Thomas Cook Group

17 May 2018

Results for the six months ended 31 March 2018

Improved results with tangible strategic progress

£m (unless otherwise stated)	6 months ended		Change	Like-for-like change[iii]
	31 Mar 2018	31 Mar 2017		
Revenue	3,227	2,994	+233	+165
Underlying[i, ii] Gross Profit	672	633	+39	+30
Underlying[i, ii] Gross Margin %	20.8%	21.1%	-30bps	-20bps
Underlying[i, ii] Loss from Operations (Underlying EBIT)	(169)	(177)	+8	+13
Loss from operations (EBIT)	(214)	(205)	-9	-4
Loss before tax	(303)	(314)	+11	+16
Net Debt[iv]	(886)	(794)	-92	+94

Notes
(i) This table includes non-statutory alternative performance measures – see page 20 for explanation, associated definitions and reconciliations to statutory numbers
(ii) 'Underlying' refers to trading results that are adjusted for separately disclosed items that are significant in understanding the on-going results of the Group. Separately disclosed items are detailed on pages 28 and 29
(iii) 'Like-for-like' adjustments include the impact of foreign exchange translation and the timing of Easter. The detailed like-for-like adjustments are shown on page 9
(iv) See page 16 for definition and breakdown of net debt. 'Like-for-like' net debt adjusts the prior year comparative for foreign exchange translation and the impact of the Group's bond refinancing

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

Strong customer demand delivers improved results

- Revenue up 5% to £3,227 million, driven by growth to Egypt and long-haul destinations
- Gross margin broadly in line, with strong airline performance largely offsetting UK margin pressure
- Seasonal underlying EBIT loss improved by £13 million reflecting strong airline performance
- Loss before tax improved by £16 million, helped by an £8 million reduction in net finance charges
- Net debt improved by £94 million to £886 million

Customer innovations driving sustainable growth

- Increased focus on NPS attracting new and repeat customers: up 12% and 6% respectively
- Launched £150-million hotel fund with five seed assets and three projects in development
- Extending reach: 10-15 Cook's Clubs for Summer 2019 to bring affordable design to the mass market
- Meeting demand for personalisation: 13,500 Choose Your Room bookings, 50% of available sunbeds booked
- Growing airline by 10% with 70 new routes, including 3 long-haul routes for Summer 2018
- Partnerships on track: Webjet bookings up 5x; Expedia launches in July for UK and Belgium

Well positioned for 2018

- Strong demand for Summer 2018 in all segments with bookings up 13%
- Significant growth to Turkey and North Africa helping to mitigate UK margin pressure
- On track to deliver full year underlying EBIT in line with expectations on a constant currency basis

Peter Fankhauser, Chief Executive of Thomas Cook, commented:

"Thomas Cook has had a good first six months of the year, delivering improved financial results combined with tangible strategic progress. The work we've done in the past two years to improve customers' experience of our flights and our holidays is bearing fruit with revenue growth of 5 per cent, and a positive booking position for the summer.

"The improvements in customer satisfaction have come from our focus on fewer, better hotels and our holiday programme for Summer 2018 is in great shape. Two-thirds of our customers tell us they want to personalise their holidays and we are innovating to satisfy this demand. This includes the successful introduction of 'Choose Your Room' across 300 hotels for the summer and, more recently, 'Choose Your Favourite Sunbed' which we are rolling out to 50 hotels.

"Customer demand for this summer is good in all our markets, particularly in our Nordic region. We continue to experience margin pressure in the UK tour operator due to a combination of hotel cost inflation in Spain, currency impact and capacity increases in the market. We have taken action to help mitigate this pressure, including taking out holiday capacity from Spain and moving it to the Eastern Mediterranean.

"Our Group Airline performed particularly well in the first half. Condor delivered a strong turnaround, and has benefitted from our ability to provide a reliable and high-quality service during a period of disruption and consolidation in the German aviation sector. Our booking position for the summer is strong, and bookings are well in line with our capacity growth of 10 per cent to an expanded range of destinations, including 70 new routes across the group.

"The launch of our hotel investment fund with LMEY in March will allow us to accelerate the growth of our own-brand hotel portfolio where we can deliver better quality and higher returns. With three new hotel projects underway in as many months, in addition to our first Casa Cook in Spain, we're excited about the opportunity the fund provides. We also have high hopes for our new hotel brand, Cook's Club, which we plan to roll out at scale for Summer 2019 to attract a new generation of design-conscious holidaymakers to Thomas Cook at great value prices.

"In addition, our new partnerships in our complementary business are beginning to kick in: the transfer to Webjet has delivered a five-fold growth in bookings on last year, helping fuel a 51-per cent increase in overall bedbank bookings, in line with our strategy to increase automation in this part of our business. Meanwhile, we expect to launch Expedia in Belgium and the UK this summer, paving the way for further improvements in the online customer experience.

"As we enter our busiest period, I see positive momentum across all of our markets to deliver the best possible holidays for our customers. Our continued progress on strategy to transform the business, together with the clear desire among customers for our modern, personalised package holidays and flights, mean we are on track to deliver a performance in line with current expectations for the full year, on a constant currency basis."

Analyst and Investor Presentation

A presentation will be held for equity analysts and investors today at 09.00 (BST). A live webcast of the presentation will be available via the following link and dial-in:

http://view-w.tv/798-1035-19701/en

Standard International Access: +44 (0) 20 3003 2666
UK Toll Free: 0808 109 0700

Forthcoming announcement date

The Group intends to announce its results for the third quarter ended 30 June 2018 on Tuesday 31 July 2018.

Enquiries

Analysts & Investors	Tej Randhawa, Thomas Cook Group	+44 (0) 20 7557 6487
Media	Matthew Magee, Thomas Cook Group	+44 (0) 20 7294 7059
	Chris Alfred, Thomas Cook Group	+44 (0) 20 7294 7203

CURRENT TRADING AND OUTLOOK

Winter 2017/18

Our winter programme closed out in line with our expectations. Overall Group bookings increased by 10%, with strong demand for the Canaries, Egypt and Turkey. Average selling prices were broadly flat, reflecting a shift in the mix from long-haul to short/medium-haul destinations.

Summer 2018

Our Summer 2018 programme is 59% sold. Bookings for the Group are up 13% compared with this time last year, with particularly strong demand for Turkey, Greece and Egypt as customers are attracted by our expanded range of high-quality hotels and increased flight capacity. We're also seeing a growth in bookings to smaller destinations such as Croatia and Italy, as well as Tunisia which has made a positive start after we reopened it to the UK market in February.

Bookings to the Spanish Islands from our Group Tour Operator are lower than last year following our decision to reduce capacity for the summer.

Northern Europe is growing well, with bookings up 7% and average selling price up 5%, driven by strong demand for own-brand hotels and differentiated holidays to Greece, Turkey and Cyprus.

Continental Europe bookings are up 2%, with good growth in Germany (+4%), France (+15%) and Belgium (+8%). Excluding our legacy city and domestic hotel-only business, which we plan to transform as we move over to Expedia, Continental Europe bookings are up 4%.

UK tour operator bookings are up 4%, with pricing up 6%. We continue to experience margin pressure as a result of currency impact and hotel bed cost inflation in a competitive market environment. Strong growth to higher-margin destinations in the Eastern Mediterranean, as well as higher web and ancillary sales, are helping to mitigate this impact.

Our Group Airline continues to attract more customers for its high-quality and reliable service, particularly in Germany where we are benefitting from the turnaround of Condor. Bookings are up 18%, with good demand across all of our key destinations. Average selling prices are up 2% reflecting a shift in demand from long-haul to short/medium-haul destinations.

Summer 2018	Year-on-Year Variation %		
	Bookings[i]	ASP[i]	% Sold[ii]
UK	+4%	+6%	69%
Continental Europe[iv]	+2%	+4%	62%
Northern Europe	+7%	+5%	68%
Group Tour Operator	**+3%**	**+5%**	**66%**
Short/Medium-Haul[iii]	+21%	+8%	60%
Long-Haul[iii]	-2%	+3%	61%
Group Airline[iii]	**+18%**	**+2%**	**60%**
Total Group	**+13%**	**-2%**	**59%**

Based on cumulative bookings to 5 May 2018

Notes:
(i) Risk and non-risk customers
(ii) Risk customers only
(iii) Group Airline figures include intercompany sales to the Group Tour Operator
(iv) Continental Europe excluding legacy city and domestic hotel-only business bookings up 4% and ASP up 3%

Outlook

Trading for the Group overall is progressing in line with expectations. Our Group Airline continues to benefit from the turnaround in Condor and good demand for its flights in a stronger market environment, although it will face a tougher comparative in the second half of the year. We expect an improved performance from our Group Tour Operator business in the summer, driven by Continental Europe and Northern Europe, which will help to offset continued UK margin pressure in holidays to Spain.

Our strategic initiatives are leading to more demand for our holidays, which, combined with our drive for operational efficiency, is improving profitability. We expect these continuing improvements will lead to further profitable growth in FY18, consistent with the underlying expectations set at our full year results last November, on a constant currency basis[1].

1. See page 17 for the implied foreign exchange translation impact at current FX rates

OUR STRATEGY FOR PROFITABLE GROWTH

Customer Care

The care and reassurance we provide to customers is one of the key means by which we can differentiate our flights and holiday offer. We track our progress at every step of the customer journey by measuring Net Promoter Score (NPS), our primary indicator of customer satisfaction, and we see a clear link between the two. Since FY15, NPS across the Group has grown by 9 points. This NPS focus has led new customers to increase by 12 per cent in the first half, while repeat customers were up 6 per cent.

We have now implemented our popular 24-Hour Hotel Satisfaction Promise across all of our differentiated hotels, giving all customers staying in our core portfolio of hotels a commitment that we will resolve any issues within 24 hours of their arrival at the hotel.

In order to better monitor and improve customer satisfaction, we are implementing InMoment, an artificial intelligence-powered, live customer feedback measurement tool across the Group. By better understanding, in real time, the impact that each element of our service, flights and hotels has on overall NPS, we can intervene more effectively where required and ultimately improve our customers' experience of Thomas Cook.

We have further improved the ratio of complaints resolved in destination (rather than after the holiday) by 3 percentage points year-on-year, showing progress across all markets. By resolving issues while in destination, we can make sure more of our customers enjoy their holidays and go home happy, improving NPS and freeing up our source market contact centres to respond more quickly to customers.

Customer Contact

We have built on the strong growth in digital sales we achieved last year. On a booked basis, we have grown online revenue by 18% across the Group, with particular progress in the UK which is up 33% year on year.

The investments in our websites have continued to increase visits – up 5% across the group – and conversion, particularly on mobile, which is up 23%. Overall, mobile bookings have grown by 55%, showing improvement across all of our markets.

We closed a further 63 stores in the UK in H1, leaving us with around 600 stores as customers continue the shift online. We have also accelerated the rebranding of our shops, as we move to a single high-street brand following the end of our joint venture with The Cooperative Travel.

We continue to take steps to grow the levels of controlled distribution in Germany, targeting new franchise stores and strategic partner channels. To help us increase margins and improve the customer experience, we will continue to seek further opportunities to strengthen our direct contact with customers in the German market.

Holidays

<u>Own-brand Hotels and Resorts</u>

We have made good strategic progress in our own-brand hotels and resorts business so far this year. We launched our hotel fund joint venture with Swiss investment company LMEY in March with five seed assets valued at £150 million. This will allow us to accelerate the development of our own-brand portfolio and capture a greater share of revenues. The fund will focus on Mediterranean destinations, particularly Spain and Greece, and has already agreed to invest in a further three properties – each to be redeveloped in the next 18 months into one of our own-branded hotels.

In April, we launched a new hotel concept, Cook's Club. Building on the success of our Casa Cook boutique hotel brand, Cook's Club will bring a design-led, modern aesthetic to the beach at a price that will appeal to a mass market. We are aiming to roll out the brand at scale for Summer 2019, targeting 10-15 hotels with 200-400 rooms each.

Our third Casa Cook hotel, our first dedicated to families, is due to open in Crete this summer. This will be followed in 2019 by our first long-haul Casa Cook in Mauritius, and the first in Spain, our biggest destination,

on Ibiza. In total we will open 19 new own-brand hotels this year, while removing 19 hotels from our portfolio that do not meet the high standards we set.

Sales to own-brand hotels for Summer 2018 are up 27%, with strong growth across all of our segments as we better focus our sales and marketing channels into our own-brand hotels.

Differentiated holidays

We are making good progress in streamlining our portfolio of selected partner hotels, as we aim to strengthen relationships with hotel partners to improve our customers' experience on holiday and increase hotel occupancy rates. As planned, this summer we are offering 3,170 own-brand and partner hotels – a reduction of around 10% compared with last year. Sales to differentiated holidays for Summer 2018 are up 16%, demonstrating clear progress on our strategy to grow sales of holidays to a smaller core portfolio which consists of higher-quality hotels. Meanwhile, we have also increased the number of hotel room guarantees we have agreed with hoteliers as we seek to increase our influence over the hotels we offer.

We also intend to discontinue the UK market's Club 18-30 holiday brand after Summer 2018 as a result of the continued strategic review of our differentiated holiday offer in the UK.

Airline

We have made great progress in our airline, both from an operational perspective, and in the strategic development of one Group Airline to improve efficiencies and deliver better customer value. Our turnaround plan has delivered what we promised and we see good growth across the Group Airline.

The Group Airline has increased its capacity for Summer 2018 by 10 per cent, following the acquisition of Air Berlin assets and the launch of a new Palma-based airline, Thomas Cook Airlines Balearics. These new platforms for growth support the addition of 10 aircraft, consistent with our plans to grow capacity to meet increased customer demand in our key markets of Germany and the UK.

This growth has come predominantly in short/medium-haul flights, where we have grown summer bookings 21% year on year, reflecting further progress in our strategy to strengthen our position in the European leisure flights market.

We have reached an agreement with Canadian airline Air Transat to deepen the relationship we formed last year involving a seasonal exchange of aircraft which takes advantage of the different peak operational periods of the two companies. The new agreement will see 14 aircraft exchanged in the winter, further improving the choice of long-haul flights we offer and better balancing the seasonal demand for short/medium-haul flights.

Services

We increased the sales of personalised holiday services from our Group Tour Operator by 6% in the first half, reflecting our continued work to give our customers more flexibility in the way they holiday with us. Improvements to our websites and the customer booking journey have allowed us to increase revenue from sales of these services, including good growth in our pre-order on-board duty-free retail offer, Airshoppen.

We have made particularly strong progress in the UK as we shift online, generating an additional £10 per customer in sales of personalised holiday services. We have also begun to implement a yield pricing strategy on these products, allowing customers to take advantage where there is reduced demand, and for us to improve sales across the year.

Initiatives such as 'Choose Your Room' and 'Choose Your Favourite Sunbed', which we are rolling out for the first time this summer, have been very well received by customers. As we develop our "My Holiday" companion app and launch a Group Airline app, we expect to further enhance our reach to customers for sales of these personalised flight and holiday services.

Thomas Cook Money

Thomas Cook Money has started well. We have had a good response to Lyk, our pre-paid travel money card, which we launched into UK retail in March as a replacement for our Cash Passport. We are well on track to build a tech-led financial services business which can capitalise on our large existing customer base, as well as target new customers.

Partnerships

Complementary hotel partnerships

Our strategic hotel sourcing partnership with Webjet, announced in August 2016, has delivered a five-fold growth in bookings and contributed to a 51-per-cent increase in overall bedbank bookings, as we outsource the contracting of the sun and beach hotels which do not form part of our core portfolio of hotels.

As anticipated, we have seen a continued decline in sales from our legacy city and domestic hotel-only business. However, this summer, our alliance with Expedia will begin to take bookings for city and domestic hotels in the UK and Belgium, as part of the transformation of our complementary hotel sourcing.

We anticipate this will drive growth through greater choice of hotels for our customers and a better online journey, as well as through sales of a selection of our own differentiated product through Expedia's distribution channels. The alliance will also allow us to further simplify our processes and achieve greater cost efficiencies across the group.

China

Thomas Cook China is on track to grow customers tenfold in 2018. Our joint venture with Fosun is profiting from a continuing shift in bookings to more outbound travel from China, reflecting the growing appetite for Chinese consumers to travel the world. The venture has continued to expand its destinations to meet this increasing demand with seven new destinations for our bespoke itinerary 'Tours' product. The ambition remains for our Chinese business, over time, to become a sizable source market for the Group, comparable in size with our key source markets in Europe.

New Operating Model benefits

The New Operating Model is our Group-wide transformation programme through which we manage, and measure the financial benefits from, a number of business change initiatives aimed at implementing our strategy for profitable growth. In the first half, this programme delivered annualised net EBIT benefits of £15 million, mainly from growing sales of holidays to higher-margin differentiated hotels, higher ancillaries sales and other overhead savings. This takes the cumulative annualised net EBIT benefits delivered since the programme began to £85 million. We remain on track to deliver a total of £160 million to £180 million of cumulative annualised net EBIT benefits by FY20.

Financing progress and dividends

We achieved significant progress in our financing strategy in the first half. We issued a new €400 million bond with a coupon of 3.875%, maturing on 15 July 2023. This coupon is significantly lower than the 6.75% €400 million June 2021 bond it replaced, helping us to achieve lower interest costs, while extending maturities and liquidity.

Standard & Poor's upgraded our credit rating to B+, bringing them in line with Fitch and Moody's. This reflects our progress in delivering on our strategy, as well as improving the risk profile of our business.

We expect to make a dividend payment at the full year. Our policy is to target dividend growth that reflects the Group's progress in underlying earnings per share. As previously stated, in view of the seasonality of the Group's profit profile, it is not our intention to pay interim dividends for the foreseeable future.

OPERATING AND FINANCIAL REVIEW

£m	H1 2018	H1 2017	Change	Like-for-like Change[ii]
Revenue	3,227	2,994	+233	+165
Underlying[i] Gross profit	672	633	+39	+30
Underlying[i] Gross Margin (%)	20.8%	21.1%	-30bps	-20bps
Underlying[i] Operating expenses	(841)	(810)	-31	-17
Underlying[i] loss from operations (Underlying EBIT)	**(169)**	**(177)**	**+8**	**+13**
Separately disclosed EBIT charges	(45)	(28)	-17	-17
Loss from operations (EBIT)	**(214)**	**(205)**	**-9**	**-4**
Associated undertakings	(1)	-	-1	-1
Underlying[i] Net finance charges	(66)	(74)	+8	+8
Separately disclosed finance charges	(22)	(35)	+13	+13
Loss before tax	**(303)**	**(314)**	**+11**	**+16**
Tax	48	42	+6	+6
Loss for the period	**(255)**	**(272)**	**+17**	**+22**
Free cash flow[iii]	(718)	(649)	-69	-69
Net debt[iv]	(886)	(794)	-92	+94[iv]

Notes
(i) 'Underlying' refers to trading results that are adjusted for separately disclosed items that are significant in understanding the on-going results of the Group. Separately disclosed items are detailed on page 14
(ii) 'Like-for-like' adjustments include the impact of foreign exchange translation and the timing of Easter. The detailed like-for-like adjustments are shown on page 9
(iii) Free cash flow is cash from operating activities less exceptional items, capital expenditure and net interest paid, before proceeds on disposal. A summary cash flow statement is presented on page 15, and a reconciliation of free cash flow is shown on page 20
(iv) Like-for-like net debt adjusts the prior year comparative for foreign exchange translation, the impact in change in finance lease arrangements, payments to the Cooperative Group and associated costs of the bond refinancing, which totalled £186 million, resulting in H1 2017 like-for-like net debt of £980 million The detailed like-for-like adjustments are shown on page 16

Overview

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

The Group made good financial progress in H1 2018, reporting higher revenues, higher gross profit, improved underlying EBIT and lower net debt, compared to last year. Group revenue increased by 8% (£233 million) on a headline basis (before adjusting for the positive benefits of foreign exchange translation differences), and by 5% (£165 million) on a like-for-like basis, as demand grew for our holidays to North Africa and long-haul destinations.

Supported by our strong revenue growth, gross profit increased by £30 million, while gross margin reduced by 20 basis points. Margin improved in our airline due to higher yields in short/medium-haul and the turnaround in Condor, although this was offset by margin pressures in our UK Tour Operator, particularly to the Spanish islands.

The Group's underlying seasonal EBIT loss improved by £13 million to £169 million. This includes a £7 million benefit (H1 2017: £5 million benefit) in the Group Airline, as a result of the reassessment of maintenance provisions.

The Group's loss from operations increased by £4 million to £214 million, due to higher EBIT Separately Disclosed Items as transformation activity accelerates.

Underlying net finance interest charges by £8 million to £66 million. In addition, separately disclosed finance charges decreased by £13 million to £22 million due to reduced costs associated with our bond refinancing in December 2017 compared with the refinancing costs we incurred in December 2016. As a result, the Group's

loss before tax improved by £16 million to £303 million. The tax credit for the first half was £48 million, resulting in a loss for the period of £255 million, an improvement of £22 million compared to the prior year.

Free cash flow for the period was a seasonal outflow of £718 million, £69 million higher than last year, primarily reflecting the timing of aircraft maintenance events for our operating lease aircraft.

Group net debt at the end of the period was £886 million, £92 million lower compared to a year ago. Adjusting for non-cash and non-recurring items, net debt improved by £94 million on a like-for-like basis, reflecting the improved working capital movements due to stronger summer bookings.

Like-for-like Analysis

Certain items, such as the normal translational effect of foreign exchange movements, affect the comparability of the underlying performance between financial years. To assist in understanding the impact of those factors, and to better present underlying year-on-year changes, 'like-for-like' comparisons with H1 2017 are presented in addition to the change in reported numbers.

The 'like-for-like' adjustments to the Group's H1 2017 results and the resulting year-on-year movements are as follows:

Group	Revenue £m	Gross Margin %	Operating Expenses £m	Underlying EBIT £m
H1'17 Reported	**2,994**	**21.1%**	**(810)**	**(177)**
Impact of Currency Movements	39	-0.1%	(10)	(6)
Easter adjustment	29	-	-	5
Group Airline set up costs[(i)]	-	-	(4)	(4)
H1'17 like-for-like	**3,062**	**21.0%**	**(824)**	**(182)**
H1'18 Reported	**3,227**	**20.8%**	**(841)**	**(169)**
Like-for-like change (£m)	+165	n/a	-17	+13
Like-for-like change (%)	+5%	-20bps	-2%	+7%

Notes (i) Group Airline set up costs relate to the setup of our Palma-based airline, Thomas Cook Airlines Balearics

Performance by business line

Since our FY17 results announcement in November 2017, the Group has reported the operations of its Group Tour Operator and Group Airline businesses as its primary reporting segmentation. This segmentation was previously given as supplementary information. Further description of this change in segmental reporting can be found in our FY17 results statement.

Underlying EBIT loss by business line	Group Tour Operator £m	Group Airline £m	Corporate £m	Group £m
H1'17 Reported	**(81)**	**(82)**	**(14)**	**(177)**
Impact of Currency Movements	(2)	(4)	-	(6)
Easter adjustment	2	3	-	5
Group Airline set up costs[(i)]	-	(4)	-	(4)
Business Unit transfer[(ii)]	(8)	8	-	-
H1'17 like-for-like	**(89)**	**(79)**	**(14)**	**(182)**
H1 2018 Reported	**(85)**	**(59)**	**(25)**	**(169)**
Like-for-like change (£m)	+4	+20	-11	+13
Like-for-like change (%)	+4%	+25%	-79%	+7%

Notes (i) Group Airline set up costs relate to the setup of our Palma-based airline, Thomas Cook Airlines Balearics
(ii) Business Unit transfer represents the impact of the transfer of our Belgian Airlines business to SN Brussels

Revenue

Group revenue increased by £165 million (5%) to £3,227 million, as we expanded our programme to meet growing customer demand. Increased winter demand to Egypt and Tunisia resulted in higher revenue from holidays and flights to North Africa, while we also continued to expand our long-haul programme. Revenues in the first half of the year also benefited from strong demand to Greece, Spain and Turkey in the late Summer 17 season. The main components of the changes by destination are as follows:

	£m
H1 2017 Like-for-like Revenue	**3,062**
North Africa	74
Turkey	11
Greece	26
Spain	38
Other Short/Medium-Haul	(56)
Long-Haul	72
H1 2018 Revenue	**3,227**

Underlying Gross Profit and Margin

Gross profit increased by £30 million to £672 million, supported by strong revenue growth. Gross margin of 20.8% is down 20 basis points compared to last year, mainly reflecting the continuing impact of bed cost inflation on holidays to Spain, particularly in our UK tour operator business. Our Group Airline gross margin improved due to the successful turnaround of Condor, together with improved yields from short/medium-haul flying in the winter compared to last year. The impact on the Group's gross margin performance by segment is set out below.

	£m
H1 2017 Like-for-like Gross Margin	**21.0%**
UK Tour Operator	-0.8%
Continental Europe Tour Operator	Same
Northern Europe Tour Operator	Same
Group Airline	+0.6%
H1 2018 Gross Margin	**20.8%**

Underlying Operating Expenses / Overheads

Operating expenses before depreciation increased by 2% (£15 million) to £727 million as the benefits of efficiency initiatives were offset by inflation and volume-related increases to our operating cost base. Depreciation increased by £2 million to £114 million, reflecting investment in our aircraft fleet and IT enhancements.

£m	**H1 2018**	**H1 2017 Like-for-Like**	**Like-for-Like Change**
Personnel Costs	(480)	(454)	-26
Net Operating Expenses	(247)	(258)	+11
Sub Total	**(727)**	**(712)**	**-15**
Depreciation	(114)	(112)	-2
Total	**(841)**	**(824)**	**-17**

Underlying EBIT

The Group reported a seasonal underlying EBIT loss of £169 million for the period, a £13 million (7%) improvement compared to last year on a like-for-like basis. The principal components of the Group's EBIT performance for the year are summarised below under "Segmental review".

EBIT

Statutory EBIT loss for the period of £214 million is £4 million higher than last year on a like-for-like basis, as an improved underlying EBIT result has been offset by an increase in separately disclosed items.

SEGMENTAL REVIEW

Performance by business line

During the period Group underlying EBIT improved by £13 million on a like-for-like basis, analysed as follows:

£m	Group Tour Operator	Group Airline	Corporate (i)	Group
Revenue	2,386	1,313	(472)	3,227
Gross Margin (%)	14.2%	25.0%	n/m	20.8%
Underlying EBIT	**(85)**	**(59)**	**(25)**	**(169)**
Like-for-Like Underlying EBIT change	**+4**	**+20**	**-11**	**+13**
Customers ('000)	3,182	6,594	(2,889)	6,887

(i) Negative revenue and customers reported in Corporate is a result of inter-segment eliminations

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

Group Tour Operator

£m	H1 2018	H1 2017	Change	H1 2017 Like-for-Like	Like-for-Like Change
Revenue	2,386	2,249	+137	2,295	+91
Gross Margin (%)	14.2%	15.3%	-110bps	15.2%	-100bps
Underlying EBIT	**(85)**	**(81)**	**-4**	**(89)**	**+4**
Customers (000's)	3,182	3,157	+25	3,239	-57
ASP (£)	750	712	+38	709	+41

Revenues increased in all of our core markets in the first half, leading to an overall increase in Group Tour Operator revenues of £91 million (or 4%) to £2,386 million (H1 2017: £2,295 million). Demand for our holidays remained strong across all of our businesses, especially for our differentiated holidays to own-brand and selected partner hotels, where sales grew by 8 per cent overall. Margins in most of our core source markets have been maintained or improved, apart from the UK where a continuation of challenging market conditions has caused the Group Tour Operator gross margin to decline by 100 basis points to 14.2% (H1 2017: 15.2%).

The seasonal Underlying EBIT loss of £85 million is £4 million better than last year, as our Northern Europe business further strengthened its market-leading position, mitigating the margin pressures being experienced in our UK business.

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

£m	H1 2018	H1 2017	Change	H1 2017 Like-for-Like	Like-for-Like Change
Revenue					
- Northern Europe	614	563	+51	565	+49
- Continental Europe	1,256	1,196	+60	1,235	+21
- UK	528	501	+27	506	+22
- Consolidation adjustments	(12)	(11)	-1	(11)	-1
Total	**2,386**	**2,249**	**+137**	**2,295**	**+91**
Underlying EBIT					
- Northern Europe	41	32	+9	32	+9
- Continental Europe	(49)	(43)	-6	(52)	+3
- UK	(77)	(70)	-7	(69)	-8
Total	**(85)**	**(81)**	**-4**	**(89)**	**+4**

Northern Europe

Our Northern Europe tour operating business performed very well in the first half, achieving significant revenue growth and a £9 million increase in underlying EBIT to £41 million (H1 2017: £32 million). Demand was good for both our classic and dynamic packages, leading to less discounting later in the sales cycle. We have continued to build on our strong product position in Northern Europe, and this has resulted in sales of holidays to our own-brand hotels growing by 6% in the first half, while sales of holidays to our selected partner hotels grew by 18%.

Continental Europe

Our tour operating business in Continental Europe achieved a good result overall, reducing its seasonal underlying EBIT loss by £3 million to £49 million in the first half (H1 2017: £52 million loss). Demand for most destinations has been robust, with growth to Egypt, Greece and Tunisia helping to offset declines to Mexico and the Caribbean following Hurricane Irma last autumn. Sales to own-brand hotels increased by 10% in the first half, while sales to selected partner hotels were maintained at last year's levels.

Belgium performed particularly well following the transfer of our Belgian airline business to SN Brussels in November, leading to a reduction in seasonal losses from winter flying. France and Russia also improved their financial results, with France benefitting from strong growth in demand especially to North African destinations, together with the effect of significant cost-cutting initiatives over recent years. Despite growing revenues, our German business saw its seasonal underlying loss increase in the first half, due to weaker margins to long-haul destinations (partly due to a disadvantageous hedging position for the US Dollar) and strong market competition, especially to Egypt. Our Eastern European businesses and our Dutch business achieved a similar first-half result to last year.

UK

While our UK tour operating business grew sales in the first half of the year, with good levels of demand especially for Turkey and Egypt, as we highlighted at recent results announcements, margins continued to come under pressure particularly in the second quarter. This resulted in a seasonal underlying EBIT loss of £77 million, which is £8 million higher than last year (H1 2017: £69 million loss). The business was principally impacted by softer margins to the Canaries, our largest winter destination, caused by strong hotel cost inflation, together with a weaker Sterling and increased levels of market competition. As a consequence, while customer demand remains strong, our UK business has not fully passed on these significant inflationary cost increases through higher selling prices.

In this environment, we are implementing a set of actions, in order to help mitigate these market pressures. We have continued to rebalance our destination mix towards more profitable, fast-growing destinations such as Turkey and Egypt, and to target further operating efficiencies. In addition, we grew sales of differentiated holidays significantly in the first half, by 31% for holidays to own-brand hotels, and by 18% for sales to

selected partner hotels, helping to improve the competitiveness of our product offering. We reduced the size of our retail store network by a further 10% to around 600 stores, while at the same time growing online sales on a booked basis by 33%, with mobile performing particularly well. We expect that continued implementation of these actions will, together, help to return the business to profitable growth.

Group Airline

£m	H1 2018	H1 2017	Change	H1 2017 Like-for-Like[(i)]	Like-for-Like Change
Flight Revenue	1,078	1,011	+67	1,016	+62
Ancillary Revenue	129	119	+10	120	+9
Other Revenue	106	72	+34	72	+34
Total Revenue	**1,313**	**1,202**	**+111**	**1,208**	**+105**
Total Operating Costs	(1,217)	(1,135)	-82	(1,138)	-79
Underlying EBITDAR	**96**	**67**	**+29**	**70**	**+26**
Underlying EBIT	**(59)**	**(82)**	**+23**	**(79)**	**+20**
Customers / Sold seats (000's)	6,594	6,078	+516	5,931	+663
Available Seat Kilometres (ASK) (m)	30,022	28,757	+1,265	28,194	+1,828
Seat Load Factor (SLF) (%)	89.4%	88.6%	+80bps	88.7%	+70bps
Short/Medium-Haul Yields per seat (£)	120	116	+4	117	+3
Long-Haul Yields per seat (£)	317	307	+10	314	+3
Unit Cost (p.ASK)	(4.33)	(4.29)	-0.04	(4.26)	-0.07

Notes (i) 'Like-for-like' change adjusts for the impact of foreign exchange, Easter and the transfer of the Belgium Airline to SN Brussels.

Our Group Airline revenue increased by £105 million (9%) to £1,313 million on a like-for-like basis due to customers increasing by 11% to 6.6 million, while yields increased by 1% and 3% in long-haul and short/medium-haul respectively.

Growth in short/medium-haul was as a result of a strong increase in demand from third-party tour operators, following the collapse of Monarch and Air Berlin/Niki. Consequently, short/medium-haul yields increased by 3% to £120 per seat sold. Long-haul performance was strong with a 1% increase in yields to £317 per seat sold.

This strong passenger growth, in combination with our upgraded booking system, facilitated an increase in ancillary revenues of 8%, primarily in relation to seat reservations. However, ancillary revenue per customer decreased by 3% to £19.56 (H1 2017 like for like: £20.23) due to a higher share of short/medium-haul customers which typically attract lower ancillary sales than long-haul routes.

Total cost per ASK increased from 4.29 pence per ASK in H1 2017 to 4.33 pence per ASK. The 1% increase is a result of positive fuel hedge result compared to last year as well as cost reduction measures, which have materially mitigated significant currency headwinds impacting those elements of the cost base denominated in US Dollars.

Underlying EBIT for our Group Airline improved by £20 million to a seasonal loss of £59 million. The improvement was a result of delivering our turnaround programme for Condor, supported by a strong trading performance in the short/medium-haul market, which allowed us to increase yields at the same time as hedged fuel costs decreased. This yield increase, in combination with capacity increases in short/medium-haul routes to satisfy strong tour operator demand for our services, led to revenue growth of 7% in Germany. In addition, the Group Airline result includes a £7 million benefit (H1 2017: £5 million benefit), as a result of the reassessment of maintenance provisions.

Our UK Airline reported revenue 12% higher than last year, reflecting moderate capacity increases and significant yield improvements, especially in the short/medium-haul market. However the yield developments were not sufficient to fully compensate for the substantial currency headwinds for the US Dollar and the Euro.

Corporate

Corporate costs increased by £11 million to £25 million (H1 2017: £14 million), which reflects additional costs incurred to support corporate projects undertaken during the first half, such as the set-up of the Hotel Fund, and the timing impact of other head office items, especially in relation to IT.

OTHER FINANCIAL ITEMS

Net Finance Charges

Group net finance costs for the period of £66 million were £8 million lower than last year (H1 2017: £74 million). Bank and bond interest charges reduced by £4 million following the replacement of our previous bonds with new lower-coupon bonds issued in December 2016 and December 2017. The remaining improvement is due to a lower non-cash interest as a result of a change in discount rates.

£m	**H1 2018**	**H1 2017**
Bank and Bond interest and related charges	(38)	(42)
Fee amortisation	(4)	(4)
Letters of credit	(9)	(9)
Other interest payable	(8)	(12)
Interest income	2	2
Net interest & finance costs before aircraft financing	**(57)**	**(65)**
Aircraft financing	(9)	(9)
Net Finance Costs	**(66)**	**(74)**

Further information on Finance costs are set out in Note 5 on page 30.

Separately Disclosed Items

Net Separately Disclosed Items in H1 2018 comprised a charge of £67 million, which is £4 million higher than the prior year (H1 2017: £63 million) as analysed below:

£m	H1 2018	H1 2017
New Operating Model implementation and restructuring	(33)	(27)
Onerous contracts and store closures	(14)	(16)
Costs of transformation	**(47)**	**(43)**
Reassessment of contingent consideration	(1)	32
Disposal of subsidiaries	29	-
Investment in business development and start-up costs	(10)	(2)
Other	(16)	(15)
EBIT related items	**(45)**	**(28)**
Finance related charges	**(22)**	**(35)**
Total	**(67)**	**(63)**
Of which:		
- Cash[(i)]	(85)	(57)
- Non-Cash	18	(6)

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

Further information on separately disclosed items is set out in Note 4 on pages 28 and 29.

Summary Cash Flow Statement[i]

£m	H1 2018	H1 2017
Underlying EBIT	(169)	(177)
Depreciation	114	111
Underlying EBITDA	**(55)**	**(66)**
Working capital	(397)	(335)
Tax	(26)	(30)
Pensions & other operating	(8)	(8)
Operating Cash flow[i]	**(486)**	**(439)**
Exceptional bond refinancing costs	(17)	(10)
Exceptional items	(60)	(41)
Capital expenditure	(104)	(92)
Net interest paid	(51)	(67)
Free Cash flow[i]	**(718)**	**(649)**
Proceeds on disposal	7	1
Dividend and Co-op payment	(58)	(32)
Net Cash flow[i]	**(769)**	**(680)**

Opening Net Debt	**(40)**	**(129)**
Net Cash Flow	(769)	(680)
Other Movements in Net Debt[ii]	(77)	15
Closing Net Debt	**(886)**	**(794)**

Notes (i) The Group uses three non-statutory cash flow measures to manage the business.
Operating Cash flow is net cash from operating activities excluding interest income and the cash effect of separately disclosed items impacting EBIT.
Free cash flow is cash from operating activities less exceptional items, capital expenditure and net interest paid, before proceeds on disposal. The definition of free cashflow has changed from prior year to exclude cashflows arising from the disposal of property, plant and equipment as we believe this provides a more relevant measure of free cash flow. In the prior year, under the previous definition this value was £648m.
Net Cash flow is the net (decrease)/increase in cash and cash equivalents excluding the net movement in borrowings, finance lease repayments and facility set-up fees
(ii) Other movements in net debt include currency translation and the reclassification of operating leases to finance leases

The seasonal free cash outflow of £718 million was £69 million higher than last year (H1 2017: £(649) million), reflecting a £62 million increase in our working capital outflow which primarily related to the timing of aircraft maintenance events, and the acceleration of transformational activity.

Net cash interest paid was £16 million lower than last year at £51 million due mainly to lower coupon rates on new bonds issued in December 2016 and December 2017 to refinance more expensive borrowing.

Current year cash exceptional charges totalling £77 million are analysed as follows:

Exceptional items (£m)	**H1 2018**	**H1 2017**
Current year cash related exceptionals	(85)	(57)
Of which will be paid in future years	16	22
Prior year cash exceptionals paid in current year	(8)	(13)
Prior year EU261 (paid in Financial Year)	-	(3)
Total cash exceptional items[i]	**(77)**	**(51)**

Note (i) Total cash exceptional items are £(77)m in H1 2018 (H1 2017: £(51)m) and consists of £(60)m (H1 2017: £(41)m) reported in the cash flow as "Exceptional items" and £(17)m (H1 2017: £(10)m) reported in Net Interest costs

The Group uses a measure of cash conversion representing the percentage of underlying profit before tax that is converted into free cash flow. On this basis, cash conversion has increased on a last twelve months ('LTM') basis to 38% (H1 2017 LTM: 31%) due mainly to the improved working capital associated with increased bookings for the Summer 2018 season.

Cash conversion (£m)	H1 2018 LTM	H1 2017 LTM
Underlying EBIT	338	288
Net interest	(135)	(141)
Underlying Profit before tax	**203**	**147**
Free Cash flow[(i)]	77	46
Cash conversion	38%	31%

Note (i) Free cash flow is cash from operating activities less exceptional items, capital expenditure and net interest paid, before proceeds on disposal

Net Debt

The Group sources debt and finance facilities from a combination of the international capital markets and its relationship banking group. During the first half of FY18, on a like-for-like basis, the Group's net debt has fallen from £980 million to £886 million, equivalent to an improvement of £94 million.

	£m
H1 2017 Reported	**(794)**
Impact of currency and other non-cash movements	(22)
Aircraft finance lease extensions	(86)
Bond refinancing	(20)
Co-op payment	(58)
H1 2017 Like-for-like	**(980)**
H1 2018 Reported	**(886)**
Like-for-like change	+94

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

£m	31 March 2018	31 March 2017	Movement	Maturity
2021 Euro Bond	-	(342)	+342	June 2021
2022 Euro Bond	(657)	(642)	-15	June 2022
2023 Euro Bond	(350)	-	-350	June 2023
Commercial Paper	(218)	(140)	-78	Various
Revolving Credit Facility	(50)	(50)	-	Nov 2022
Finance Leases	(198)	(167)	-31	Various
Aircraft related borrowings	(20)	(47)	+27	Various
Other external debt	(36)	(33)	-3	Various
Fair Value adj. to Bonds & IRS	(7)	(2)	-5	n/a
Arrangement fees	31	20	+11	n/a
Total Debt	**(1,505)**	**(1,403)**	**-102**	
Cash (net of overdraft)	619	609	+10	
Net Debt	**(886)**	**(794)**	**-92**	

In November 2017 the Group entered into new financing arrangements amounting to £975 million. These include an enlarged, £875 million revolving credit facility and bonding and guarantee facility, maturing in November 2022. In addition, the Group has a £100 million annual rolling bilateral funding from one of our insurance providers.

In December 2017, the Group refinanced its €400 million bond with a new bond of the same size which matures in June 2023. This has further improved the Group's liquidity and debt maturity profile and has lowered our annual interest costs due to a coupon rate reduction of nearly 300 basis points compared to the bond which was refinanced.

Treasury and Cash Management

The Group's funding, liquidity and exposure to foreign currencies, interest rates, commodity prices and financial credit risk are managed by a centralised Treasury function and are conducted within a framework of Board-approved policies and guidelines.

The principal aim of Treasury activities is to reduce volatility by hedging, which provides a degree of certainty to the operating segments, and to ensure a sufficient level of liquidity headroom at all times.

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

Due to the seasonality of the Group's business cycle and cash flows, a substantial amount of surplus cash accumulates during the summer months. Efficient use and tight control of cash throughout the Group is facilitated by the use of cash pooling arrangements and the net surplus cash is invested by Treasury in high quality, short-term liquid instruments consistent with Board-approved policy, which is designed to mitigate counterparty credit risk. Yield is maximised within the terms of the policy but returns in general remain low given the low interest rate environment in the UK, the US and Europe.

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

Hedging of Fuel and Foreign Exchange

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

	Summer 2018	Winter 2018/19	Summer 2019
Euro	Fully Hedged	77%	32%
US Dollar	Fully Hedged	71%	35%
Jet Fuel	Fully Hedged	85%	44%

As at 31 March 2018

As Jet Fuel is priced in US Dollars, we buy forward the requisite amount of US Dollars from a mix of base currencies. For FY18, additional fuel requirements during the second quarter, related to the growth of our fleet, has resulted in a higher hedged rate for fuel. As a result, we estimate that our FY18 fuel costs will increase by around £10 million compared with last year, on a like-for-like basis.

The Group's policy is not to hedge the translation impact of profits generated outside the UK. As a result of currency movements during the period, underlying EBIT in H1 2018 was lower by £6 million. If end-April rates for the Euro and Swedish Krona were maintained throughout the remainder of FY18, there would be a negative year-on-year translation impact on EBIT of approximately £19 million.

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

	Average Rate		Period End Rate	
	H1 2018	H1 2017	H1 2018	H1 2017
GBP/Euro	1.13	1.16	1.14	1.17
GBP/US Dollar	1.36	1.24	1.41	1.25
GBP/SEK	11.17	11.14	11.74	11.14

Credit Rating

The Group has received an upgrade from Standard and Poor's to B+ recognising the continuing progress in Thomas Cook's transformation. The outlook from all three of the credit rating agencies remains stable.

Corporate Ratings	H1 2018		H1 2017	
	Rating	Outlook	Rating	Outlook
Standard and Poor's	B+	Stable	B	Positive
Fitch	B+	Stable	B+	Stable
Moody's	B1	Stable	B1	Stable

Forward looking statements

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

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

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

PRINCIPAL RISKS & UNCERTAINTIES

Management have undertaken a broader review of the principal risks and uncertainties affecting the business activities of the Group.

The assessment indicated that the following risks are of a particular relevance to the likely outturn for September 2018 as their impact could have an immediate effect:

- Due to the nature of its business, the Group will always be exposed to a risk of a health and safety incident that may impact our customers or colleagues together with associated reputational damage.
- A significant decline in customer demand due to the growing threat of terrorist attacks in our key tourist destinations, may lead to decreased revenue.
- Cash generation is insufficient to strategically manage debt repayment and/or dividend payment.

The potential likelihood and impact of these risks remain broadly unchanged since the September 2017 year-end evaluation was performed.

The following principal risks were identified which could impact the Group beyond September 2018:

- Our transformation initiatives fail to deliver our strategic and operational targets.
- Inability to consistently meet customer expectations may have an adverse impact on Thomas Cook's market share.
- Failure to develop a more diverse product portfolio may have an adverse impact on our ability to improve the customers' experience of Thomas Cook holidays.
- Failure to achieve growth in our digital distribution channel may have an adverse impact on our market share, profitability and future growth.
- Failure to recruit or to retain the right people at the right time will lead to a lack of capability or capacity to enable the implementation of our business strategy.
- IT architecture is unable to support the needs of the business.
- Information security and cyber threats are currently a priority across all industries and remain a key Government agenda item. The Group recognises that we have high risk exposure in this area.
- The decision for the UK to exit the EU has a detrimental impact on the Group's operations.
- Failure to comply with regulatory, legislative and corporate social responsibility requirements in the legal jurisdictions where Thomas Cook operates.
- The success of our Group Airline business depends on our ability to effectively manage our fleet. Inability to operate the required number and types of aircraft in our fleet may lead to missed revenue or reduced margins. Inability to operate the fleet effectively may lead to customer dissatisfaction, cost increases and reduced profitability.

The potential likelihood and impact of these risks remain broadly unchanged since the September 2017 year-end evaluation was performed.

In addition, in February 2017, the European Union Competition Commission launched an investigation into the travel industry regarding hotel accommodation agreements. As announced publicly on 3 February 2017, the Group notes the decision by the European Commission to investigate the availability of hotel bookings and pricing between member states. Across the Group's 15 European source markets, Thomas Cook is committed to fair and open competition and will cooperate fully with the Commission through this process.

With the exception of the EU Competition Commission investigation, the outcome of this review has not identified new risks for the Group or changes to the Group's control environment which is more fully described throughout the Directors' Report of the Annual Report & Accounts for the year ended 30 September 2017, a copy of which is available on the Group's corporate website, **www.thomascookgroup.com**.

Appendix 1 – Use of alternative performance measures

The Directors have adopted a number of alternative performance measures (APM), namely underlying EBIT, net debt, operating cash flow, free cash flow and net cash flow. The Group's results are presented both before and after separately disclosed items. Separately disclosed items are disclosed in note 4 of the consolidated financial statements.

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

Underlying EBIT

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

Reconciliation to IFRS measures:

£m	HY18	HY17
Loss from operations	(214)	(205)
Add: Separately disclosed items affecting loss from operations (Note 4)	45	28
Underlying EBIT	**(169)**	**(177)**

Management cash flow statement

The Group uses three non-statutory cash flow measures to manage the business. Operating Cashflow is net cash used in operating activities excluding the cash effect of separately disclosed items. Free cash flow is cash from operating activities less exceptional items, capital expenditure and net interest paid, before proceeds on disposal. Net Cashflow is the net decrease in cash and cash equivalents excluding the net movement in borrowings, facility set-up fees and finance lease repayments. These cash flow measures are indicators of the financial management of the business. They reflect the cash generated by the business before and after investing and financing activities and explain changes in the Group's Net Debt position.

£m	HY18	HY17
Underlying EBIT	**(169)**	**(177)**
IFRS depreciation and amortisation	114	111
IFRS share based payments	3	3
IFRS movement in working capital and provisions	(446)	(363)
Payment to the Co-operative	58	-
Add back cash impact of separately disclosed items on working capital	(9)	28
IFRS Income taxes paid	(26)	(30)
IFRS additional pension contributions	(12)	(12)
Add back non cash impact of separately disclosed items	1	1
Operating Cash Flow	**(486)**	**(439)**
Payment to The Co-operative	(58)	-
Exceptional items	(60)	(41)
Interest Income	2	-
IFRS net cash used in operating activities	**(602)**	**(480)**
IFRS purchase of tangible assets	(69)	(62)
IFRS purchase of intangible assets	(35)	(30)
IFRS interest paid	(70)	(77)
Payment to the Co-operative	58	-
Free Cash Flow[(i)]	**(718)**	**(649)**
IFRS dividends paid to non-controlling interests	-	(32)
IFRS proceeds on disposal of property, plant and equipment	14	1
IFRS Investments in joint ventures & associates	(7)	-
Payments to The Co-operative	(58)	-
Net Cash Flow	**(769)**	**(680)**

(i) The definition of free cashflow has changed from prior year to exclude cashflows arising from the disposal of property, plant and equipment as we believe this provides a more relevant measure of free cash flow. In the prior year, under the previous definition this value was £648m.

Net debt

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

Reconciliation to IFRS measures:

£m	HY18	HY17
Borrowings	(1,303)	(1,245)
Obligations under finance leases	(199)	(167)
Net derivative financial instruments – interest rate swaps (Note 9)	(8)	(1)
Cash and cash equivalents	624	619
Net Debt	**(886)**	**(794)**

Appendix 2 – Condensed consolidated interim financial statements

Group Income Statement

		Unaudited Six months ended 31 March 2018			Unaudited Six months ended 31 March 2017		
	Notes	**Underlying results £m**	**Separately disclosed items (note 4) £m**	**Total £m**	Underlying results £m	Separately disclosed items (note 4) £m	Total £m
Revenue	3	**3,227**	**-**	**3,227**	2,994	-	2,994
Cost of providing tourism services		**(2,555)**	**(5)**	**(2,560)**	(2,361)	-	(2,361)
Gross profit		**672**	**(5)**	**667**	633	-	633
Personnel expenses		**(480)**	**(19)**	**(499)**	(446)	(15)	(461)
Depreciation and amortisation		**(114)**	**-**	**(114)**	(111)	-	(111)
Net operating expenses		**(247)**	**(45)**	**(292)**	(253)	(10)	(263)
Amortisation of business combination intangibles	4	**-**	**(4)**	**(4)**	-	(3)	(3)
Profit on disposal of subsidiaries and fixed assets		-	**28**	**28**	-	-	-
Loss from operations	3	**(169)**	**(45)**	**(214)**	(177)	(28)	(205)
Share of results of associates and joint ventures		**(1)**	**-**	**(1)**	-	-	-
Finance income	5	**2**	**-**	**2**	2	-	2
Finance costs	4/5	**(68)**	**(22)**	**(90)**	(76)	(35)	(111)
Loss before tax		**(236)**	**(67)**	**(303)**	(251)	(63)	(314)
Tax	6			**48**			42
Loss for the period				**(255)**			(272)
Attributable to:							
Equity holders of the parent				**(254)**			(267)
Non-controlling interests				**(1)**			(5)
				(255)			(272)
Basic and diluted loss per share (pence)	7			**(16.6)**			(17.4)

The notes on pages 26 to 33 form an integral part of the condensed consolidated interim financial information.

Group Statement of Other Comprehensive Income

	Unaudited Six months ended 31 March 2018 £m	Unaudited Six months ended 31 March 2017 £m
Loss for the period	**(255)**	**(272)**
Other comprehensive income/(loss)		
Items that will not be reclassified to the Income Statement		
Actuarial gains on defined benefit pension schemes	**23**	**54**
Tax on actuarial gains	**-**	**(15)**
Items that may be reclassified subsequently to the Income Statement		
Foreign exchange translation losses	**(84)**	**(7)**
Fair value gains and losses		
Gains deferred for the period	**85**	**68**
Tax on gains deferred for the period	**(7)**	**(15)**
Gains transferred to the income statement	**(9)**	**(34)**
Tax on gains transferred to the income statement	**(1)**	**(5)**
Total net other comprehensive income for the period	**7**	**46**
Total comprehensive loss for the period	**(248)**	**(226)**
Attributable to:		
Equity holders of the parent	**(247)**	**(220)**
Non-controlling interests	**(1)**	**(6)**
Total comprehensive loss for the period	**(248)**	**(226)**

The notes on pages 26 to 33 form an integral part of the condensed consolidated interim financial information.

Group Cash Flow Statement

	Unaudited Six months ended 31 March 2018 £m	Unaudited Six months ended 31 March 2017 £m
Loss before tax	**(303)**	(314)
Adjustments for:		
Net finance costs	**88**	109
Net investment income and share of results of joint ventures and associates	**1**	-
Depreciation, amortisation and impairment	**119**	125
Share-based payments	**3**	3
Profit on disposal of subsidiaries and fixed assets	**(28)**	-
Increase/(decrease) in provisions	**(37)**	11
Additional pension contributions	**(12)**	(12)
Interest received	**2**	2
Increase in working capital:		
Inventories	**(2)**	(3)
Receivables	**(283)**	(198)
Payables	**(124)**	(173)
Cash used in operations	**(576)**	(450)
Income taxes paid	**(26)**	(30)
Net cash used in operating activities	**(602)**	(480)
Proceeds on disposal of property, plant and equipment	**14**	1
Investment in joint ventures and associates	**(7)**	-
Purchase of tangible assets	**(69)**	(62)
Purchase of intangible assets	**(35)**	(30)
Net cash used in investing activities	**(97)**	(91)
Interest paid	**(70)**	(77)
Dividends paid to non-controlling interests	**-**	(32)
Draw down of borrowings	**671**	904
Repayment of borrowings	**(630)**	(848)
Payment of facility set-up fees	**(25)**	(10)
Repayment of finance lease obligation	**(21)**	(20)
Net cash used in financing activities	**(75)**	(83)
Net decrease in cash and cash equivalents	**(774)**	(654)
Cash and cash equivalents net of overdrafts at beginning of year	**1,399**	1,234
Effect of foreign exchange rate changes	**(6)**	29
Cash and cash equivalents net of overdrafts at end of the period	**619**	609

The notes on pages 26 to 33 form an integral part of the condensed consolidated interim financial information.

Group Balance Sheet

	Notes	**Unaudited as at 31 March 2018 £m**	Unaudited as at 31 March 2017 £m	Audited as at 30 September 2017 £m
Non-current assets				
Intangible assets		**3,063**	3,078	3,136
Property, plant and equipment				
Aircraft and aircraft spares		**577**	580	581
Other		**156**	228	139
Investment in joint ventures and associates		**75**	7	6
Other investments		**1**	1	1
Deferred tax assets		**263**	261	216
Pension asset		**178**	63	123
Trade and other receivables		**84**	74	65
Derivative financial instruments	9	**12**	4	6
		4,409	4,296	4,273
Current assets				
Inventories		**44**	47	42
Tax assets		**1**	5	1
Trade and other receivables		**932**	800	735
Derivative financial instruments	9	**139**	122	56
Cash and cash equivalents		**624**	619	1,407
		1,740	1,593	2,241
Non-current assets held for sale		**52**	-	101
Total assets		**6,201**	5,889	6,615
Current liabilities				
Retirement benefit obligations		**(9)**	(9)	(9)
Trade and other payables		**(1,419)**	(1,367)	(2,343)
Borrowings		**(233)**	(179)	(245)
Obligations under finance leases		**(32)**	(43)	(39)
Tax liabilities		**(41)**	(60)	(57)
Revenue received in advance		**(2,075)**	(1,916)	(1,355)
Short-term provisions	8	**(155)**	(136)	(168)
Derivative financial instruments	9	**(129)**	(45)	(109)
		(4,093)	(3,755)	(4,325)
Non-current liabilities				
Retirement benefit obligations		**(466)**	(447)	(439)
Trade and other payables		**(21)**	(34)	(25)
Long-term borrowings		**(1,070)**	(1,066)	(1,047)
Obligations under finance leases		**(167)**	(124)	(115)
Non-current tax liabilities		**(5)**	(6)	(7)
Deferred tax liabilities		**(52)**	(54)	(61)
Long-term provisions	8	**(274)**	(320)	(307)
Derivative financial instruments	9	**(18)**	(12)	(9)
		(2,073)	(2,063)	(2,010)
Total liabilities		**(6,166)**	(5,818)	(6,335)
Net assets		**35**	71	280
Equity				
Called-up share capital		**69**	69	69
Share premium account		**524**	524	524
Merger reserve		**1,547**	1,547	1,547
Hedging and translation reserves		**(8)**	123	8
Capital redemption reserve		**8**	8	8
Accumulated losses		**(2,095)**	(2,191)	(1,867)
Investment in own shares		**(8)**	(8)	(8)
Equity attributable to equity owners of the parent		**37**	72	281
Non-controlling interests		**(2)**	(1)	(1)
Total equity		**35**	71	280

The notes on pages 26 to 33 form an integral part of the condensed consolidated interim financial information.

Group Statement of Changes in Equity

The unaudited movements in equity for the six months ended 31 March 2018 were as follows:

	Share capital & share premium £m	Other reserves £m	Hedging reserve £m	Translation reserve £m	Accumulated losses £m	Attributable to equity holders of the parent £m	Non-controlling interests £m	Total £m
Opening balance at 1 October 2017	**593**	**1,547**	**(40)**	**48**	**(1,867)**	**281**	**(1)**	**280**
Loss for the period	**-**	**-**	**-**	**-**	**(254)**	**(254)**	**(1)**	**(255)**
Other comprehensive income/(loss) for the period	**-**	**-**	**68**	**(84)**	**23**	**7**	**-**	**7**
Total comprehensive income/(loss) for the period	**-**	**-**	**68**	**(84)**	**(231)**	**(247)**	**(1)**	**(248)**
Equity credit in respect of share- based payments	**-**	**-**	**-**	**-**	**3**	**3**	**-**	**3**
At 31 March 2018	**593**	**1,547**	**28**	**(36)**	**(2,095)**	**37**	**(2)**	**35**

The restated unaudited movements in equity for the six months ended 31 March 2017 were as follows:

Opening balance at 1 October 2016	593	1,547	40	75	(1,889)	366	25	391
Adjustment on correction of error	-	-	-	-	(61)	(61)	(4)	(65)
Opening balance at 1 October 2016 restated	593	1,547	40	75	(1,950)	305	21	326
Loss for the period	-	-	-	-	(267)	(267)	(5)	(272)
Other comprehensive income/(loss) for the period	-	-	14	(6)	39	47	(1)	46
Total comprehensive income/(loss) for the period	-	-	14	(6)	(228)	(220)	(6)	(226)
Equity credit in respect of share- based payments	-	-	-	-	3	3	-	3
Dividends paid to non-controlling interest	-	-	-	-	-	-	(32)	(32)
Settlement of non-controlling interest	-	-	-	-	(16)	(16)	16	-
At 31 March 2017	593	1,547	54	69	(2,191)	72	(1)	71

1. Basis of Preparation

Thomas Cook Group plc ('the company') and its subsidiaries (together, 'the Group') is one of the world's leading leisure travel groups. The company is a public limited liability company limited by shares incorporated, registered and domiciled in England and Wales under the Companies Act 2006 and listed on the London Stock Exchange. The address of its registered office is 3rd Floor, South Building, 200 Aldersgate, London EC1A 4HD.

The consolidated interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, the Listing Rules and with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. This condensed consolidated interim financial information does not comprise statutory accounts of the Group within the meaning of Section 434(3) and 435(3) of the Companies Act 2006. They should be read in conjunction with the Annual Report for the year ended 30 September 2017 (the 'Annual Report'), which has been prepared in accordance with IFRSs as adopted by the European Union, approved by the Board of Directors on 21 November 2017 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The accounting policies and methods of computation used and presentation of these consolidated interim financial statements are the same as those in the Annual Report.

The consolidated half-yearly financial information has been prepared on a going concern basis. The Directors of the Group have a reasonable expectation that, on the basis of current financial projections and borrowing facilities available, the Group is well positioned to meet its commitments and obligations for at least the next 12 months from the date of this report. Having reassessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the interim financial information.

The half year report for the six months ended 31 March 2018 was approved by the Directors on 16 May 2018. The half year report has been reviewed, not audited. The auditor's review report is on page 35.

In 2017, management identified several adjustments that, in their opinion should be applied to the Group's financial statements for the year ended 30 September 2016. As a result the Balance Sheet as at 31 March 2017 has been restated. Refer to Note 33 of the 2017 Annual Report for further details of the restatement.

2. New or amended standard and interpretations in issue but not yet effective or EU endorsed

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective or EU endorsed:

IFRS 9 "Financial instruments" is a replacement for IAS 39 'Financial Instruments' and covers three distinct areas. Phase 1 contains new requirements for the classification and measurement of financial assets and liabilities. Phase 2 relates to the impairment of financial assets and requires the calculation of impairment on an expected loss basis rather than the current incurred loss basis. Phase 3 relates to less stringent requirements for general hedge accounting. IFRS 9 is effective for periods commencing on or after 1 January 2018, and therefore will be applied by the Group in fiscal year 2019. Based on our preliminary assessment, the Group does not currently anticipate a material impact from the new standard other than in providing additional disclosures in the Annual Report.

IFRS 15 "Revenues from Contracts with Customers" introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. IFRS 15 is effective for periods commencing 1 January 2018 and therefore will be applied by the Group in fiscal year 2019. The Group continues to assess the possible impact of IFRS 15, which involves:

- an examination of key contract types in order to identify any distinct performance obligations in the context of the contractual arrangement;
- assessing the point at which the Group delivers promised services to its customers and whether this presents a requirement to change the timing of its revenue recognition. Certain revenue streams within the Tour Operator segment, depending on specific contract terms, are currently recognised at the start of a customer's holiday on a departures basis. Under IFRS 15, the Group may be required to recognise revenue over the period a customer is on holiday. The Group expects this change to only impact revenue and the associated cost of sales where customers are still on holiday at the reporting date;
- assessing whether the Group provides services on its own account (gross revenue) or on behalf of a third party (net revenue), new criteria within IFRS 15 may result in net revenue recognition in certain revenue streams within both the Tour Operator and Airline segment; and
- understanding the specific new disclosure requirements prescribed. New disclosure requirements under IFRS 15 will result in a substantial extension of the qualitative and quantitative revenue disclosure.

Our evaluation and assessment is not yet complete therefore a reliable quantification of the effects of IFRS 15 on the Group's financial position and performance is not yet possible however the Group does not anticipate a material impact from the new standard other than in providing additional disclosures in the Annual Report.

IFRS 16 "Leases" provides a single lessee accounting model, requiring lessees to recognise right of use assets and lease liabilities for all applicable leases. The leasing standard is expected to have a material impact on net debt, gross assets, profit from operations and interest. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, and therefore will be applied by the Group in fiscal year 2020. Management have commenced a project across the Group to assess the overall impact of the standard, including considering the systems and processes required for implementation and the options around transition. We expect to report on the impact in the 2018 Annual Report. In addition, the Group awaits the result of ongoing HMRC consultation to understand the impact on taxes.

IFRS 17 "Insurance Contracts" is effective for annual periods beginning on or after 1 January 2021 subject to endorsement by the EU. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The Group plans to assess the impact of IFRS 17 closer to implementation date.

IFRIC 23 "Uncertainty over Income Tax Treatments" clarifies how to apply the recognition and measurements requirements in IAS12 'Income Taxes' when there is uncertainty over income tax treatments. IFRIC 23 is effective for annual periods beginning on or after 1 January 2019 and therefore will be applied by the Group in fiscal year 2019. The Group is currently assessing the impact of IFRIC 23.

There are no further IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

3. Segmental information

In 2017, the Group refined its organisational structure resulting in a reassessment of its reportable segments. In line with this change the Group reassessed its reporting segments.
The principal activities of the Group are therefore presented in the following segments:

- Tour operations and associated activities ('Group Tour Operator') within the Group's 17 source markets;
- Airline-related services, including both scheduled and charter services, and associated activities ('Group Airline') within the Group's five airlines; and
- Certain residual businesses and corporate functions that are not allocated to these divisions and are shown separately as Corporate.

These reportable segments are consistent with how information is presented to the Group Chief Executive (chief operating decision maker) for the purpose of resource allocation and assessment of performance. Segment information for the period ended 31 March 2017 has been restated accordingly.

Segmental information for these activities is presented below:

	Tour Operator £m	Airline £m	Corporate £m	Total £m
Unaudited six months ended 31 March 2018				
Revenue				
Segment sales	**2,386**	**1,313**	**-**	**3,699**
Inter-segment sales	**(15)**	**(457)**	**-**	**(472)**
Total revenue	**2,371**	**856**	**-**	**3,227**
Result				
Underlying (loss)/profit from operations	**(85)**	**(59)**	**(25)**	**(169)**
Separately disclosed items	**(38)**	**(4)**	**(3)**	**(45)**
Segment result	**(123)**	**(63)**	**(28)**	**(214)**
Share of results of associates and joint venture				**(1)**
Finance income				**2**
Finance costs				**(90)**
Loss before tax				**(303)**
Tax				**48**
Loss for the period				**(255)**
Balance sheet				
Assets				
Segment assets	**7,480**	**3,690**	**8,577**	**19,747**
Inter-segment eliminations				**(13,885)**
				5,862
Investments in joint ventures and associates				**75**
Tax and deferred tax assets				**264**
Total assets				**6,201**
Liabilities				
Segment liabilities	**(6,264)**	**(1,955)**	**(9,368)**	**(17,587)**
Inter-segment eliminations				**13,021**
				(4,566)
Tax and deferred tax liabilities				**(98)**
Borrowings and obligations under finance leases				**(1,502)**
Total liabilities				**(6,166)**

Unaudited six months ended 31 March 2017 Revenue	Tour Operator £m	Airline £m	Corporate £m	Total £m
Segment sales	2,249	1,202	-	3,451
Inter-segment sales	(10)	(447)	-	(457)
Total revenue	2,239	755	-	2,994
Result				
Underlying (loss)/profit from operations	(81)	(82)	(14)	(177)
Separately disclosed items	(26)	2	(4)	(28)
Segment result	(107)	(80)	(18)	(205)
Finance income				2
Finance costs				(111)
Loss before tax				(314)
Tax				42
Loss after tax				(272)

Balance sheet Assets	Tour Operator £m	Airline £m	Corporate £m	Total £m
Segment assets	6,879	3,501	7,706	18,086
Inter-segment eliminations				(12,470)
				5,616
Investments in joint ventures and associates				7
Tax and deferred tax assets				266
Total assets				5,889
Liabilities				
Segment liabilities	(6,123)	(1,809)	(8,112)	(16,044)
Inter-segment eliminations				11,758
				(4,286)
Tax and deferred tax liabilities				(120)
Borrowings and obligations under finance leases				(1,412)
Total liabilities				(5,818)

4. Separately disclosed items

	Unaudited Six months ended 31 March 2018 £m	Unaudited Six months ended 31 March 2017 £m
Affecting profit from operations		
New Operating Model implementation and restructuring	**(33)**	(27)
Onerous contracts and store closures	**(14)**	(16)
Costs of transformation	**(47)**	(43)
Amortisation of business combination intangibles	**(4)**	(3)
Reassessment of contingent consideration and costs associated with the exit of The Co-operative	**(1)**	32
Litigation and legal disputes	**(5)**	-
Disposal of subsidiaries	**29**	-
Loss on disposal of plant, property and equipment	**(3)**	(11)
Investment in business development and start-up costs	**(10)**	(2)
Other	**(4)**	(1)
	(45)	(28)
Affecting finance income and costs		
Net interest cost on bond refinancing	**(19)**	(23)
Net interest cost on defined benefit obligation	**(3)**	(3)
Unwind of discount on provisions and other non-current liabilities	**-**	(9)
	(22)	(35)
Total separately disclosed items	**(67)**	(63)

Costs of transformation

New Operating Model implementation and restructuring

Implementation costs relating to the New Operating Model total £28m (H1 2017: £18m) and primarily relates to efficiency programmes in Continental Europe and the UK. These programmes commenced in 2015 and were planned over a 3 year period, with a focus on generating efficiencies within the Group by co-operating more closely across all source markets; rather than duplicating activity in each individual market. The costs that we have separately disclosed in relation to these programmes include the incremental cost of additional marketing activity relating to a channel shift as part of our UK digital strategy £4m (H1 2017: £nil), costs of redundancies £9 (H1 2017: £3m), as well as the cost of dedicated

internal employees assigned to transformation projects £9m (H1 2017: £20m). Restructuring costs of £5m (H1 2017: £9m) largely relate to legacy rationalisation in France.

Onerous contracts and store closures

Costs associated with the rationalisation of the Thomas Cook retail store network are considered within the costs of transformation. This includes £5m (1H 2017: £10m) in relation to a provision associated with the leases of loss-making UK stores and £9m (1H 2017 £6m) of costs incurred as a result of UK store closures. These items result from the continued strategic review of the UK store network and integration of all UK stores under the Thomas Cook banner following the completion of the Group's exit from the JV arrangement with The Co-operative Group in November 2017. Thomas Cook now owns 100 per cent of the UK retail stores business, giving us full control and enabling us to better integrate our offline and online distribution channels. Thomas Cook retains the right to use the Co-operative Travel brand until November 2018.

Amortisation of business combination intangibles

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

Reassessment of contingent consideration and costs associated with the exit of The Co-operative

£1m of exit costs incurred in the UK in relation to the exit of the The Co-operative Group in the UK in November 2017.

In December 2017, the Group announced its intention to acquire full control of its UK retail store network, following notification by The Co-operative Group ('the Co-op') of the decision to exercise its option over its stake in their UK retail joint venture. In line with the requirements of IFRS, the Group reassessed the carrying value of a contingent obligation to acquire the Co-op shares and this reassessment resulted in a reduction of £32m to the liability previously accrued.

Litigation and legal disputes

£5m of one off litigation costs, which includes £2m of costs incurred in connection with defending fraudulent illness claims. £2m of legal costs relating to a specific acquisition related claim, and a £1m commercial settlement in relation to IT services provider.

Disposal of subsidiaries

During the period, the Group has announced the sale of its Belgian airline, Thomas Cook Airlines Belgium N.V., and the launch of its hotel fund, Thomas Cook Hotel Investments, a joint venture with Swiss-based hotel property development company, LMEY Investments. The establishment of the hotel fund included the sale of two of the Group's Greek hotels, the long-standing family resort Sunwing Kallithea in Rhodes and the well-established Sunwing Makrigialos in Crete, to the new joint venture. The profit on disposal of £30m represents both transactions and includes the gain from the net consideration received less the net book value of assets disposed and the currency translation reserve recycled to the Income Statement, net of costs of £1m incurred.

Loss on disposal of plant, property and equipment

Loss on disposal of plant, property and equipment of £3m primarily relate to the write-off of an engine. In H1 2017, the £11m charge primarily related to impairments of property, fixtures and fittings of closed UK stores and IT assets in the UK no longer required as part of the implementation of the strategy.

Investment in Business Development and start-up costs

£10m (H1 2017 £2m) has been incurred in relation to investment in the set-up of partnerships and new business developments, with £5m relating to the set up costs of the Expedia partnership, £2m for our China Joint Venture and £3m for Thomas Cook Money.

Other

£4m of other exceptional costs, includes:

- Costs incurred relating to refinancing activity undertaken in December 2017 (£2m)
- Costs incurred for the repatriation of customers as a result of the insolvency of Airline Niki (£2m)

Finance related charges

The Group has incurred accelerated interest charges of £19m as a result of entering into a new Revolving Credit Facility in November 2017 and issuing a new Euro bond in December 2017 which refinanced elements of the Group's debt at a lower interest rate. In addition, net interest charges arising on the Group's defined benefit pension schemes were £3m.

5. Finance income and costs

	Unaudited Six months ended 31 March 2018 £m	Unaudited Six months ended 31 March 2017 £m
Underlying finance income		
Other interest and similar income	**2**	2
	2	2
Underlying finance costs		
Bank and bond interest	**(38)**	(42)
Fee amortisation	**(4)**	(4)
Letters of credit	**(9)**	(9)
Other interest payable	**(8)**	(12)
	(59)	(67)
Underlying aircraft related finance costs		
Interest payable	**(1)**	(1)
Finance costs in respect of finance leases	**(8)**	(8)
	(9)	(9)
Net underlying interest	**(66)**	(74)
Separately disclosed finance costs (note 4)		
Bond refinancing costs	**(19)**	(23)
Net interest cost on defined benefit obligation	**(3)**	(3)
Unwind of discount on provisions and other non-current liabilities	**-**	(9)
	(22)	(35)
Total net finance costs	**(88)**	(109)

6. Income taxes

Income tax is recognised based on our best estimate of the average annual effective income tax rate for each material tax jurisdiction and applied individually to the interim period pre-tax income of that jurisdiction. The effect of adjustments to tax provisions made in respect of separately disclosed items is excluded from the estimate of the average annual effective income tax rate.

The tax rate on our overall IFRS results for the six months to 31 March 2018 is 15.87% (31 March 2017: 13.41%). The tax rate on pre-exceptional continuing operations for the six months to 31 March 2018 is 16.17% (tax rate for the six months to 31 March 2017 was 22.12%).

7. Loss per share

The calculations for loss per share, based on the weighted average number of shares, are shown in the table below.

	Unaudited Six months ended 31 March 2018	Unaudited Six months ended 31 March 2017
Basic and diluted loss per share	**£m**	£m
Net loss attributable to owners of the parent	**(254)**	(267)
	Millions	Millions
Weighted average number of shares for basic and diluted loss per share	**1,533**	1,532
	Pence	Pence
Basic and diluted loss per share	**(16.6)**	(17.4)
Underlying basic and diluted loss per share	**£m**	**£m**
Underlying net loss attributable to owners of the parent *	**(193)**	(202)
	Pence	Pence
Underlying basic and diluted loss per share	**(12.6)**	(13.2)

* Underlying net loss attributable to owners of the parent is derived from the Group's pre-exceptional loss before tax for the six month period ended 31 March 2018 of £236m (2017: £251m) and adding a notional tax credit of £42m (2017: tax credit £44m), and taking into account losses attributable to non-controlling interest of £1m (2017: £5m).
In accordance with IAS 33 'Earnings per share', the calculation of basic and diluted loss per share has not included items that are anti-dilutive.

8. Provisions

	Aircraft maintenance provisions	Insurance and litigation	Reorganisation and restructuring plan	Other provisions	Total
	£m	£m	£m	£m	£m
At 1 October 2017	**366**	**75**	**1**	**33**	**475**
Additional provisions	33	23	10	10	**76**
Unused amounts released	(30)	(1)	-	-	**(31)**
Unwinding of discount	(1)	-	-	(1)	**(2)**
Utilisation of provisions	(21)	(38)	(7)	(11)	**(77)**
Exchange differences	(12)	-	-	-	**(12)**
At 31 March 2018	**335**	**59**	**4**	**31**	**429**

	Unaudited as at 31 March 2018 £m
Included in current liabilities	**155**
Included in non-current liabilities	**274**
	429

The aircraft maintenance provisions relate to maintenance on leased aircraft and spares used by the Group's airlines in respect of leases which include contractual return conditions. This expenditure arises at different times over the life of the aircraft with major overhauls typically occurring between two and ten years. The aircraft maintenance provisions are re-assessed at least annually in the normal course of business with a corresponding adjustment made to either non-current assets (aircraft and aircraft spares) or aircraft costs.
Of the unused amounts released of £30m within aircraft maintenance provisions, £9m is due to the release of amounts overprovided in the prior year and £19m is due to the extension of aircraft lease contracts with more favourable return conditions. Of the £28m, £12m impacts underlying profit and £16m reduces the related leasehold asset.

Insurance and litigation represents costs related to legal disputes, customer compensation claims (including EU261) and estimated costs arising through insurance contracts in the Groups subsidiary, White Horse Insurance Ireland DAC.

Reorganisation and restructuring plans predominantly represent committed restructuring costs in the Group's Tour Operator segment.

Other provisions include items such as onerous contracts, dilapidations and emission trading liabilities. Within other provisions, £14m has been classified as a Separately Disclosed Item within 'Onerous leases and store closures'. For further details refer to Note 4. Onerous lease provisions will be utilised over the lease term.

9. Financial risk management and financial instruments

i) Financial risk factors

The Group is subject to risks related to changes in interest rate, exchange rates, fuel prices, counterparty credit and liquidity within the framework of its business operations.

A full description of the Group's exposure to the above risks and the Group's policies and processes that are in place to manage the risks arising, is included in financial risks note (Note 21) in the 2017 Annual Report & Accounts financial statements. There has been no significant changes in the nature of the financial risks to which the Group is exposed, or the Group's policies and processes to manage these risks, since 1 October 2017.

ii) Fair value estimation

Fair value hierarchy
The fair value of the Group's financial instruments are disclosed in hierarchy levels depending on the valuation method applied.

The different methods are defined as follows:

Level 1: valued using unadjusted quoted prices in active markets for identical financial instruments

Level 2: derived using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The fair value of financial instruments is determined by discounting expected cash flows at prevailing interest rates.

Level 3: valued using techniques incorporating information other than observable market data as at least one input to the valuation cannot be based on observable market data

The fair value of the Group's financial assets and liabilities at 31 March 2018 are set out below:

	Unaudited as at 31 March 2018 £m	Audited as at 30 September 2017 £m
Level 2 valuations		
Derivative financial instruments - assets		
Currency contracts	**45**	30
Fuel contracts	**106**	32
	151	62
Derivative financial instruments - liabilities		
Currency contracts	**(137)**	(115)
Fuel contracts	**(2)**	(2)
Interest rate swaps	**(8)**	(1)
	(147)	(118)
	4	(56)

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.

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. All fuel hedges are designated as cashflow hedges.

In addition, the Group uses derivative financial instruments to manage its interest rate exposures. The Group enters into interest rate swaps to hedge against interest rate movements in connection with the financing of aircraft and other assets and to hedge against interest rate exposures on fixed rate debt. The Group also enters into cross currency interest rate swaps to hedge the interest rate and the currency exposure on foreign currency external borrowings.

There were no transfers between Levels 1 and 2 during the period.

There were no Level 3 financial assets or liabilities as at 31 March 2018.

10. 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 associated and joint venture undertakings are disclosed below.

Trading transactions
During the period, Group companies entered into the following transactions with related parties who are not members of the Group:

	Joint ventures, associates		
	Unaudited 31 March 2018 £m	Unaudited 31 March 2017 £m	Audited 30 September 2017 £m
Sale of goods and services	**2**	2	6
Purchases of goods and services	**(2)**	(1)	(4)
Amounts owed by related parties	**14**	2	2
Amounts owed to related parties	**(1)**	(1)	(1)

All transactions are considered to have been made at market prices.

Outstanding amounts will normally be settled by cash payment.

11. Seasonality and Foreign Exchange

Revenue is subject to significant seasonal fluctuations between winter and summer seasons, with peak demand in the summer season. The Group partially mitigates this seasonal impact through operating in different global holiday markets which have different annual cycles and offering a broad range of holiday products in both the winter and summer seasons.

The following exchange rates against Sterling for our major functional currencies are the average of those used to translate the results of the current and prior year periods.

Income Statement	**31 March 2018**	**31 March 2017**
Euro	**1.13**	**1.16**
SEK	**11.17**	**11.14**
USD	**1.36**	**1.24**

As profits and losses in foreign currency denominated segments build up differently over the period, the average income statement translation rates may vary.

The following exchange rates against Sterling for our major functional currencies are the average of those used to translate the balance sheet at the current and prior period end.

Balance Sheet	**31 March 2018**	**30 September 2017**	**31 March 2017**
Euro	**1.14**	1.13	**1.17**
SEK	**11.74**	10.93	**11.14**
USD	**1.41**	1.34	**1.25**

12. Contingent liabilities

Contingent liabilities primarily comprise guarantees, letters of credit and other contingent liabilities, all of which arise in the ordinary course of business.

In the ordinary course of its business, the Group is subject to commercial disputes and litigation including customer claims, employee disputes, taxes and other kinds of lawsuits. These matters are inherently difficult to quantify. In appropriate cases, a provision is recognised based on best estimates and management judgement but there can be no guarantee that these provisions will result in an accurate prediction of the actual costs and liabilities that may be incurred. These are not expected to have a material impact on the financial position of the Group.

Responsibility Statements

The Directors confirm, to the best of their knowledge, that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union, and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- material related party transactions in the first six months and any material changes in the related party transactions described in the last Annual Report.

A list of current Directors is maintained on the Thomas Cook Group plc website: www.thomascookgroup.com.

By order of the Board

William Scott
Group Chief Financial Officer

16 May 2018

INDEPENDENT REVIEW REPORT TO THOMAS COOK GROUP PLC

Introduction

We have been engaged by the company to review the condensed consolidated interim financial statements in the interim financial report for the six months ended 31 March 2018 which comprises a Group Income Statement, a Group Statement of Other Comprehensive Income, a Group Cash Flow Statement, a Group Balance Sheet, a Group Statement of Changes in Equity and the related explanatory notes 1 to 12. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The interim financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated interim financial statements included in this interim financial report have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial statements in the interim financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements in the interim financial report for the six months ended 31 March 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
16 May 2018