3 August 2011

Thomas Cook Group plc Interim Management Statement

- Underlying operating profit was £20.1m for the three months to 30 June 2011 (2010: £25.8m).
- Group results impacted by weak performance in the UK.
- Continue to see encouraging performances from the rest of the Group, particularly Central and Northern Europe and Airlines Germany.
- Strong operating cash inflow for the quarter of £374m, £93m ahead of prior year.
- We still expect full year underlying operating profit to be around £320m.
- Manny Fontenla-Novoa, Group CEO, to step down with immediate effect; Sam Weihagen, Deputy to the Group CEO to take on the role of Interim Group CEO.

Michael Beckett, Chairman, said:

"The Board is focused on restoring market confidence in the Group, which has been impacted by concerns over debt levels and the poor performance of our UK business. We are taking actions to strengthen the balance sheet, including a disposal programme that we expect to realise up to £200m. In addition, Sam Weihagen's extensive experience in the travel industry will be invaluable in guiding the UK through its strategic and operational review.

"Our brands and our businesses outside the UK continue to perform well and we are determined to create a stronger foundation for profitable growth."

Group financial performance

Revenue for the three months ended 30 June 2011 was £2,445.9m, up 13% (10% at constant currency), reflecting higher volumes and selling prices, partly due to the mix of holidays sold, and the impact of the Öger acquisition in Germany.

Underlying operating profit for the quarter was £20.1m (2010: £25.8m). The benefit of the timing of Easter and the margin impact of the volcanic ash cloud on the comparator period were more than offset by the effect of the political unrest in the MENA region and the performance of our UK business.

The MENA impact for the quarter was estimated at circa £25m and we anticipate that a similar disruptive effect will persist into the fourth quarter. This impact is a result of low volumes and margins in the affected areas where we have been operating at approximately 60% of normal levels.

During the quarter ended 30 June 2011, the Group incurred exceptional operating costs of £35.3m (2010: £75.1m); details can be found in note 4 to this statement. Reducing operating exceptional items continues to be a key area of focus and we have made significant progress in the year to date with cumulative net exceptional operating costs £86.5m lower than the prior year.

Group financial position

Despite the impact of the political unrest in MENA and poor UK trading, we have continued to improve cash generation. Operating cash inflow for the three months to 30 June 2011 was £373.8m, an improvement of £92.8m on the comparable prior year period driven by working capital and lower exceptional operating costs.

Net debt at 30 June 2011 was £902.5m (2010: £789.1m) which is a reduction of £191.7m since 31 March 2011 (2010: £162.8m reduction) but an increase on prior year due to a higher net debt position at the beginning of the year. On 2 August 2011 the Group had available cash and committed bank facilities totalling circa £900m and the Group complied with the financial covenants on its banking facility.

Our focus remains on reducing our debt and strengthening our balance sheet. In this regard, we are progressing with our plans to dispose of certain hotel and surplus assets which we expect to generate proceeds of up to £200m over a six to eighteen month period.

UK operational and strategic review

Earlier in the year it became clear that the UK business was underperforming and we therefore undertook a cost cutting programme and changed the senior management team. In April we appointed three new members to the UK management team, Ian Ailles (CEO Mainstream), Phil Aird-Mash (CEO Independent) and Michelle MacMahon (CFO). Following these appointments, the team was tasked to begin a fundamental operational and strategic review of the business.

Key areas of focus include:

- Leveraging our brand strength
- Simplifying product strategy and improving differentiation
- Improving our pricing through fully leveraging our existing yield management systems
- Enhancing our multi-channel distribution including efficiency of our retail network
- Reviewing the size and structure of the airline
- Driving operational excellence in all parts of the UK business

The Board have begun to review these plans and we will update the market on the strategic direction of the UK business in due course.

Russia and The Co-operatives

We announced in July, the establishment of our joint venture with VAO Intourist, providing our entry into the Russian tour operating and retail travel markets. This transaction is in line with our strategic objective of securing growth in emerging markets.

In addition, the Competition Commission has provisionally cleared the merger of our high street retail travel and foreign exchange network with those of The Co-operative Group and the Midlands Co-operative to create the UK's largest multi-channel travel retailer. The proposed merger is part of our plan to strengthen the competitiveness of the UK business and increase our in-house distribution capability, thereby improving profitability.

Current trading

Summer 11

Our summer programmes are well sold with average selling prices ahead and fewer holidays left to sell in most markets.

	Year on year variation %			
	Average selling price	Cumulative bookings	Planned capacity	Left to sell
UK	+4	flat	-1	-5
Central Europe	+3	+2	-7	-10
West & East Europe	+2	flat	flat	-20
Northern Europe	flat	+13	+11	+5
Airlines Germany	+2	+8	+6	+2

Note: figures as at 30/31 July. In Central and West & East Europe, bookings represent all bookings including cars/overland, however capacity represents airline seat capacity only. Northern Europe summer season is April-September. Central Europe bookings and ASP include Öger Tours (comparator restated).

UK: In the UK, we continue to keep prices competitive and generate improved load factors although margin is still below prior year. Capacity has been reduced slightly and we have 5% fewer holidays left to sell. Booked load factor is 84%, slightly ahead of prior year, whilst the departed load factor remains in line with prior year at 96%.

Central Europe: Cumulative bookings are up 2% and average selling prices are 3% ahead of the prior year. Reductions in risk capacity mean that we have 10% less left to sell than at the same time last year.

West & East Europe: Cumulative bookings including car and overland holidays are broadly in line with the prior year while risk capacity left to sell is down 20% on average across the segment. Within this combined segmental picture, as previously reported, the French business has been particularly affected by the MENA situation and has recently seen a significant drop off in bookings.

Northern Europe: Cumulative bookings are 13% ahead of the prior year, following an 11% increase in capacity. Average selling prices are in line with the prior year with savings from strong local currencies being passed on to consumers.

North America: Our North American operations with their relatively small summer risk business have seen bookings reduce in line with capacity reductions while average selling prices increased by 13%. Their independent businesses have seen growth in volumes and average selling prices.

Airlines Germany: Capacity has increased by 6% compared to the prior year, driven by growth on intercontinental routes, which have sold well leading to improved load factors. Average selling prices are ahead for long haul and in line with prior year for short haul destinations.

Winter 11/12

It is early in the season for Winter 10/11. Bookings in both the UK and Northern Europe are progressing well, with the programme 22% sold in the UK and 28% sold in Northern Europe.

Hedging

We continue to hedge our currency and jet fuel exposures in line with our hedging policy. At this stage we are almost fully hedged for the current season and well hedged for the coming winter season.

	Summer 2011	Winter 2011/12
Euro	97%	95%
US Dollar	98%	90%
Jet Fuel	93%	73%

As at 29 July 2011

Board Changes

We announced today that Group CEO Manny Fontenla-Novoa is to step down from his role with immediate effect. Sam Weihagen, currently Deputy to the Group CEO, will take on the role of Interim Group CEO. Sam was CEO of our successful Northern Europe segment between 2001 and 2010. The Board has commenced a process to find a permanent successor.

Enquiries

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Conference call

A conference call for investors and analysts will take place today at 8am (BST).

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Group Income Statement

	Unaudited	Unaudited	Unaudited	Unaudited
	3 months to	3 months to	9 months to	9 months to
	30/6/11	30/6/10	30/6/11	30/6/10
	£m	£m	£m	£m
Revenue	2,445.9	2,156.4	5,877.1	5,465.3
Cost of providing tourism services	(1,948.8)	(1,680.3)	(4,663.0)	(4,238.9)
Gross profit	497.1	476.1	1,214.1	1,226.4
Operating expenses	(477.0)	(450.3)	(1,359.8)	(1,330.8)
Underlying profit/(loss) from operations before separately disclosed items	20.1	25.8	(145.7)	(104.4)
Exceptional operating items	(35.3)	(75.1)	(48.7)	(135.2)
IAS 39 fair value re-measurement	0.8	(7.3)	(1.4)	(4.1)
Amortisation of business combination intangibles	(8.5)	(7.7)	(25.0)	(23.2)
Loss from operations	(22.9)	(64.3)	(220.8)	(266.9)
Share of results of associates and joint ventures	0.2	(1.5)	(1.2)	(0.8)
Net investment income	-	0.2	(1.2)	0.2
Net finance costs	(29.5)	(31.0)	(94.0)	(85.6)
Exceptional finance costs	-	(18.2)	-	(18.2)
IAS 39 fair value re-measurement	(4.5)	(1.8)	(8.9)	2.5
Loss before tax	(56.7)	(116.6)	(326.1)	(368.8)

All revenue and results arose from continuing operations.

Group Cash Flow Statement

	Unaudited	Unaudited	Unaudited	Unaudited
	3 months to	3 months to	9 months to	9 months to
	30/6/11	30/6/10	30/6/11	30/6/10
	\$0/6/11 £m	30/6/10 £m	50/6/11 £m	30/6/10 £m
Cash flows from operating activities	ZIII	LIII	LIII	2111
Cash generated by operations	381.8	284.9	258.6	178.9
Income taxes paid	(8.0)	(3.9)	(27.0)	(21.3)
Net cash inflow from operating activities	373.8	281.0	231.6	157.6
net cash innow from operating activities	373.0	201.0	201.0	137.0
Investing activities				
Proceeds on disposal of property, plant and equipment	4.0	4.2	14.3	8.4
Purchase of subsidiaries (net of cash acquired)	(10.6)	(15.1)	(7.8)	(20.1)
Purchase of tangible and financial assets	(25.1)	(31.1)	(87.6)	(99.2)
Purchase of intangible assets	(15.5)	(11.7)	(50.1)	(46.8)
Sale of non-current financial assets	2.4	-	4.7	4.4
Additional loan investment	-	(0.1)	(0.6)	(0.7)
Proceeds on disposal of short-term securities	-	0.3	0.1	0.3
Net cash used in investing activities	(44.8)	(53.5)	(127.0)	(153.7)
Financing activities				
Interest paid	(61.2)	(22.1)	(87.4)	(53.5)
Dividends paid	(59.8)	(59.7)	(91.8)	(59.7)
Draw down of borrowings	166.1	802.0	417.4	1,068.3
Repayment of borrowings	(181.3)	(845.8)	(203.5)	(925.8)
Payment of facility fees	(0.5)	(19.8)	(0.5)	(19.8)
Repayment of finance lease obligations	(2.4)	(163.4)	(10.5)	(192.3)
Net cash (used in)/ from financing activities	(139.1)	(308.8)	23.7	(182.8)
Net increase/ (decrease) in cash and cash equivalents	189.9	(81.3)	128.3	(178.9)
Cash and cash equivalents at beginning of the period	260.2	408.6	316.8	507.0
Effect of foreign exchange rate changes	2.7	(31.8)	7.7	(32.6)
Cash and cash equivalents at end of the period	452.8	295.5	452.8	295.5
Liquid assets	475.2	337.1	475.2	337.1
Bank overdrafts	(22.4)	(41.6)	(22.4)	(41.6)
Cash and cash equivalents at end of the period	452.8	295.5	452.8	295.5

Notes to financial information

1. Basis of preparation

The information included in this report has been prepared using accounting policies consistent with those set out in the Group's Annual Report 2010 except for new or amended standards and interpretations adopted in the current period and other changes set out in the notes to the unaudited results for the six months ended 31 March 2011.

The financial information contained in this report does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 September 2010 were approved by the Board of Directors on 30 November 2010 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.

2. MENA political unrest

The year to date impact of political unrest in the MENA region is estimated to be approximately £47m, with an estimated £25m impact in the quarter ended 30 June 2011.

In the comparable prior year period the eruption of the Icelandic volcano on 14 April 2010 led to severe disruption to travel as a result of the volcanic ash cloud. The financial impact of this disruption in the quarter ended 30 June 2010 included £53.1m of direct costs, which was separately disclosed within exceptional operating items, and an estimated £29m of lost contribution.

3. Foreign exchange rates

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.

	9 months to	9 months to
Income Statement	30/06/11	30/06/10
Euro	1.15	1.13
Swedish Krona	10.4	11.3
Canadian Dollar	1.58	1.64
Indian Rupee	72.2	71.9

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

	As at	As at
Balance Sheet	30/06/11	30/06/10
Euro	1.11	1.22
Swedish Krona	10.1	11.6
Canadian Dollar	1.55	1.59
Indian Rupee	71.6	69.9

As profits and losses build up differently over the period, the effective average income statement translation rates may vary.

4. Separately disclosed items

Freentianal engation items	Unaudited 3 months to 30/06/11 £m	Unaudited 9 months to 30/06/11 £m	Unaudited 9 months to 30/06/10 £m
Exceptional operating items			
Direct costs of volcanic ash cloud Property costs, redundancy and other costs incurred in business integrations and reorganisations	(11.0)	(40.8)	(53.1) (20.9)
Asset impairment and onerous lease provisions on Hi Hotels	-	-	(26.0)
Costs and write downs associated with Skyservice liquidation	-	-	(15.3)
UK balance sheet review *	(21.2)	(21.2)	-
Aircraft-related exceptionals	(0.2)	(6.2)	-
Fuel-related exceptionals	-	-	(17.1)
Loss on disposal and impairment of assets	(0.6)	8.0	(8.0)
Other exceptional items	(2.3)	(5.8)	(2.0)
	(35.3)	(73.2)	(135.2)
Net gain on pension plan curtailment	_	24.5	
Total exceptional operating items	(35.3)	(48.7)	(135.2)
Exceptional finance costs			(10.0)
Write-off of unamortised bank facility set-up and other fees	<u>-</u>	<u>-</u>	(18.2)
	-	-	(18.2)
Total exceptional items	(35.3)	(48.7)	(153.4)
IAS 39 fair value re-measurement			
Time value component of option contracts	8.0	(1.4)	(4.1)
Forward points on foreign exchange cash flow hedging contracts	(4.5)	(8.9)	2.5
	(3.7)	(10.3)	(1.6)
Amortisation of business combination intangibles			
Amortisation of business combination intangibles	(8.5)	(25.0)	(23.2)
Total separately disclosed items	(47.5)	(84.0)	(178.2)

^{*} Following her appointment the new UK CFO has conducted a review of the UK balance sheet and has identified a number of items relating to previous years whose recoverability is now considered unlikely or where additional liabilities should be recognised. The net amount of these items is £21.2m and has been disclosed separately in the income statement. These items are non-cash in nature and have no impact on the Group's cash and net debt position.