in the Group, the principal scheme being the Thomas Cook UK DC Pension Scheme, which is open to all UK employees. The total charge for the year in respect of this and other defined contribution schemes, including liabilities in respect of insured benefits relating to workers' compensation arrangements, amounted to £25.2m (2010: £20.3m).

The assets of these schemes are held separately from those of the Group in funds under the control of trustees.

36 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates and joint venture undertakings are disclosed below. Transactions between the Company and its subsidiaries and associates are disclosed in the Company's separate financial statements.

Trading transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	Associates, joint venture and participations*	
	2011 £m	2010 £m
Sale of goods and services	**31.6**	31.6
Purchases of goods and services	**(36.3)**	(35.0)
Other income	**0.5**	0.6
Management fees and other expenses	**–**	(1.3)
Amounts owed by related parties**	**23.2**	18.1
Provisions against amounts owed	**(4.2)**	(4.2)
Amounts owed to related parties	**(5.7)**	(7.0)

* Participations are equity investments where the Group has a significant equity participation but which are not considered to be associates or joint ventures.

** Amounts owed by related parties include £11.7m (2010: £11.1m) which for statutory purposes is reported as part of the associate investment.

All transactions are considered to have been made at market prices. Outstanding amounts will normally be settled by cash payment.

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration report on pages 66 to 69.

	2011 £m	2010 £m
Short-term employee benefits	**2.7**	5.0
Termination benefits	**1.2**	–
Share-based payments	**(0.5)**	0.2
	3.4	5.2

Termination benefits include an outstanding balance, as at 30 September 2011, of £1.0m, due to the former CEO of the Group in relation to remuneration over his contractual notice period. This consists of £116,744 in remuneration over the period from 1 October 2011 to 4 November 2011, and a payment in lieu of notice made on 4 November 2011 of £851,114, as disclosed in the Remuneration report on page 69.

37 SUBSEQUENT EVENTS

The Co-operative Travel

On 4 October 2011, the Group completed the merger of its UK high street travel agency and foreign exchange business with those of The Co-operative Group and the Midlands Co-operative, after receipt of clearance from the Competition Commission. The Group holds 66.5% of the share capital of the new entity, The Co-operative Group holds 30% and the Midlands Co-operative Society holds 3.5%. Given the timing of the transactions relative to the publication of these financial statements, it is not practical to provide a breakdown of the assets and liabilities acquired.

Bank facilities

On 25 November 2011, the Group announced that it had reached agreement with its banking group to amend the terms of its existing bank facilities to widen the financial covenants and increase financial flexibility for the Group until March 2013. In addition a new £200m facility, available until April 2013, was agreed.

Hoteles y Clubs Vacaciones S.A.

On 13 December 2011, the Group announced that it had reached agreement to sell its interest in Hoteles y Clubs Vacaciones S.A. (HCV) to IBEROSTAR Hoteles y Aparamentos S.L., the hotel division of GRUPO IBEROSTAR. HCV indirectly owns five hotels and one golf club and operates a second golf club in Spain. The Group will receive cash proceeds of €72.2m and HCV will be sold with net debt of €22.4m. The transaction is conditional upon shareholder approval and is expected to complete in the first quarter of 2012.

Company balance sheet

At 30 September 2011

	notes	30 September 2011 £m	30 September 2010 £m
Non-current assets			
Property, plant and equipment	5	**2.6**	1.4
Investments in subsidiaries	6	**2,619.8**	4,073.3
Deferred tax assets	11	**–**	1.6
Trade and other receivables	7	**3.9**	4.6
		2,626.3	4,080.9
Current assets			
Trade and other receivables	7	**1,267.1**	859.4
		1,267.1	859.4
Total assets		**3,893.4**	4,940.3
Current liabilities			
Trade and other payables	8	**(250.4)**	(110.1)
Non-current liabilities			
Borrowings	9	**(635.9)**	(635.1)
Total liabilities		**(886.3)**	(745.2)
Net assets		**3,007.1**	4,195.1
Equity			
Called-up share capital	12	**59.2**	57.7
Share premium account		**29.2**	8.9
Merger reserve		**1,588.0**	3,051.3
Hedging and translation reserves		**888.7**	882.8
Capital redemption reserve		**8.5**	8.5
Retained earnings surplus		**446.8**	199.2
Investment in own shares		**(13.3)**	(13.3)
Total equity		**3,007.1**	4,195.1

These financial statements were approved by the Board of Directors on 13 December 2011.

Signed on behalf of the Board

Paul Hollingworth
Group Chief Financial Officer

Notes 1 to 17 form part of these financial statements.

Company cash flow statement

For the year ended 30 September 2011

	Year ended 30 September 2011 £m	Year ended 30 September 2010 £m
Cash flows from operating activities		
Loss before tax	**(1,525.8)**	(64.2)
Adjustments for:		
Finance income	**(1.6)**	(0.7)
Finance expense	**48.5**	24.9
Depreciation of property, plant and equipment	**0.2**	0.1
Impairment of investment	**1,463.3**	–
Share-based payments	**(3.5)**	2.7
(Increase)/decrease in receivables	**(281.4)**	59.0
Increase/(decrease) in payables	**135.9**	(21.2)
Net cash (used in)/from operating activities	**(164.4)**	0.6
Investing activities		
Dividends received	**303.5**	–
Purchase of intangible assets	**–**	(0.6)
Net cash from/(used in) investing activities	**303.5**	(0.6)
Financing activities		
Interest paid	**(47.3)**	–
Dividends paid	**(91.8)**	–
Issue of bonds	**–**	638.4
Funding advanced to subsidiaries	**–**	(638.4)
Net cash used in financing activities	**(139.1)**	–
Net decrease in cash and cash equivalents	**–**	–
Cash and cash equivalents at beginning of year	**–**	–
Effect of foreign exchange rate changes	**–**	–
Cash and cash equivalents at end of year	**–**	–
Liquid assets	**–**	–
Cash and cash equivalents at end of year	**–**	–

Company statement of changes in equity

For the year ended 30 September 2011

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 October 2009	57.7	8.9	3,051.3	8.5	1,126.3	347.2	(13.1)	4,586.8
Loss for the year	–	–	–	–	–	(63.7)	–	(63.7)
Other comprehensive expense	–	–	–	–	(243.5)	(0.7)	–	(244.2)
Total comprehensive expense for the year	–	–	–	–	(243.5)	(64.4)	–	(307.9)
Equity credit in respect of share-based payments	–	–	–	–	–	8.1	–	8.1
Purchase of own shares	–	–	–	–	–	–	(0.2)	(0.2)
Dividends paid	–	–	–	–	–	(91.7)	–	(91.7)
At 30 September 2010	57.7	8.9	3,051.3	8.5	882.8	199.2	(13.3)	4,195.1
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(1,522.9)**	**–**	**(1,522.9)**
Other comprehensive expense	**–**	**–**	**–**	**–**	**5.9**	**–**	**–**	**5.9**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**5.9**	**(1,522.9)**	**–**	**(1,517.0)**
Equity debit in respect of share-based payments	**–**	**–**	**–**	**–**	**–**	**(3.2)**	**–**	**(3.2)**
Issue of equity shares net of expenses	**1.5**	**20.3**	**–**	**–**	**–**	**–**	**–**	**21.8**
Release of merger reserve	**–**	**–**	**(1,463.3)**	**–**	**–**	**1,463.3**	**–**	**–**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(92.5)**	**–**	**(92.5)**
Dividends received	**–**	**–**	**–**	**–**	**–**	**402.9**	**–**	**402.9**
At 30 September 2011	**59.2**	**29.2**	**1,588.0**	**8.5**	**888.7**	**446.8**	**(13.3)**	**3,007.1**

The merger reserve arose on the issue of shares of the Company in connection with the acquisition of the entire share capital of Thomas Cook AG and MyTravel Group plc on 19 June 2007 and represents the difference between the nominal value and the fair value of the shares acquired. Following the impairment of the Company's investment in subsidiaries during the year, the Company has, in accordance the Companies Act 2006, relieved the impairment loss through a transfer from the merger reserve to retained earnings.

The share premium arose in connection with the issue of ordinary shares of the Company following the exercise of MyTravel executive share options.

At 30 September 2011, the Company had distributable reserves of £446.8m (2010: £199.2m).

Details of the own shares held are set out in note 28 to the Group financial statements.

Notes to the Company financial statements

1 ACCOUNTING POLICIES

The accounting policies applied in the preparation of these Company financial statements are the same as those set out in note 2 to the Group financial statements with the addition of the following:

Investments

Investments in subsidiaries are stated at cost less provision for impairment.

These policies have been applied consistently to the periods presented.

The functional currency of the Company is Euro, however, the Directors have decided to adopt Sterling as the presentational currency to be in line with the consolidated accounts.

2 LOSS FOR THE YEAR

As permitted by section 408(3) of the Companies Act 2006, the Company has elected not to present its own income statement for the year. The loss after tax of the Company amounted to £1,522.9m (2010: £63.7m loss after tax).

The auditors' remuneration for audit services to the Company was £0.3m (2010: £0.2m).

3 PERSONNEL EXPENSES

	2011 £m	2010 £m
Wages and salaries	17.4	21.5
Social security costs	0.2	2.5
Share-based payments – equity settled	(3.5)	2.7
	14.1	26.7

	2011 Number	2010 Number
Average number of employees of the Company during the year	101	95

Employees are based in the United Kingdom and Germany.

Disclosures of individual Directors' remuneration, share options, long-term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 and specified for audit by the Financial Services Authority are on pages 66 to 69 within the Remuneration report and form part of these audited accounts.

The employees of the Company are members of the Group pension schemes as detailed in note 35 of the Group financial statements.

4 DIVIDENDS

The details of the Company's dividend are disclosed in note 10 to the Group financial statements.

Notes to the Company financial statements continued

5 PROPERTY, PLANT AND EQUIPMENT

Other fixed assets	£m
Cost	
At 1 October 2009	1.1
Additions	0.6
Exchange differences	(0.1)
At 30 September 2010	1.6
Additions	1.4
At 30 September 2011	**3.0**
Accumulated depreciation and impairment	
At 1 October 2009	0.1
Charge for the year	0.1
At 30 September 2010	0.2
Charge for the year	0.2
At 30 September 2011	**0.4**
Carrying amount at 30 September 2011	**2.6**
Carrying amount at 30 September 2010	1.4

6 INVESTMENTS IN SUBSIDIARIES

	£m
Cost and net book value	
At 1 October 2009	4,293.5
Additions	8.9
Exchange difference	(229.1)
At 30 September 2010	4,073.3
Adjustment in respect of share-based payments	(1.2)
Impairment	(1,463.3)
Exchange difference	11.0
At 30 September 2011	**2,619.8**

A list of the Company's principal subsidiary undertakings is shown in note 17 to the financial statements.

The additions in the current year relate to share-based payment charges related to subsidiaries' employees.

During the year the Company recognised an impairment loss of £1,463.3m on it's investment in subsidiaries. The impairment stems from a decrease in management's estimates of the likely future profitability and cash flows of mainly the UK and Canadian businesses.

7 TRADE AND OTHER RECEIVABLES

	2011 £m	2010 £m
Current		
Amounts owed by subsidiary undertakings	**1,244.9**	858.1
Other receivables	**0.6**	0.9
Deposits and prepayments	**21.6**	0.4
	1,267.1	859.4
Non-current		
Deposits and prepayments	**3.9**	4.6
	3.9	4.6

Amounts owed by subsidiary undertakings are repayable on demand. The average interest on overdue amounts owed by subsidiary undertakings is 0.4% (2010: 0.6%). The Directors consider the fair value to be equal to the book value.

8 TRADE AND OTHER PAYABLES

	2011 £m	2010 £m
Amounts owed to subsidiary undertakings	**188.6**	40.9
Social security and other taxes	**2.0**	4.7
Other payables	**53.2**	52.4
Accruals	**6.6**	12.1
	250.4	110.1

The average interest on overdue amounts owed to subsidiary undertakings is 0% (2010: 0%).

Amounts owing to subsidiary undertakings are repayable on demand. The Directors consider the fair value to be equal to the book value.

9 BORROWINGS

Borrowings comprise a €400m bond, issued with an annual coupon of 6.75% maturing in June 2015, and a £300m bond, with an annual coupon of 7.75% maturing in June 2017.

10 FINANCIAL RISK

The Company's financial instruments comprise amounts due to/from subsidiary undertakings, cash and cash equivalents, and other payables and receivables. The Company's approach to the management of financial risks is discussed on pages 28 to 30. The Company believes the value of its financial assets to be fully recoverable.

The carrying value of the Company's financial instruments is exposed to movements in foreign currency exchange rates (primarily Sterling). The Company estimates that a 5% strengthening in Sterling would increase loss before tax by £23.4m (2010: increase loss before tax by £14.8m), while a 5% weakening in Sterling would decrease loss before tax by £23.4m (2010: decrease loss before tax by £14.8m).

The carrying value of the Company's financial instruments is exposed to movements in interest rates. The Company estimates that a 0.5% increase in interest rates would decrease loss before tax by £1.2m (2010: 0.5% increase in interest rates decrease loss before tax by £1.7m), while a 0.5% decrease in interest rates would increase loss before tax by £1.2m (2010: 0.5% decrease in interest rates increase loss before tax by £1.7m).

Notes to the Company financial statements continued

10 FINANCIAL RISK CONTINUED

The maturity of contracted cash flows on the Company's financial liabilities is as follows:

At 30 September 2011	Less than 1 year £m	Between 1 and 5 years £m	In more than 5 years £m	Total £m
Trade and other payables	(250.3)	–	–	(250.3)
Borrowings	–	(432.1)	(430.8)	(862.9)
	(250.3)	(432.1)	(430.8)	(1,113.2)

At 30 September 2010	Less than 1 year £m	Between 1 and 5 years £m	In more than 5 years £m	Total £m
Trade and other payables	(110.1)	–	–	(110.1)
Borrowings	–	(455.3)	(454.7)	(910.0)
	(110.1)	(455.3)	(454.7)	(1,020.1)

All cash flow projections shown above are on an undiscounted basis. Any cash flows based on a floating rate are calculated using interest rates as set at the date of the last rate reset.

11 DEFERRED TAX ASSETS

	2011 £m
At 1 October 2009	1.1
Credit to income statement	0.5
At 30 September 2010	1.6
Debit to income statement	(1.6)
At 30 September 2011	**–**

At the balance sheet date the Company had unused tax losses of £46.5m (2010: £28.7m) and other deductible short-term timing differences of £5.4m (2010: £6.5m) available for offset against future profits. No deferred tax asset has been recognised in respect of unused tax losses and other deductible short-term timing differences.

12 CALLED-UP SHARE CAPITAL

The details of the Company's share capital are the same as those of the Group, and are disclosed in note 28 to the Group financial statements in this report.

Details of share options granted by the Company are set out in note 34 to the Group financial statements.

13 OPERATING LEASE ARRANGEMENTS

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments related to property, under non-cancellable operating leases, which fall due as follows:

	2011 £m	2010 £m
Within one year	**0.6**	0.6
Later than one year and less than five years	**2.4**	2.4
After five years	**1.3**	1.9
	4.3	4.9

14 CONTINGENT LIABILITIES

At 30 September 2011, the Company had contingent liabilities in respect of counter-guarantees for bank funding, letters of credit and guarantees of amounts owed by subsidiaries amounting to £534.2m (2010: £464.8m). This predominately relates to a guarantee on the drawndown portion of the Group banking facility (detailed in note 20 of the Group financial statements).

Also included are guarantees related to aircraft finance lease commitments, estimated based on the current book value of the finance lease liabilities of £44.7m (2010: £79.6m).

The Company complies with all the standards relevant to consumer protection and formal requirements in respect of package tour contracts and has all the necessary licences. In the UK the customer's right to reimbursement of the return travel costs and amounts paid in case of insolvency or bankruptcy on the part of the tour operator or travel agency is guaranteed in line with legislation in the UK via a fund mechanism, whereby travel companies are required to collect and remit a small charge for each protected customer upon booking.

15 RELATED PARTY TRANSACTIONS

Subsidiaries

The Company transacts and has outstanding balances with its subsidiaries. The Company enters into loans with its subsidiaries, at both fixed and floating rates of interest, on a commercial basis. Hence, the Company incurs interest expense and earns interest income on these loans. The Company also received dividend income from its subsidiaries during the year.

	2011 £m	2010 £m
Transactions with subsidiaries		
Interest receivable	**1.6**	0.7
Interest payable	**–**	(3.7)
Management fees and other expenses	**10.6**	8.1
Dividend income received	**402.9**	–
Year–end balances arising on transactions with subsidiaries		
Loans receivable	**1,208.9**	824.9
Interest receivable	**0.6**	0.1
Other receivables	**35.4**	33.1
Loans payable	**(146.5)**	–
Other payables	**(42.1)**	(40.9)

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Company, is set out in note 36 of the Group financial statements.

16 SHARE-BASED PAYMENTS

The employees of the Company, including the Directors, collectively participate in all of the Group's equity-settled share-based payment schemes. The details relating to these schemes in respect of the Company are identical to those disclosed in note 34 to the Group financial statements and have therefore not been re-presented here.

The share-based payment credit of £3.5m (2010: charge of £2.7m) is stated net of amounts recharged to subsidiary undertakings.

Notes to the Company financial statements continued

17 PRINCIPAL SUBSIDIARIES

	Country of incorporation and operation	Nature of the business	Proportion held by Company (%)	Proportion held by Group (%)
Direct subsidiaries				
Thomas Cook AG	Germany	Holding Company	100	100
Indirect subsidiaries				
UK				
Thomas Cook Airlines Limited	England	Airline		100
Thomas Cook Retail Limited	England	Travel Agent		100
Thomas Cook Scheduled Tour Operations Limited	England	Tour Operator		100
Thomas Cook Tour Operations Limited	England	Tour Operator		100
Thomas Cook UK Limited	England	Tour Operator		100
Central Europe				
Bucher Reisen GmbH	Germany	Tour Operator		100
TC Touristik GmbH	Germany	Tour Operator		50.0023
West & East Europe				
Thomas Cook Airlines Belgium NV	Belgium	Airline		100
Thomas Cook Belgium NV	Belgium	Tour Operator		100
Thomas Cook SAS	France	Tour Operator and Travel Agent		100
Northern Europe				
Thomas Cook Airlines Scandinavia A/S	Denmark	Airline		100
North America				
Thomas Cook Canada Inc.	Canada	Tour Operator		100
Airlines Germany				
Condor Berlin GmbH*	Germany	Airline		50.0023
Condor Flugdienst GmbH *	Germany	Airline		50.0023
Corporate				
Thomas Cook Group Treasury Limited	England	Financing Company		100

The Company has taken advantage of the exemption under Section 410 of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the Directors, principally affected the financial statements. A full list of subsidiaries will be sent to Companies House with the next annual return.

* All risks and rewards continue to be held by the Group and, in accordance with accounting standards, the entity has been treated as being 100% controlled and fully consolidated by the Group.

Appendix 1 – Key performance indicators definitions

* Revenue for the Group and segmental analysis represents external revenue only, except in the case of the Airlines Germany segmental key performance analysis, where revenue of £318.7m (2010 £287.8m) largely attributable to the Central Europe division has been included.

** Underlying profit from operations is defined as earnings before interest and tax, and has been adjusted to exclude all separately disclosed items. It also excludes our share of the results of associates and joint venture.

*** Underlying operating profit margin is underlying profit from operations (as defined above) divided by the external revenue, except in the case of the Airlines Germany segmental key performance analysis where total revenue has been used as the denominator to more accurately reflect the trading performance.

† Passengers in the case of UK, Northern Europe and North America represents the total number of passengers (in thousands) that departed on a Thomas Cook Group plc holiday in the year. It excludes customers who booked third-party tour operator products through Thomas Cook retail channels and customers who booked transfers only. For Central and West & East Europe, passengers represents all tour operator passengers departed in the year, excluding those on which only commission is earned.

Mass Market Risk passengers in UK, Northern Europe and North America represent those holidays sold where the business has financial commitment to the product (flights and accommodation) before the customer books. The analysis excludes accommodation only passengers.

†† Capacity for UK, Northern Europe and North America represents the total number of holidays available to sell. This is calculated by reference to committed airline seats (both in-house and third-party).

In the case of Airlines Germany, capacity represents the total number of available seat kilometres (ASK). ASK is a measure of an airline's passenger carrying capacity and is calculated as available seats multiplied by distance flown.

††† For UK, Northern Europe and North America, load factor is a measure of how successful the tour operator was at selling the committed capacity. Load factor is calculated by dividing the departed mass market passengers in the year (excluding accommodation only passengers) by the capacity in the year.

For Airlines Germany, seat load factor is a measure of how successful the airline was at selling the available capacity. This is calculated by dividing the revenue passenger kilometres (RPK) by the available seat kilometres (ASK – see capacity definition above) and is the recognised IATA definition of load factor used for airlines. RPK is a measure of the volume of passengers carried by an airline. One RPK is flown when one passenger is carried one kilometre.

Average selling price for UK, Northern Europe and North America represents the average selling price (after discounts) achieved per mass market passenger departed in the year (excluding accommodation only passengers). For Central and West & East Europe, average selling price represents the average selling price (after discounts) achieved per passenger departed in the year.

Brochure mix is defined as the number of mass market holidays (excluding seat and accommodation only) sold at brochure prices divided by the total number of holidays sold (excluding seat and accommodation only) and is a measure of how successful a business was at selling holidays early. Holidays are generally discounted closer to departure.

‡‡ Controlled distribution is defined as the proportion of passengers booking through our in-house retail shops, call centres and websites. Internet distribution is a sub-set of controlled distribution and is defined as the proportion of passengers booking through in-house websites. Both performance indicators are calculated on departed passengers in the year.

‡‡‡ Sold seats in Airlines Germany represents the total number of one-way seats sold on aircraft (in thousands) that departed in the year.

Yield in Airlines Germany represents the average price per seat departed in the year.

Shareholder information

ANNUAL GENERAL MEETING ("AGM")

The AGM will be held at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED on Wednesday 8 February 2012 at 10.00am. The last date for AGM proxy votes to be received by the Registrar is Monday 6 February 2012.

All shareholders can submit their proxy vote for the AGM electronically at www.sharevote.co.uk. To register their vote shareholders will need the numbers detailed on their form of proxy.

Alternatively, shareholders who have already registered with Shareview can submit their proxy vote by logging on to www.shareview.co.uk and clicking on the link to vote underneath their Thomas Cook Group plc holding.

SHARE REGISTER AND SHAREHOLDER ENQUIRIES

The Company's share register is maintained by Equiniti. Queries relating to Thomas Cook Group plc shares should be addressed to:

The Registrar
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Tel: 0871 384 2154*
(international telephone number: +44 (0)121 415 0182)

* Calls to this number cost 8p per minute from a BT landline, other providers' costs may vary. Lines are open 8.30am to 5.30pm, Monday to Friday.

Shareholders should quote the Company reference number 3174 and their shareholder reference number (which can be found on their share certificates and dividend documentation), when contacting the Registrar.

SHAREVIEW

To be able to access information about their shares and other investments online, shareholders can register with Shareview (www.shareview.co.uk). Registration is free; shareholders will need their shareholder reference number which is shown on their form of proxy and share certificate. By registering for this service shareholders will:

- help reduce paper, print and postage costs;
- help the environment; and
- be able to manage their shareholding easily and securely online.

Once registered, whenever shareholder documents are available shareholders will be sent a link to the appropriate website, where the documents will be available to view or download. Receiving documents online does not affect shareholders' rights in any way.

WEBSITE

The Company's corporate website, www.thomascookgroup.com, provides information including:

- news, updates, press releases and regulatory announcements;
- investor information, including the Annual Report, investor presentations and share price information;
- biographies of the Board of Directors and the Group Executive Board;
- the Company's Articles of Association and the terms of reference for the Committees of the Board; and
- sustainability reporting.

MULTIPLE ACCOUNTS ON THE SHARE REGISTER

If a shareholder receives two or more sets of the documents concerning the AGM, this means that there is more than one account in their name on the shareholder register, perhaps because either the name or the address appear on each account in a slightly different way. For security reasons, Equiniti will not amalgamate the accounts without the shareholder's written consent. Therefore, if a shareholder would like their multiple accounts to be combined they should write to Equiniti at the address above, detailing the different shareholder reference numbers, and request that they be combined into one account.

ELECTRONIC COMMUNICATIONS

At the AGM on 10 April 2008, the Company passed a resolution allowing the Company's corporate website to be used as the primary means of communication with its shareholders. A consultation card was sent to shareholders enabling them to choose either to:

- receive notification by email when shareholder documentation is available on the website; or
- continue to receive shareholder documentation in hard copy.

Shareholders who did not respond were deemed, in accordance with the Companies Act 2006, to have agreed to receive shareholder documentation via the Company's corporate website. These arrangements for electronic shareholder communications provide shareholders with the opportunity to access information in a timely manner and help the Company to reduce both its costs and its environmental impact.

DIVIDENDS

Information on recent dividend payments is detailed below:

Name	Final dividend for the financial year ended 30 September 2009	Interim dividend for the financial year ended 30 September 2010	Final dividend for the financial year ended 30 September 2010	Interim dividend for the financial year ended 30 September 2011
Amount per share	7.00p	3.75p	7.00p	3.75p
Record date	19 March 2010	10 September 2010	18 March 2011	9 September 2011
Payment date	8 April 2010	8 October 2010	7 April 2011	7 October 2011

THOMAS COOK AG/MYTRAVEL GROUP PLC MERGER

Thomas Cook Group plc was formed in June 2007 upon the merger of Thomas Cook AG and MyTravel Group plc.

MyTravel Group plc shareholders received one Thomas Cook Group plc ordinary share for every one MyTravel Group plc share previously held. MyTravel Group plc share certificates are no longer valid and can be destroyed. Replacement Thomas Cook Group plc share certificates were sent to shareholders, who held shares in certificated form, on or around 19 June 2007. If a replacement certificate(s) has not been received, please contact the Registrar.

UNSOLICITED TELEPHONE CALLS AND CORRESPONDENCE

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. These are typically from overseas based 'brokers' who target US or UK shareholders, offering to sell them what often turns out to be worthless or high risk shares. These operations are commonly known as 'boiler rooms' and the 'brokers' can be very persistent and extremely persuasive. If shareholders receive any unsolicited investment advice, they can check if the person or organisation is properly authorised by the Financial Services Authority ("FSA") at www.fsa.gov.uk/register/ and the matter can be reported to the FSA by visiting www.moneymadeclear.fsa.gov.uk. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our corporate website.

SHAREGIFT

Shareholders with a small number of shares, the value of which make it uneconomical to sell, may wish to consider donating them to the charity ShareGift (Registered Charity Number 1052686), which specialises in using such holdings for charitable benefit. Find out more about ShareGift at www.sharegift.org or by telephoning +44 (0)20 7930 3737.

SHAREVIEW DEALING

A telephone and internet dealing service has been arranged through the Registrar to provide a simple way of buying and selling Thomas Cook Group plc shares for existing and prospective UK-based shareholders. For telephone dealing call 08456 037 037 (international telephone number: +44 (0)121 415 7560) between 8.00am and 4.30pm, Monday to Friday, or visit the website: www.shareview.co.uk/dealing. Shareholders will need the shareholder reference number shown on their share certificate(s).

ANALYSIS OF SHAREHOLDERS AS AT 30 SEPTEMBER 2011

Distribution of shares by the type of shareholder	Number of holdings	Number of shares
Nominees and institutional investors	1,395	866,806,023
Individuals	14,677	8,184,472
Total	16,072	874,990,495

Size of shareholding	Number of holdings	Number of shares
1-100	9,663	310,290
101-500	3,320	780,115
501-1,000	893	683,468
1,001-10,000	1,536	5,233,067
10,001-100,000	355	12,216,450
100,001-500,000	146	36,803,986
500,001-1,000,000	47	32,413,364
1,000,001 and above	112	786,549,755
Total	16,072	874,990,495

REGISTERED OFFICE

6th Floor South, Brettenham House, Lancaster Place, London WC2E 7EN

Registered Number: 6091951

SHAREHOLDER CONTACTS

Shareholder helpline: 0871 384 2154*
(international telephone number: +44 (0)121 415 0182)
Website: www.thomascookgroup.com
Registrar's website: www.shareview.co.uk

* Calls to this number cost 8p per minute from a BT landline, other providers' costs may vary. Lines are open 8.30am to 5.30pm, Monday to Friday.

Visit us at:
www.thomascookgroup.com

The Thomas Cook Group website provides news and details of the Group's activities, plus links to our customer sites and up-to-date information, including:

- corporate news
- presentations
- share price data
- historic Annual & Sustainability Reports
- half-year results and interim management statements
- news alerts

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