Chief Executive Officer's statement

Manny Fontenla-Novoa
Chief Executive Officer

The 2008 financial period was the new Group's first full year of trading and a period in which we achieved a strong financial performance and made significant progress against our strategic agenda. We have achieved industry-leading margins, demonstrating the strength of our management team and the flexibility of our business model.

Overall, our results for the year demonstrate that, through our merger, we have created a strong company with a team that has the knowledge and capability to read the market and respond accordingly. We have fully integrated our merged business and a number of strategic acquisitions, over-delivered against our cost reduction targets, actively managed capacity, and successfully navigated our way through a period of unprecedented oil price volatility.

Recent research and the high load factors we are currently experiencing give us confidence that consumers remain intent on taking their holidays. We believe our strong financial position, together with the increased synergy savings and contingency measures we have put in place, will enable us to sustain a market-leading performance throughout a challenging 2009. We are targeting further growth in margins in 2009 and 2010, and operating profit of £480 million in 2010.

Pro forma financial results

Thomas Cook has reported a strong set of results. This demonstrates the quality of management, the strength of our asset-light business model and our operational and cost flexibility. It was achieved against the background of the merger integration and the continued development of the Group through significant strategic acquisitions.

Group pro forma revenue for the twelve months to 30 September 2008 was £8,809.8m (2007: £7,878.5m), an increase of 11.8% on the prior year period. Excluding the impact of translation and acquisitions, Group revenue was flat year on year. This reflects a decrease in UK and North America revenue, as a result of planned capacity cuts, offset by an increase in Northern Europe. Underlying revenue in Continental Europe and Airlines Germany was broadly flat year on year.

We delivered a 49.8% increase in Group profit from operations to £365.9m (2007: £244.2m). The Group operating profit margin rose 35.5% from 3.1% to 4.2% last year, despite a significant increase in fuel costs. This strong result reflected our ability to adapt to changing demand by reducing capacity, changing our product mix, cost discipline, and fuel and currency hedging, as well as our delivery of significant synergy savings.

Pro forma EBITDA (profit from operations before depreciation and amortisation) increased by 36.5% to £506.0m (2007: £370.8m). Pro forma adjusted earnings per share increased by 40.9% to 24.1p (2007: 17.1p).

The segmental performance is reported in detail in the Operational Review on pages 28 to 37.

Pro forma financial position

Thomas Cook's financing position is robust. In May 2008, we replaced the existing debt facility with a new credit facility amounting to £1.4bn, of which £1.0bn is available for immediate use for the Group's general corporate purposes, including acquisitions and the share buyback programme that we have now completed.

In view of the current uncertainties in the credit markets, we took the prudent approach in October 2008, to draw down fully our available facility thus ensuring optimal financial certainty for the Group.

Operating cash flow was £220.2m in the twelve months to 30 September 2008, compared with £215.3m in the previous year. At 30 September 2008, net debt was £292.5m, compared with net funds of £393.6m in the previous year, reflecting the planned expenditure on the share buyback programme and acquisitions.

Operational flexibility, cost base and hedging

The flexibility within our asset-light business model has been critical during the past period and we have improved our ability to underpin our future performance in more challenging trading conditions.

The resilience we believe we have in the current difficult trading conditions is based on that flexibility, the strength of our businesses post-merger, and capacity rationalisation throughout the industry. Capacity reductions in the UK market, for example, amount to approximately 25% over the last two years through our actions and those of other market participants.

We are taking advantage of our buying power to manage accommodation costs, which represent over 30% of revenue. We are confident that negotiations with our suppliers will result in prices no higher than last year's levels across the Group this year, despite adverse movements in currency.

The ability to adjust our cost base for potential changes in demand is also important, particularly in the current market conditions. Only 10% of our group-wide hotel capacity is committed for summer 2009, which gives us considerable scope to make further capacity adjustments; and in the UK, around 89% of our tour operator flying requirements are undertaken by our own fleet, allowing us considerable flexibility to cut capacity without impacting our own airline's operations.

Tight control of all costs is a fundamental part of the Thomas Cook business model.

In addition, we have developed contingency plans to cut our overhead costs further should tougher market conditions prevail.

Hedging

Fuel costs represent approximately 8% of revenue and successful hedging has been an important element of managing this cost. Through a mixture of swaps and options, we avoided the worst of the high crude oil prices in the summer of 2008 as well as realising some benefits when prices fell. We have now locked in our fuel costs for the current financial year.

We are taking a similar cautious approach to future costs and our policy is to hedge fuel and foreign exchange between 12 and 18 months in advance of the expected expenditure. In line with this:

- we have hedged 100% of our fuel requirements for winter 2008/2009 and 95% for summer 2009, ensuring certainty of pricing;
- we have hedged 98% of our dollar and 96% of our euro requirements for winter 2008/2009 and summer 2009.

Merger synergies

The integration of our operations since the merger between Thomas Cook and MyTravel on 19 June 2007 has been highly successful and we have been operating on a single platform from management, commercial and technological perspectives for over a year.

By accelerating synergy delivery, we realised total savings of £142m in the 2008 pro forma period, of which £139m were additional savings during the period. The majority of the savings came from the UK business.

Looking forward, we now expect to deliver new synergy targets of:

- £185m of annual synergy savings by the end of the 2009 financial year compared with the previous accelerated target of £155m by 2009;
- a total of £215m of savings by 2010 compared with the original target of £155m by 2010.

Strategy

We have made significant progress against our strategy this year, both through actions which have optimised our existing business, and through acquisitions which have allowed us to achieve a step-change in our performance, and these are set out in more detail on pages 14 to 27.

Share buyback

In December 2007, we announced plans for a £290m (€375m) share buyback programme and the programme was launched in March 2008, following approval at an EGM held on 12 March 2008. In proposing the programme, the Board believed that the repurchase of shares was the best way to return value to shareholders, while at the same time improving earnings per share and balance sheet efficiency.

At the close of business on 30 September 2008, the Group had purchased a total of 107,124,730 shares for cancellation, at a total cost of £263.5m, excluding commission. Of these shares, 48,595,331 were purchased from Arcandor AG, as a result of which Arcandor's holding was 52.8% of the Group.

Group Executive Board

From left to right:
Standing: Angus Porter, Jürgen Büser, Thomas Döring, Manny Fontenla-Novoa, Ralf Teckentrup, Michael Friisdahl, Mike Cutt and Ian Derbyshire.
Sitting: Peter Fankhauser, Pete Constanti, Alexis Coles-Barrasso, Ludger Heuberg, Sam Weihagen and Derek Woodward.

See page 50 for biographies

The share buyback programme concluded on 9 October 2008. Up to that date, a total of 120,059,117 shares were purchased for cancellation at a total cost, excluding commission, of £289.9m. Of these shares, 55,426,756 were purchased from Arcandor AG, maintaining its holding of 52.8% in the Group.

Management team

This year's impressive performance is the result of the strong management team working together and, in the newly enlarged Thomas Cook business, being more capable than ever of dealing effectively with the challenges we face. Despite the backdrop of integration, our international team has been determined that Thomas Cook should remain resilient, continue to make great progress and put in place strong foundations upon which to build its future. I am incredibly proud of the entire Thomas Cook team for what they have achieved this year and look forward to working with them to go even further in 2009 and beyond.

Outlook

A range of initiatives within our power underpins our confidence in our prospects for the current financial year. Our business model allows us to flex capacity and product mix well into the summer 2009 booking cycle. In addition to our own capacity management, we have seen capacity rationalisation throughout the industry which gives us further confidence that we can trade successfully through the current conditions. Capacity reductions in the UK market, for example, amount to approximately 25% over the last two years, through our actions and those of other market participants.

We have tight cost discipline throughout the business. We are negotiating with suppliers to ensure that accommodation costs are no higher than 2007/2008 levels despite currency movements. We are also hedging fuel and currency against extreme volatility. In addition, we have developed contingency plans to cut our overhead costs further should tougher market conditions prevail, and have increased synergy targets for 2010 to a total of £215m with £185m expected by the end of the 2009 financial year.

The combination of our management team's long industry experience, a restructured marketplace, our own initiatives and trading which has been in line with expectations supports our confidence in our prospects for the full year. We are targeting further growth in margins in 2009 and 2010 and operating profit of £480m in 2010.

Manny Fontenla-Novoa
Chief Executive Officer
19 December 2008

Our marketplace

Leisure travel has grown strongly in the past, and will continue to do so in the future.

Over the long term, international leisure travel has grown strongly, at roughly twice the growth rate of the economy as a whole, and it has proved resilient to major short-term shocks, such as the early 1990s recession, 9/11 and the 2003 SARS health scares (figure 1).

The simple fact is that people enjoy holidays, and the generation which first ventured abroad for two weeks in August has matured into one which is more confident, has more free time and disposable income, and a growing appetite for adventure. They have been joined, as their children reach adulthood, by a new generation which regards international travel as a top spending priority; many of them supplementing a main summer holiday with a second winter break and weekends abroad.

Growth in independent travel

Many more choices are available to the modern traveller than existed even five years ago. New destinations are opening up all the time; the internet provides almost infinite sources of information, inspiration and opportunities to make travel arrangements; much greater flexibility exists in tailoring holidays to individual requirements; and low-cost airlines have opened up new destinations at affordable prices.

In this context, it is unsurprising that much of the growth in the market has been accounted for by a sustained increase (approximately 5% per annum) in independent travel, where consumers buy the elements of a holiday separately (figure 2).

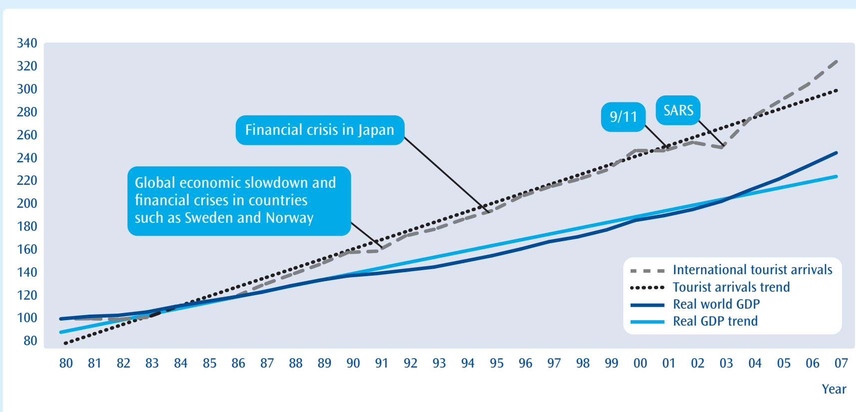
Resilience of package holidays

However, this growth in independent travel has not been at the expense of the package holiday, where demand remains robust as a consequence of consumers' appreciation of the convenience, quality and great value for money such packages bring. Indeed, the fact that someone is there to sort things out if something goes wrong – whether it be a major crisis or something as simple as a flight delay leading to a missed connection – is something many independent travellers have learned to appreciate only when they have found themselves without that reassurance.

Addressing our challenges

Although there are concerns about the sustainability of long distance mass market leisure travel, which has provided political cover for increased taxation of aviation, these concerns have not as yet had any discernible effect on demand and seem unlikely to do so for the foreseeable future.

Figure 1
Tourism is a robust and growing industry that has quickly rebounded from external shocks
International tourist arrivals and real world GDP, indexed to 1980, plus trends



Source: UNWTO World Tourism Barometer, IMF World Economic Outlook

While the long-term trends are clear, the current global economic crisis creates significant uncertainties in the short term, and we have already seen the failure of a number of airlines and smaller tour operators. However, the lessons of the recession of the early 1990s are important here. At that time, UK unemployment approached three million, and a major UK tour operator, ILG, failed. The reduction in market capacity resulting from the failure of ILG (even after other tour operators added further flights to exploit the opportunity) led to a period in which, despite recessionary pressures, tour operators delivered very strong financial results.

While the situation in 2008 is very different in some respects, the consolidation we have seen in the market following the mergers of Thomas Cook and MyTravel, and TUI and First Choice, has led to similar levels of capacity reduction, and makes the immediate prospects for the industry more positive than for some other market sectors.

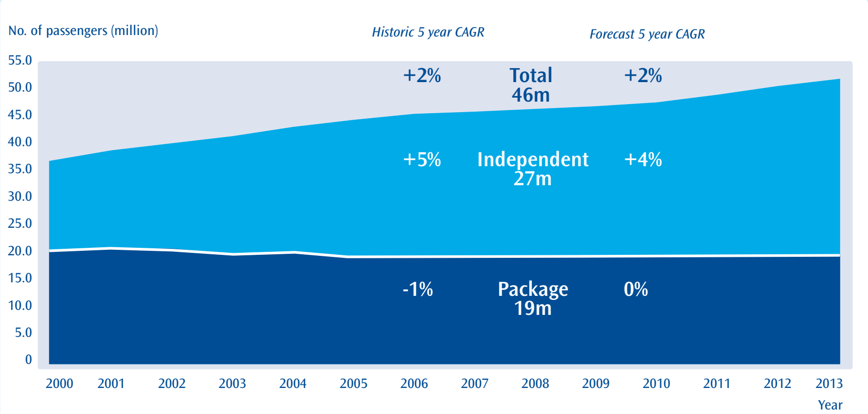
Furthermore, a number of consumer studies conducted during the final quarter of 2008 have confirmed that people are as committed to their main annual holiday as they were before the recession bit. In addition, recent company failures have reminded people of the security provided by the UK Government consumer protection schemes benefiting those who book packages with a tour operator; a compelling reason for many independent travellers to think again.

At times like this, there is no question that consumers seek comfort in the reassurance of buying from established and trusted brands – and in that respect, Thomas Cook is clearly the number one brand in the UK, and a brand which has considerable equity worldwide, thanks to its history and financial services business. UK consumer research consistently shows the Thomas Cook brand as enjoying a significant advantage over its rivals in terms of consumer trust and travel expertise.

Outlook

In the medium term, there is every reason to believe that the longer-term trend of strong growth in demand for international travel will continue, and even accelerate, as the fast-growing BRIC (Brazil, Russia, India and China) markets develop, and their huge populations take advantage of their increasing prosperity to experience the same joys of international travel as their counterparts in the West. In those developed markets, travel companies will be challenged by the need to satisfy the growing demand for holidays tailored to personal needs and wants, while still delivering convenience, reassurance and service.

Figure 2
The UK leisure travel market continues to grow
UK leisure travel market 2000-13, number of passengers (million)



CAGR: Compound annual growth rate
Source: Mintel (July 2008)

Our strategy

Thomas Cook has a clear strategy of strengthening its core mainstream business and investing for growth in independent travel, financial services and emerging markets.

Highlights

- Outstanding performance from Condor, where, following our withdrawal from consolidation negotiations, first with Air Berlin, and then with Germanwings and TuiFly, we demonstrated the ability to operate successfully and profitably on a stand-alone basis. Condor has delivered a strong performance in a challenging environment for airlines generally, as fuel prices reached record levels, and more specifically, in Germany, where the industry is extremely competitive. Condor's result reflects strong capacity management, cost discipline and focus on operations at a time when merger negotiations could have resulted in distractions.
- Acquisitions that have transformed our market positions in France and Canada.
- The entry into a key strategic emerging market through the acquisition of Thomas Cook India, the largest travel and foreign exchange business in India. At the same time, we regained the world-wide rights to the Thomas Cook brand.
- A step-change in our e-commerce performance, spearheaded by Northern Europe, where recent months have seen over 50% of bookings being made online. In the UK, 27% of total bookings are now made online, while in Germany, where the internet market has developed more slowly, 7% of our customers now book online (an increase of 14% year on year), although a much higher number research online and then book through an agent.
- Rapid integration of our merged UK businesses, followed by decisive action on capacity, which have allowed us to deliver strong margin performance in a highly challenging market.

Our strategy remains focused on four key growth drivers: maximising the value of mainstream travel; establishing Thomas Cook as a leading provider of independent travel; building our position as a leading provider of travel-related financial services; and extending our business through mergers, acquisitions and partnerships, with a particular focus on emerging markets.

Measuring our performance
There is a direct link between our strategy and the key indicators of our businesses' performance. These indicators are regularly monitored by the management team and Board to ensure we are meeting our objectives.

Maximise value of mainstream
Our integrated business model maximises our earnings from transport, accommodation and distribution through both retail and online outlets. It also gives us the flexibility to manage capacity and product mix, allowing us to adapt to differing market conditions. We therefore have considerable flexibility, giving us relative resilience in an economic downturn.

- In Northern Europe, our strong market position and our focus on e-commerce have allowed us to achieve another year of record profits.
- In the UK, our focus on medium haul has proved helpful at a time when sterling's decline against the euro has augmented the demand for destinations outside of the traditional short haul destinations in the Eurozone. Our strong positions in Turkey and Egypt give us considerable advantage. We are also benefiting from the shift to higher margin all-inclusive resorts.
- While Thomas Cook France already enjoys the position of being the country's largest travel retailer, the combination of its tour operating business with Jet Tours, the Paris-based, premium tour operator, ensures we are now also the country's third largest tour operator, with a combined market share

Our strategy is founded upon Thomas Cook people and values. We focus on the enablers and growth drivers in pursuit of the strategic objectives, inspired by our vision. The success of our strategy is measured by strong, sustainable business performance.

Our performance

+11.8%	+49.8%	+35.5%
Pro forma revenue*	Pro forma profit from operations**	Pro forma operating profit margin***
2008: £8,810m	2008: £366m	2008: 4.2%

See Appendix 2 on page 126 for key.

Our vision

We go further, to make dreams come true

Strategic objective

Strengthen mainstream and build longevity in our business

Growth drivers

1 Maximise value of mainstream

2 Leading independent travel provider

3 Leading travel-related financial services provider

4 Capture growth through mergers and acquisitions

Enablers

Product | Technology | Customer insight | Brands | Financial rigour

People and the PROUD values

Pioneering our future | Results orientated | Obsessed with customer service | United as one team | Driving robust decisions of around 10%. Jet Tours, with its principal brands Jet Tours, Club Eldorador and Austral Lagons, serves approximately 270,000 customers per year and complements Thomas Cook's existing offering.

- The acquisition of 57 Neckermann Urlaubswelten retail outlets in Germany helps strengthen our German distribution, which remains key to that market.
- We have increased our stake in Iberoservice from 40% to 65%, a controlling interest. The balance is still owned by Iberostar. Iberoservice is a ground handling agency in Spain and it supports both the mainstream and the independent travel businesses.
- SENTIDO, the new hotel franchise based in Germany, gives us access to 17 hotels, principally in Spain, Egypt, Cyprus, Greece, Turkey and Kenya, and two Nile river boats, without increasing our risk profile. At the same time, we have the control to ensure they are high quality resorts, and the opportunity to develop this business further.
- In October 2008, we launched a new e-commerce platform, Starfish, to enhance the functionality of the thomascook.com website. It is designed to enhance online search by offering greater functionality and flexibility with higher quality information including maps and imagery. The 'shortlist' and 'compare' capabilities, that allow customers to draw up shortlists and compare options they are considering, are proving particularly popular and the conversion rate we are getting from visitors using these functions is more than three times the rate of other users of the website.

Leading independent travel provider

We continue to develop our independent business and are benefiting from the rapid growth in this area.

- We have brought new focus to the Independent Travel business in the UK through a significant organisational change, following which the UK business is now jointly managed by Pete Constanti, who leads the Mainstream Travel operations, and Ian Derbyshire, who leads the Independent Travel business. This allows us to maximise the opportunities in each of these areas and, where appropriate, to work together to ensure continued overall development in the UK.
- The acquisition of Hotels4U.com, the UK's largest independent bed bank, enhanced the Group's independent travel offering considerably. Hotels4U sells exclusively over the internet, providing accommodation and resort transfers to over 500,000 customers per annum. It has access to more than 30,000 hotels internationally. Our recently acquired business in India has been among the first to take advantage of including Hotels4U stock in their European holiday programmes.
- The acquisition of Elegant Resorts, the number one UK-based luxury travel company, supports our strategy of strengthening our independent travel position and builds on our current expertise in high-value luxury holidays. Elegant Resorts carries more than 20,000 passengers each year to luxury destinations including the Caribbean, the Indian Ocean, the Arabian Gulf and luxury European resorts.
- By acquiring TriWest Travel with its two principal brands, Fun Sun, an independent travel wholesaler, and Intair, a leading airline consolidator, we are creating a leading Canadian independent travel business with significantly enhanced customer reach and product offerings. The business will increase our profits from independent travel and improve our year-round profitability, which is currently skewed towards the winter.
- In December 2008, Thomas Cook announced that it had agreed to acquire a majority interest in Gold Medal International Limited, one of the UK's leading independent travel companies.

Leading travel-related financial services provider

The development of our financial services business is underpinned by the strength of the Thomas Cook brand and, by re-establishing world-wide control over it, we have considerably enhanced the potential to develop it in other markets.

- India is one of the fastest-growing travel and travel-related foreign exchange markets in the world, expanding by 15% per annum. Our acquisition of 74.9% of Thomas Cook India gives us the opportunity to drive this expansion. We are confident the strength of the foreign exchange business will provide a strong platform for profit growth.
- In the UK, unlike many companies, we are already operating under the new and increased regulation of the travel insurance industry, which comes into place at the beginning of 2009.
- Also in the UK, we expanded our foreign exchange franchise in airports, including our high-profile appointment as the leading partner in Heathrow Terminal 5 and Manchester Airport.

Capture growth and value through mergers, acquisitions and partnerships

The businesses acquired in 2008 are all performing well and we are generating synergies as planned. We continue to review opportunities for expansion, but will concentrate on those that are able to deliver earnings accretion by year two and exceed the cost of capital by year three.

- We are focusing on those emerging markets where tourism is growing at a faster rate than in our traditional markets, as demonstrated by our acquisition of Thomas Cook India, mentioned above. We are particularly encouraged by the opportunities in Russia and China.
- Through the acquisition of Thomas Cook Egypt, we have re-acquired control over the Thomas Cook brand in the important and fast-growing Middle East region, as well as gaining an established and profitable business.

Strategy outlook

Our strategy is serving us well, and the virtues of asset flexibility, prudent capacity management and tight cost control are manifest in these difficult economic times. We therefore do not plan to deviate from that strategy, but will be fully mindful of the conditions in which we are operating, for example in contemplating acquisitions – where we will focus our attention on emerging markets (China and Russia), which have clear strategic importance, and on deals where we see the opportunity to create exceptional value for shareholders.

We will also add further impetus to our efforts to work together more effectively as a Group, complementing our strategies in each of our geographic segments with new initiatives designed to extract further value through collaboration (for example across our airlines and with appropriate group-wide procurement initiatives). We will also pay particular attention to the e-commerce opportunity, where up to now we have focused on building websites which are integral to our local multi-channel strategies, but where we see a global opportunity for the Thomas Cook brand.

Finally, we will examine our brand portfolio, where we believe we have a number of strong brands, but more than we can support effectively. Central to our future is the Thomas Cook brand. It has been the leading brand in the leisure travel market for over 160 years and remains – along with our people – our most valuable asset.

Our strategy in action

Maximise value of mainstream

Our integrated business model ensures we maximise earnings from transport, accommodation and distribution through retail and online outlets.

page 18

Leading independent travel provider

We continue to develop our independent travel business and are benefiting from the rapid growth in this area.

page 20

Leading travel-related financial services provider

The development of our financial services business is underpinned by the strength of the Thomas Cook brand.

page 22

Capture growth through mergers and acquisitions

We made a number of key acquisitions in 2008 and all are performing well and providing the synergies expected.

page 24

Our people, our key differentiator

From booking a holiday, through to the airline and in-resort service they provide, it is our people who make the difference to our customers' holiday experience.

page 26

Maximise value of mainstream

We continue to focus on maximising the value of mainstream package holidays. Our integrated business model ensures we maximise earnings from transport, accommodation and distribution through retail and online outlets.

Setting the standard for e-commerce

This year has seen a step-change in our e-commerce performance, spearheaded by Northern Europe, where recent months have seen over 50% of bookings being made online. In the UK, 27% of total bookings are now made online, while in Germany, where the internet market has developed more slowly, 7% of our customers now book online (an increase of 14% year on year), although a much higher number research online and then book through an agent.

Delivering the future of package holidays

A new franchising hotel concept

SENTIDO, the new hotel franchise, gives us access to 17 hotels, principally in Spain, Egypt, Cyprus, Greece, Turkey and Kenya, and two Nile river boats, without increasing our risk profile. At the same time, we have the control to ensure they are high quality resorts, and the opportunity to develop this business further.

SENTIDO HOTELS & RESORTS

Our strategy in action

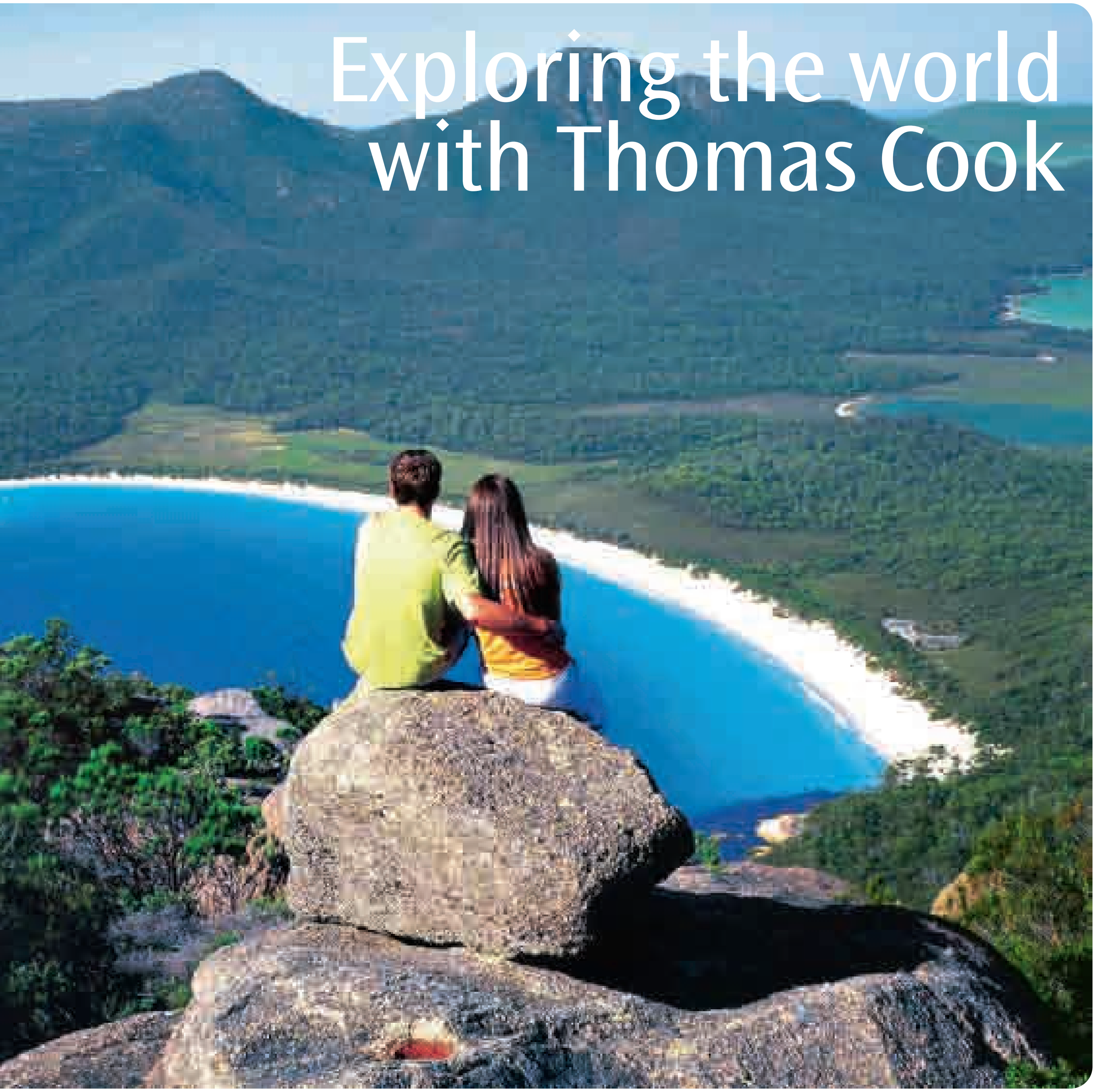
Leading independent travel provider

We continue to develop our independent travel business and are benefiting from the rapid growth in this area.

Accessing the UK's largest hotel network

The acquisition of Hotels4U.com, the UK's largest independent bed bank, enhanced the Group's independent travel offering considerably. Hotels4U sells exclusively over the internet, providing accommodation and resort transfers to over 500,000 customers per annum. It has access to more than 30,000 hotels internationally. Our recently acquired business in India has been among the first to take advantage of including Hotels4U stock in their European holiday programmes.

Exploring the world with Thomas Cook



Leading the Canadian independent travel market

By acquiring TriWest Travel with its two principal brands, Fun Sun, an independent travel wholesaler, and Intair, a leading airline consolidator, we are creating a leading Canadian independent travel business with significantly enhanced customer reach and product offerings. The business will increase our independent travel profits and improve our year-round profitability, which is currently skewed towards the winter.

Intair™ Fun Sun VACATIONS

Leading travel-related financial services provider

The development of our financial services business is underpinned by the strength of the Thomas Cook brand.

Leading the financial services market in India

India is one of the fastest growing travel and travel-related foreign exchange markets in the world, expanding by 15% per annum. Our acquisition of 74.9% of Thomas Cook India gives us the opportunity to drive this expansion. We are confident the strength of the foreign exchange business will provide a strong platform for profit growth.

More than just a travel agent

Thomas Cook in Terminal 5

In line with our strategy to grow our financial services offering, we have expanded our foreign exchange franchise in airports. This has included our high profile appointment as a partner in Heathrow Terminal 5 and Manchester Airport. The strength of the Thomas Cook brand and the customer service we offer have combined to allow us to establish ourselves as the market leader in both locations.

Capture growth through mergers and acquisitions

We continue to look for expansion opportunities through acquisition. We made a number of key acquisitions in 2008 and all are performing well and providing the synergies expected.

Number one in luxury travel

The acquisition of Elegant Resorts, the number one UK-based luxury travel company, supports our strategy of strengthening our independent travel position and builds on our current expertise in high-value luxury holidays. Elegant Resorts takes more than 20,000 customers each year to luxury destinations including the Caribbean, the Indian Ocean, the Arabian Gulf and luxury European resorts.

Elegant Resorts

New companies New opportunities

Transforming our French business

While Thomas Cook France already enjoys the position of being the country's largest travel retailer, the combination of its tour operating business with Jet Tours, the Paris-based, premium tour operator, ensures we are now also the country's third largest tour operator, with a combined market share of around 10%. Jet Tours, with its principal brands Jet Tours, Club Eldorador and Austral Lagons, serves approximately 270,000 customers per year and complements Thomas Cook's existing offering.

Jet tours
LES VOYAGES REUSSIS
SONT CEUX QUI RESTENT

Our strategy in action

Our people, our key differentiator

We recognise that it is our people who will be our key differentiator. From buying a holiday, through to the airline and in-resort service they provide, it is our people who are making the difference to the customers' holiday experience.

We are therefore committed to hiring the best people, training and developing them to fulfil their potential, and providing career opportunities that keep them within the Thomas Cook Group.

All of our businesses operate recruitment, training and development and reward policies appropriate to their local markets. Over and above this, the new Thomas Cook Group has launched some ambitious initiatives to keep the Group's people at the forefront of its businesses.

Values
The Group has adopted the 'PROUD' values as the cornerstone of employee behaviour. All Thomas Cook businesses now encourage their employees to aspire to this way of working.

Pioneering our future – we inspire energy and enthusiasm. We seek constantly to be creative and innovative and challenge constructively the status quo. We thrive in an ever-changing and dynamic world.

Results orientated – we take responsibility for achieving results. We are reliable and always deliver our promise. We are committed and determined to challenge and overcome barriers and solve problems. We always work to improve our own and others' performance and capabilities.

Obsessed with customer service – we deliver the best possible experience for our customers at all times. We listen and respond to their personal needs.

United as one team – we support and respect each other and work openly and collaboratively with our colleagues as a single, world-wide team. We trust each other and always demonstrate integrity and honesty.

Driving robust decisions – we strive for quality, speed and clarity of decisions. We learn from the past. We ensure our decisions are based on facts and are fair.

Employee engagement
Thomas Cook places a great deal of importance on internal communication. The Group's Chief Executive Officer visits each of the operating markets at least once a year and communicates on a monthly basis to update Group employees on the Company's progress and performance. Many regular communication vehicles are produced by the Group and its segments with the aim of keeping all employees up-to-date on the latest business and market developments. In addition, many of our key markets also host annual conferences to review the previous year's performance and set out the priorities for the coming year.

Denise Williams and Anthony Manning were announced UK & Ireland Chief Executive Officer employees of the year for 2007/08. Their reward included: a cruise to New York on the QE2; a £4,000 shopping allowance at London's Harvey Nichols and, throughout the year, they attended all of the Company's key external events as guests of honour.

Succession planning
In January 2009, the Board will, for the first time, be able to view succession plans for all senior positions across the Group and will manage talent at a Group level.

Development
Thomas Cook has created a fast-track development programme at Group level for high-potential employees from all of its businesses, as well as a handful of high-potentials hired into Thomas Cook from outside the sector. These individuals will receive business and leadership development to prepare them to be the Group's senior managers of the future.

Reward
As well as aligning reward for senior managers across the Group, Thomas Cook launched an international Save As You Earn Share Scheme for all its employees within a year of the merger. Some 3,500 employees across all our businesses are now saving to become shareholders in Thomas Cook Group plc.

This is just the beginning. We will continue to build our people policies to support the Thomas Cook brand as it expands across the world.

Employment policies
Thomas Cook Group is committed to treating everyone fairly and reasonably according to their individual merits and abilities measured against our justifiable business needs. Therefore, any form of unlawful discrimination directly or indirectly on the grounds of sex, gender reassignment, pregnancy, colour, race, nationality, ethnic or national origins, sexual orientation, disability, age, religion or belief, or because someone is married or is a civil partner, will not be tolerated.

Thomas Cook Group also aims to reflect the diversity of the community in which it operates because it values the individual contribution of all employees and recognises its legal and social responsibilities.

Thomas Cook Group is committed to promoting equality and all employees have a duty to contribute towards ensuring that the PROUD values are upheld and that the culture, climate and working environment are free from harassment and discriminatory treatment.

Dr Veronika Békefi, Chief Executive Officer of Neckermann Hungary, was voted one of the 100 most successful businesswomen in Hungary in 2007 by the Hungarian Marketing Federation.

Gisela Soekeland, Managing Director of Thomas Cook Reisen, was voted one of the top 25 businesswomen in Germany by Financial Times Deutschland.

Operational review

UK & Ireland

Ian Derbyshire
Chief Executive Officer,
Independent Travel UK

Pete Constanti
Chief Executive Officer,
Mainstream Travel UK

The UK has made excellent financial and strategic progress. We have considerable flexibility to adapt to changes in demand through our asset-light and integrated business model. This has served us well and underpins our confidence looking forward. We have also strengthened our business through the merger, acquisitions and developments in e-commerce and Financial Services.

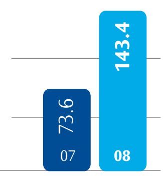
Financial highlights[1]

Revenue (£m)*

–1.1%

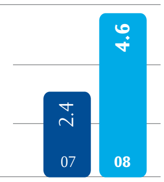
Profit from operations (£m)**

+94.8%



Operating profit margin % ***

+91.7%



[1] These are unaudited pro forma figures for the twelve months ended 30 September 2008. For a definition of how these figures have been compiled, please refer to Appendices 1 and 2 on pages 120 to 126. The statutory results for the eleven months to 30 September 2008 are set out on pages 68 to 110. See Appendix 2 on page 126 for key.

Operational highlights

- We operate in a more rational market where capacity has been reduced by around 25% in the UK market over the last two years
- The UK business is much stronger following the merger, with the majority of the accelerated synergy savings and margin accretion arising in the UK
- Strategic acquisitions, including Hotels4U.com and Elegant Resorts, strengthened our platform for future growth, particularly in independent travel
- The successful launch of Starfish, a sophisticated e-commerce platform, significantly improves our customers' experience when searching for and booking holidays online
- We expanded our foreign exchange franchise in airports and are the leading partner in Heathrow Terminal 5 and Manchester Airport
- We have established separate divisions for our Mainstream Travel and Independent Travel businesses

Key facts

6.3m
passengers

807
retail outlets

42
aircraft

The UK businesses performed extremely well in the period under review, delivering a 94.8% improvement in profit from operations despite tough market conditions and the ongoing integration process.

The pro forma revenue for the twelve months to September 2008 was 1.1% lower than in the prior year period at £3,097.3m. However, excluding the impact of acquisitions (India, Egypt, Lebanon, Hotels4U and Elegant Resorts), the pro forma revenue was 3% lower. This reduction reflects lower capacity, partially offset by improved selling prices and increased load factors. Other passengers increased by 99% year on year, reflecting the acquisitions we made in the period which underpin our strategy for growth in the Independent Travel business. Retail customers, being third party tour operator passengers booking predominantly through Thomas Cook shops, fell year on year by 9.5% largely due to the rationalisation of the retail network of the combined Group following the merger, which resulted in the closure of 98 shops.

One of the key success factors in managing a tour operating business is ensuring that supply and demand remain in balance and eliminating loss-making programmes and holidays. To achieve this, management reduced capacity on sale in the UK risk business by 7.5% year on year, with the larger part of this reduction coming in the summer season. In addition, in line with our strategy, we increased the proportion of our holidays to medium haul destinations, while reducing our short haul and long haul programmes. As a result of the above actions, the number of passengers carried fell by 6.8% but the average selling prices and margins achieved on those holidays departing in the period were significantly increased year on year.

In addition to the capacity management measures above, we were also able to realise significant merger synergies during the period, which offset the year on year increase in fuel prices and the adverse impact of changes in foreign currency rates. Acquisitions in the period also contributed to the profit from operations.

As a result, the pro forma profit from operations was increased to £143.4m from £73.6m in the prior year, an increase of almost 100%. The operating profit margin was also improved from 2.4% to 4.6%.

Control of distribution and, in particular, growth of sales through the internet is a key cornerstone of our strategy for future success. The proportion of our mass market departed passengers who booked on the internet was 26.2%, an increase of 12.9% on the prior year period. The proportion of mass market passengers departing in the period who booked through our controlled distribution channels (owned websites, shops and call centres) grew by 4.3% to 67.6%.

Key performance indicators

Controlled distribution‡
+4.3%

Internet distribution‡
+12.9%

Passengers†
–6.8%

Capacity††
–7.5%

Average selling price#
+4.9%

Load factor†††
+0.6%

Brochure mix##
+3.8%

See Appendix 2 on page 126 for key.

Continental Europe

Peter Fankhauser
Chief Executive Officer, Central Europe

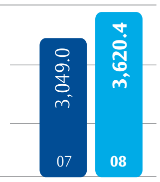
Thomas Döring
Chief Executive Officer, East and West Europe

This segment comprises businesses in Austria, Belgium, the Czech Republic, France, Germany, Hungary, the Netherlands, Poland, Slovakia and Switzerland. They are diverse as they reflect their specific markets, but they are also united by the Thomas Cook asset-light approach and focus on margins. Capacity is more flexible in Continental Europe than elsewhere in the Group, giving us even greater adaptability to changing demand.

Financial highlights[1]

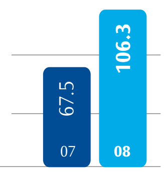
Revenue (£m)*

+18.7%



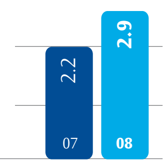
Profit from operations (£m)**

+57.5%



Operating profit margin % ***

+31.8%



[1] These are unaudited pro forma figures for the twelve months ended 30 September 2008. For a definition of how these figures have been compiled, please refer to Appendices 1 and 2 on pages 120 to 126. The statutory results for the eleven months to 30 September 2008 are set out on pages 68 to 110. See Appendix 2 on page 126 for key.

Operational highlights

- Strong performance driven by excellent yield management, improved flight utilisation in Germany and the turnaround of our business in France, where we achieved significant margin growth
- The acquisition of Jet Tours, the premium tour operator, makes us France's third largest tour operator and complements our existing offering
- The acquisition of 57 Neckermann Urlaubswelten retail outlets in Germany strengthens our German distribution, which is key to that market
- SENTIDO, the new hotel franchise, gives us access to and quality control of 17 hotels and two Nile river boats without increasing our risk profile
- Our controlling interest in Iberoservice, a ground handling agency in Spain, supports both mainstream and independent travel operations
- We developed innovative holiday concepts, such as Xperience in the Netherlands and Belgium, and Thomas Cook Villages in France, to target specialist interest groups
- This was our first full year in the Czech market. We are growing rapidly and achieving high margins throughout our Eastern European businesses

Key facts

7.5m
passengers

2,316
retail outlets

6
aircraft

The performance in the Continental European businesses during the period was very strong, resulting in a £38.8m improvement in pro forma profit from operations and a 31.8% increase in the operating profit margin.

The pro forma revenue for the twelve months to September 2008 increased by 18.7% to £3,620.4m. However, this increase was driven by changes in translation exchange rates and the impact of acquisitions (Iberoservice, Jet Tours, Neckermann Urlaubswelten, urlaub.de and the full year impact of the Czech business acquired in the previous year). As a result, underlying revenue remained at the same level as in the prior year, with lower passenger numbers in the German and Dutch businesses being offset by increased passengers in the other Western markets (Belgium and France) and improved selling prices in Germany and all our Western markets. In the Eastern markets (Poland, Hungary, Czech Republic), where we are still establishing our business, we successfully increased volumes and selling prices.

The reduction in passenger numbers in Germany and the Netherlands was expected and reflects management's focus on selling profitable holidays rather than protecting market share. This policy has proved successful as both selling prices achieved and margins have increased year on year. Improved flight utilisation in Germany also further helped to improve margins year on year.

The profit from operations was further improved by the realisation of synergy benefits in agency relationships, including the acquisition of a controlling stake in Iberoservice. Other acquisitions and changes in exchange rates also benefited the year on year performance.

As a result, the pro forma profit from operations was increased to £106.3m from £67.5m in the prior year, an increase of 57.5%.

The operating profit margin for the Continental segment was improved from 2.2% to 2.9%. The restructuring programmes we have undertaken in all our Western markets have paid dividends in the period. In France, we are especially pleased with the 5.6% margin we achieved. This is a strong improvement on the prior year margin of 2.9%. Margins also improved significantly in Belgium (4.8% compared to 2.9%) and the Netherlands (3.3% compared to 2.0%). Our relatively new Eastern division also achieved an operating margin of 4.6%, up from 4.1% in the prior year. The overall margin we achieved in Germany (including Airlines Germany) was very pleasing at 3.1% compared with 2.9% in the prior year.

The proportion of our departed passengers in the Continental European markets who booked on the internet was 8.5%, an increase of 18.1% on the prior year period. While this proportion seems low in comparison to the UK and Northern European markets, it continues to grow strongly and plays an important role in our multi-channel proposition. The proportion of passengers departing in the period who booked through our controlled distribution channels in Continental Europe (owned websites, shops and call centres) grew by 5.3% to 37.7%.

Key performance indicators

Controlled distribution‡
+5.3%

Internet distribution‡
+18.1%

Passengers flight-inclusive†
–0.8%

Passengers non-flight inclusive†
–1.7%

Average selling price#
+3.0%

See Appendix 2 on page 126 for key.

Note: Flight-inclusive passengers above includes Jet Tours passengers post-acquisition.

Northern Europe

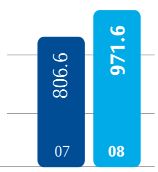
Sam Weihagen
Chief Executive Officer

We operate in Sweden, Denmark, Norway and Finland. All major players in the Northern European market focus on margin rather than market share, resulting in a relatively stable and rational marketplace. As a result of our relatively high level of integration, we have once again achieved industry-leading operating margins.

Financial highlights[1]

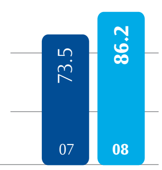
Revenue (£m)*

+20.5%



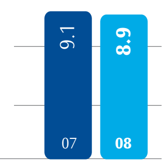
Profit from operations (£m)**

+17.3%



Operating profit margin % ***

–2.2%



[1] These are unaudited pro forma figures for the twelve months ended 30 September 2008. For a definition of how these figures have been compiled, please refer to Appendices 1 and 2 on pages 120 to 126. The statutory results for the eleven months to 30 September 2008 are set out on pages 68 to 110. See Appendix 2 on page 126 for key.

Operational highlights

- We are monitoring capacity in the Northern European market to ensure we are able to achieve the prices and margins we expect
- The expansion of our medium haul programmes in Turkey, the Canaries and Egypt is proving right in current market conditions, as long haul becomes less popular
- Along with controlled distribution and yield management, our success depends on our strong brands and the quality of our products, as we are once again proving with the launch of Sunprime
- More than 45% of all bookings were made online and we are launching a new platform to improve our online offering still further
- Thomas Cook Airlines Scandinavia is, according to an independent survey, the most environmentally friendly Nordic airline with regard to CO_2 emissions

Key facts

1.5m
passengers

21
retail outlets

9
aircraft

Our Northern European business has again delivered a record performance in the period under review, increasing the pro forma profit from operations by £12.7m year on year and maintaining an operating profit margin of around 9%.

The pro forma revenue for the twelve months to September 2008 increased by 20.5% to £971.6m. Adjusting for the impact of changes in the translation exchange rates, underlying revenue increased by 9%, reflecting both increased passenger numbers and improved selling prices. The benefit from increased selling prices and passenger numbers was, however, partially offset by increased fuel prices. However, underlying margin was still improved year on year. Changes in exchange rates also benefited the year on year performance.

Our Northern European businesses continue to lead the segments in terms of internet distribution. The proportion of our departed mass market passengers who booked on the internet was 45.6%, an increase of 18.8% on the prior year. The proportion of mass market passengers departing in the period who booked through our controlled distribution channels in Northern Europe (owned websites, shops and call centres) grew by 2.6% to 79.4%.

Key performance indicators

Controlled distribution[‡]
+2.6%

Internet distribution[‡]
+18.8%

Passengers[†]
+3.2%

Capacity[††]
+3.2%

Average selling price[#]
+8.6%

Load factor[†††]
–0.1%

Brochure mix[##]
+4.6%

See Appendix 2 on page 126 for key.

North America

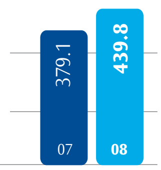
Michael Friisdahl
Chief Executive Officer

Our North American business, which operates mainly in Canada, has performed well in this highly competitive market in which our competitors have added more capacity coupled with aggressive pricing. The acquisition of TriWest makes us a leading independent travel company in Canada, improves the balance of our earnings through the seasons and reduces the overall risk profile of our business.

Financial highlights[1]

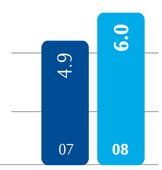
Revenue (£m)*

+16.0%



Profit from operations (£m)**

+22.4%



Operating profit margin % ***

+7.7%

[1] These are unaudited pro forma figures for the twelve months ended 30 September 2008. For a definition of how these figures have been compiled, please refer to Appendices 1 and 2 on pages 120 to 126. The statutory results for the eleven months to 30 September 2008 are set out on pages 68 to 110. See Appendix 2 on page 126 for key.

Operational highlights

- Strong performance through improved aircraft utilisation, reduced peak season accommodation costs and a further reduction in hotel commitments
- TriWest acquisition meeting our strategic goals and integration going well with synergies on track
- We are now a leading player in independent travel in Canada
- Now achieving all year-round profitability by eradicating the previous seasonality of the mainstream tour operator while still providing good utilisation of the Group's aircraft during the winter months
- Strong growth in online bookings of 24% at this early stage of our development

Key facts

0.8m
passengers

56
retail outlets

2
aircraft

Our North American business has performed solidly in the period under review, despite continued difficult trading conditions and over-capacity in mass market tour operating in Canada. The pro forma profit from operations increased by £1.1m to £6.0m and the operating profit margin was increased to 1.4%.

The pro forma revenue for the twelve months to September 2008 increased by 16.0% to £439.8m. Adjusting for the impact of changes in the translation exchange rates and the acquisition of TriWest, underlying revenue decreased by 8%, reflecting both decreased passenger numbers and lower selling prices.

Increased fuel costs adversely affected the year on year margin performance. However, excluding this, underlying margins were increased year on year through better flight utilisation and an improved brochure mix, despite the current market conditions. In addition, the result benefited from changes in year on year exchange rates and the acquisition of TriWest. Going forward, we expect the proportion of profits from our independent businesses, and in particular TriWest, to increase significantly, thereby reducing our exposure to the highly competitive mass market operations.

Internet distribution continues to grow in our Canadian business. The proportion of passengers who booked on the internet was 15.8%, an increase of 24.4% on the prior year. The proportion of passengers departing in the period who booked through our controlled distribution channels (owned websites, shops and call centres) grew to 27.2%, an increase of 25.9% on the prior year.

Key performance indicators

Controlled distribution‡
+25.9%

Internet distribution‡
+24.4%

Passengers†
–2.3%

Capacity††
–2.4%

Average selling price#
–2.6%

Load factor†††
+0.1%

Brochure mix##
+6.6%

See Appendix 2 on page 126 for key.

Note: Controlled and internet distribution percentages include independent travel bookings.

Airlines Germany

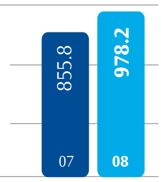
Ralf Teckentrup
Chief Executive Officer

Condor delivered an outstanding performance in the highly competitive German market despite record fuel prices in the summer. Around one-third of Condor's passengers are customers of Thomas Cook's German tour operator, with the balance comprising 'seat-only' passengers and other tour operators' customers.

Financial highlights[1]

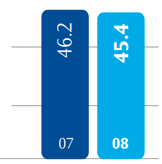
Revenue (£m)*

+14.3%



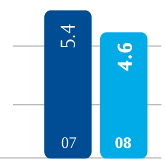
Profit from operations (£m)**

–1.7%



Operating profit margin % ***

–14.8%



[1] These are unaudited pro forma figures for the twelve months ended 30 September 2008. For a definition of how these figures have been compiled, please refer to Appendices 1 and 2 on pages 120 to 126. The statutory results for the eleven months to 30 September 2008 are set out on pages 68 to 110. See Appendix 2 on page 126 for key.

Operational highlights

- Following the withdrawal from consolidation negotiations, first with Air Berlin, and then with Germanwings and TuiFly, Condor continues to operate successfully on a stand-alone basis
- Condor operated profitably for the fourth year in a row through good capacity management, cost discipline and the focus on profitable tourist destinations
- We reduced our fleet by one aircraft, thus reducing capacity, and at the same time we increased seat load factor by 2.4%
- We invested in the quality of our service through the introduction of new premium economy seating and the refurbishment of the cabins of our Boeing-767 fleet
- Measures are in place to reduce costs, improve the technical performance of our fleet and increase fuel savings

Key facts

6.8m
passengers

34
aircraft

one-third
of seats sold in-house

Our Airlines Germany segment has performed well in a period when other airlines have suffered significantly in the face of rising fuel prices and intense competition. Although the operating profit margin reduced from 5.4% to 4.6%, contribution to Group profitability remained in line with the prior year with pro forma profit from operations at £45.4m.

Total revenue increased by 14.3%, to £978.2m. Adjusting for the impact of translation exchange rates, underlying revenue was broadly flat year on year. This reflects the planned reductions in capacity, offset by improved load factors and yields. The increase in yield of 9.6% largely reflects increased income from fuel surcharges and a change in mix from selling to our own German tour operator to selling more to third party tour operators.

Fuel costs increased significantly year on year. However, we were able to largely mitigate the impact of this at the gross margin level by the improved yields and load factors noted above, together with tight cost control. Beneficial movements in foreign exchange rates also contributed positively to the year on year performance.

Key performance indicators

Capacity††
–4.7%

Yield####
+9.6%

Seat load factor†††
+2.4%

Sold seats ‡‡

	Change %
Thomas Cook tour operators	–28.4
3rd party tour operators	+18.5
External seat only	–3.5
Total sold seats	–9.5

Sold seats ‡‡

Europe (excl. Cities)	–10.8
Long haul	+1.5
Cities	–24.2
Total sold seats	–9.5

Revenue

	12 months ended 30 September 2008 £m	12 months ended 30 September 2007 £m	Change %
Revenue – external*	**680.7**	511.7	+33.0
Revenue – internal*	**297.5**	344.1	–13.5
Total revenue*	**978.2**	855.8	+14.3

See Appendix 2 on page 126 for key.

Corporate social responsibility

Thomas Cook believed affordable travel could change ordinary people's lives for the better. Today, we are still inspired by that vision.

How we see CSR

"Thomas Cook had a clear vision when he devised the first package holiday over 160 years ago. He believed affordable travel could change working people's lives for the better. His company was inspired by a strong sense of social justice and moral responsibility.

Today, we are still inspired to deliver our founder's values. We believe they make a tangible difference to our customers' holiday experience and to all the other people whose lives we touch.

In our corporate social responsibility policy, we define CSR as 'operating responsibly to minimise negative and enhance positive environmental, social and economic impact: ensuring the long-term sustainability of our business and of the resources on which we depend'.

The nature of our business means that we cannot treat CSR as peripheral or optional. The environment and communities in destinations where we operate are integral to the products we sell: protecting them is fundamental to our business and to everyone on whom our business depends."

Manny Fontenla-Novoa
Chief Executive Officer

Read our CSR policy in full on our CSR website at: http://csr.thomascookgroup.co.uk

How we manage CSR

CSR is recognised as key to the Group: strategy and progress against targets are reviewed at the highest level. The Board's Health, Safety & Environmental Committee meets regularly to review the management of health, safety and environmental risks and their impact on our activities, and the development and implementation of relevant Group policies.

It oversees the work of the Sustainability team, which formulates and implements CSR strategy, shares best practice around the Group, and reports on performance. The team's primary role is to help secure the long-term sustainability of the business by integrating our CSR strategy into our normal business culture. It now has four full-time professionals.

Key stakeholders

Our stakeholders include customers, employees, investors, suppliers, local communities, industry partners, governments and non-governmental organisations, in our source countries and the destinations where we operate.

We work with them on identifying the issues that can move our business forward. In particular, we need the support of customers, employees and suppliers: without them we cannot achieve real sustainability, so we attach particular importance to raising their awareness of CSR issues and work with them to enhance policies, standards and practices.

Focus areas

These are the areas that particularly concern us in relation to our principal stakeholder groups and activities:

Customers

To succeed as a business, we have to build the best possible relationships with our customers and build trust with everyone we take on holiday. We strive for continuous improvement across all our customer-facing activities. This was recognised by a number of industry awards during the year, including three of the top British Travel Awards, two at the Globe Travel Awards including Best Ski/Activity Operator for the fifth year running, Best Sun Holiday Tour Operator (also for the fifth year running) at the Irish Travel Trade News Awards, and three top awards at the Scottish Passenger Agents Association Awards, including overall Best Tour Operator.

We listen to our customers through independent research and their direct feedback, and use their comments to guide changes and improvements. We pay particular attention to customers' health and safety: our move in 2008 to devolve responsibility for this to the operating divisions helps us respond quickly to local conditions and regulatory requirements.

Employees

Our success depends absolutely on how well we recruit, develop, train and motivate our 31,000 employees. Since the merger,

Thomas Cook Children's Critical Care Centre

In May 2008, Manny Fontenla-Novoa proudly opened the doors of the Thomas Cook Children's Critical Care Centre at London's Kings College Hospital. This new £2.3m centre is one of the first of its kind in the UK, housing Paediatric Intensive Care and a specialised Paediatric High Dependency Unit. Made possible by fundraising from Thomas Cook employees and the generosity of our customers, the state-of-the-art centre will treat more than 400,000 sick children each year.

2008 priorities	2008 progress	Details and further action
Employees		
Launch share schemes for all employees, with shareholder approval.	Achieved	**Save As You Earn (SAYE) launched internationally, with 10% take-up among eligible employees. Buy As You Earn (BAYE) launched in the UK with 6% take-up.**
Maintain UK Investors in People accreditation.	Achieved	**Re-accredited, including prestigious World Class recognition. (Accreditation excludes Retail and Airline businesses).**
Review UK diversity policies.	Achieved	**Review complete. Diversity training developed for new employees and managers, included in induction at all levels. Local population profiling tool developed for recruitment.**
Make UK health and safety management system more user-friendly, with access for all Retail employees.	Achieved	**UK systems made more user-friendly. Retail management system streamlined, with all risk assessment forms and other information available online. Work continues on new intranet.**
Environment		
Create new and expanded Group environmental policy.	Partially achieved	**At draft stage. Target date for publication July 2009.**
Appoint a member of staff dedicated to environmental management.	Achieved	**Appointed September 2008. Group audit now underway to ensure completion of other targets.**
Report on CO_2 emissions from UK airline in future.	Ongoing	**CO_2 emission data published in main CSR report on www.thomascookgroup.com**
Cut Northern European airline fuel consumption and emissions per passenger/km by 1% and cut cabin waste per passenger by further 5%.	Partially achieved	**We set increasingly demanding standards to continue our long-term programme, but narrowly missed last year's targets.**
Customers and products		
Comply fully with new EU regulations on access to air travel for people with reduced mobility in force from July 2008.	Achieved	**Work continues to improve access beyond statutory requirements.**
Maintain IATA Operational Safety Audit (IOSA) registration for the combined UK airlines.	Achieved	**We maintained our IOSA position: next full audit due February 2009.**
Move suppliers towards recognised international fire and safety standards.	Ongoing	**In the UK we continue to work with suppliers to reach Federation of Tour Operators (FTO) standards, based on EU recommendations. We are backing a major industry drive for uniform safety legislation throughout the EU. Self-assessment protocols in place, web-enabled systems due 2009.**
Work towards meeting UK Ofsted good practice guidance in all in-house children's club facilities.	Ongoing	**Our Child Protection Policy applies both in the UK and in resorts. We work with independent child protection consultants to monitor and enhance this policy.**
Communities		
Raise £300,000 from customers for the Travel Foundation.	Achieved	**Total raised over £350,000.**
Launch Thomas Cook Foundation as primary vehicle for our corporate giving and support of employees' charity work.	Ongoing	**Launch planned for early 2009.**
Develop a sustainable tourism policy.	Ongoing	**Initial drafts shared with stakeholders for review before publication.**
Appoint a member of staff dedicated to sustainable tourism.	Achieved	**Appointed March 2008.**
Audit a further 100 properties against Travelife criteria.	Achieved	**113 audited during 2007/08.**
Expand information about animal welfare on customer websites.	Achieved	**Extensive section included in new mini-site.**

Corporate social responsibility continued

Thomas Cook has adopted a common set of five values as the template for employee behaviour throughout the organisation – with an initial focus on one value in particular: 'united as one team'. In 2009, the emphasis will move to another of these values: 'pioneering our future'. The PROUD values are set out on page 26. In 2008, we introduced share plans for all employees, launched consistent rewards and succession planning for senior managers across the Group, and created a fast-track development programme for our high-potential employees.

Home communities

We believe we should play an active part in the communities where most of our people live and work – through encouraging charitable donations and by supporting employee volunteering and fundraising. We have been developing a more coherent framework for our support, including establishing the Thomas Cook Foundation as our primary vehicle for charitable giving by our customers and employees, who will be invited to serve as trustees.

Increasingly, we focus our community and charitable support on causes related to children, education and the environment. During 2008, the Paediatric Intensive Care and Paediatric High Dependency Units opened in the Thomas Cook Children's Critical Care Centre in London's Kings College Hospital. We met our 2005 pledge to cover the cost of building materials, reaching a final target of £2.3m through funds raised from customers and employees.

Destination communities

For destination communities and environments, tourism can bring great economic and social benefits. It also provides an incentive to preserve precious natural attractions and cultural heritage. But if managed irresponsibly, it can harm communities and damage the human and natural heritage that tourists have come to see. To avoid fostering these negative consequences, we work closely with the Travel Foundation, an initiative launched by the UK Government and major travel operators, which focuses on people and the environment in tourism destinations. It has become one of our key partners and, in 2008, our customers raised over £350,000 towards its work.

Supply chain

Our principal suppliers are hotel owners and operators. We are working with them to ensure increasingly high health, safety and environmental standards. We have worked with the Federation of Tour Operators (FTO) to launch the Travelife Awards – an EU-backed and internationally recognised sustainability scheme for hotels and other tourism partners. To achieve a Travelife Bronze, Silver or Gold Award, suppliers must be audited across a wide range of sustainability criteria. During the year we audited 113 properties, and we currently feature over 70 award winners in our brochures. During a visit to Cyprus, members of our Sustainability team completed eight Travelife audits while also promoting water conservation – the island is suffering critical water shortages – and hotels are keen to adopt the initiatives they learned about during the audits.

Environment

Our Group environmental policy commits us to doing as much as we can to protect the resources on which our business depends. Our progress in these areas was recognised at the 2008 British Travel Awards, where we won silver awards in the Most Environmentally Responsible Airline and Most Environmentally Responsible Large Tour Operator categories. We constantly strive to reduce negative impacts resulting from our operations and help our suppliers to do the same. We focus particularly on aviation emissions and noise, natural resource use and waste management.

Our work in these areas has gained considerable impetus from the appointment of a full-time environmental manager in September, after a lengthy search for someone with the right qualifications and experience. We are making progress in monitoring our environmental impacts and fuel consumption and emission data for our UK airline is included in our online CSR report. This report includes some data for energy consumption in our offices. In the meantime, we have developed environmental labels for our UK aircraft fleet; these give boarding passengers environmental information in a form similar to the labels used for cars and household appliances. The information will also be published on our UK airline website at www.thomascookairlines.co.uk. We now need to work hard to create a more consistent programme with our airlines across the Group.

More information

The Thomas Cook Group corporate website includes a CSR section which sets out our policies, standards and performance. We also publish an annual report on our CSR priorities, activities and performance; to conserve resources this is available online only. We welcome your feedback on all aspects of CSR and you can find full contact details on the website.

CSR website and annual CSR report:
http://csr.thomascookgroup.co.uk

Email and contact details:
http://csr.thomascookgroup.co.uk/tcg/services/contact/

1 Customers planting trees in Sri Lanka as part of a regeneration project after the tsunami.

2 Thomas Cook aims to build the best possible relationships with its customers.

1

2

Travelife Sustainability System

Financial review

Dr Jürgen Büser
Chief Financial Officer

Pro forma Group (unaudited) financial results

	12 months ended 30 September 2008	12 months ended 30 September 2007	Change %
Revenue (£m)*	8,809.8	7,878.5	+11.8
Profit from operations (£m)**	365.9	244.2	+49.8
Operating profit margin %***	4.2	3.1	+35.5
Adjusted earnings per share (p) ‹	24.1	17.1	+40.9
Dividend per share (p)	9.75	5.00	+95.0
Adjusted dividend cover ›	2.5	2.5	–
Operating cash flow (£m)	220.2	215.3	+2.3
Net (debt)/funds (£m)	(292.5)	393.6	

See Appendix 2 on page 126 for key.

Statutory Group financial results

	11 months ended 30 September 2008	12 months ended 31 October 2007
Revenue (£m)	8,167.1	6,404.5
Profit before tax (£m)	49.5	190.2
Earnings per share (p)	4.7	22.0
Operating cash flow (£m)	357.2	160.6

Basis of financial information

The results included within this report reflect both unaudited pro forma and audited statutory information for Thomas Cook Group plc. The pro forma information has been prepared, following the change in year end from 31 October to 30 September, to allow a more meaningful year on year comparison of the development of the business and reflects the underlying results for the twelve months to 30 September 2008 and the twelve months to 30 September 2007. The prior year pro forma figures have been prepared as if the merger of Thomas Cook AG and MyTravel Group plc had taken place prior to 1 October 2006 (the first day of the comparative accounting period presented). The pro forma financial information has been prepared on an adjusted basis which means before exceptional items, amortisation of intangible assets that arose from the business combination, interest and tax (unless otherwise indicated), and excludes our share of the results of associates and joint ventures.

The audited statutory information reflects the results of Thomas Cook Group plc for the eleven months to 30 September 2008 and the twelve months to 31 October 2007. The prior year comparatives reflect the results of Thomas Cook AG only for the period from 1 November 2006 to 18 June 2007 and of Thomas Cook Group plc from 19 June 2007, being the date that the merger completed.

During the period, we changed the presentational currency for the Group to sterling as we now expect to generate the majority of our profits in non-euro countries, with the UK being by far the largest. Consequently, all the financial information, including the prior year comparatives, included in this report has been presented in sterling.

Pro forma (unaudited) financial results

Income statement highlights

Revenue and profit from operations

The Group pro forma revenue for the period was £8,809.8m, an increase of 11.8% on the prior year period. However, excluding the impact of translation and acquisitions, Group revenue was flat year on year, with an underlying decrease in UK revenue of 3% being offset by an increase in Northern Europe of 9%.

The pro forma profit from operations increased by 49.8% to £365.9m. Fuel costs increased significantly year on year. However, this was more than offset by improvements in underlying performance and increased and accelerated synergy realisation from the merger of Thomas Cook and MyTravel, together with a contribution from acquisitions in the period and a net benefit from changes in exchange rates.

Exceptional operating items
Pro forma exceptional operating items amounted to £205.3m (2007: £171.2m) and largely relate to the costs of the merger integration process, the integration costs for other acquisitions made in the year and other business restructuring activities.

A summary of the segmental pro forma revenue and profit from operations is shown below. Further information on the movements in revenue and profit from operations are given in the Operational Review on pages 28 to 37. Further information on the exceptional operating items is provided in the statutory financial results section of this Financial Review on page 43.

Net finance costs
Net finance costs (excluding exceptional finance costs) in the period were £58.2m (2007: £7.9m). The increase year on year reflects lower interest rates on deposits and lower cash balances, due in part to expenditure on acquisitions and integration costs; increased costs stemming from the new three year revolving credit facility; and the normalised phasing effect of marking to market the forward points on our foreign currency hedging, which should reverse next year when the underlying transactions take place.

Exceptional finance costs in the period amounted to £26.8m. This includes £13.9m of revaluation losses on trading securities and £12.9m relating to the exceptional element of the phasing effect of marking to market the forward points on our foreign currency hedging, which arose in September 2008 as a result of the global banking crisis.

Pro forma (unaudited) segmental performance review

	12 months ended 30 September 2008 £m	12 months ended 30 September 2007 £m	Change %
External revenue *			
UK	**3,097.3**	3,131.8	–1.1
Continental Europe	**3,620.4**	3,049.0	+18.7
Northern Europe	**971.6**	806.6	+20.5
North America	**439.8**	379.1	+16.0
Airlines Germany	**680.7**	511.7	+33.0
Corporate	**–**	0.3	
Group	**8,809.8**	7,878.5	+11.8
Profit from operations **			
UK	**143.4**	73.6	+94.8
Continental Europe	**106.3**	67.5	+57.5
Northern Europe	**86.2**	73.5	+17.3
North America	**6.0**	4.9	+22.4
Airlines Germany	**45.4**	46.2	–1.7
Corporate	**(21.4)**	(21.5)	+0.5
Group	**365.9**	244.2	+49.8

See Appendix 2 on page 126 for key.

The costs of running the corporate headquarters have remained broadly in line with the prior year, with synergy benefits being offset by year on year net losses on translation due to adverse movements in exchange rates. The review of performance for all the other segments is included in the Operational Review on pages 28 to 37.

Earnings per share and dividends
The pro forma adjusted earnings per share for the period was 24.1 pence compared with 17.1 pence in the pro forma prior year period. Pro forma adjusted earnings per share has been calculated using the pro forma profit for the period, before exceptional items and amortisation of business combination intangibles, divided by the weighted average number of shares in issue. For the prior year period, the number of shares in issue at the end of the period was taken due to the distortion caused by the merger. Adjustments have been made to reflect a normalised pre-exceptional tax charge.

The Board is recommending a final dividend of 6.5 pence per share, for payment after, and subject to shareholder approval at, the Annual General Meeting to be held on 19 March 2009. This, together with the interim dividend of 3.25 pence paid on 5 September 2008, brings the total dividend in respect of the period to 9.75 pence. Based on the adjusted earnings per share figure noted above, this equates to a 41% payout ratio for the full year.

Cash flow and net debt
The net cash inflow from operating activities during the pro forma period was £220.2m (2007: £215.3m). This includes the profit from operations during the period, partly offset by the cash outflow on integration costs, tax paid, and a small net outflow on working capital of £38.3m.

The net cash outflow from investing activities was £361.4m (2007: £122.2m). The outflow in the period includes £296.4m spent on acquisitions of businesses and £159.5m expenditure on tangible and intangible fixed assets. These were partly offset by the realisation into cash of £75.9m of our trading securities.

The net cash inflow from financing activities was £28.1m (2007: outflow of £103.5m). The inflow in the period largely comprises the net draw down of borrowings under the credit facility of £503.6m, offset by the cash outflow in respect of the share buyback programme of £247.8m; £78.2m paid out in dividends (prior year final dividend and current year interim dividend); finance lease payments of £91.8m; and interest payments of £58.1m.

Cash and cash equivalents on the balance sheet at 30 September 2008 were £761.3m (2007: £856.0m). This excludes cash held in short-term securities of £129.2m (2007:

£197.3m). However, the balance does include restricted cash of £127.1m (2007: £104.3m) which is held: in escrow accounts predominantly in the US and Canada, in respect of local regulatory requirements; by White Horse Insurance Ireland Limited, the Group's insurance company; and in other securities. In addition, it should be noted that the Group's working capital cycle is such that cash balances are at their lowest in the winter months and at their peak in the summer months.

Net debt at 30 September 2008 was £292.5m (2007: net funds of £393.6m). The movement year on year largely reflects the cash outflow during the period on the share buyback programme and the acquisitions made, which has resulted in the drawing down of funds on the revolving credit facility. The ratio of net debt to adjusted EBITDA (profit from operations before depreciation and amortisation) at 30 September 2008 was 0.6 times.

Reconciliation of pro forma and statutory profit from operations

The table below sets out the key reconciling differences in profit from operations on a pro forma basis compared with a statutory basis for 2008 and the comparative period. The statutory Group profit from operations for 2008 reflects 100% of the results of Thomas Cook Group plc for the eleven month period ending on 30 September 2008. The statutory Group profit from operations for 2007 reflects 100% of Thomas Cook AG for the twelve month period ending 31 October 2007 and 100% of MyTravel Group plc and Thomas Cook Group plc from 19 June 2007 (being the date of the merger) to 31 October 2007. Consequently, the first adjustment in the table removes the pre-merger results of MyTravel Group plc from the comparative period. As MyTravel Group plc made losses in the winter period 2007, this adjustment improves statutory profitability in 2007.

The pro forma information has been produced on the assumption that the accounting reference date for Thomas Cook Group plc has always been 30 September 2008. As a result, the second adjustment removes the pro forma October 2007 result from the current period and replaces the pro forma October 2006 result with the statutory October 2007 result in the prior year period.

In preparing the pro forma profit from operations, account was taken of the impact of acquisition accounting. As part of the fair value adjustments, a provision was made in respect of above market rate hotel lease rentals. In addition, the value of aircraft held on the balance sheet was reduced. In the pro forma figures, we have assumed that both of these adjustments were made prior to 1 October 2006 and, as a result, the impact of a full year of lower rental costs and reduced depreciation has been reflected in the pro forma profit from operations in the comparative period. The net effect of these fair value adjustments has been to increase the pro forma profit from operations for the prior period by £11.7m. The third adjustment, therefore, removes the impact of this adjustment from the pre-acquisition period.

The IAS 39 business combination adjustment represents unrecognised losses on hedging instruments taken to reserves within the MyTravel business prior to the date of the business combination. On consolidation these amounts are included within goodwill and are therefore not recognised in the pro forma figures, but increase statutory profit from operations.

	2008 £m	2007 £m
Pro forma Group profit from operations **	**365.9**	244.2
Adjustments:		
Pre-merger operating loss of MyTravel	**–**	55.2
Net impact of change in year end	**(20.0)**	9.3
Pre-merger impact of fair value adjustments	–	(11.7)
IAS 39 business combination adjustment	**17.5**	11.9
Statutory Group profit from operations **	**363.4**	308.9

See Appendix 2 on page 126 for key and the income statement on page 68 which reconciles statutory Group profit from operations of £363.4m to statutory profit before tax of £49.5m.

Statutory financial results

As noted earlier, the statutory Group profit from operations for 2008 reflects 100% of the results of Thomas Cook Group plc for the eleven month period ending on 30 September 2008. The statutory Group profit from operations for 2007 reflects 100% of Thomas Cook AG for the twelve month period ending 31 October 2007 and 100% of MyTravel Group plc and Thomas Cook Group plc from 19 June 2007 (being the date of the merger) to 31 October 2007.

Income statement highlights

Revenue and profit from operations
Revenue in the period amounted to £8,167.1m compared with £6,404.5m in the prior year. Profit from operations before exceptional items and amortisation of business combination intangibles was £363.4m compared with £308.9m in the prior year.

Exceptional operating items
Exceptional items are defined as costs or profits that have arisen in the period which management do not believe are a result of normal operating performance and which, if not separately disclosed, would distort the year on year comparison of trading performance.

Total net exceptional operating costs (excluding amortisation of business combination intangibles) in the period were £179.6m compared with £127.0m in the prior year. The increase year on year largely reflects higher merger integration costs as we accelerate and realise higher synergy savings than previously anticipated, together with integration costs associated with new acquisitions made in the period and other restructuring costs.

Included within the net £179.6m of exceptional operating items are £106.7m of costs associated with the integration of the former MyTravel and Thomas Cook businesses. The majority of these costs have arisen in the UK businesses and largely reflect redundancy and other people-related costs, and costs of terminating and amalgamating various contracts.

Other exceptional operating costs include £46.4m in relation to provisions for the integration of other businesses acquired during the year and for restructuring projects within the underlying Thomas Cook businesses.

Financial review continued

Amortisation of business combination intangibles
Amortisation of business combination intangibles in the period amounted to £48.0m (2007: £30.1m), of which £31.7m relates to the amortisation of brand names, customer relationships and computer software, and £16.3m to the amortisation of the order backlog that existed at the time of the respective acquisitions.

Associates and joint ventures
Our share of results of associates and joint ventures before exceptional items was a loss of £1.6m (2007: profit of £1.8m). The reduction year on year largely reflects the disposal in May 2008 of our 40% stake in Activos Turisticos as part payment for the acquisition of a 65% stake in Viajes Iberoservice Espana S.L., together with increased losses in our Barclaycard joint venture arrangement.

Net investment income, which reflects dividends and interest received from investments, was £0.5m (2007: £1.7m).

The profit on disposal of associates in the prior year of £35.5m largely reflected the sale, to Arcandor, on an arm's length basis, of our 50% interest in SunExpress, an airline based in Turkey.

Net finance costs
Net finance costs (excluding exceptional finance costs) in the period were £58.4m (2007: £0.6m). The increase year on year reflects lower interest rates on deposits and lower cash balances, due in part to expenditure on acquisitions and integration costs; increased costs stemming from the new three year revolving credit facility; increased costs on finance leases due to the full year effect of including the former MyTravel leases; and the normalised phasing effect of marking to market the forward points on our foreign currency hedging, which should reverse next year when the underlying transactions take place.

Exceptional finance costs in the period amounted to £26.8m. This includes £13.9m of revaluation losses on trading securities and £12.9m relating to the exceptional element of the phasing effect of marking to market the forward points on our foreign currency hedging, which arose in September as a result of the global banking crisis.

Profit before tax for the eleven months ended 30 September 2008 was £49.5m (twelve months ended 31 October 2007: £190.2m).

Tax
The tax charge in the period was £5.1m (2007: £39.5m). Excluding the effect of adjustments to tax provisions made in respect of previous years and exceptional items, this represents an effective tax rate of 26.1% on the pre exceptional profit for the year.

The cash tax rate will continue to be considerably lower than 26.1% as a result of being able to utilise the losses available in the UK and Germany. Total losses available to carry forward in the Group at 30 September 2008 are £1.3 billion. Deferred tax assets have been recognised in respect of £0.7 billion of this amount.

Profit after tax for the eleven months ended 30 September 2008 was £44.4m (twelve months ended 31 October 2007: £150.7m).

Earnings per share and dividends
The basic and diluted earnings per share for the period was 4.7 pence (2007: 22.0 pence). The earnings per share figures noted here are affected by the weighted average number of shares in issue which are significantly lower for the comparative period due to the nature of the merger transaction, and by the change in year end. As a result, management believes that the adjusted earnings per share figures included within the pro forma (unaudited) financial results section of this financial review are a more meaningful measure of return.

As noted in the pro forma (unaudited) financial results and performance review section of this Financial Review, the Board is recommending a final dividend of 6.5 pence per share for the period ended 30 September 2008, for payment after, and subject to shareholder approval at, the Annual General Meeting to be held on 19 March 2009. This, together with the interim dividend of 3.25 pence paid on 5 September 2008 brings the dividend for the eleven month period to 9.75 pence.

Balance sheet, cash flow and net debt

Net assets at 30 September 2008 were £2,009.2m (31 October 2007: £2,120.6m).

Given the cyclical nature of the Group's working capital cycle, the change in accounting reference date, and the merger of MyTravel and Thomas Cook part way through the prior year period, any comparison of statutory current period cash flows against the prior year is significantly distorted. As a result, the pro forma cash flow analysis included earlier in this Financial Review should be used as the basis for understanding the Group's cash flows in the period under review.

Cash and cash equivalents on the balance sheet at 30 September 2008 were £761.3m (31 October 2007: £622.3m). This excludes cash held in short-term securities of £129.2m (2007: £255.6m). However, the balance does include restricted cash of £127.1m (2007: £116.2m) which is held in escrow accounts predominantly in the US and Canada, in respect of local regulatory requirements; held by White Horse Insurance Ireland Limited, the Group's insurance company; and held in other securities.

Net debt at 30 September 2008 was £292.5m (31 October 2007: net funds of £248.7m).

Treasury policies

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

To cover these risks, the Board of Directors has established treasury policies which are reviewed regularly to ensure they remain relevant to the business.

The Board approves all the financial instruments used by the Group to limit its risks. Internal guidelines provide the framework governing actions taken, responsibilities and controls. The use of derivative financial instruments is not permitted for speculative purposes, but instead serves exclusively to hedge existing underlying or planned transactions by the business units.

Treasury activities are managed by Group Treasury. Group Treasury reports regularly to the Board and is subject to periodic independent reviews and audits, which are presented to the Audit & Risk Management Committee.

In accordance with the provisions set out in IAS 39, all derivative financial instruments must be measured at their fair values. The market valuation of the derivative financial instruments used is based on market information and appropriate valuation methods. The fair value of options is determined by recognised option price models and that of interest rates derivatives takes account of terms to maturity based on current market interest rates and the interest rate yield curve. Positive market values of derivative financial instruments are recognised as an asset while negative market values are recognised as a liability.

The Group is financed by a balanced mix of equity and access to bank facilities.

The liquidity position of the Group is significantly influenced by the booking and payment pattern of customers. As a result, liquidity is at its lowest in the winter months and at its highest in the summer months. The Group manages the cyclical nature of its liquidity by making use of its revolving credit facility.

For its longer-term liquidity requirements, for example for acquisitions, the Group makes use of its term loan facility.

Foreign currency risks

The Group is active in many destinations and sales regions and, as such, is subject to the risk of exchange rate fluctuations in its operating activities. Exchange rate risks arise in connection with the sourcing of services from destinations outside the source market. Additionally, US dollar payments are made for the procurement of fuel and operating supplies for aircraft, as well as for investments in aircraft.

The Group's policy requires all subsidiaries to hedge all trade-generated exposures with Group Treasury either as part of the budget process or at the time of brochure launch.

Use is made, in particular, of currency forwards, currency swaps and plain vanilla currency options in order to limit exchange rate risks and these are usually designed as cash flow hedges of forecast future transactions.

Interest rate risks

The Group is also subject to risks arising from interest rate movements in connection with its financing of aircraft and acquisition of investments. Floating rate medium- to long-term items are exposed to interest rate change risks. Interest rate swaps and interest rate collars are designated as cash flow hedges of the interest rate.

Cash from operations is invested in short-term bank deposits and money market funds.

Fuel price risk

Fuel exposures relate to flying costs for the seasons on sale. Price hedging transactions are undertaken for the purpose of limiting the risk of unfavourable changes in the price of fuel. The aim of the hedging policy is to hedge up to 95% of the fuel requirement for the flight schedule concerned.

Group policy requires the Group airlines to hedge all fuel exposures with Group Treasury 12 to 18 months prior to consumption. Hedging is implemented primarily with a combination of fixed price contracts (swaps) and net purchased options and is either in crude oil, gas oil or kerosene.

Liquidity risk

The Group's overall objective is to ensure that it is at all times able to meet its financial commitments as and when they fall due. Surplus funds are collected and invested with approved counterparties within authorised limits and with the aim of maintaining short-term liquidity while maximising yield.

In May 2008, the Group replaced the existing debt facility with a new credit facility amounting to €1.8bn (£1.4bn at the financial period end), of which €1.28bn (£1.0bn at the financial period end) is available for immediate use for the Group's general corporate purposes, including acquisitions and the recently completed share buyback programme, as well as to manage the cyclical nature of the Group's liquidity.

The Group uses its annual budget and three-year planning process to predict expected future liquidity of the Group. The liquidity forecast is reviewed and updated on a regular basis.

Short-term liquidity

Short-term liquidity is invested in a combination of deposits and, to a lesser extent, in securities having at least an investment grade rating. All securities are denominated in euro and largely represent corporate bonds, government bonds and asset backed securities with an average rating of A for the portfolio.

Counterparty exposure

The Group assesses its counterparty exposure in relation to the investment of surplus liquidity; fuel, foreign exchange and interest rate hedging available; undrawn credit facilities; drawn revolving credit facilities; and other facilities where repayment is due within one year.

Credit Default Swap (CDS) pricing and share price performance in the previous 30 day period are the criteria used to classify counterparties into strong, satisfactory and weak categories. The counterparty's strength defines the aggregate limit of the Group's exposure towards the relevant party.

Principal risks and uncertainties

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

We place great importance on internal control and risk management, and the system and framework that the Board has put in place is described in the Corporate Governance Report on page 51.

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

Risk	Impact	Mitigation
Operational and strategic risks		
Downturn in the economies of our source markets leading to a reduction in demand for our products and services	Pressure on volumes and margins	• Significant capacity reductions through our actions to maintain margins • Flexibility of business model: – Less than 10% of our hotel capacity is committed – Around 89% of our UK tour operator flying requirements are undertaken by our own fleet, allowing considerable further flexibility to cut capacity without affecting our own airline – Changes in capacity can be accommodated late into the booking season • Asset-light business model • Utilising our buying power to manage accommodation costs across the Group • Programme implemented in 2008 to reduce our cost base with defined contingency plans to cut costs further if necessary **Further information can be found on pages 9 to 37.**
Fall in demand for traditional package tours and competition from internet distributors and low-cost airlines	Reduction of revenue and pressure on margins	• Strategy to establish Thomas Cook as a leading provider of independent travel • Acquisitions in the independent sector, e.g. Hotels4U.com and Elegant Resorts in the UK and TriWest Travel in Canada • Split of UK sector into Mainstream and Independent Businesses with dedicated Chief Executive Officers to focus on each specific market and maximise the opportunities in each • Shift to higher margin all-inclusive resorts • Launch of our own hotel brand – SENTIDO • Focus on expanding into new emerging markets • Step change achievements in our e-commerce performance • Proven resilience vs. low-cost airlines through much better access to beds in destination • Focus on medium haul destinations not economically viable for low-cost airlines **Further information can be found on pages 9 to 37.**
Customers' exposure to the falling value of sterling	Reduction in bookings to traditional resorts in the Eurozone as prices appear expensive	• Strategy to increase medium haul non-Eurozone destinations, while reducing our short haul and long haul programmes • Flexible and asset-light business model • Utilising our buying power to manage accommodation costs across the Group • Increase in higher margin, all inclusive holidays, which give cost certainty to customers **Further information can be found on pages 9 to 37.**
Corporate social responsibility, including environmental issues	Damage to the Company's brand and reputation	• CSR programme as detailed in the Corporate Social Responsibility Report **Further information can be found on pages 38 to 40 and in the full online Corporate Social Responsibility Report which can be found on www.thomascookgroup.com**
A major incident caused by a significant lapse in health and safety procedures	Significant impact on reputation as a trusted brand would lead to reduction in bookings	• Health and safety management embedded in each business with central co-ordinating function **Further information can be found on pages 38 to 40 and in the full online Corporate Social Responsibility Report which can be found on www.thomascookgroup.com**
Loss of, or difficulty in replacing, senior talent	Inability to drive strategic initiatives, discontinuity in management and leadership	• Embedded new talent management processes to identify high potentials within the businesses • Embedded succession management processes to identify gaps and to deploy our talent optimally • Hired new talent from outside sector to fortify talent pipelines and provide senior succession for the future • Created a High Potential Development Programme to develop our most talented people for the future
Business continuity	Business disruption and loss of profits	• Existing business continuity plans being strengthened across the Group
Performance failure by outsourced partners	Business disruption and loss of profits	• Business continuity and service level agreements in place

Risk	Impact	Mitigation
Financial risks		
Volatility of fuel prices	Costs incurred may not be recovered from customers Brochure prices do not reflect actual cost of travel	• Actively managed Board-approved hedging policy **Further information can be found on pages 9 to 11 and 41 to 45, and in Notes 24 and 25 to the Financial Statements**
Foreign currency risks	Costs incurred may not be recovered from customers Brochure prices do not reflect actual cost of holiday	• Actively managed Board-approved hedging policy **Further information can be found on pages 9 to 11 and 41 to 45, and in Notes 24 and 25 to the Financial Statements**
Interest rate risks	Interest cost uncertainties	• Actively managed Board-approved treasury policy **Further information can be found on pages 9 to 11 and 41 to 45, and in Notes 24 and 25 to the Financial Statements**
Liquidity risk	Group is unable to meet its financial commitments as they fall due	• Actively managed Board-approved treasury policy • New £1.4bn credit facility put in place in May 2008 **Further information can be found on pages 9 to 11 and 41 to 45**
Counterparty credit risk	Loss of cash	• Daily assessment and management of cash balances **Further information can be found on pages 9 to 11 and 41 to 45**
Tax risk	Inability to utilise losses due to legislative or other changes	• Compliance with Board-approved tax policy **Further information can be found in Note 27 to the Financial Statements**
Requirement to increase defined benefit pension scheme contributions, which may be imposed by the trustees or the Pensions Regulator	This may restrict investments in the businesses	• Broadly diversified pension fund with limited exposure to single asset classes • Special contribution scheme started three years ago has reduced deficit significantly
Other risks that are continually monitored by management		
Breakdown in internal controls	Inability to operate, loss of profit	• System of internal control in place, which is continually monitored **Further information can be found in the Corporate Governance Report on pages 55 and 56**
Political, military, terrorist, security, natural catastrophe and health risks in key tourist destinations	Reduction of revenue and loss of profit	• Ongoing monitoring by management • Asset-light and flexible business model
Legal and regulatory risks, especially in respect of airline operating licences, insurance and financial services sectors, and legislative impacts Failure to comply with new regulations in relation to night flying and environmental emissions Money laundering legislation in relation to financial services	Inability to obtain operating and/or route licences leading, ultimately, to cessation of operation	• Active legal and regulatory management programme in place