

# Business, Energy and Industrial Strategy Committee

## Oral evidence: Thomas Cook, HC 39

Tuesday 15 October 2019

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Members present: Rachel Reeves (Chair); Drew Hendry; Stephen Kerr; Peter Kyle; Albert Owen; Mark Pawsey; Antoinette Sandbach; Anna Turley.

Questions 1-209

### Witnesses

I: Sten Daugaard, Former CFO, Thomas Cook, Peter Fankhauser, Former CEO, Thomas Cook, Frank Meysman, Former Chairman, Thomas Cook, Warren Tucker, Former Chair of Remuneration Committee, Thomas Cook, and Martine Verluyten, Former Chair of Audit Committee, Thomas Cook.

## Examination of witnesses

Witnesses: Sten Dugaard, Peter Fankhauser, Frank Meysman, Warren Tucker, and Martine Verluyten.

**Q1 Chair:** Thank you very much to the five of you for coming to give evidence this morning into the collapse of Thomas Cook. In the Gallery behind you there are former staff—probably customers as well—of Thomas Cook, so can I ask you first of all, Peter Fankhauser, former chief executive of Thomas Cook, if there is anything you would like to say to the staff who have lost their jobs and to customers who were stranded on holiday and those who had holidays booked who are not able to go to them, and indeed to taxpayers who are now picking up the bill for the collapse of the company you managed? Is there anything you would like to say before we get on to our questions?

**Peter Fankhauser:** Yes, Chair. Thank you very much for giving me this opportunity to start with. You heard me, probably, saying it already, but I really want to repeat it in front of the members of the Select Committee—how deeply sorry we are that we could not save this iconic brand and this company that has a long-standing history in this part of UK industry history. I am deeply sorry about this failure, and I am deeply sorry for the distress we caused to millions of customers who booked holidays with us and who were on holidays with us. I am deeply sorry for our suppliers, who were longstanding partners and who were loyal to us throughout this time. I am especially sorry for all my colleagues who worked extremely hard and tirelessly to make Thomas Cook a better company. Let me add one further sentence: I am grateful for the professional work that the CAA did with the repatriation under the leadership of Richard Moriarty, and I am extremely proud of the 2,000 colleagues who supported the CAA in this repatriation until the very last customer came home, because this proved to me that “Customer at our Heart” was not just a phrase; it was a real part of our culture.

**Q2 Chair:** And what exactly are you sorry for, Mr Fankhauser?



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**Peter Fankhauser:** I am sorry for not being able to turn round this company at pace, and to really pay back this debt pile. When I started as CEO in 2014, I was fully aware of the challenge, and I tried to tackle this challenge by really transforming the business from an old-fashioned tour operator into a modern tour operator by differentiating our offering and our services, to differentiate us from companies that were better funded than we were. Obviously, the pace at which we could do that was not fast enough. It was constrained by this huge debt pile. Since 2012, we paid £1.2 billion of interest costs and refinancing costs. Imagine if only half of that could have been reinvested in the business; we could have been faster.

Q3 **Chair:** Is there anything that you should have done differently Mr Fankhauser?

**Peter Fankhauser:** Yes, of course. I am generally a very reflective person, and I have now had time to reflect on what I could have done differently. As I said, if I could start from scratch then I would probably have pushed even more on the pace, but it was difficult for me to find the balance between pace—and the money you need to transform such a big business at pace—and the investments that we had to make, and we were forced to make, taken back always by this debt pile and the interest costs. We were sometimes overtaken by external events as well, which made it difficult to generate the cash that we needed to pay back the debts.

Q4 **Chair:** You were chief executive for five years. Is that right, Mr Fankhauser?

**Peter Fankhauser:** Yes.

Q5 **Chair:** And in those five years, bonuses worth £20 million were paid to the board members. Is that correct?

**Peter Fankhauser:** I can just talk about my pay, and—

Q6 **Chair:** Well, you are chief executive, Mr Fankhauser. That is the number that has been reported: £20 million-worth of bonuses to board members over the five years that you were chief executive. Does that sound about right to you, Mr Fankhauser?

**Peter Fankhauser:** Look, I can talk about my pay, and I am not going to try to defend my base pay because, in relation to a normal worker's base salary, it is an enormous amount. What I can tell you is that for this base pay I worked extremely hard and exhaustively, and I did not get a bonus for 2018, or for 2019 of course. Half of my total compensation, which was in the press, was paid in shares. Thirty per cent of the bonuses were paid in shares, and one long-term incentive plan paid out in 2015, so £4 million-worth was in shares, and my commitment to the company was shown by the fact that I never sold one share. I believed in the company and in the success of the company. That is what I have to say about my salary. I have also—

Q7 **Chair:** How much of your pay can be clawed back by the insolvency service?



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**Peter Fankhauser:** We have a clawback provision; this is a clawback within two years. The bonus of 2017 could, theoretically, be clawed back, if this qualifies for a clawback.

Q8 **Chair:** Do you think that the bonus you were paid in the last two years should be clawed back?

**Peter Fankhauser:** The bonus in the last two years, '18 and '19? There was no bonus, and it is not up to me to decide that.

Q9 **Chair:** Will any of your pay, Mr Fankhauser, be able to be clawed back to pay some of the debts, some of the redundancy pay, that you have left the company with?

**Peter Fankhauser:** The clawback provisions are just for the eligible—or are for the bonus I got in 2017.

Q10 **Chair:** What was your bonus in 2017, Mr Fankhauser?

**Peter Fankhauser:** It was about £750,000, and 30% of that was in shares. Those shares are, of course, now nul and void.

Q11 **Chair:** So about £500,000 or £600,000 of the bonus was in cash. Is that right?

**Peter Fankhauser:** Yes, that is right.

Q12 **Chair:** How much of that will be able to be clawed back? I am just trying to get to this point; I know I have asked several times, but I haven't yet had an answer. How much of that will be able to be clawed back?

**Peter Fankhauser:** Honestly, Chair, I was not thinking about that, because I am not the one who is setting my pay and I am not the one who is deciding my bonus, so my—

Q13 **Chair:** You have said, Mr Fankhauser, that you are a reflective person, and you have said about the work that your staff did at Thomas Cook and how customer service wasn't just a phrase; it was the whole ethos of the people who worked there. Of that money that you were paid in a bonus to recognise the work that you did, do you think that that bonus should be paid back, and maybe—if I can put it like this—be put to better purpose? It could be used to pay the redundancy pay; it could be used to compensate taxpayers who are now bailing out the company that you guided, and you guided in the end into the rocks, Mr Fankhauser. Do you think that that bonus should be paid back?

**Peter Fankhauser:** I fully understand where you are coming from, and I fully understand the sentiment of the public. I fully understand as well the sentiment of some of our colleagues. However, what I can say to that is that I worked tirelessly for the success of this company, and I am deeply sorry that I was not able to secure the deal, but it was not single-handedly that I failed. There were multiple parties who had to contribute to the deal, which did not finally succeed.

Q14 **Chair:** Your apologies would perhaps ring a bit more true if you were willing to do something about it. At the moment I am afraid, Mr



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Fankhauser, the number of times you have said “sorry” rings rather hollow when you are not willing to put something back. Maybe in your reflections, you could reflect a little bit more on that.

**Peter Fankhauser:** In my reflection I will take that back, Chair, and I will consider what is right, but I am not going to decide that today.

- Q15 **Mark Pawsey:** I would like to ask a question of each of our witnesses individually, if I may. I think each of you has been provided with a timeline of events. You have each had an opportunity to take a look at that; you have had plenty of time to look at that. Can I ask each of you—perhaps starting with Mr Tucker and then moving along—are you happy with the timeline of events? Is it accurate, and is there anything significant missing?

**Warren Tucker:** Good morning, everyone. Before I answer that question, could I just associate myself with Peter’s comments; that despite his and the team’s exhaustive efforts, the company wasn’t able to be rescued. I, too, am sorry for that and the effect it has had, particularly on our colleagues but on suppliers, customers and other stakeholders as well. I left the board in May this year, so I cannot really comment on the timeline of events after that, but in the period before that, yes, I obviously read the document and it aligns with my recollection.

- Q16 **Mark Pawsey:** Mr Daugaard?

**Sten Daugaard:** I would like to associate myself also with the opening remarks of Peter Fankhauser. Please keep in mind that I joined the company on 1 October last year and became a board member on 1 December last year, so the timeline that is mentioned before that date I have not participated in in detail, but after that date it is accurate.

- Q17 **Mark Pawsey:** Mr Fankhauser, do you agree with the timeline?

**Peter Fankhauser:** It is an accurate reflection, definitely.

- Q18 **Mark Pawsey:** Mr Meysman?

**Frank Meysman:** Yes, it is an accurate line, and it shows how close we got to the deal.

- Q19 **Mark Pawsey:** Ms Verluyten?

**Martine Verluyten:** Let me share the apologies of Peter; I always feel terribly sorry about what happened. Yes, the timeline is accurate.

- Q20 **Mark Pawsey:** Thank you. I want to focus on the financing costs and the borrowing. It is clear, from looking at the timeline, that what caused the problems with Thomas Cook was that it had excessive borrowing, which it wasn’t able to deal with. I was going to ask you that question, Mr Daugaard, but you just pointed out to us that you started relatively recently. What was your assessment of the financial position of the company that you joined and, in particular, the level of borrowing that it had?



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**Sten Daugaard:** When I joined the company it had just had two profit warnings about the earnings situation for 2018. The company had already started a number of programmes to improve earnings, save costs and preserve liquidity. One of my first tasks was to look at to what extent those programmes would be sufficient to get through the coming winter; the winter is always a critical part of the business year for a company like Thomas Cook. However, the debt was very high and when you look at the 2018 earnings there was no positive cash generation.

The original idea, as I understood it at that time, was to generate cash to repay the debt through an improvement of the business. After '18, it didn't look like that would be possible. Therefore, the whole process, as you have seen with the timeline of the strategic reviews, started to be much more concrete.

- Q21 **Mark Pawsey:** So you joined, aware that the financial position of the company was quite difficult. A basic question: why did you join? Did you believe that the situation that you encountered was recoverable? Was what happened inevitable?

**Sten Daugaard:** In my working career, I have been through five restructurings. They have all been successful. I believed that this situation could still be turned around.

- Q22 **Mark Pawsey:** Why wasn't it successful, Mr Daugaard?

**Sten Daugaard:** Well, that will take some time to explain in detail. In general, the high debt and the debt service cost, combined with the competitive situation in this industry, did not make it possible to increase much in the business and get back to an earnings level that this business has seen in the past.

- Q23 **Mark Pawsey:** But wasn't that a paradox? As you joined the company, did anything significantly change? You have stated that you joined when it was failing.

**Sten Daugaard:** No. Of course, that was what we were trying to change, by improving the business, saving costs and being more efficient in how we were running the business.

- Q24 **Mark Pawsey:** On the basis of the turnaround that you had achieved in your career previously, was it your assessment that that was likely to be the case with Thomas Cook?

**Sten Daugaard:** My assessment was that that would be possible; yes.

- Q25 **Mark Pawsey:** Mr Fankhauser, how did the debt level get to be so big?

**Peter Fankhauser:** When I took over in 2014 the debt level was at a level that I assessed to be a challenge. That is why my primary focus was to transform the business so that the business generated cash. That was partly the case; we could pay down £100 million of the debt in 2017 and we were in an extremely good position in May 2018. It looked like we were on the right track. In my 20 years with Thomas Cook, I had never had such a positive booking situation by May. Then, the heatwave came and



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struck us in a way that meant we couldn't find a recipe because it was so late in the season. All the flights were scheduled but they were not full; they were over 60% booked so it was extremely difficult.

- Q26 **Mark Pawsey:** So you are suggesting a trading problem rather than a debt problem. That is a failure to trade and a failure to generate business, not to deal with the inherent debts that the business had accumulated.

**Peter Fankhauser:** Yes, that is why my primary focus was to pay down the debts by generating cash. As I said, we were not fast enough in transforming the business, partly because we were overtaken by events outside our control and partly because we had so much debt service to pay to the banks. The £1.2 billion of debt service and refinancing cost is a huge amount. That was also constraining us in the speed of the transformation.

- Q27 **Mark Pawsey:** Do you think you identified that problem with the company early enough?

**Peter Fankhauser:** Yes, of course, because I was with the company in Germany since 2001. I was well aware of the risks, but I was as well—

- Q28 **Mark Pawsey:** Did you act early enough to deal with the problem?

**Peter Fankhauser:** I think we were initiating the right steps and the right strategy, which was not disputed by anybody outside or inside the company. We were embarking on this journey, and I really tried everything I could to transform the business at a high pace, but obviously it was not good enough. Even if we had a target from 2015 to 2018 to pay back £300 million of this debt, we were only able to pay £100 million back.

- Q29 **Antoinette Sandbach:** I am going to address my questions initially to Martine Verluyten, because they relate to the audit. Thomas Cook's last full set of accounts—you left the goodwill on the balance sheet at over £2.5 billion, and Thomas Cook UK accounted for over £1 billion of that. The basis for leaving that amount of value on the goodwill was the assumption of a 28% growth in earnings in each year for three years, and yet six months later you wrote down the goodwill of the group by over £1 billion. In retrospect, do you think the assumption not to write down in 2018 was optimistic?

**Martine Verluyten:** We started in 2018 from a very, very low base—

**Antoinette Sandbach:** Sorry, £2.5 billion of goodwill.

**Martine Verluyten:** From a very low base of income, because of the terrible summer and because FY '18 was just a terrible year. When the company did its forecast, we assumed that the increase in business would go back to the levels of the years before.

**Antoinette Sandbach:** Even with Brexit and uncertainty around currency exchange?





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**Martine Verluyten:** If you will allow me. We took into account downside scenarios that took into account Brexit. We first worked with the company and our advisers, and we worked with the auditors and the specialists from the auditors to challenge the forecasts. Based on that, our recommendation was that it was going to be okay.

Q30 **Antoinette Sandbach:** So what was the actual growth in earnings between 2018 and when the company applied for liquidation?

**Martine Verluyten:** There was a decrease in earnings, because there was a loss of faith.

Q31 **Antoinette Sandbach:** So what went wrong?

**Martine Verluyten:** There was a loss of faith in the business.

Q32 **Antoinette Sandbach:** And you don't think that perhaps overstating your goodwill, which you wrote down by a billion pounds, may have contributed to that loss of faith?

**Martine Verluyten:** At the point in 2018 when we looked at all the forecasts and the information we had at that time, we felt that it was okay to leave the goodwill as it was.

**Antoinette Sandbach:** Do you agree with that, Mr Meysman?

**Frank Meysman:** Yes, I agree with that. We have to keep in mind that the business had done quite a good job at decreasing the net debt level over the first six years since 2011. The question was asked about why it started, and it basically all started in 2007 with the acquisition and merger with MyTravel. I will come back to that one, because the reality is that in 2011 the net debt was close to £900 million. In '17 that was improved to only £40 million. That was the picture on which you are—the 28%.

Q33 **Antoinette Sandbach:** So you are completely contradicting the advice of Peter Fankhauser by saying it's not debt that was the problem.

**Frank Meysman:** Debt was the problem.

Q34 **Antoinette Sandbach:** And yet you chose not to consider how your goodwill would be treated in the accounts other than by writedowns in 2011 and 2012. You didn't amortise your goodwill between 2012 and 2019. Why?

**Frank Meysman:** That is correct—because the picture of an improvement of the bottom line was continuous throughout 2017.

Q35 **Antoinette Sandbach:** But goodwill isn't about that. Goodwill is about intangible assets in the business. That's got nothing to do with debt.

**Frank Meysman:** We looked at that continuously, together with the auditors, and made that decision.

Q36 **Antoinette Sandbach:** So what went wrong—what was the major difference between your accounts in May 2018 and your announcements in 2019 that reduced goodwill by £800 million?





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**Frank Meysman:** The realisation that the business was not going to be able to really grow to the level that we had projected before.

- Q37 **Antoinette Sandbach:** I am not surprised that you think 28% is an unrealistic growth figure. I would have challenged that growth figure in a difficult market—a highly competitive market, which you have spoken about—and particularly for a company that is carrying a lot of debt. What I want to know is how you justify that goodwill in 2018 at £2.5 billion.

**Frank Meysman:** We looked at it together with the auditors and we came to that same conclusion, and I think it was the right conclusion.

- Q38 **Chair:** But in hindsight, that wasn't the right conclusion, was it? The goodwill was not worth £2.5 billion in 2018.

**Frank Meysman:** You look at it at that moment in time; and in hindsight, with what we knew at that point in time, it was the right conclusion.

- Q39 **Chair:** Should you not have written it down sooner than May 2019?

**Frank Meysman:** No. We wrote it down as soon as we should have done. We didn't even wait until the end of fiscal year '19; we wrote it down in the mid-year.

- Q40 **Antoinette Sandbach:** Which indicates what an awful decision you had made in 2018, doesn't it? You could not even justify that figure for 12 months after you made the decision, having, I would argue, potentially overstated goodwill in the company for a number of years.

**Frank Meysman:** That is not our way of looking at it.

- Q41 **Antoinette Sandbach:** Well, what is your way of looking at it, because ultimately that is one of the reasons why your business failed, isn't it?

**Frank Meysman:** No, I don't think so. The basic reason why the business ultimately failed is the fact that we had so much debt—1.2. That debt continued. We did all the efforts of trying to have a net debt level decrease, and that all went well until 2017—even through, as Mr Fankhauser said, March 2018. And then came the heatwave, came the anxiety of Brexit, and the business did no longer survive—that made it unable to really deliver those numbers. That's when we took the decision, at the end of November, that we needed to drastically change the way we look at the business; and we decided, which ultimately was the solution, that debt would be more than halved. The proposal that was on the table and to which there was an in-principle agreement on 28 August was the solution, because it really meant that the debt level of the business was more than halved, and having that solution would be a perfect solution for all the customers and for all our people employed. Unfortunately, it did not materialise.

- Q42 **Antoinette Sandbach:** Mr Dugaard, what caused Thomas Cook finally to write down the goodwill? Was it the auditors that forced the writedown?

**Sten Daugaard:** No, we do not work with the auditors in the sense of force or counter-attack; it is a question of constant consulting. The difference—coming to the writedown of the goodwill in the half-year report for '19—is a reflection of how fast the business in the UK deteriorated, because that led to a perception of an estimate for massive losses in the UK business in accounting year '19. Revisiting that new set of facts with the business plan that we used to base the goodwill calculation of '18 on, we had to do a new business plan and a new calculation, and that calculation—

Q43 **Antoinette Sandbach:** Goodwill is not based on profit.

**Sten Daugaard:** No, goodwill is based on a business plan that contains a growth rate and an earnings percentage out of that. It has a perpetual part in it, so it is a calculation over 10 years. It is not something that is determined by one year, but the deterioration in the UK business in the first half of '19 was so strong that the argument that was used to keep goodwill in the books for '18 could not be kept, and that is why we had to revisit the goodwill calculation.

Q44 **Antoinette Sandbach:** To understand, your goodwill in Thomas Cook, in the UK business, was based on a business plan.

**Sten Daugaard:** Yes, sure; that's the way it works.

Q45 **Antoinette Sandbach:** That was the only basis on which you—I can see Ms Verluyten nodding. So it has nothing to do with the skills of your staff, the strength of your brand—nothing about that; it is based on a business plan.

**Sten Daugaard:** Yes, that is the basis for the goodwill calculation. That is, you set up a business plan for three or five years, and you make a perpetual part of that after that with a smaller growth rate, and out of that you get to a net present value of the business, which you compare with what you have in the books. If there is any difference between the two, that is what you write off.

Q46 **Antoinette Sandbach:** So you do not see it as a purchase of an intangible value—effectively, value of the brand and customer loyalty; you see it as being based on a business plan.

**Sten Daugaard:** That is what the accounting basis for goodwill calculations says you should do.

Q47 **Antoinette Sandbach:** Not in the UK. There are very strong—

**Sten Daugaard:** We used IFRS and on the IFRS basis, that is the basis of—

Q48 **Antoinette Sandbach:** But you are still required, under UK law, as a company director, to ensure that your business is not trading while insolvent. You have a number of duties under UK company law, as well as the IFRS. Did you consider those duties?



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**Sten Daugaard:** Yes, sure. They were considered every day since I joined, at least; they were probably also considered before that. That is a completely different set of issues from the pure goodwill determination.

**Chair:** We will move on.

- Q49 **Stephen Kerr:** Mr Meysman, you answered Antoinette Sandbach's question about how you justified the goodwill value on the basis of—you used your hand—rising profits, but you did not have rising profits. For the last eight years, you made a profit only once, of £61 million, in 2015. For all the other years, you made losses. What was all that about, then?

**Frank Meysman:** Getting from a negative 500 to making a profit in 2016.

**Stephen Kerr:** '15.

**Frank Meysman:** In '15 there was, yes, but we—

- Q50 **Stephen Kerr:** Every other year, there was a loss. Is the reason you did that because you were including in your thoughts the exceptional items? For eight years, every single year, this company had exceptional items to the value of £1.8 billion. Is that what you were thinking of?

**Frank Meysman:** No, I was not, because the way that it looked—I would like to look at the business over the past years in a couple of periods. You really had the first period, from 2011 to 2014, which was a period of massive restructuring. At that point in time, there were indeed massive SDIs. At that point in time, our share price was only 25p and we had a loss of 500. In that period, in 2014, we ended still with a loss of £300 million, but the share price had gone up by 125 because we were doing the right things in terms of transformation.

Then we come to the second period from '14 to '17, in which we started to build the business—still transformation. At that point in time, the SDIs decreased and we got, as you say, to a first profit. It was our expectation that that would continue into the following years, and it did up until '17, and then—

- Q51 **Stephen Kerr:** No, it didn't.

**Frank Meysman:** Well, you are talking about a minor difference in '16 and '17, but then '18 was really when the hit came.

- Q52 **Stephen Kerr:** Let me interrupt you, because I was fascinated earlier to hear Peter Fankhauser say that he received a long-term bonus payment in 2015 when he had only joined the business in 2014. That, presumably, was on the back of this one year's result, was it?

**Frank Meysman:** No.

- Q53 **Stephen Kerr:** So how can you have a long-term bonus after one year? I have never known of such a thing.

**Peter Fankhauser:** That was a long-term incentive plan, which was created when I came to the UK to turn around the UK operation.



Q54 **Stephen Kerr:** In 2014. In one year, you—

**Peter Fankhauser:** No. In 2012, I came to the UK to turn around the UK business, and that was an integral part of the first phase of the turnaround, to turn around the UK.

Q55 **Stephen Kerr:** Thank you, Mr Fankhauser. Frank Meysman, if you could go back, please, and explain these massive amounts of exceptionals that fall beneath the EBIT, because you used the EBIT to disclose underlying—you have sold the business to your investors and the banks and everyone else on the basis of underlying results which discount, obviously, all these exceptional items. Is that correct?

**Frank Meysman:** No, that is not correct, because we made it very clear in our annual report what the separate disclosed items were, so that everybody could see what they were and how they were linked to restructuring, leading in fact, as you say, to a profit at the end of that period. So in '17, we had by that time really gotten SDIs decreased and our share price was still at 1.25.

Q56 **Stephen Kerr:** The auditors, though, Martine Verluyten—they were unhappy about the way you were reporting these separately disclosed items, weren't they? Because they asked for changes in 2018.

**Martine Verluyten:** They were not unhappy. We had discussions with the auditors about the specially disclosed items, but can I first say why we used specially disclosed items? In order to clarify our figures better, we felt it was good to separate the ongoing business from expenses that were one-off or expenses that had to do with the transformation of the company. So then there were—

Q57 **Stephen Kerr:** Eight years of exceptional items is exceptional.

**Martine Verluyten:** They were very different in nature. The first four years had mainly to do with write-offs of assets, write-offs of goodwill at the time on businesses we sold, and so on. The next four years had to do with the transformation programme we went on, and the transformation programme had three major portions. One had to do with the alignment of the different businesses, because Thomas Cook was made up of very different businesses, so we tried to align the systems, the ways of working, the product, and so on and so forth. That was part of the transformation costs, which were called NUMO, if you look in the annual report. There were then a number of expenses that had to do with the airline restructuring—

Q58 **Stephen Kerr:** Sure, but eight years of these exceptional items is exceptional, is it not? In your experience, Frank Meysman, eight years of exceptional items of this magnitude in a company's report—

**Frank Meysman:** It is a high number, that is true, but this company needed, also, that kind of restructuring from where it came from.

Q59 **Stephen Kerr:** But just to confirm what I said earlier, you would use underlying profitability, as you would see it, as a justification for your



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investors to continue to have faith in you or the banks to continue to have confidence in you. That is correct, isn't it?

**Frank Meysman:** No, I think our investors—

- Q60 **Chair:** Ms Verluyten is nodding her head and Frank Meysman is shaking his head, so is there a disagreement amongst the management? Frank first, and then Martine.

**Frank Meysman:** In all the meetings that I had with the investors, we fully disclosed all of the restructuring that was going on. They could really look at all of the numbers, and also in the annual report, but even when I met our top 10 investors, they clearly understood what we were going through.

- Q61 **Stephen Kerr:** But you justified their continuing commitment to your business, surely, on the basis of the underlying profitability that you were reporting when you took into account exceptional items. Martine Verluyten?

**Martine Verluyten:** Our investors were totally aware that our business was made up of two things. One was the underlying business and the other was those expenses required to change the underlying business, which we put in separately disclosed items.

- Q62 **Stephen Kerr:** I understand that. You are agreeing with me.

**Martine Verluyten:** I am agreeing with you as far as our underlying business showed improvement, but it took a lot of exceptional costs to bring us from a historical—

- Q63 **Stephen Kerr:** £1.8 billion-worth is a lot of exceptional costs over eight years.

**Martine Verluyten:** It is a very, very complex company—the number of systems that we had to align over the years to come to a united system. I understand that you think that that is a long time.

- Q64 **Chair:** About it being a complicated business, with all due respect, you are a travel business. Your business is to get people on holiday, to ensure they have a good time and to bring them back. I don't think it is a hugely complex business. It became a complex business because—as you say, Frank Meysman and Martine Verluyten—it was two businesses. There was that business and then there was the business of turning around this huge debt, which, because of choices made by the business, you were saddled with. That is the complicated part of the business. You had this debt, which you could not get out of.

You said, Martine Verluyten, that your separately disclosed items were meant to clarify the figures better. I would put it that the separately disclosed items were meant to make your figures look better, because the truth is that if you added on that £1.8 billion, which Stephen Kerr has described, your figures would look an awful lot worse than the underlying figures you were trying to present to the markets.



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**Martine Verluysen:** Chair, may I disagree with you?

- Q65 **Chair:** You may, but the truth is, in the end, that this all caught up with you, so you can disagree, but you were the chair of the audit committee for this business and all of you were responsible for running it. You can disagree as much as you like, but the proof of the pudding is in the eating, and you failed to turn this business around. In the end, you couldn't just hide these numbers forever; they caught up with you. Isn't that the truth?

**Frank Meysman:** I would disagree with that statement.

- Q66 **Chair:** You would disagree with that statement?

**Frank Meysman:** Yes, because a lot of effort was made to get the net debt to decrease—getting that into shape—and in providing new offers for the customer. Before it all happened, there were 20 million happy customers. Lots of new ways of travelling were proposed, for example Casa Cook and the Expedia joint venture. We had a joint venture in China. There was a lot of restructuring happening. Even in the UK, in 2011, only 20% of people bought their vacation online, but today, or just before, 40% did. There was a lot of restructuring. It took a long time. Mr Kerr, I would agree that—

- Q67 **Chair:** Mr Meysman, you are here today in front of our Committee because 9,000 people have lost their jobs and 150,000 people who were on holiday had to be brought home at a cost to the taxpayer. With all respect, Mr Meysman, you can point to as many successes as you like, but you have brought down a 178-year-old business, with huge repercussions for customers, staff and taxpayers. You can point to the successes, but I will point to the failures, which hugely outweigh the successes that you have spoken about.

At the beginning, Mr Meysman, you and your colleagues offered some apologies. I think you are deluded, Mr Meysman, about the business that you ran. You chaired a business that has gone under, because of the decisions made collectively by your management team, so when you are pointing to the successes, you might want to have a little bit more humility. Martine Verluysen, if you want to, finish your answer, and then we will move on to the next set of questions.

**Martine Verluysen:** The only thing that I want to clarify is that we have never hidden the results of the company. Our annual report clearly indicated that. As well as the underlying profit, it included the separately disclosed items and the bottom line of the company. It is not like we were hiding the fact that the bottom line of the company was still not healthy from the investors, the general public and everybody.

- Q68 **Stephen Kerr:** I think that the investors and former employees of Thomas Cook would want me to ask this question of Warren Tucker. Were the bonuses paid to the board on the basis of underlying profitability rather than of actual results? If they were, the bonuses that you paid out were bonuses for failure and losses. Were the bonuses paid on underlying profit with no account for those exceptional items?





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**Warren Tucker:** In the five years that I was in charge the remuneration committee, which aligned with Peter's chief executiveship, there were two years with no bonuses, one year with a small bonus and two years with bonuses in the middle of the range. The bonuses were targeted on five different measures: free cashflow generation, underlying operating profit, customer satisfaction, employee satisfaction and turnaround milestones. It is true that one of the five measures was underlying profit.

Q69 **Stephen Kerr:** The one thing that finds its way from the P&L is the underlying profitability. So am I correct in what I am saying—correct?

**Warren Tucker:** You are correct, yes.

Q70 **Stephen Kerr:** Absolutely. The £4 million in bonuses that Peter Fankhauser picked up—in shares, for example, which he rightly says are now worthless, but nevertheless—were predicated on underlying profitability with no allowance for exceptional items. I would love to run my household effects this way. I could have all those losses and expenses, and I would hide them away and get some kind of credit in the eyes of other people because I have got this amount over here, which I am happy to show off because it looks quite good. But this bit over here—pfff. It's ridiculous.

**Warren Tucker:** The rationale for it was that we were investing heavily in the turnaround and that we did not want to disincentivise any of the investment costs that were going through separately—

**Stephen Kerr:** I am sorry, Warren Tucker, but none of those things will in any way placate the former employees of Thomas Cook or the investors. The fact is, this board was rewarded for failure.

Q71 **Albert Owen:** I will come back to something that you said at the beginning, Mr Fankhauser, about being overtaken by events outside your control. You mentioned the heatwave. Surely those external factors applied to other companies as well, but we did not hear of them collapsing in the same manner. Quite simply, what missed opportunities were there for you to save the company? You said, when you were apologising at the beginning, that you would have moved at a quicker pace. What would you have done differently? What was the roadblock? I think that is the important part. What stopped you moving quicker? You brought experts in and you knew that there were issues, so what stopped you from moving quicker? Can you explain that to the Committee?

**Peter Fankhauser:** Primarily, what constrained me, apart from external events—it was not only the heatwave—

Q72 **Albert Owen:** But that is applicable to everyone, is it not?

**Peter Fankhauser:** Yes, definitely. What prevented us from moving quicker was definitely that we could not scale up our hotel offerings, for example. We could not invest at pace in those new products. We could not transform the business at pace into a web-based business because in 2012, when I joined, there was a legacy in the UK of 1,222 shops. We scaled them back at pace, but we could probably have done it even better





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if we had had more investment in brand marketing and the development of the web.

- Q73 **Albert Owen:** Can I refer you to the sale of the airline? Why did you wait until February 2019 to sell the airline, and why was it so unsuccessful in finding a buyer? You have £1.2 billion in debts, yet you have a profitable asset that you decided to sell very late in the day.

**Peter Fankhauser:** To give you a bit of context on that, Mr Owen, in 2017, we decided to put the airline on its own feet. We legally separated it. We separated it from an accounting point of view. Everybody could see that we had a profitable airline, but 50% of its capacity was sold by the old tour operator. It was much higher in 2012, and we were constantly reducing this level of dependency from the tour operator by developing their seat-only business. In 2017 we made this step—legally and commercially as well—by introducing a sales and commercial agreement between the tour operator unit and the airline.

- Q74 **Albert Owen:** When you separated the business, was it your intention to sell it off at a later date?

**Peter Fankhauser:** It gave us the opportunity to be able to sell it, yes. Before, in all those discussions on selling the airline, we would not have known what we were going to sell, because that was not clean in the structure between the tour operator and the airline.

- Q75 **Albert Owen:** So why didn't you sell it sooner? Why did you wait till February '19? I don't quite understand that.

**Peter Fankhauser:** That was the first step that we took and then we tested the market: who could have interest? The whole market was talking about consolidation in the European airspace like it had happened in the US, but nobody in the following year, 2018, was really jumping from the fence. Everybody was somehow sitting on the fence and waiting. In 2017, Air Berlin and Monarch collapsed. We took, in a very reasonable way, advantage of this collapse and added capacity, which seemed to be working very well. So we wanted to digest this capacity increase for 2018, and then we had a really valuable business. It was on the agenda, but it was not on the agenda that we publicly said we are going to sell it.

- Q76 **Albert Owen:** If you had sold it earlier, do you think you could have helped save the company?

**Peter Fankhauser:** In hindsight, you are always much, much wiser, yes. Probably it could have been an opportunity. We had talks with major airlines, but we did not come to the final point that we had to disclose something on that.

- Q77 **Albert Owen:** So the critics who said you should have sold sooner were probably right.

**Peter Fankhauser:** That would have been maybe a solution, yes—to sell it in '19, which was one of the worst years in the airline space, when named companies like Lufthansa, Eurowings, Ryanair, easyJet, and even



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TUI, were making profit warnings in '19. That was really not helpful for the process, and the competitive tension that we were thinking to create by then going public with it didn't happen. On the contrary, the bids, from non-binding bids to final bids, deteriorated.

- Q78 **Albert Owen:** Another possible solution would have been reforming your outdated business model some years ago. Why didn't you do that? We heard that you had changed it and there were more online sales, but why were you so slow compared to your competitors?

**Peter Fankhauser:** Because we were really constrained with the level of investments we could do.

- Q79 **Albert Owen:** You don't think other companies have constraints and external factors? Why is it unique to Thomas Cook?

**Peter Fankhauser:** Look, other companies were hit exactly the same. If you compare the TUI results of the tour operator business, which is comparable to our business, they were losing at least the same amount of profitability in 2018 and had to come out with two profit warnings in 2019. We wanted to transform our business by differentiating, by better offerings and by better service. I think we came a long way in terms of service—the absolute focus on the customer and the “Customer at our Heart”, which was ingrained in the culture, which I was proud of. But the business legacy, especially here in the UK, with 1,222 shops—that cost a lot of money. To scale that back to a size of 580 million, and then I was also confronted with the question, “Why do you still have the retail shops in the UK?” In the Nordics we had not one shop left. We were fully online, but here in the UK we still had 60% of our volumes generated by the shops. That means—

- Q80 **Albert Owen:** And last year you made £11 million profit with that model, so it was working.

**Peter Fankhauser:** An £11 million profit for the UK is not enough. It is definitely not enough.

- Q81 **Albert Owen:** Why were your investors happy for you to have this slow pace and outdated model? Were you briefing them? Were they coming up to you and saying, “This is probably the future, so carry on”?

**Peter Fankhauser:** I think they appreciated the massive effort we made, and they appreciated, as well, the strategy we were setting out. That was with our major investors, where we had close contact. That was especially, as well, with Fosun, then finally our biggest shareholder, who were even in December expressly saying, “We are confident in the strategy and in the management,” but we were constrained by the legacy and by the debt burden.

- Q82 **Albert Owen:** But I would say your biggest shareholders are probably the staff sitting behind you, and you should have invested more in them, but I will move on; and I make no apologies for talking about the human aspects of this.



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**Peter Fankhauser:** I didn't get your question.

**Albert Owen:** It was a statement. You mentioned about shareholders, and I mentioned staff. I think they were your biggest asset.

**Peter Fankhauser:** You are absolutely right, and as a director you have the duty to care about all stakeholders—not only the shareholders but all stakeholders—and I put massive, massive work into saving the company, and I have to admit that finally we failed.

Q83 **Chair:** The Insolvency Service came in about three weeks ago and they have now found a buyer for your stores, for your shops, in Hays. They are a family-owned business. They don't have big debts and they think they can do what you weren't able to do. Do you think that they can make a success of the stores?

**Peter Fankhauser:** I wish they can. I honestly wish they can. That was one of the brighter days in the last three weeks—when I got the message that Hays Travel was taking the shops and saving about 2,000 of our colleagues' jobs. The retail business, as a retail business, is a commission business, so you sell the holidays of other tour operators, and you get the commission with it. If Hays Travel is now able, without debts, to renegotiate, probably, one of the leases and to set it up from scratch with a much leaner debt structure—almost no debt structure, I suppose—that can for sure be successful, and I wish them all luck, for our colleagues and for them as well.

Q84 **Chair:** Hays, as you say, Peter Fankhauser, doesn't have the debts. In some ways it is the simple business that a travel business should be. Its focus will be on running a successful travel business, rather than being distracted by dealing with a huge debt pile, because they didn't make the rash decisions that Thomas Cook has, over the years, to over-expand and to put on its balance sheet assets which, as Antoinette Sandbach has eloquently put it, didn't really exist.

**Peter Fankhauser:** Look, Chair, I fully agree with you.<sup>1</sup> It is out of my remit—the debt pile build-up. I tried to handle it and I tried to make the business better, and obviously I was not fast enough in doing that; but I also have to say, to give you some context, a tour operator business with a retail chain, with the tour operator as a consolidator of all the services from flights to hotels, to transfers, to rep service, and an airline attached, is a totally different business, and a much, much more complex business than just a pure online retailer or a high street retailer.

Q85 **Chair:** I guess the point that I am making, Peter Fankhauser, is that the Insolvency Service in three weeks has managed to do what you were not able to do in five years, which is to sell off parts of the business and try and make a success out of them. You were not able to sell a profitable

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<sup>1</sup> Note by witness: This statement was intended to indicate agreement with the facts that (i) Hays does not have the debts that Thomas Cook had, and (ii) Hays is a much less complex business than Thomas Cook was (rather than with the statements made by the Chair more broadly).



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part of your business—the airline business. The Insolvency Service has managed to sell the part of your business which you suggested was the anchor—the millstone, or whatever—that was pulling you down.

**Peter Fankhauser:** Yes, I fully understand your point—

- Q86 **Chair:** But I think it is quite interesting that you keep saying that in the five years—five years is a long period of time—that you were chief executive, you were trying to do all these things but you weren't able to do them fast enough. Does it surprise you that the Insolvency Service, who I don't think are paid anything like £4 million, are able to start to turn around the business at speed?

**Peter Fankhauser:** I fully understand your point of view, and it can be seen as that from the outside. We were focusing on saving the whole business. We could have sold parts of it. I do not know exactly how much Hays paid for the retail chain in this state, but we explored every avenue to save the business by selling parts of it, like the airline; we also had bids for the tour operator and for the Nordics. We came to the conclusion that, with the debt pile we had, we could not achieve the aim we wanted to achieve with that strategic review while leaving the rest of the business in a sustainable debt structure. That is why we were bound to achieve something for the whole. We could have sold part of it. We had offers for part of it, but none of them would have given enough value for the shareholders and the stakeholders—banks and bonds—that they would have agreed on that.

- Q87 **Chair:** As a result, everything went under. As a result of your decisions, 9,000 jobs and 150,000 customers were affected, and then there is the bill for taxpayers. You could have salvaged something, but you held on and held out for some saviour to come along. Frankly, Mr Fankhauser, I think you probably knew that was never going to happen.

**Peter Fankhauser:** No, I was confident that it was going to happen; otherwise, I would not have tried—

- Q88 **Chair:** That was a misplaced confidence then, Mr Fankhauser.

**Peter Fankhauser:** Otherwise, I would not have tried so hard. I had the backing from the banks, and I had a substantive agreement on 28 August from the banks, the bondholders and Fosun.

- Q89 **Chair:** But you didn't have the £200 million that you claim was needed, so you didn't have that backing in the end, did you, Mr Fankhauser? We know that because you are sitting here in front of us today.

**Peter Fankhauser:** Yes, and I repeatedly said that I am awfully sorry that I could not take the deal over the line, but we heavily disputed the need for the £200 million you were talking about.

**Chair:** We will come on to that in a moment.

- Q90 **Drew Hendry:** Peter Fankhauser, one thing that is unquestionably under your remit is the events of 2019 as far as Thomas Cook is concerned. The company went from saying that the cash position was improving and that



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talks with banks were a proactive measure, to the level of money targeted in rescue plans increasing incrementally and dramatically—£300 million in May, £750 million in July, £1.1 billion in September. Why did you so substantially and repeatedly underestimate the money needed to save the company?

**Peter Fankhauser:** If I may give you the chronology of the events—

**Drew Hendry:** I think we know the chronology. Why did this happen?

**Peter Fankhauser:** Let me explain that. Assuming that we got a reasonable amount of cash proceeds out of an airline sale, we were going to the banks and saying, “We would like to be sure—on the right side of the confidence—that we will get through the winter,” and we were asking for £300 million in addition to an airline sale.

Q91 **Drew Hendry:** But you were never in the position of making that airline sale; you said that earlier.

**Peter Fankhauser:** No, but that was a precautionary measure to the banks to say, “Listen, we now have this strategic review.” Together with our financial adviser, we went to them and said, “In case the airline review does not give us £1 billion, for example, we want to have the security that we will get over the winter with enough cash.” That was under the assumption that we were successful with the disposal of the airline. After considering all the avenues—not only the airline sale but the Nordic sale and the sale of the tour operator—we came to the conclusion that that was not going to work for our stakeholders—that we were not creating enough value to pay down the debts to the extent needed.

Q92 **Drew Hendry:** What I do not understand, Peter Fankhauser, is that you said the airline sale was never a realistic possibility, for the reasons that you outlined to the Committee earlier, so it is a fact that you created this fantasy sale and used that as part of the calculation to underestimate the amount of money needed to take the company through. Isn’t that the case?

**Peter Fankhauser:** No, that is not the case, because that was under the assumption that we were generating enough cash for the disposal of the airline, and then, as a cushion, we would have had £300 million. That was not possible any more because, as I said before, the deteriorating market left us in the position where we could not create this competitive tension, and then we came to the recapitalisation plan. There we said that we needed from the banks £300 million as a rolling credit facility, and that we needed from Fosun £450 million of new capital coming into the business. That came to £750 million, which was a totally different starting position, in terms of the deal. It was a highly, highly complex transaction that we were envisaging. Then coming into July, when we were announcing the recapitalisation after the first half-year results, we were under quite big pressure, in terms of the confidence of suppliers, for example, who were tightening payment terms. We were coming under pressure from credit card merchants, who were withholding cash.

Q93 **Drew Hendry:** And you anticipated none of this happening, in addition to



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the problems you already had.

**Peter Fankhauser:** No, we didn't anticipate the effects on confidence—the actions of suppliers and the credit card merchants. Plus the costs of a recapitalisation, with the advisory costs, were putting pressure on our cash flow. That is why, on 12 July, we said, "We have a £750 million need for the recapitalisation." We saw on 12 August that that was not going to work, and that we needed another £150 million to £900 million. With that £900 million, we as a company and our advisers were stuck. We said, "That is what it needs."

- Q94 **Drew Hendry:** Can you see how this looks to people—that this is a company that was out of control? Isn't it the case that what you are describing as complexities were simply the fact that you were downplaying the difficulties that your company was facing to your investors and your staff?

**Peter Fankhauser:** I understand that you can interpret it like that—

**Drew Hendry:** I do.

**Peter Fankhauser:** But from inside I can assure you that, with all the advice we got and all the efforts we put in, that was not the case.

- Q95 **Drew Hendry:** Okay. If that is the case, and given the communication with your investors, how did they respond to what you were telling them? What did you do about the concerns that they were raising with you?

**Peter Fankhauser:** We engaged with the investors after we announced the recapitalisation on 12 July. In our announcement, we stated that this recapitalisation has a dilutive effect on the shareholders. That was stated, and then we engaged with the shareholders to ask them whether they would like to participate, in one form or another, in the recapitalisation.

- Q96 **Drew Hendry:** Peter Fankhauser, I asked what concerns were raised by investors. What concerns were raised by them?

**Peter Fankhauser:** One investor said, "I'm very sorry, but I can't participate in this recapitalisation because my fund is only capable of investing in public traded companies." He said, "And I know that after this recapitalisation, others are going to take the profits, which are now part of this recapitalisation." Another big investor had not only shares but bonds, and he was playing a very active and supportive role on the bondholder side when we went back to the bondholders and asked them to convert their debt into equity and to provide new money.

- Q97 **Drew Hendry:** Could the company have been saved, or at least liquidation avoided, if you had targeted from the start a larger rescue plan than the one you set out with, which seemed to be rather chaotic and with repeated requests for money?

**Peter Fankhauser:** I firmly believe that the process was not chaotic. Given the level of advice that we took from investment bankers, who were guiding the process to get the results, with advice on the financial side and on the legal side, I don't think the process was chaotic.



Q98 **Drew Hendry:** I suppose the question I am asking—

**Peter Fankhauser:** To your question—would it have been an opportunity to do that recapitalisation plan earlier?—I don't think so, because we had to explore avenues without having such a dilutive effect on the shareholders.

Q99 **Drew Hendry:** You were a group of experienced businesspeople. Didn't you sense that things were running out of control—that you weren't going to meet these different targets that you were setting? Didn't you get a feeling at any point in the process—through all of the advice you were taking from investment bankers and everything else—that things were going awry, and that you really needed to take different action? Or were you simply relying on the advice you were taking from others, rather than acting as the people who were responsible for the company?

**Peter Fankhauser:** As Sten said—me as well—we had done about five restructurings, and in those restructurings you get an experience of how you can change things. I was convinced that, with the backing of the banks and Fosun, even if the project was highly complex, a lot of stakeholders had had to give up a lot of money and to give in new money in addition, so I was convinced that the plan was going to work. Every day at 4 o'clock, we were testing that: do we still have reasonable prospects, and do we still have a prospect that the parties are buying into it, so that we can trade and so that we can have a good chance—a reasonable chance—to bring this deal over the line?

Q100 **Drew Hendry:** So ultimately, every day at 4 o'clock you were wrong.

**Peter Fankhauser:** With hindsight, you can say that. At that point in time, after a really thorough examination of all the facts—what is the stakeholders' position and what is our cash position?—we came to the conclusion that our prospects were reasonable.

Q101 **Antoinette Sandbach:** When did the company engage FTI Consulting?

**Peter Fankhauser:** We didn't engage FTI Consulting; they were the advisers of the banks. That was about March.

**Sten Daugaard:** In March, yes. When we started discussions with the banks about possible additional financing for the 2019-20 window, the advice from the banks was that we should take financial advice on board to support the process. We chose AlixPartners and the banks chose FTI as their adviser.

Q102 **Antoinette Sandbach:** Were you aware of FTI Consulting's advice to the banks about the £200 million back-up loan?

**Peter Fankhauser:** At the end of August, we got FTI's independent business review, and in a down-case scenario in this business review, amongst other scenarios, in an absolute down-case scenario, there was a further need flagged for winter 2021<sup>2</sup> of £200 million. We were challenging

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<sup>2</sup> Note by witness: winter 2020/21.

that, we pushed back on that. However, as a company, we said, “Okay, how can we address this scenario?” We were developing a mitigation plan for a worse situation in January, February and March 2020—the high-booking season—to see what possibilities we would have to mitigate the £200 million of further funding needs. We came up with a £300 million plan, which was shared with FTI, and FTI shared it with the banks.

If I may say, FTI was advising the banks to do the deal and was stressing that that was just a down-case scenario.

**Q103 Antoinette Sandbach:** A down-case scenario that turned out to be accurate—or one that, because you could not satisfy the banks, ultimately led to them not supporting you. On what date at the end of August did you get that advice or understand that to be the requirement?

**Peter Fankhauser:** I cannot tell you exactly the date when we got the independent business review. I can tell you exactly the date when the banks met before they wanted to go to the creditors—that was 9 September. On 10 September, we met three representatives—

**Q104 Antoinette Sandbach:** I really want to take you back to the date when you knew. It is not in your timeline, and you said it was at the end of August. Are you prepared to undertake to write to us about the date when the board was informed of that requirement, or suggestion, from FTI Consulting?

**Peter Fankhauser:** I can give you the date when we got the final business review, but we were confronted with an additional request on which we argued and pushed back on 10 September.

**Q105 Antoinette Sandbach:** No. You very clearly said in evidence to me that you were aware of that identified additional funding requirement from the banks at the end of August. Are you prepared—well, I would like you—to write to this Committee and tell us exactly which date in August the board received that information, or that you received it as the chief executive?

**Peter Fankhauser:** Yes. I can tell you the date when we were sitting together with FTI, when they were racing to say, “We have a down-case scenario, which could create”—

**Q106 Antoinette Sandbach:** So what was that date?

**Peter Fankhauser:** I don’t have it in mind, but I am absolutely prepared to tell you that date, because after that date we were working hard, without having a request from the banks that it is going to be their request. We were working hard to mitigate this additional funding need—possible funding need—in 2020-21.

**Q107 Antoinette Sandbach:** But on 28 August, you announced that you had agreed key commercial terms in relation to the recapitalisation in respect of Fosun—the bank lenders and a group of noteholders in respect of the recapitalisation. That’s in your timeline. But the additional £200 million was not mentioned at that time.



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**Peter Fankhauser:** Because they were not raised, Mrs Sandbach. They were not raised as an additional request at that time.

Q108 **Antoinette Sandbach:** So you are claiming that, even though your evidence to us was that it was at the end of August that you were told by FTI, on 28 August you had not yet had that information? Is that what you are claiming?

**Peter Fankhauser:** Yes. We had the information. Can I be precise here?

Q109 **Antoinette Sandbach:** Yes.

**Peter Fankhauser:** We had the information in the independent business review in a down-case scenario, which we were pushing back and which we had arguments—

Q110 **Antoinette Sandbach:** Whether or not you accept it, what I am asking you to tell the Committee is this: at the time that you made the announcement on 28 August, had you had that down-case scenario from FTI consulting? It's a simple question.

**Peter Fankhauser:** Yes, we had that, but not as a request.

Q111 **Antoinette Sandbach:** You had it as a request?

**Peter Fankhauser:** We didn't have it as a request.

Q112 **Antoinette Sandbach:** But you had it as a down side, and bearing in mind that you had planned for the up side all the way along, including a 28% margin coming back, you didn't think, at the point that you were at recapitalisation, that you might need to plan for the down-side?

**Peter Fankhauser:** We had a very careful business plan, which was the base for the recapitalisation.

Q113 **Antoinette Sandbach:** So, you have confirmed to the Committee that in mid-September your lenders did demand the £200 million loan in standby equity from Fosun. Why were they not prepared to fund the bridging gap themselves if you had such a good business plan?

**Peter Fankhauser:** You mean Fosun? Why didn't they guarantee?

Q114 **Antoinette Sandbach:** Yes.

**Peter Fankhauser:** Because they set out as a principle, "We are not going to guarantee anything, because we want to be treated as a partner, because"—[*Interruption.*] No, no, let me please finish. Because if we guarantee a backstop facility, we have to guarantee pension trustees as well, we have to guarantee the bonding line providers, who were asking for a guarantee as well, and we have to guarantee the CAA. It would have been a range of guarantees which Fosun would have been confronted with if they gave in on one guarantee.

Q115 **Antoinette Sandbach:** But, Mr Fankhauser, if you had—arguably—such a tight business plan as you are claiming to this Committee, why did your lenders not step in to provide that facility?



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**Peter Fankhauser:** I can't answer this question, because the lenders just said, "Look, we want to have a cover as a backstop security, in case everything goes wrong," despite the fact that we had a plan, a mitigation plan—

Q116 **Antoinette Sandbach:** A plan they clearly didn't believe in, because they weren't prepared to lend to it.

**Peter Fankhauser:** Maybe I have the wrong sentence. In this meeting, I was asking the representatives of the banks, "Does it mean you are not supportive of the deal and of our recapitalisation plan?", and they clearly said, "No. We are supportive of you, and we are supportive of the recapitalisation." They clearly said that to my face at that meeting.

Q117 **Antoinette Sandbach:** But they were not prepared to put their money where their mouth was, and you were not prepared to see through that.

**Peter Fankhauser:** No, we were not prepared to see through that. We took that and said, okay, the banks in the negotiations are really giving that as an official request, because that was not an official request that they put on the table on the 10th; they were carefully choosing their words to say, "We are cautious about our credit commitment, and we would like to have a £200 million back-up security." We were trying hard to get other sources of money to fill this £150 million to £200 million.

Q118 **Chair:** Frank Meysman, do you want to come in?

**Frank Meysman:** Yes. Knowing that this pressure of the £200 million was there as a demand, we took all steps to see how we could get that £200 million—by making sure that we never needed it, which is what the business was trying to do, and, at the same time, seeing if there were alternative sources. On 22 September—that sad day—we did have people coming forward, particularly Spanish hoteliers, saying, "We are willing to put up money."

Q119 **Antoinette Sandbach:** But you knew this in August.

**Frank Meysman:** No.

**Antoinette Sandbach:** You knew that this was a possibility. You certainly knew it by 10 September.

**Frank Meysman:** We always believed that we did not need it at all.

**Antoinette Sandbach:** But clearly you did.

**Frank Meysman:** As Mr Fankhauser said, it was a possible backstop for the winter of 2021—

**Antoinette Sandbach:** By 10 September—

**Frank Meysman:** We wanted to make sure that that could not be seen as a reason for the deal not going through.

Q120 **Chair:** But they saw it as a reason for the deal not going through. Fosun



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saw it as a reason for the deal not going through.

**Frank Meysman:** No.

Q121 **Chair:** Well, yes, because they wouldn't lend the £900 million without that.

**Frank Meysman:** No, but that is not the reason for not going through. On the contrary, Mr Fankhauser and I went to Shanghai and talked to Chairman Guo, and he firmly committed. They had a press release on the Friday before the 22nd—20 September—where they were fully supporting the deal. There was no thought in our mind that they were not supporting the deal at all.

Q122 **Chair:** But in the end, you didn't get that money.

**Frank Meysman:** In the end, we did get that money, from different sources.

Q123 **Chair:** You didn't get the £900 million from Fosun.

**Frank Meysman:** Not from Fosun. Other people were in the process of stepping in—Spanish hoteliers and other foreign Governments were giving us indications that we would have that.

Q124 **Chair:** Indications are not quite the same as having the money. That is why you went under.

**Frank Meysman:** We were sure about a substantial part of that. I am pretty sure that we would have ultimately gotten it, because of the commitments and promises that we had got, both from the hoteliers and those foreign Governments.

Q125 **Chair:** But you were wrong to be sure. If you are saying that you are pretty sure that you would have got there, you were wrong to be sure, because you didn't get there.

**Frank Meysman:** That's not quite true.

Q126 **Chair:** It is quite true. The reason you are here is because you didn't get there.

**Frank Meysman:** We got closer than £100 million, for sure, and the other one was indicative.

Q127 **Chair:** But, Mr Meysman, I still don't think you quite understand the scale of what has happened here. You didn't get there, and that is why you are here. If you had got there, we wouldn't be having this conversation. Do you understand that?

**Frank Meysman:** I am afraid I don't understand that, because, in my real belief and in my living of that day, we would have gotten that money, as much as you may disagree with me on that one. We can show the mail from hoteliers to you, which show them confirming, even on a Sunday, as well as others saying, "We will step up to it."

Q128 **Chair:** In the end, no one did step up, did they? You didn't get the



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money, and you are now being managed by the Insolvency Service, because you didn't get that money. You are not even in administration—it is liquidation. This is important. Mr Meysman, you are the chair of a company that was seeking, in the end, £1.1 billion to stay afloat. You were not successful in getting that money. In the end, you had to go insolvent, with all the consequences.

**Frank Meysman:** I disagree with that statement.

Q129 **Chair:** With what part of it, Mr Meysman? Is Thomas Cook trading as a company today?

**Frank Meysman:** No, no.

Q130 **Chair:** Are you insolvent?

**Frank Meysman:** I sat through those negotiations on that Sunday, and I know pretty well what and who was making commitments.

Q131 **Chair:** Mr Meysman, what is the position of Thomas Cook now?

**Frank Meysman:** It no longer exists.

Q132 **Chair:** Why is that?

**Frank Meysman:** That is a good question.

**Chair:** What is your answer to that question, as chairman of that company?

**Frank Meysman:** That, ultimately, at the end of that Sunday, the parties involved said that they were still willing to do the deal, provided that the Government stepped in in one form or another. That was the case at 4 o'clock on that famous Sunday—that tragic Sunday. That was the statement from both Fosun and the representatives from the banks: "We are still supporting this deal, provided that the Government have a role in the whole project."

Q133 **Chair:** We will come on to the Government's part in this in a moment, but, in the end, the Government do not have any particular responsibility for what happened to the company. They didn't buy all these other companies; they didn't rack up all this debt.

**Frank Meysman:** I am just reacting to the fact that even at 4 o'clock in the afternoon, the key protagonists—the banks, who had been asking for that £200 million, and Fosun—clearly stated that they were supportive of the deal.

Q134 **Chair:** As Antoinette Sandbach said, in the end, they wouldn't put up that £900 million unless you had the £200 million of the backstop.

**Frank Meysman:** No, unless the Government came in and supported it. That was their statement.

Q135 **Chair:** It was that there should be some sort of backstop—that if your plans didn't work, you would have £200 million to call on from somebody



else.

**Frank Meysman:** At the 4 o'clock statement, there was no more talk about the £200 million. The question was clear: are you supportive of the deal? We went around the table, and the representatives from the banks, and from Fosun, said "Yes we are, provided that the Government step in."

Q136 **Chair:** And what did they want from the Government?

**Frank Meysman:** We asked three different things from the Government. We asked either for £150 million to £200 million, or for them to exert power to bring the parties together. In case of insolvency, we asked to be able to use the current infrastructure to bring the people back. Those were the three questions posed to the Government.

Q137 **Chair:** So basically, Fosun was willing to take this equity and provide £900 million, but it was not so convinced that the plan would work, and it needed the Government to provide a backstop facility for it to put in the money. It is like me saying, "I will lend you £10 to do this thing, as long as somebody else will give you £2 as a backstop. I am not willing to give you £10 unless you have found someone to give you that extra money." You couldn't find anyone to give you that extra money because they didn't believe in your plans, and Fosun wouldn't give you the money in the end because it didn't believe enough in you.

**Frank Meysman:** I did not look into the thoughts of Fosun or the banks—I can just relate to you the statement that they made during that meeting at 4 o'clock.

Q138 **Chair:** If they really believed in your plan, Mr Meysman, they would have provided that extra £200 million, wouldn't they?

**Frank Meysman:** I don't know.

Q139 **Chair:** What do you mean, you don't know? Did you ask them?

**Frank Meysman:** Yes, we did.

Q140 **Chair:** And what did they say?

**Frank Meysman:** We spent that day with the people of Fosun, going through all the mitigation plans. They were fully aware of those plans. I cannot speak for them—

Q141 **Chair:** Presumably, as chairman of the company, you said to them, "Will you provide the £200 million?"

**Frank Meysman:** The answer to that was no.

Q142 **Chair:** Why was the answer no?

**Frank Meysman:** Because they felt that that was inappropriate for them. You have to ask them the question, but it would, like Mr Fankhauser said, lead to other guarantees that they would have to give as well. They felt that the £450 million, as it was, together with the banks, was a fair deal for everybody. The banks, at that meeting at four o'clock, said, "Yes, we agree."

Q143 **Chair:** Yes, so in the end they just didn't believe in you enough to put up the amount that you needed?

**Frank Meysman:** That is for them to say.

Q144 **Chair:** Well, it sounds like that was your answer.

**Frank Meysman:** I can only disclose to you what happened on that tragic Sunday at four o'clock. Until that moment, we had all indications from everybody. You can ask the question, "What about the Government?" I can only cite that, on the Friday before, we got a quote from the Government: "Peter, just to assure you that we are working intensively on your proposal across Whitehall." That does not give me the sense that it is not going to happen. On the contrary.

**Chair:** It sounds like, in the end, the Government had to work out how they were going to get your customers home, because in the end, Mr Meysman, you weren't able to do the basics of a travel company, which is to get people on holiday and get them home again.

Q145 **Drew Hendry:** Mr Meysman, you brought up the Government's involvement, so let's ask you some questions on that. Would it have been in the taxpayer's interest for the Government to secure the future of Thomas Cook?

**Frank Meysman:** I can only say that some other Governments have made a different choice and a different decision. The question came up before. Different parts of this company are very profitable, if they did not have the burden of the debt. You see that Scandinavia is continuing to exist. You see that, in Germany, Condor, an airline, does have a temporary loan from the German Government, which was yesterday approved by the European Commission.

Every Government has the right to decide the way that it wants to decide. I regret the decision as it was. All I would have liked to have happened on that tragic Sunday is for all the key parties to sit together. The chairman of Fosun was physically in this country. The chairmen of the key banks were physically in this country, as I was. Talking and having the Government there, rather than sending an email or a telephone call—I regret that.

Q146 **Drew Hendry:** You were clearly banking on a Government bail-out. From what you have just said, that is clearly the case. When did you first discuss the possibility of a bail-out with the UK Government?

**Frank Meysman:** Peter knows that.

**Peter Fankhauser:** I met the Minister for Transport on the evening of 9 September, when I gave him an update on where we stand in the process. We then met high officials from the Transport Ministry and the UK Government Investments unit on 16 September, and again on 17 September. We discussed it with them as a back-up. It was not the primary focus for us; it was really the last resort to say, "If everything



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fails, could we have security in place from the Government—last draw, first payback?”

Q147 **Drew Hendry:** Was that the specific request that you made?

**Peter Fankhauser:** Yes, we discussed this, and they then said, “Listen, there are difficulties in our process”—that it is not state aid. They were emphasising that. They nevertheless then asked us to give a formal proposal, which we did on 17 September. The feeling that I personally got and personally perceived was, at least, that the Government, or the high officials from the Transport Ministry, were positive in saying, “We’re trying, and we’re having a close look into it.”

**Drew Hendry:** And do you feel that it would have been in the taxpayer’s interest to support you?

**Peter Fankhauser:** For this request, we made an estimate of how much the collapse of Thomas Cook could cost, and it was far higher than what we requested. I do not dare to criticise the Government; it is absolutely and entirely up to them to make their decision.

Q148 **Drew Hendry:** If you had received that support, would it have saved the company, or would it have simply delayed the inevitable collapse of Thomas Cook?

**Peter Fankhauser:** The recapitalisation plan, once successfully completed, would have put us in a position where we most probably would have been the best-funded travel company in Europe. I firmly believe that, after the successful recapitalisation, we would have had a new start, otherwise I would have not fought so hard for it.

Q149 **Drew Hendry:** So just to be clear, you are saying that if the Government had provided a backstop or bail-out—whatever term you want to use—by providing the money, you feel that that would have allowed you not only to save the company, but to go to a position of being in a stronger place. Is that correct?

**Peter Fankhauser:** That is correct, but it is also correct to say that if we had succeeded before on private commitments, it would have actually saved the company.

Q150 **Drew Hendry:** I am specifically targeting my questions on the conversations that you had with the UK Government. I think you have just explained it, but explain it to me again. How would that have saved the company, as opposed to just delaying the inevitable? Tell me in clear terms.

**Peter Fankhauser:** Because in this construct we would have had a rolling credit facility from the banks. We would have had new money from the bondholders, and possibly from other parties that, in a scenario, would have given equity to the tour operator company. That would have had to have been agreed and finalised with Fosun and the banks to allow that to happen. We would have had new money, in terms of having a new start of about £600 million, which would have taken us through the winter and



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given us the opportunity in the context of Fosun, which already has a travel basis with Club Med, which has developed a joint venture with us in China. It would have given us the opportunity to really grow the business, and possibly to make a fast development on the web and on the expansion of the hotels, because we would have carried away the whole debt burden.

**Q151 Drew Hendry:** One final question. Given the outcome that you have just stated—that this would have been critical in getting to the position that you have just described, where there was Government support—how vociferously did you pursue that option with the UK Government, and how was it reciprocated by them to you?

**Peter Fankhauser:** I think as seriously as we could have done it. We were engaging with the Government on Monday and Tuesday. Throughout, we were getting feedback and asking the Government where they stood. We got the feedback that it was under consideration at the highest level, and we were pretty confident that there could be a positive outcome. At the very end of this critical weekend, we knew that we needed something that was strong, otherwise we could not have taken off again on Monday. The business was on its knees and it was really critical. We did not have the time, because we knew there was a cliff edge at the beginning of October, when we had to pay our suppliers. We knew that this is time-constrained.

**Q152 Drew Hendry:** Given that situation, why do you think the Government said no to you?

**Peter Fankhauser:** Um—

**Drew Hendry:** I am asking you.

**Peter Fankhauser:** I can just say what is in the letter. They did not want to create a precedent to support the business. I was awfully sad when I had the high official on the phone at about 5 o'clock in the evening, because I knew that I had to throw in the towel.

**Q153 Drew Hendry:** One final question, although I know I have said that before. You said "high official on the phone"—did you at any point speak to any of the Government Ministers involved, apart from the initial conversation with the Transport Secretary?

**Peter Fankhauser:** No—

**Drew Hendry:** No?

**Peter Fankhauser:** Because we were clearly told in this meeting on the 16th and 17th that the point of contact for us was those officials who were sitting at the table.

**Drew Hendry:** I find that astonishing.

**Q154 Chair:** Did you try to challenge that, Peter Fankhauser?

**Peter Fankhauser:** No, I did not try to challenge that, because that was also the advice of our financial advisers, who went through different and

multiple early restructurings when they were asking the Government. We had contact with the advisers at No. 10, but we did not have contact with—

Q155 **Drew Hendry:** At no point a Government Minister, other than your initial conversation.

**Peter Fankhauser:** Me personally, at no point in this process, from Tuesday to Sunday, did we have a Government Minister on the phone.

Q156 **Chair:** May I ask all five of you, including perhaps particularly you, Mr Meysman, did any of you have a conversation with a Government Minister in the days leading up to the collapse?

**Frank Meysman:** I did not.

Q157 **Chair:** Frank Meysman, did you attempt to have any conversations with Government Ministers?

**Frank Meysman:** No, because Peter was the main sparring partner in that one.

Q158 **Chair:** Frank Meysman, do you think it is surprising that no Government Minister picked up the phone to either you or Peter Fankhauser?

**Frank Meysman:** In hindsight, one can see many things. On that one, if you get told by all your contacts that this is the right way to do things, when I then get this quote that I shared with you, I feel that there is a positive prospect.

**Peter Fankhauser:** We knew, and we had the feedback. I totally rely on the honesty—I don't doubt that—that it was on the table of the Ministers and it was in No. 10. That is the feedback that we got throughout the process. Of course, we would have liked—as my chairman said, we could have made a meeting on Sunday to ask for the different compromises we needed from any party and Government backing, and of course I would have liked that, but it didn't happen. It didn't happen.

Q159 **Chair:** You spoke—I think it was Frank Meysman—about going to Shanghai to try to do this deal with Fosun. When you were dealing with them, were you dealing with an official in the company or with the person at the top?

**Frank Meysman:** The chairman.

Q160 **Chair:** And yet, with the Government, you were not dealing with the chairman or chief executive-equivalent—

**Frank Meysman:** If I had been asked to, I would gladly have done that, but we got told what the appropriate channels were, and we were told that there were discussions up to a high level. We were also told that there were different other Governments trying to reach out to the UK Government, but indeed I did not have contact with the UK Government.

Q161 **Chair:** Did you have any contact with the Governments in Spain, Turkey or Germany, Frank Meysman or Peter Fankhauser?

**Peter Fankhauser:** Yes.

**Frank Meysman:** Yes.

**Peter Fankhauser:** Throughout the process, I had personal talks with the Minister of Tourism in Spain, the Minister of Tourism in Bulgaria, the Minister of Tourism in Turkey and the Minister of Tourism in Greece. We had, or I had, an exchange over the weekend with the Minister of Tourism in Bulgaria. She was very concerned. I updated her exactly on the process and where we stood. I had an intense text exchange with the Minister of Tourism in Spain. She told me that they were supportive of attempts to get in the hoteliers in this last phase, and that they had contacted—at least, that is what I had by text—the British Government. I knew that the British Government had said, “We will see you on Monday in New York.” But—

Q162 **Chair:** So you are a British company and, in the days leading up to the collapse of a British company, you had conversations or exchanges with five Government Ministers but none of them British. Is that right, Mr Fankhauser?

**Peter Fankhauser:** Yes. However, I have to add, that we were in close contact with many, many Government bodies throughout the past 12 months. We had about 100 meetings between our company, and high officials and Ministers in the Government but, at the very end, I had the meeting with Grant Shapps, and then we had this meeting with the—

Q163 **Chair:** Can you give us the date of the meeting with Grant Shapps?

**Peter Fankhauser:** Yes. 9 September, in the evening.

Q164 **Chair:** So that was just—

**Peter Fankhauser:** That was to inform him and to update him about the process. At that time, I didn’t have any feedback from the banks. I knew that they were sitting together the whole day, and I told him that, and he was then saying, “This is your talking point. He will inform me about all the developments.” I took that seriously, and at the meeting on the 16th and 17th, this high official was sitting on the table together with the chief executive of the Government Investments.<sup>3</sup>

Q165 **Chair:** Can I ask you whether you had any contact with officials at the Business Department in the days leading up to the collapse?

**Peter Fankhauser:** No, because we were instructed and heavily advised by the Transport Ministry that they are the single point of contact, and they don’t want that we are going in different directions into the Government in this process. We took that seriously.

Q166 **Stephen Kerr:** My questions to you pretty much follow the line that the Chair has just gone down. Did you first approach the UK Government, or did they approach you?

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<sup>3</sup> Note by witness: UK Government Investments.





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**Peter Fankhauser:** As I said, we were in constant contact with the CAA since September. I was in constant personal contact with the CEO of the CAA, with Richard Moriarty, and to be honest, I had this date in the calendar with the Minister of Transport. I think that was driven by us, but 100%, I can't confirm that.

Q167 **Stephen Kerr:** Was the meeting on the 9th the first time you had spoken to a Government Minister in any guise?

**Peter Fankhauser:** No. I had meetings with his predecessor as well. That was before.

Q168 **Stephen Kerr:** How long before?

**Peter Fankhauser:** That was not in the context of the recapitalisation. That was probably 12 months before.

Q169 **Stephen Kerr:** So it wasn't about this issue. Your contact with the Department for Transport comes down to 9 September. There were no previous discussions.

**Peter Fankhauser:** Yes.

Q170 **Stephen Kerr:** There were no discussions at all with anybody in the Department for Transport before 9 September.

**Peter Fankhauser:** If you tell me that Richard Moriarty is not part of the Ministry of Transport, that would be right, but we were sharing all our information about cash flow, about what we are intending to do. We were even consensually—the CAA was appointing a financial advisor and a legal advisor, so the—

Q171 **Stephen Kerr:** Who were you sharing that with? Someone in the Department for Transport?

**Peter Fankhauser:** We were told that they are sharing it within the Department for Transport.

Q172 **Stephen Kerr:** "We were told that they were sharing it." Who is "they"?

**Peter Fankhauser:** Richard Moriarty, the CEO of the CAA.

Q173 **Stephen Kerr:** The CAA was sharing it.

**Peter Fankhauser:** That was our intense contact.

Q174 **Stephen Kerr:** So, an indirect contact with the Department for Transport. Then you had the face-to-face meeting with Grant Shapps.

**Peter Fankhauser:** Yes.

Q175 **Stephen Kerr:** Who told you, then? Was it Gareth Davies who told you that you would deal exclusively with him?

**Peter Fankhauser:** No. It was the Tourism Minister who said—sorry, the Transport Minister who said—

Q176 **Stephen Kerr:** Grant Shapps said, "You will deal solely with Gareth

Davies.”

**Peter Fankhauser:** “My contact to you is Gareth Davies”, yes.

Q177 **Stephen Kerr:** “My contact with you.” Did anyone at any time from BEIS, Ministers or officials, contact you?

**Peter Fankhauser:** No.

Q178 **Stephen Kerr:** Did you contact anyone, officials or Ministers, from BEIS at any time?

**Peter Fankhauser:** No, because I was told not to do it.

**Stephen Kerr:** Fair enough. I think that’s it.

Q179 **Peter Kyle:** While all of you served on the board, opportunities to shore up the finances were missed, debt and interest payments rose to unsustainable levels, and the business overhaul—the costs of all the separate challenges within the business were scattered through the accounts, so that it was more difficult to actually understand what was happening under the hood of your company. Mr Meysman, how were these issues addressed at the board? Do you think that there was a sense of crisis, emergency, focus? Did your board respond to the severity of the financial crisis and the crisis that your company was under?

**Frank Meysman:** Yes, I think it definitely did, both in the committees and in the board by itself. We not only had those financial challenges, but had gone through some external events, such as the issues in Turkey with terrorism, which led to actions as well. So yes, I feel that, in the audit committee and in the health and safety committee where those talks were, there was ample discussion about that. We did discuss elements of what we could do to reduce the debt level, and that is ultimately how we got to the solution. We looked up to the end of ‘17 or mid-‘18 that if there continued to be progress, we could—and we had a plan—reduce the debt by £100 million a year.

Q180 **Peter Kyle:** You say discussion, discussion, discussion, but none of the plans bore any fruit. The debt levels did not come down.

**Frank Meysman:** No, that is not—

**Peter Kyle:** Let me finish the question.

**Frank Meysman:** No, that is not true.

**Peter Kyle:** Let me finish the question, then you can answer. The debt levels were not coming down considerably. The financial challenges and burdens that you were facing were not being solved. What I want to know is whether the tone of the next board meeting changed, or was it just routinised? Was the crisis normalised within your company?

**Frank Meysman:** No, and I will give you some examples. We did have a rights issue of £400 million. We did sell £350 million-worth of businesses to reduce that. We did have the input of Fosun of £92 million in the



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business. So there were steps taken to actually do that. We did sell the hotels in Scandinavia into a fund 50/50 which gave us leeway there. There were actions, not just discussions—

Q181 **Peter Kyle:** This is managing the crisis, not solving the problem. You were not thinking strategically. You were responding each month to the new crisis that was emerging in that month.

**Frank Meysman:** I would disagree.

**Peter Kyle:** We are not hearing the words of a strategic leader of a company.

**Frank Meysman:** We had a strategy, which was a strategy of having more of our own hotels, of having a differentiated approach, and of having global expansion. That is where China fits in, with Fosun, and that is also why we happen to be—happened; excuse the language, it is the past tense—the clear No. 1 in Russia as well.

Those were the three strategic ones. Underlying them was the need to decrease the debt level. That debt level decrease was seen as possible until mid-'18 out of the projections. Then it became clear that that was not the case, and that is how we got to the solution. Ultimately, as we explained to Mr Hendry, the solution would have been that the debt would be less than, almost a third of, what it was before.

Q182 **Peter Kyle:** But all this was contingent on you getting more debt, not less. A lot of your time was spent travelling around the world, asking people to lend you more money, not less money.

**Frank Meysman:** We were continuously making sure that we could do the transformation plan that we wanted to do. That transformation plan—

Q183 **Peter Kyle:** It sounds to me as though you are a gambling addict who was just going around trying to get more credit cards to keep the business going.

**Frank Meysman:** That is not a correct view. We did have the view of having the business going forward. At the same time, we ultimately had the plan, which until 22 September would have been a great plan to the benefit of employees and would not have cost the UK Government anything in any way—that is my view. It would have saved the employees; it would have saved the hoteliers. I regret that that is not the case.

Q184 **Peter Kyle:** But on the £200 million you asked for from the Government, you have, or had, debt servicing costs of £150 million. All that £200 million would have done was postpone the inevitable, would it not?

**Frank Meysman:** I think the £150 million of debt payment every year was a heavy, heavy load.

Q185 **Peter Kyle:** I know that I have asked lots about the issues that you should be answering. Let me ask one more question, while we are having an exchange. Mr Meysman, the CAA announced elevated monitoring in



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September 2018. What response did that trigger from the board? That would ring an alarm bell for somebody who chairs a board. What did you do differently after that that you were not doing before?

**Frank Meysman:** We asked the management to come up with strategic alternatives. They came up with a list of strategic alternatives, including the sale of businesses, which was much more substantial. It ultimately led to the decision to make public in February that we would have a strategic review of the airline, and that came about. We looked at all the different options, as of that moment, and we asked management to bring that strategic plan. We changed the frequency of meetings. From October, we had monthly meetings, and from March, we had weekly board meetings looking at the progress of where we were in the whole plan that we had lined up.

Q186 **Peter Kyle:** Section 172 of the Companies Act requires the board to take decisions in the interests of the long term; to take into account “the interests of the company's employees” and “the need to foster the company's business relationships with suppliers, customers and others”. Retrospectively, when you look at your time on the board, do you believe that the board acted according to those values and requirements?

**Frank Meysman:** I definitely do think so, sir, and I think the ultimate solution, which was there, would have been an ideal solution for the hoteliers, for the employees and for our customers.

Q187 **Peter Kyle:** We go around this circle, which always comes back to being lent more money. Mr Fankhauser, we mentioned your remuneration at the beginning, but since taking over as CEO in 2014, you have earned around £4 million in salary and benefits. Each year that you have been chief executive, you have received a 2% pay increase. Can you confirm, did you receive the standard 2% increase in April this year?

**Peter Fankhauser:** No, I didn't. May I state that we didn't travel to China to get more debt servicing? Really, we wanted equity from Fosun. That is important. The debts that you mentioned would have been in a recapitalised company, probably about £30 million to £40 million, but there is no doubt that in the end we failed to get the deal over the line and to get the commitment of the involved parties. We don't disagree with that.

Q188 **Peter Kyle:** Thank you. Let's look at the scale of your remuneration as individual executives and board members, and ultimately what happened and the cost that came to be borne by the taxpayer. Looking at a timeline of what happened, in June, weekly calls started from the CAA, and in July, contingency planning began. You all knew at that point that there was a likely collapse. You knew at that point what the cost burden would end up being to the taxpayer. At that point, and as you moved towards the collapse, did you consider that you might put your hands into your own pockets, in order to lessen the burden on your own employees as you entered into the collapse period?



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**Peter Fankhauser:** We were taking a lot of advice from our brokers and our legal advisers, to follow exactly in line with the duties of a director. "The duties of a director" implies that if you move into a situation such as we moved into, where we had to make an announcement of a recapitalisation—

Q189 **Peter Kyle:** Let me rephrase the question. You are an employee as well. As a result of the collapse of the company, which was a result of decisions made by management—you were led to collapse; it didn't happen by accident—the suffering felt by employees was disproportionate. You didn't suffer in the same way that other members of staff suffered, and some people were on extremely low income. You are not prevented by law from putting your hand into your own pocket and doing something—even making the gesture, which I am sure would have been very much appreciated at the time. Did you consider doing something that would have made an impact on your own wealth, in order to lessen the burden on other employees, who were not in the same situation as you were?

**Peter Fankhauser:** As I said at the beginning, I do not try to defend my pay in comparison to a workers' salary. That is absolutely not my intention.

Q190 **Peter Kyle:** Will you defend your lack of generosity?

**Peter Fankhauser:** That is not my intention. What I can say is that I work exhaustively and extremely hard for that salary. I did not succeed in getting the deal over the line and, as I said to the Chair, I will consider that, but I will not decide that today. I was also not getting a salary for September.

Q191 **Peter Kyle:** Thank you. Mr Meysman, you have been paid over £4 million in your time as Chair, in one way or another. *[Interruption.]* You have been remunerated over £4 million in your time as Chair. Do you think that that is warranted by your performance?

**Frank Meysman:** I think I have a different number. I got paid £275,000 a year, plus £30,000 for expenses that were made since I am living in Belgium, so 275 times 6 is a different number.

Q192 **Peter Kyle:** Okay. We have information; we will correct the information, but based on the income that you did get, do you believe that you provided value for money and you dispensed all your duties effectively?

**Frank Meysman:** That is for others to judge. I can only say that I did it with pleasure, and I did also invest my own personal money into the company. I spent quite a bit of my personal money buying shares, showing belief in the company and the future of the company.

Q193 **Peter Kyle:** Mr Tucker, in response to Stephen Kerr's last question to you in the first round of questioning, you said that failure was rewarded with remuneration. When do you believe that happened? When do you believe that trend set in?



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**Warren Tucker:** I am not sure that failure was rewarded. I think we were debating the way we measured profitability, which was only, I think, in the bonus calculations, 14% of a bonus that was 78%. The reason I don't think we characterised it as failure is that we were trying to encourage. Part of the strategy was to invest in improving the business, restructuring the business and turning around the business, so although those costs were separately disclosed, we excluded them from the targets and we excluded them from the measurement. The reason we did that is that they were part of our strategy and we were trying to encourage them.

Q194 **Peter Kyle:** But Stephen Kerr's question was very clear. He said that failure was rewarded, and you said yes and nodded your head at the end of it. There is no doubt—you cannot describe what happened as not being failure. To the customers who were stranded abroad, it felt like failure; to the employees who are sitting behind you, it feels like failure.

**Warren Tucker:** Absolutely. I agree: at the end, you can't—

Q195 **Peter Kyle:** At some point, the pay rises were rewarding failure. At what point do you believe that there should have been a level of pay restraint which matched the significant stresses that the business was being placed under? Or do you think that it was just all absolutely fine?

**Warren Tucker:** No. I mean, clearly the company failed at the end—one has to agree with that. In the last two years—

Q196 **Peter Kyle:** The failure was expressed at the end; the failure did not happen at the end. The foundations for the failure were, admittedly, sowed before many of you took on your responsibilities with the company, but it was certainly not solved, which is the job you were hired to do. In many cases it was exacerbated during that time. Why were so many pay rises granted in that period?

**Warren Tucker:** In the five years, we had two years that were moderately successful against the targets, and bonuses were paid, albeit that one third were in shares that became valueless. We had two years when there were no bonuses—those were bad years, when, if you like, we failed against the targets—and one year when there was a very small bonus and we failed against most of the targets. With the long-term incentives, we only had one year when they paid out; in the other four years, they did not pay out, because in the long-term measurement of value, the targets were being failed against. So actually I think if you take about three out of the years for the bonus, and one out of the years for the long-term incentives, payouts did not take place. That was because payouts were aligned with the performance of the company. I agree they were failing—

Q197 **Peter Kyle:** Knowing what you know now—and you are on other boards now—what have you learned that would lead to a different set of decisions for you? Or do you believe that in the same circumstances, knowing what you know now, you would act in the same way?

**Warren Tucker:** No, I think there are a few things. I don't think we would have changed our overall structure or our aligning pay for performance





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and having pay on a long-term basis. I think in the early years too much of the pay was related to profit and not free cash-flow generation; I think if we had our time again, we would have switched a higher proportion into the cash-flow generation because that was at the heart and centre of our strategy to pay down the debt. I think, with hindsight, we probably would not have given the 2% pay rises, either.

**Q198 Peter Kyle:** You are a non-exec at the Foreign and Commonwealth Office. Has anybody there spoken to you about the situation that has come here and had any conversations with you about suitability for continuing in that role?

**Warren Tucker:** As I said—I am repeating myself—I did leave the board back in May. None of these events really coincided with my time in the Foreign Office. Of course I had one conversation with the Permanent Secretary, just to update him on that and the timing.

**Q199 Peter Kyle:** Finally, Mr Meysman and Ms Verluyten, you are both non-executives on other companies as well. Do you believe that the experiences of Thomas Cook, and the strategic leadership that you both gave in that situation, means that you are still suitable to continue giving high-level strategic advice to other companies?

**Frank Meysman:** I am indeed still on two different boards, which are publicly listed. As a matter of respect I tendered my resignation to those boards, and both unanimously said, “No, we would like you to stay on.”

**Martine Verluyten:** The same thing is true for me. I discussed this with both my boards, and with the chairmen in particular, and within those boards they felt that I was bringing the value that they needed.

**Peter Kyle:** That is fascinating. Thank you.

**Q200 Chair:** Warren Tucker, let me ask you a question that I asked Peter Fankhauser at the beginning of the Committee about the clawback of pay and bonuses. Of the £20 million paid out in bonuses in the past five years to the board, how much can now be clawed back?

**Warren Tucker:** I do not 100% recognise the £20 million number, but Ms Green got £8 million in bonuses—

**Chair:** Sorry, this is £20 million in the past five years. This is not when Harriet Green was chief executive.

**Warren Tucker:** Under Peter’s tenure as chief executive, he got £1.7 million in bonuses, and one third of that has already been lost. As I think we discussed, the clawback arrangements that are in line with best practice allow the rest of his bonus from FY17 to be clawed back, if the liquidator decides that that is the right thing to do and the criteria have been met. It could be £558,000. The £4 million of shares are obviously worthless and already lost.

**Q201 Chair:** What about the bonuses of other board members? Will they be clawed back for 2017?



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**Warren Tucker:** None of the other non-executives have bonuses or awards of any kind. The finance director, the CFO, had a bonus equivalent in FY17 that would have been about two thirds of Peter's level—probably about £400,000.

Q202 **Chair:** Will that be clawed back?

**Warren Tucker:** Technically it can be clawed back under the rules if the liquidator makes that decision.

Q203 **Chair:** Knowing where the company ended up, do you think that the bonuses given to Peter Fankhauser and the chief financial officer for FY2017 should be clawed back?

**Warren Tucker:** I honestly think that is for the people running the company now to decide. We put in place the mechanism that allows it to happen if four criteria have been met. Those are around the statement of the accounts, reputational damage, gross misconduct or financial failure.

Q204 **Chair:** Well, financial failure and reputational damage—those boxes were absolutely ticked. In your view, should those bonuses be clawed back?

**Warren Tucker:** I honestly cannot say.

**Chair:** You don't have a view on that?

**Warren Tucker:** I don't know all the things that went on behind the scenes. All I know is that Peter worked exhaustively to try to rescue the company. I am not sure that you can necessarily divine a link—

Q205 **Chair:** What is the point of having clawback facilities if you can't claw back bonuses when a company collapses, taking with it jobs, taxpayers' money, and the hopes and dreams of your customers?

**Warren Tucker:** I understand those things—

**Chair:** But you put in place those clawback arrangements. You were chair of the remuneration committee. What was the purpose of those facilities, if not to claw back bonuses in the event of the catastrophic failure of a company?

**Warren Tucker:** The purpose was to allow them to be clawed back and they can be clawed back, but it has to be the current management that makes that decision at the time of the event which, as I understand, is now the liquidator.

Q206 **Anna Turley:** I would like to talk briefly about pensions. It has become clear that some members of the pension scheme are now likely not to receive their full pension entitlement as a result of the company's collapse. Of course, this comes on top of people losing their jobs in the last month and struggling to pay their mortgages, and people having to be repatriated. I'm thinking of all the tragedy that the workforce have had to suffer. Given that and the average pension contributions—we don't know the exact figure, obviously, for the average pension contributions for your workers, but the average in the private sector is between 3%



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and 6%—do you think it is fair, therefore, Mr Fankhauser, that you had a pension contribution of 30% of your salary?

**Peter Fankhauser:** As I said at the beginning, I didn't set my pay. If you allow me to pass this to the chairman of the remuneration committee, what I can say is, I am going to face a considerable impairment of my pension I accumulated during the years between 2001 and 2013 in Germany.

Q207 **Anna Turley:** I will come to Mr Tucker, but you have had an average of a £200,000 cash allowance for your pension, which is almost just like boosting your salary. Again, given that the average wage is around £24,000 for a Thomas Cook worker, your pension alone is almost 10 times the average annual salary. In the light of everything that has happened and the conversation we have had today, do you believe that that actually is a fair set-up within the system? Do you regret it, given the failure that we have discussed today?

**Peter Fankhauser:** As I said, I regret hugely the failure of Thomas Cook and that I didn't manage to bring it to a committed deal. At the beginning, I told you that I am not going to try to argue for my pay terms. It is the remuneration committee who set those payment terms. I can just tell you that out of all that is in the press, £4 million of that income was in shares, and I was not selling one share in the time when I was in Thomas Cook. That's one thing, and as I said as well, on my pension I accumulated in Germany, when I was running the German business and the continental business—quite successfully, I can say—this pension contribution is going to be considerably impaired as well.

Q208 **Anna Turley:** Mr Tucker, this was on your watch. How can you justify it?

**Warren Tucker:** If I could give you the sequencing of events—I of course recognise that the numbers are large by any standards and, of course, large by the average wages of Thomas Cook employees—Mr Fankhauser was on a defined-benefit pension scheme in Germany in 2014, just before we appointed him as chief executive. We insisted that that come to an end, because that was not in line with market practice in the UK for chief executives, and we moved him on to the cash-equivalent pension contribution, which at the time—having carefully looked at what the marketplace was doing and taken advice from our advisers—was a 30% contribution. Subsequently, that accepted level has come down. For example, when we appointed Mr Daugaard, he only got a 20% cash contribution, and that was benchmarked, again, against the then current best practice and also with an eye to the levels of pension contributions that the company can provide to its employees in the defined-contribution scheme for Thomas Cook employees.

Q209 **Anna Turley:** But the Investment Association guidance says that “companies with existing directors who are paid more than 25% of salary as a pension contribution will be given a ‘red top’—the highest level of warning by the IA’s Institutional Voting Information Service”. Were there not any flags in your mind?



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**Warren Tucker:** Best practice now—literally this year—is that even if you have a 30% pension contribution that is grandfathered in, you need to bring that down, in the way you have suggested, but that has only just come in for this year, so up until this year, we had been doing it for new appointments only.

**Anna Turley:** That's it, Chair. I think we just have to give our solidarity to the staff and continue to keep an eye on the pension situation, because obviously it's very worrying for those who are continuing to try to make sure that they get the contributions that they have been promised.

**Chair:** Thank you very much, Anna. We still have evidence to hear in the course of this inquiry from other people, including from your two predecessors in the business, Peter Fankhauser, but I want to come back to a couple of the points made during today's session.

Frank Meysman talked about the tragedy that happened on that Sunday in September, when the company went under. A tragedy speaks of something that is out of your hands; I don't think that this is something that was out of the hands of the board of the company. On the contrary, I would say that the collapse of Thomas Cook was due to the decisions by the board of the company, including you, Mr Meysman, and including Peter Fankhauser.

There were a series of misjudgments made by management that resulted not in a tragedy but in something that was, in a way, inevitable on the basis of the decisions that you had made. There was a failure to deal with the debt; it was not accumulated by you, Mr Fankhauser, but the problem was not dealt with in the five years that you were chief executive for the company or indeed in the years that you, Mr Meysman, were chairman of the company.

There was a failure to write down goodwill, which I think you, Martine Verluyten, should take some responsibility for. It can't be the case that the goodwill was worth £2.5 billion one minute and £1.5 billion the next minute. Indeed, when the company went into liquidation it was discovered that that goodwill was worth nothing at all.

The special disclosed items seem to be anything but special, in that they occurred year after year, adding up in total to £1.8 billion. All the special events, whether they were good weather, terrorism or volcanic ash, or dealing with the underlying problems that Peter Fankhauser spoke about—every year there were some different specially disclosed items, which, I think, helped to hide the underlying problems rather than reveal the underlying state of the company.

There were failures to sell parts of the business that could have saved other parts of the business, including the failure to sell the airline and perhaps the failure to sell the travel agencies as well. There was the failure to find the £200 million. I have to say, Mr Meysman, that your answers to the questions about securing the £900 million and the £200 million—that you were almost there—are just not the reality, sir. In the



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end, you didn't secure that money and that is why you are here today, which is something I have had to repeatedly remind you about, Mr Meysman, during the session today.

Peter Fankhauser, you have spoken about the commitment of your staff. The fact that they are here today, some of them in their uniforms, speaks to their commitment to the company that you ran and to the people that they served in your company. They do your company proud.

Mr Fankhauser, you should reflect on what you can do to put something back to try to say sorry to the people whose jobs you have taken from them and whose holidays you have ruined. You say that you are a reflective man. I hope you go away and reflect on the huge salaries that you have earned—salaries that some people who worked for you will never earn in their whole careers—and what you can do, not just as a token, to put right the wrong that you have done.

Finally, a travel company is, in a way, quite a simple business. Your job is to send people on holiday, to ensure they have a good time and to bring them back at the end. In the end, the board of Thomas Cook, a 178-year-old business, was unable to do those basics. That is why, in the end, you failed. Your failure touches on a lot of other people more, I am afraid, than it touches on the five of you. You have all given your apologies, but frankly, as we have seen time and time again on this Select Committee, apologies are the easy bit. The difficult bit is to actually do something about it: to resign from the companies where you are directors today and say, "Do you know what? I've got a lot of learning to do before I should be able to have my hands on the tiller of any other company," and to give back some of those huge rewards that you have not earned, Mr Peter Fankhauser, but you have received.

I hope you will all go away and reflect on some of those things and think about the dignity with which some people who worked for Thomas Cook have acted and the dignity that, I am afraid, we have not seen from the board of the company. Thank you.