Thomas Cook Airlines

Thomas Cook Airlines Scandinavia A/S
CVR no. 13 89 69 09

Annual report 2016/17

Financial year 1 October 2016 to 30 September 2017

28th financial year

Thomas Cook Airlines Scandinavia A/S
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Company information

Company

Thomas Cook Airlines Scandinavia A/S
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Board of Directors

Christoph Debus, Chairman
Lars Magnus Wikner
Per Knudsen
Gitte Pia Michelsen, staff-elected
Lars Røstad, staff-elected

Executive Board

Per Knudsen, CEO
Bent Erlandsen
Carsten Schiøler

Auditors

ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Approved by the annual general meeting of the Company on 28/2 -2018

Chairman of the meeting

Per Knudsen

Management's statement

The Board of Directors and the Executive Board have today discussed and approved the annual report of Thomas Cook Airlines Scandinavia A/S for the financial year 1 October 2016 to 30 September 2017.

The annual report has been prepared in accordance with the Danish Financial Statements Act. We consider the accounting policies selected appropriate and the accounting estimates sound.

In our opinion, the financial statements give a fair presentation of the Company's assets, liabilities and financial position as at 30 September 2017 and of the results of the Company's activities for the period 1 October 2016 to 30 September 2017.

In our opinion, the Management's review provides a fair presentation of the developments in the Company's activities and finances, the net profit or loss for the year and the Company's financial position.

We recommend the annual report for approval by the annual general meeting.

Tårnby, February 28th, 2018

Executive Board

Per Knudsen
CEO

Bent Erlandsen

Carsten Schiøler

Board of Directors

Christoph Debus
Chairman

Lars Magnus Wikner

Per Knudsen

Gitte Pia Michelsen

Lars Røstad

Independent Auditor's Report

To the Shareholders of Thomas Cook Airlines Scandinavia A/S

Opinion

We have audited the financial statements of Thomas Cook Airlines Scandinavia A/S for the financial year 1 October 2016 – 30 September 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 30 September 2017 and of the results of the Company's operations for the financial year 1 October 2016 – 30 September 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view. •

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Copenhagen, February 28th 2018
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Ole Hedemann
State Authorised Public Accountant
MNE no.: mne14949

Kristian Bjerge
State Authorised Public Accountant
MNE no.: mne40740

Management's review

Financial highlights

Seen over a period of five years, the Company's development can be described by these financial highlights:

All amounts in DKK '000.000	2016/17	2015/16	2014/15	2013/14	2012/13
Key Figures					
Results					
Revenue	4,023	4,113	4,147	4,386	4,460
Gross Profit	1,163	1,157	1,001	1,070	1,060
Operating Profit	239	238	173	242	99
Results from net financials	-34	-49	-14	-2	0
Net profit before tax	205	190	159	240	99
Net profit for the year	155	147	117	180	70
Balance sheet					
Equity	159	191	195	263	200
Balance sheet total	1,656	1,616	1,824	1,513	1,637
Investments in tangible and intangible fixed assets, net	26	67	397	102	-141
Other financial ratios					
Staff (Full-time)	1,080	1,093	1,060	1,043	1,063
Aircraft	12	12	13	12	12
Passengers (1.000), one-way	2,378	2,385	2,399	2,377	2,405
Cabin factor (%)	93	92	93	92	93
Number of flying hours (Block hours)	50,242	50,418	49,867	51,730	52,656
Financial ratios %					
Gross margin	29	28	24	24	24
Profit margin	6	6	4	6	2
Solvency ratio	10	16	11	20	12
Return on equity	98	66	53	82	45

For definitions, see note 1 'Accounting policies'.

Management's review

Principal activity

The Company's principal activity consists of transporting charter passengers to and from popular holiday destinations and selling duty-free and non-duty-free goods on-board. The major part of the Company's revenue consists of sales to group enterprises.

The Company is a wholly-owned Company in the Thomas Cook Northern Europe Group which include the tour operators Spies in Denmark, Ving in Norway and Sweden and Tjæreborg in Finland and own concept hotels, Sunwing and SunPrime. Thomas Cook Northern Europe is ultimately owned by the listed English Company Thomas Cook Group plc.

Developments in activities and finances

In the financial year, the Company transported 2,376,609 one-way passengers to and from Sweden, Norway, Denmark and Finland, which is a year-on-year decrease of 0.3 percent.

In 2016/17 the company operated an average fleet of 12 aircraft broken down by 13 aircraft during the winter season and 11 in the summer season. The 2 additional winter season aircraft were leased in from Thomas Cook Airlines UK, reflecting the seasonal fluctuations in the production demand in the Nordics.

At the financial year-end the Company's fleet included three Airbus A330 and eight Airbus A321 with an average age of nine years. During 2014 and 2015 the cabins of the older aircraft were fully refurbished. The customer satisfaction scores have increased accordingly and the product is very much appreciated by the passengers. This is reflected by a Net Promoter Score above the industry average.

During the year management identified that long term aircraft maintenance provisions and end of lease obligation had been measured using an incorrect discount rate. An adjustment has been calculated to restate the carrying value of these provisions using a risk free rate based on government bond rates of similar currency and term to the related obligations. The impact of this restatement principally affects the opening balance at 1 October 2015 and prior periods, and has resulted in a DKK 89 million increase in aircraft maintenance provisions recorded with a decrease of DKK 68 million in opening reserves as at 1 October 2015.

Because of the prior year restatement, retained earnings at 30 September 2015 and 30 September 2016 was negative by DKK 15 million and DKK 48 million, respectively. Profit for the year 2016/17 amounts to DKK 155 million and at 30 September 2017 retained earnings amounts to DKK 99 million. The Executive Board has due to the identified adjustment decided not to propose any dividend for the financial year 2016/17. Further, the Executive Board has assessed that Management may not incur liability in respect to the dividend payments in 2015/16 and 2016/17, for which retained earnings was negative due to the incorrect measurement and prior year restatement and by the fact that sufficient financial resources was available in previous years and sufficient room for dividend payments according to the annual reports by the time of decision and approval.

The income statement shows a pre-tax profit of DKK 205.3 million which is DKK 15.6 million higher than the previous year. The Board of Directors consider the results satisfactory. The post-tax results show a profit of DKK 155.1 million compared to DKK 146,8 million the year before. The expected development announced in the annual report for 2015/16 has been met.

Uncertainty connected with recognition and measurement

Provisions for future aircraft maintenance as at 30 September 2017 have been calculated to DKK 474.5 million. This amount covers contractual maintenance liabilities related to leased aircraft and engines, accrued on the basis of flight hours etc. The provision is by nature subject to uncertainty.

In the financial year the Company has had financial contracts on an ongoing basis in order to eliminate the currency risk of the provision, and therefore the net profit for the year is not affected materially by the change for the year in the USD exchange rate.

Special risks

Operating risks

The Management does not consider Thomas Cook Airlines Scandinavia A/S to be exposed to special operating risks other than what is normal for an airline and geopolitical risk in the destinations, included in the flight program for the TCNE tour operators.

Financial risks

Thomas Cook Airlines Scandinavia A/S has a large cash flow in foreign currencies. The Company hedges this net exposure by making forward contracts. Similarly, the risk of fuel price fluctuations is hedged by financial commodity contracts (fuel swaps). Contracts to hedge future cash flows and fuel purchases are recognised directly in equity until the underlying transactions are realised.

The value of the financial contracts concluded on 30 September 2017 measured against the market prices on the same date is negative by DKK 32.2 million net (negative DKK 22.5 million at year-end 2015/16).

Changes in fuel prices and the USD exchange rate are adjusted in the seat prices and have no significant effect on the net profit or loss of the year as USD and fuel are hedged at a price level corresponding to the conditions agreed in the seat prices. This and hedging of other currency risk are part of the hedging policy of the company to eliminate risks from fluctuations in the financial markets.

Environmental issues

The environmental management system of Thomas Cook Airlines Scandinavia A/S is audited, approved and certified according to the International ISO 14001 guidelines.

The system is based on the Company's many years of environmental work experience and continues to support a focus on improvements in fuel consumption, waste management, materials and product selection, energy consumption in administration, as well as information and training of staff in an enterprise-related environment. The Company is industry leader in several environmental areas. E.g. the average CO2 emission per passenger km is only 66 grams in 2016/17, which is about half of the emission of the average airliner in the entire aviation industry. The Company was also the first airline business in Europe to introduce cabin waste segregation directly on board the aircraft back in 2003, and continues to be among the market leaders in this field. The environmental management system also helps the Company to supply the environmentally adjusted products, demanded by a growing number of conscious customers.

From 1 January 2012, the aviation sector became subject to the EU emissions trading system, also known as EU ETS. The authorities have approved the Company's registration and reporting methods, and an independent auditor verifies the system annually. Basic data are reported for each of the current years including 2014 and 2015. The data reports serve as the basis for the free greenhouse gas emissions allowances allocated to the Company on an ongoing basis. From 2016 the European industry sectors has become subject to another EU Energy Efficiency Directive which aims to further reduce energy consumption and greenhouse gas emissions.

Corporate social responsibility

The Company does not have its own policies for environment, climate and human rights. The Company is included in the reporting with the Group's ultimate parent company, Thomas Cook Group plc., which is published on http://www.thomascookgroup.com/sustainability/sustainability-report-2015/.

Underrepresented gender – Policies and target figures

It is the Company's target to increase the number of women (the underrepresented gender) for the elected Board of Directors from currently none to one of the three elected Board of Directors, before the end of 2018. Further a policy has been implemented in order to increase the share of the underrepresented gender among the employed managers. The policy has four strategies, which have impact on talent development, recruitment, succession planning and communication. The policy has shown no significant change during the past year for both employed managers and Board of Directors. The main reason for this is that the Company has undergone changes with regards to the managerial structure.

Events occurring after the financial year-end

Thomas Cook Group has after the financial year-end refinanced a major part of the debt. This has no direct implications on the assessment of the annual report, but has improved the overall financial conditions for the Thomas Cook Group in terms of financial expenses and constraints.
From the balance sheet date until today, there have been no events of material significance for the assessment of the annual report.

Expected development

Thomas Cook Group has announced a new group management structure with a tour operator and an airline division across all its markets. This means that Thomas Cook Airlines Scandinavia A/S is planned to be sold out of the current Nordic holding structure into a Group Airline holding company. The ultimate 100% owner continues to be the listed company Thomas Cook Group Plc.
The company continues to deliver seats and services to the Nordic tour operators, having a new Commercial Service Agreement to reflect the governance for future cooperation in terms of service, capacity development and financial conditions. The agreement is broadly in line with the current agreement, adding, however, more flexibility for the tour operators, but also confirming TCAS as the main future supplier of capacity with firm KPI´s and services to be delivered.
The leisure holiday market in the Nordics is growing which is also the case for the Group's Nordic tour operator business. The Company's capacity, however, is expected to stay steady in 2017/18. Declining SEK and NOK currency rates mean a pressure on the Company's current average selling prices for both seats and tax-free goods. From working closely together with the other Airlines in Thomas Cook Group as part of a wider Group airline transformation project, we expect to mitigate largely through cost reductions, productivity increases and synergies. Therefore, we expect results for 2017/18 to be more or less of the same magnitude as realised in 2016/17.

Foreign branches

The Company has the following foreign branches:

Name	Registered office
Thomas Cook Airlines Scandinavia A/S Swedish branch	Box 5, S-190 45 Stockholm-Arlanda, Sweden
Thomas Cook Airlines Scandinavia A/S Norwegian branch	Flyterminalen, 2060 Gardermoen, Norway
Thomas Cook Airlines Scandinavia A/S Sucursal en España	Aeropuerto de Palma de Mallorca, Palma de Mallorca, Spain
Thomas Cook Airlines Scandinavia A/S Sucursal em Portugal	Praca Marques de Pombal 1, 1250-160 Lisbon, Portugal

Income statement 2016/17

	Note	2016/17 DKK '000	2015/16 DKK '000
Revenue	2	4,022,778	4,112,970
Production costs and cost of goods sold		-2,751,974	-2,839,947
Other external expenses		-107,702	-116,282
Gross profit		**1,163,101**	**1,156,741**
Staff costs	3	-808,536	-817,494
Depreciation, amortisation and impairment	4	-115,177	-101,025
Operating profit		**239,389**	**238,221**
Financial income	5	854	463
Financial expenses	6	-34,937	-49,033
Profit before tax		**205,306**	**189,652**
Tax on profit for the year	7	-50,238	-42,843
Net profit for the year		**155,068**	**146,809**

Balance Sheet

Assets	Note	30-09-2017 DKK '000	30-09-2016 DKK '000
Software		2,297	3,756
Intangible assets	8	**2,297**	**3,756**
Aircraft and spare parts		347,676	420,037
Buildings on leased land		6,101	10,067
Fixtures and fittings, tools and equipment		5,190	6,451
Assets under construction		1,525	6,466
Property, plant and equipment	9	**360,492**	**443,021**
Deposits		4,838	3,842
Financiel fixed asset	10	**4,838**	**3,842**
Total fixed assets		**367,628**	**450,620**
Inventories	11	**66,660**	**66,703**
Trade receivables		11,708	9,062
Other receivables	12	56,312	55,238
Deferred tax asset	13	95,119	82,345
Receivables from affiliated companies	14	1,021,988	927,341
Prepayments	15	8,493	4,498
Receivables		**1,193,619**	**1,078,484**
Cash and cash equivalents		**27,819**	**20,757**
Total non-fixed assets		**1,288,098**	**1,165,945**
Total assets		**1,655,726**	**1,616,565**

Balance Sheet

Equity and Liabilities

	Note	30-09-2017 DKK '000	30-09-2016 DKK '000
Share capital	16	60,000	60,000
Retained earnings		99,454	-48,034
Proposed dividends for the financial year		0	180,000
Total equity		**159,454**	**191,966**
Aircraft maintenance provisions	17	474,549	421,520
Total provisions		**474,549**	**421,520**
Joint tax contribution payable		74,754	55,342
Mortgage credit	18	3,274	4,457
Finance Lease Obligation	18	142,170	167,464
Deferred income	18	22,149	24,813
Non-current liabilities other than provisions		**242,347**	**252,076**
Mortgage credit	18	944	941
Finance Lease Obligation	18	11,075	10,133
Trade payables		383,089	409,286
Payables to affiliated companies		85,049	100,251
Joint tax contribution payable		42,130	0
Other payables	19	241,067	212,169
Deferred income	18, 20	16,023	18,222
Short-term debt		**779,376**	**751,002**
Current liabilities other than provisions		**1,021,723**	**1,003,079**
Total equity and liabilities		**1,655,726**	**1,616,565**

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Statement of changes in equity

All amounts in DKK '000	Note	Share capital	Retained earnings	Proposed dividends	Total
Equity at 1 October 2015		60,000	53,272	150,000	263,272
Adjustment on correction of error		0	-68,273	0	-68,273
Equity at 1 October 2015 restated		60,000	-15,001	150,000	194,999
Dividends paid		-	-	-150,000	-150,000
Pre-tax adjustment of derivative financial instruments		-	648	-	648
Tax on adjustment of derivative financial instruments		-	-490	-	-490
Profit and loss		-	-33,191	180,000	146,809
Equity at 30 September 2016		**60,000**	**-48,034**	**180,000**	**191,966**
Dividends paid		-	-	-180,000	-180,000
Pre-tax adjustment of derivative financial instruments		-	-9,717	-	-9,717
Tax on adjustment of derivative financial instruments		-	2,138	-	2,138
Profit and loss	26	-	155,068	0	155,068
Equity at 30 September 2017		**60,000**	**99,454**	**0**	**159,454**

Note 1 - Accounting policies

The annual report is presented in accordance with the provisions of the Danish Financial Statements Act on Reporting Class C (large) and according to the same accounting policies as the previous year.

Changes in accounting policies

Effective 1 October 2016, the Company has adopted act no. 738 of 1 June 2015. This implies the following changes in the recognition and measurement:

1. In future, residual values of Property, Plant and equipment will be subject to annual reassessment. The Company has no significant residual values relating to property, plant and equipment. Consequently, the change is made with future effect only as a change in accounting estimates with no impact on equity.

A part from the above changes in accounting policy and new and changed presentation and disclosure requirements, which follow from act no. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

Material misstatement

During the year, it was established that the long term aircraft maintenance provisions had been measured using an incorrect discount rate, which impacts the Company's previous annual reports. As a result of the use of an incorrect discount rate, the Company's production costs and cost of goods sold and long term aircraft maintenance provisions in prior financial years were recognised at too low amounts, and the financial statements for 2015/16 did not give a true and fair view. Therefore, the error has been corrected as a material misstatement by restating comparatives and opening equity figures in the current-year financial statements.
In consequence of the restatement 2015/16 has been adversely affected by DKK’000 2,200 (DKK’000 2,200 after tax) while the accumulated long term aircraft maintenance provisions at 30 September 2016 have been adversely affected by DKK’000 91,446 in total, the balance sheet total at 30 September 2016 has been adversely affected by DKK’000 20,118, and equity has been adversely affected by DKK’000 71,328. The opening equity at October 2016 has been adversely decreased by DKK 71,328. Reference is also made to the comments in the Management's review.

Cash flow statement

In accordance with section 86 (4) of the Danish Financial Statement Act no cash flow statement has been prepared, whereas this is included in a cash flow statement for Thomas Cook Plc Group.

The annual report is presented in Danish kroner (DKK) 1,000.

General information on recognition and measurement

Assets are recognised in the balance sheet if it is probable that future economic benefits will flow to the Company and the value of the relevant asset can be measured reliably.

Liabilities are recognised in the balance sheet if the Company has a legal or constructive obligation arising from a past event and it is probable that future economic benefits will flow from the Company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement after initial recognition is performed as described for each separate item below.

On recognition and measurement, allowance is made for foreseeable risks and losses arising before presentation of the annual report, which confirms or rebuts conditions existing on the balance sheet date.

In the income statement, income is recognised as earned, while costs are recognised as the expenses concerning the financial year.

Leasing

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an approximated value as the discount rate.

Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Accounting policies

Foreign currency translation

Transactions in foreign currencies are translated on initial recognition at the exchange rate prevailing at the transaction date. Receivables, liabilities other than provisions, provisions and other monetary items in foreign currencies which have not been settled at the balance sheet date are translated at the exchange rate prevailing at the balance sheet date. Currency translation differences arising between the exchange rate prevailing at the transaction date and the exchange rate prevailing at the payment date or the exchange rate prevailing at the balance sheet date are recognised in the income statement as external expenses. The effect of forward contracts is recognised in profit or loss from ordinary activities. Fixed assets purchased in foreign currencies are translated at historical exchange rates.

Derivative financial instruments

On initial recognition, derivative financial instruments are measured in the balance sheet at cost and subsequently at fair value. Derivative financial instruments are recognised in other receivables or other payables.

Changes in the fair value of derivative financial instruments that are classified as and meet the requirements for fair value hedging of a recognised asset or a recognised liability are recognised in the income statement together with changes in the value of the hedged asset or the hedged liability.

Changes in the fair value of derivative financial instruments that are classified as and meet the requirements for hedging of future transactions are recognised directly in equity. When the hedged transactions are realised, the changes are recognised in the relevant items.

Income statement

Revenue

Income from the sale of seats is recognised in the income statement on the departure date. Income from the sale of duty-free and non-duty-free goods is recognised in the income statement on the delivery date. Revenue is recognised exclusive of VAT, taxes and sales discounts and is measured at fair value of the fixed consideration.

Production costs and cost of goods sold

Production costs and cost of goods sold include direct costs incurred in achieving the revenue.

Other external expenses

External expenses include indirect costs incurred in achieving the revenue.

Accounting policies

Staff costs
Staff costs include salaries, pensions and other social security costs of all employees of the Company and its branches.

Financials
Interest income and expenses comprise finance leases and realised and unrealised foreign exchange adjustments.

Taxation
Tax for the year, which includes the current group tax contribution for the year, taxes in the Portuguese branch and changes in deferred tax, is recognised in the income statement by the portion attributable to the net profit or loss for the year and directly to equity by the portion attributable to entries directly to equity.

Current tax liabilities or current tax receivables are recognised in the balance sheet as tax calculated on the taxable income for the year adjusted for tax paid on account. Group tax contributions payable are recognised in joint taxation contribution payable.

Deferred tax is recognised and measured according to the balance-sheet liability method of all temporary differences between the carrying amount of an asset or a liability and its tax base. The tax base of the assets is calculated based on the planned utilisation of the individual asset.

Deferred tax assets including the tax base of tax losses allowed for carry-forward are recognised in the balance sheet at the value at which the relevant asset is expected to be realised either by a set-off against deferred tax liabilities or as net tax assets.

The Company is taxed jointly with other Danish companies in the Group, and the income tax is allocated to the jointly taxed companies according to the full allocation method.

Balance sheet

Intangible fixed assets
Software is recognised at acquisition cost less accumulated depreciation.
Depreciation is provided on a straight-line basis over four years maximum.

Tangible fixed assets
Tangible fixed assets are recognised at acquisition cost less accumulated depreciation and write-downs. Ongoing investments are not depreciated. The acquisition cost consists of the cost without interest added.

Accounting policies

The basis of depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.
In case of changes in the amortisation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Buildings on leased sites are depreciated on a straight-line basis over the expected economic life, but not exceeding expiry of the guaranteed lease term for the site. Installations are depreciated over fifteen years, always provided that the installations will be completely depreciated at the same time as the building.

Operating equipment and fixtures are depreciated on a straight-line basis over the expected useful life, i.e. normally 4-5 years. Aircraft and spare parts including aircraft-related assets and improvements owned by the Company are depreciated on a straight-line basis over the expected useful life, i.e. normally up to fifteen years.

Leased assets are depreciated on a straight-line basis over 10 years and have a residual value at zero. Lease asset is only related to one Aircraft.

Improvements and small acquisitions below the write-off limit for tax purposes (DKK 13,200) and assets with a useful life of less than three years are charged to the income statement in the acquisition year.

Tangible fixed assets are written down to recoverable value if this is lower than the carrying amount. Profit or loss on disposal of tangible fixed assets is carried in depreciation and write-downs.

Fixed-asset investments
Deposits are recognised at acquisition cost calculated at cost.

Inventories
Inventories comprise finished goods and are measured at costs based on an approximated FIFO method or at net realisable value, whichever is the lower. The net realisable value of stocks is calculated at the amount that they are expected to fetch when sold in normal operation, less selling and completion costs. The net realisable value is calculated with due consideration of negotiability, obsolescence and the development of the expected selling price.
The cost of goods for resale includes the purchase price plus delivery costs.

Accounting policies

Receivables
Receivables are measured at amortised cost, which corresponds to nominal value, less write-downs to meet expected losses.

Short-term net deposits with group enterprises are recognised in receivables.

Prepayments and accrued income
Prepayments under assets include expenses incurred, but concerning the subsequent financial year. Prepayments are measured at amortised cost, which corresponds to nominal value.

Equity
Dividend is recognised as a liability other than provision at the time of approval by the annual general meeting. The dividend proposed for the financial year is shown as a separate item under equity.

Deferred tax
Provision for deferred tax is accounted for using the balance-sheet liability method and is calculated based on all temporary differences between the carrying amount of an asset or a liability and its tax base.

Aircraft maintenance provisions
Provisions have been made to cover the costs incurred by contractual liabilities for operationally leased aircraft. The provisions are calculated based on flight hours at the USD exchange rate on the balance sheet date.

Maintenance costs incurred are deducted in provisions.

Other financial liabilities
Other financial liabilities are recognised at amortised cost, which usually corresponds to nominal value.

Accruals and deferred income
Deferred income under liabilities includes payments received, but recognised in the income statement in the subsequent financial year. Deferred income is measured at amortised cost, which usually corresponds to nominal value. Deferred income over 1 year is classified as long term.

Accounting policies

Financial highlights

The financial ratios have been prepared in accordance with the definitions below.

Other financial ratios

Aircraft	=	Average number of aircraft in the fleet for the year
Cabin factor	=	$\frac{\text{Guests x 100}}{\text{Seats flown}}$
Number of flying hours (Block hours)	=	In-flight production hours

Financial ratios (%)

Gross margin	=	$\frac{\text{Gross profit x 100}}{\text{Revenue}}$
Profit margin	=	$\frac{\text{Operating profit x 100}}{\text{Revenue}}$
Solvency ratio	=	$\frac{\text{Equity at year-end x 100}}{\text{Total assets}}$
Return on equity	=	$\frac{\text{Net profit or loss for the year x 100}}{\text{Average equity adjusted for dividend payment}}$

Notes

Note 2 - Segment information

DKK '000

Activities - primary segment	Flight	Ancillary and other	Total
2016/17			
Revenue	3,360,649	662,128	4,022,778
2015/16			
Revenue	3,487,905	625,065	4,112,970

Geographical - secondary segment	Scandi-navia	Rest of Europe	Total
2016/17			
Revenue	3,967,252	55,526	4,022,778
2015/16			
Revenue	4,096,695	16,275	4,112,970

Note 3 - Staff Costs

	2016/17 DKK '000	2015/16 DKK '000
The total staff costs can be specified as follows :		
Wages, salaries	694,021	705,353
Pension contributions	62,361	59,229
Other social security costs	52,154	52,913
	808,536	817,494
Remuneration to Executive Board	6,848	6,836
Average number of employees (full-time)	1,080	1,093

No renumeration has been paid to the Supervisory Board.

Incentive programs

The Executive Board is included in the Thomas Cook Group incentive programs, which comprise share options and long-term incentive schemes. The total charge recognised during the year was tdkk 863 (2015/16: tdkk 0).

The Thomas Cook Group plc 2007 Performance Share Plan (PSP)

The Executive Board are granted options to acquire, or contingent share awards of, the Ordinary Shares of the Company. The awards will vest if performance targets are met during the three years following the date of grant.

Notes

Note 4 - Depreciation and amortisation

	2016/17 DKK '000	2015/16 DKK '000
Intangible assets, see note 8	2,001	2,562
Property, plant and equipment, see note 9	113,176	98,464
	115,177	101,025

Note 5 - Financial income

Interest income, affiliated companies	83	89
Other interest income	772	374
	854	463

Note 6 - Financial expenses

Interest expenses, maintenance provision	7,403	17,397
Interest expenses, finance lease	17,865	24,247
Interest expenses, affiliated companies	663	0
Interest expenses, mortgage credit	144	45
Banking and warranty costs	8,490	7,060
Income tax surcharge	110	0
Other interest expenses	262	283
	34,937	49,033

Notes

Note 7 - Tax on profit for the year

	2016/17 DKK '000	2015/16 DKK '000
Reduction of tax asset September 30, 2016 by change of corporate income tax rate from 23,5% to 22%	0	3,407
Tax paid in foreign branches	0	-10
Change in deferred tax concerning profit/loss items	24,516	9,102
Joint tax contribution	-74,754	-55,342
Tax on profit for the year	-50,238	-42,843

Tax on profit for the year is explained as follows:

22 % tax calculated on profit before tax	-45,167	-42,207
Tax effect of permanent differences	-5,070	-4,032
Reduction of tax asset September 30, 2015 by change of corporate income tax rate from 23,5% to 22%	0	3,407
Income tax in foreign branches	0	-10
Net tax on profit for the year	-50,238	-42,843

Deferred tax asset at the beginning of the year	82,345	49,353
Adjustment on correction of error	0	20,973
Deferred tax asset at the beginning of the year restated	82,345	70,326
Adjustment regarding previous years	-13,880	0
Changes in corporate taxation Rate	0	3,407
Change concerning profit/loss items	24,516	9,102
Change concerning hedging instruments	2,138	-490
Deferred tax asset at the end of the year	95,119	82,345
Receivable from joint taxation, net	0	0
Joint tax contribution payable	-116,884	-17,129

Notes

Note 8 - Intangible assets

	30-09-2017
	DKK '000
Aquisition price at 1 October 2016	16,911
Correction previous year	3,503
Additions during the financial year	541
Disposals during the financial year	0
Aquisition price at 30 September 2017	20,955
Amortisation at 1 October 2016	13,154
Correction previous year	3,503
Amortisation for the financial year	2,001
Reversed amortisation on assets disposed during the financial year	0
Amortisation at 30 September 2017	18,658
Carrying amount at 30 September 2017	2,297
Carrying amount at 30 September 2016	3,756

Note 9 - Property, plant and equipment

	Aircraft and Spare Parts	Buildings	Fixtures, etc	Asset u/construction
	DKK '000	DKK '000	DKK '000	DKK '000
Aquisition price at 1 October 2016	677,364	79,138	20,273	6,466
Correction previous year	497	0	0	0
Additions during the financial year	31,591	0	1,265	0
Transfers during the financial year	4,941			-4,941
Disposals during the financial year	-2,210	-25	-638	0
Aquisition price at 30 September 2017	712,183	79,112	20,900	1,525
Depreciation at 1 October 2016	257,327	69,071	13,821	0
Correction previous year	497	0	0	0
Depr. and impairment for the financial year	106,683	3,966	2,527	0
Reversed depr. during the financial year	0	-25	-638	0
Depreciation at 30 September 2017	364,507	73,011	15,711	0
Carrying amount at 30 September 2017	347,676	6,101	5,190	1,525
Carrying amount at 30 September 2016	420,037	10,067	6,451	6,466

Notes

Building on leased land is used as guarantee for Mortgage Loan.
Aircraft and spare parts comprise aircraft-related assets owned by the Company.
The carrying amoung of leased assets amounted to 159,3 mDKK as at 30 september 2017.

Note 10 - Financial assets

	Deposits
	DKK '000
Aquisition price at 1 October 2016	3,842
Additions during the financial year	1,332
Disposals during the financial year	-336
Aquisition price at 30 September 2017	4,838
Aquisition price at 30 September 2016	3,842

	30-09-2017	30-09-2016
	DKK '000	DKK '000
Note 11 - Inventories		
Finished goods	56,266	55,612
Spare Parts	10,394	11,091
	66,660	66,703
Note 12 - Other receivables		
Unrealised gains on currency contracts	42,633	36,128
Other receivables	13,680	19,110
	56,312	55,238
Note 13 - Deferred tax asset		
Deferred tax asset at the beginning of the year	82,345	49,353
Adjustment on correction of error	0	20,973
Deferred tax asset at the beginning of the year restated	82,345	70,326
Adjustment regarding previous years	-13,880	0
Changes in corporate taxation rate	0	3,407
Change concerning profit/loss items	24,516	9,102
Change concerning hedging instruments	2,138	-490
Deferred tax asset at the end of the year	95,119	82,345

Notes

Note 14 - Receiveables from affiliated companies	30-09-2017 DKK '000	30-09-2016 DKK '000
Trade receivables from affiliated companies	22,562	27,577
Loans to affiliated companies	669,691	619,546
Cash, affiliated companies	329,735	280,218
	1,021,988	927,341

The Company is included in a cash pool agreement with other Nordic group companies through the Group's primary banker in Denmark, Norway and Sweden.

Note 15 - Prepayments		
Prepaid rent	1,917	636
Prepaid cost	2,684	144
Prepaid insurance	2,236	1,615
Other prepayments	1,656	2,104
	8,493	4,498

Note 16 - Equity

There were no changes in share capital in the last 5 years.

The share capital is divided into shares of DKK 1,000 or multiple hereof.

No special rights are attached to any of the shares.

Notes

	30-09-2017 DKK '000	30-09-2016 DKK '000
Note 17 - Aircraft maintenance provisions		
Provisions at the beginning of the year	421,520	297,464
Adjustment on correction of error	0	89,246
Provisions at the beginning of the year	421,520	386,710
Additional provision in the year	82,581	35,641
Utilised in the year	0	0
Currency adjustment	-29,552	-831
Provisions at the end of the year	474,549	421,520

The aircraft maintenance provisions relate to maintenance on leased aircraft and spares used by the Company's airlines in respect of leases which include contractual return conditions. This expenditure arises at different times over the life of the aircraft with major overhauls typically occurring between two and 10 years. The aircraft maintenance provisions are reassessed at least annually in the normal course of business with a corresponding adjustment made to either non-current assets (aircraft and aircraft spare parts) or aircraft costs which is included in Production costs and cost of goods sold.

Note 18 - Long Term debt

The mortgage debt is falling due as follows:

Within 1 year	944	941
Between 1 and 5 years	3,274	4,457
	4,218	5,398

The Finance Lease obligation is falling due as follows:

Within 1 year	11,075	10,133
Between 1 and 5 years	73,528	76,150
After 5 years	68,642	91,314
Total	142,170	167,464
	153,245	177,597

Notes

The deferred income is falling due as follows:	30-09-2017 DKK '000	30-09-2016 DKK '000
Within 1 year	2,664	2,664
Between 1 and 5 years	10,656	10,656
After 5 years	11,493	14,157
Total	22,149	24,813
	24,813	27,477

Deferred income relates to received aircraft maintenance contribution in 2014/15. The contribution is recognised on a straight-line basis with tdkk 2.664 each year until end-of-lease of the related assets.

Note 19 - Other payables

Holiday pay obligation	81,717	79,595
Withholding tax payable and other staff-related costs	69,389	63,054
Passenger fees payable	1,726	5,498
VAT and duties payable	8,613	4,845
Unrealised loss on fuel and currency contracts	74,880	58,658
Other Payables	4,742	520
	241,067	212,169

Note 20 - Deferred Income

Aircraft maintenance contribution received	2,664	2,664
Prepayments from customers	2,232	4,088
Marketing contribution received	11,127	11,410
Other prepayments received	0	60
	16,023	18,222

Notes

Note 21 - Events after the reporting date

In November 2017 the Group entered into new financing arrangements being an enlarged mGBP 875 revolving credit facility and bonding and guarantee facility, maturing in November 2022. TCAS guarantees these new financing arrangements along with a number of other subsidiaries of Thomas Cook Group plc.
Other than above there have been no subsequent events of material significance for the assessment of the annual report.

Note 22 - Contingent liabilities, securities etc

	30-09-2017 DKK '000	30-09-2016 DKK '000
Total lease commitments (operating lease) due for payment		
after the balance sheet date	2,152,232	2,976,865
Of this, due within 5 years	1,349,499	1,389,989
Of this, due within 1 year	351,803	438,385
The total lease commitments can be specified as follows:		
Lease of aircraft and spare parts from/through affiliated companies..	129,650	543,155
Lease of aircraft and spare parts from other companies	2,010,628	2,420,053
Lease of buildings, hangar area, etc.	7,963	8,388
Other leases	3,992	5,269
	2,152,232	2,976,865
Bank guarantees	21,568	20,954

The lease commitments regarding aircraft and spare parts have been translated from USD using the exchange rate at balance sheet date.

The Company is included in a common VAT registration with other Danish group companies. Furthermore, the Company is included in a joint taxation with other Danish group companies. Thereby, the Company is jointly and severally liable for VAT and income tax with the other Danish Group Companies.

Securities: None

Notes

Note 23 - Audit fees

Referring to the Danish Statements Act § 96, sub section 3, information on fees to Auditors elected on a general meeting, has been omitted.
We refer to the financial statement of Thomas Cook Group plc.

Note 24 - Currency risk and use of derivative financial instruments

Thomas Cook Airlines Scandinavia A/S uses hedging instruments to hedge recognised and non-recognised transactions.

Recognised transactions

Hedging of recognised transactions primarily includes receivables and payables.

Currency (DKK'000)	Receive-ables	Payables	Hedged using forward exchange contracts	Net Position
USD, < 1 year	137,910	-235,928	552,109	454,091
USD, > 1 year	0	-462,112	0	-462,112
	137,910	-698,040	552,109	-8,021

Forecast transactions

Thomas Cook Airlines Scandinavia A/S uses forward exchange contracts to hedge expected currency risks relating to purchase of goods in the comming year.

DKK '000	Contractual value		Gains and losses recognised in equity and expected to be realised after the balance sheet date.	
	2016/17	2015/16	2016/17	2015/16
Forward exchange contracts, (< 1 year)	3,233,802	3,754,411	-67,861	-16,928
Fuel swaps, (< 2 year)	606,938	643,820	35,614	-5,602
	3,840,740	4,398,231	-32,247	-22,530

Notes

Note 25 - Related parties

Parties exercising control

Thomas Cook Northern Europe A/S
Kay Fiskers Plads 9
2300 København S
Denmark

Holds the majority of the share capital in the entity.

Information about consolidated financial statements:
Thomas Cook Group PLC
3rd Floor, South Building
200 Aldersgate
London
ED1A 4HD

The consolidated financial statements can be obtained here:
https://www.thomascookgroup.com/wp-content/uploads/2017/12/Thomas-Cook-AR-2017.pdf

Related party transactions

	2016/17	**2015/16**
	DKK '000	DKK '000
Sale of goods to associates	3,288,350	3,421,867
Cost of goods from associates	-146,454	-238,230
Cost of services from associates	-1,295	-678
Interest income from associates	83	89
Interest expenses to associates	-663	0
Receivables from associates	1,021,988	927,341
Payables to associates	85,049	100,251

Note 26 - Distribution of profit

Proposed distribution of profit		
Transferred to retained earnings	155,068	-33,191
Dividends to the shareholder	0	180,000
	155,068	**146,809**