

**STRICTLY PRIVATE AND CONFIDENTIAL**

Gareth Davies  
Director General, International and Security Group  
Department for Transport  
Great Minster House  
33 Horseferry Road  
London  
SW1P 4DR

18 September 2019

Dear Mr Davies,

**Thomas Cook Group plc (the "Company"): update and commercial proposal****1. Introduction**

I write to you in connection with the Company's ongoing recapitalisation negotiations ("**Project Avenue**"). We have now started to receive feedback from stakeholders on the "Compromise Proposal" which our financial advisers, PJT Partners, sent out over the weekend (a copy of which I shared with you at our meeting on Monday morning). You will recall that I mentioned that the purpose of the Compromise Proposal is to find a way to unlock a commercial agreement following the feedback we received last week that certain of our lending banks are now requiring an additional £200 million of new money funding as a condition to their support for the implementation of Project Avenue. The target for completion of that transaction continues to be, as I mentioned, early October.

The initial feedback which we have received from stakeholders (including Fosun, the bank lenders and the ad hoc noteholder group) is that (i) all parties remain broadly supportive of the transaction, but (ii) there remain a number of substantive outstanding commercial points that will need to be resolved. One of these points is the need to reach agreement on whether bank lenders and noteholders should benefit from a conversion right into Fosun Tourism Group's shares in exchange for the creditors' 25% stake in the tour operator. Achieving a resolution of the outstanding points is without doubt challenging, and (as I mentioned) we are still faced with the need to secure a commitment for additional new funding required by our lending banks. However, and notwithstanding these challenges, as a Board of Directors we have concluded that there should be sufficient shared determination (and economic logic) for all parties to find a solution.

In order to assist with the resolution of the outstanding commercial issues, in particular the provision of the additional £200 million of new money funding referred to above, we wanted to explore with you whether HM Government would be willing to participate in Project Avenue on commercial terms alongside the Company's other stakeholders. Accordingly, we have set out an overview of our proposal for HM Government's participation in Project Avenue in Option 1 below.

If HM Government concludes that it is not able to assist with Option 1, we have set out as Option 2 our alternative request. This is for HM Government to help us to exert pressure on the various stakeholders to support the Compromise Proposal and, in the event that the Company and its key stakeholders do not reach agreement, to discuss in principle what alternative support may be available to the Company to assist with the implementation of a contingency plan on a coordinated basis.

## **2. Option 1: proposal for HM Government participation in Project Avenue**

As set out further in the term sheet at Appendix 1 to this letter, the Company proposes that a sub-set of its core lending banks would commit to provide a standby facility of between £150 million and £250 million (subject to final stakeholder feedback) to be used by the Company in the event that the £900 million capital injection agreed as part of Project Avenue proves to be insufficient during the next three years. This facility would be repaid before other financial indebtedness is repaid and would be structured as a last in – first out facility that would increase the Company's liquidity headroom during its seasonal working capital troughs. This facility would be guaranteed by HM Government, in consideration for which HM Government would receive a fee and would benefit from the same security package as other lenders providing new money.

The Company considers that the terms of the proposal outlined in this letter and in Appendix 1 would be capable of being structured to adhere to the market economy operator principle, as they would likely be acceptable to a commercial investor providing similar financial support in similar circumstances. In particular, I note that:

- (A) HM Government would receive a fee for the provision of its guarantee;
- (B) interest owed to HM Government as a result of a call under the guarantee would be set at a rate in order to ensure that it is commensurate with the interest rate to be given to the primary lenders under the facility;
- (C) HM Government's exposure under the guarantee would be secured, ranking *pari passu* with amounts owed by the Thomas Cook Group to its lenders in respect of the core facilities being advanced pursuant to Project Avenue; and
- (D) the economic terms would be based on a proposal for a loan to be provided by one of the Company's other stakeholders.

As such, the Company considers that there is a reasonable basis for HM Government to conclude that support on these terms could be structured in order to ensure that it would not constitute state aid. We would also propose to engage with you on an expedited basis in order to agree final pricing and

terms, with input from our financial advisers. In addition, we can provide further due diligence information (including the Company's business plan) on request.

**3. Option 2: request for HM Government engagement with key stakeholders to achieve the Compromise Proposal or, if this cannot be implemented, to assist with the implementation of a contingency plan on a more coordinated basis**

We have set ourselves the target of achieving a commercial consensus on all material outstanding points by the evening of Sunday 22 September 2019, when we are scheduled to have a further board meeting to review progress and status. If that target can be reached then our judgement is that it continues, just, to be possible to document and close a transaction by early October.

If commercial agreement is not reached by Sunday evening, our current working assumption – although the Board will continue to keep the position under review by reference to the position at the time – is that as a Board we will likely be compelled to conclude that there is no longer a reasonable prospect of avoiding insolvency. As such, we will be required to take steps to place the Company (and other members of its group) into an insolvency procedure.

Of course, if adverse developments occur before Sunday, then that may bring forward the point in time we are forced to reach that conclusion (and, by implication, take steps to commence insolvency proceedings earlier).

Our requests of HM Government as part of Option 2, if you conclude that Option 1 cannot be supported by HM Government, are therefore twofold:

- (A) first, that you exert all pressure that HM Government is capable of on the various key stakeholders whose support is needed for Project Avenue to succeed and, in particular, to encourage them to support the Compromise Proposal. We believe we have already covered in our discussions the key stakeholders that are relevant, but we would be happy to discuss with you further what would be most helpful; and
- (B) second, if HM Government is unwilling to accept Option 1 and if the Compromise Proposal cannot be achieved, that we discuss in principle what support might be available from HM Government as an alternative to Option 1 to enable the Board to determine that it is appropriate to temporarily delay initiating an insolvency process. This would include the provision of funding and assurances to ensure that creditor positions, including in particular any customers who make advance bookings for holidays in that period, are not worsened by any delay in filing). This temporary delay would allow for the implementation of Project Saturn on a more coordinated basis. Without additional support in this period, as mentioned above, the Board is likely to have no option but to file for insolvency on Sunday or Monday if a commercial agreement is not capable of being reached with key parties in the near term.

## 4. Consequences of insolvency

The consequences of the Company's entry into insolvency are, as we have discussed previously, very serious.

As you know, we have been working with the CAA to develop contingency plans to mitigate the consequences of this insolvency (which we refer to as "Project Saturn"). But, even if Project Saturn is successfully implemented (which, given its unprecedented complexity, cannot be assumed), the consequences include:

- (A) a repatriation exercise that would likely involve approximately 150,000 UK customers – the largest peacetime repatriation in the UK. This is in addition to the hundreds of thousands of non-UK Thomas Cook customers from the other 15 markets covered by Thomas Cook who will be abroad on Thomas Cook holidays and flights at the time that Project Saturn may be implemented;
- (B) engagement with, and ransom payments to, among others, hoteliers, aircraft lessors, key suppliers and foreign governments (note that certain of these payments would be made through the Air Travel Trust but others would require additional funding);
- (C) the international nature of the Thomas Cook's business means that UK customers as well as customers from Thomas Cook's 15 other source markets will be affected by Project Saturn. With customers from multiple nationalities all staying in the same hotels, across multiple destinations around the world, it is likely to be even more challenging to come to an arrangement with hoteliers, many of whom are likely to face insolvency themselves as a result of any Thomas Cook insolvency, to ensure that guests are allowed to remain in the hotels for the duration of their stay;
- (D) the potential threat to the security and safety of UK customers in destinations where it has been impossible to reach agreement with hoteliers for the reasons above;
- (E) significant costs arising from the need to retain staff in destinations impacted by Project Saturn, as well as call centres and IT infrastructure in the UK, in order to support Project Saturn;
- (F) issues arising in relation to Thomas Cook's employees, which, as at 31 December 2018, numbered approximately 9,000 in the UK out of approximately 21,263 worldwide;
- (G) the serious knock-on effect for thousands of other businesses, both in the UK and abroad, that are reliant on the Company for their survival; and
- (H) other issues that are likely to arise through the winding up of a business of Thomas Cook's nature, complexity, size and scale (including an impact on insurance companies and other financial institutions).

Up until now, our work on Project Saturn – other than the engagement we have had with CAA, DfT and UKGI – has been conducted on the basis of a limited number of Company personnel and advisers in order to minimise the number of people who are aware of its existence. The concern, as you will appreciate, is that once its existence becomes more widely known, it is at risk of creating the very outcome we are all working to avoid (that is, a self-fulfilling prophecy). However, given the gravity of the consequences outlined above (and the even worse outcomes that might arise if Project Saturn is not capable of implementation when needed) we now intend to authorise more intensive contingency planning.

Intensifying our planning will necessarily involve a broader array of external stakeholders. A number of these will relate to the repatriation exercise, such as the airline which the CAA intends to engage, as well as the lessors of certain damp leased aircraft to which the CAA requires access as part of its flight plans. We also intend to consult with our financial stakeholders in relation to the conduct of an accelerated M&A process as a contingency, which will of necessity involve contact (on a confidential basis) with certain potential purchasers and their financiers.

The circle of parties aware of Project Saturn, given its complexity and scale, will inevitably need to expand further in the next 24 hours. As we have discussed with you, this increases leak risk significantly. This will itself will undermine the prospect of achieving the recapitalisation plan (although we will take every possible step to manage that risk as best we can). However, you will appreciate that if we do not take those steps, then there likely is no prospect of avoiding an unplanned insolvency, with no support available from the Company's resources for any repatriation exercise.

## **5. Requests of HM Government**

In conclusion, we would make the following requests:

- (A) first, that you consider Option 1 outlined in this letter and in Appendix 1. In this regard, I note that:
  - (i) given the consequences of Project Saturn outlined above, it is highly likely that Project Saturn would be a very difficult and disorderly process that would be highly disruptive for Thomas Cook's customers, employees and suppliers (which number in the hundreds of thousands in the UK alone) – no matter how much planning is done in advance and even if the necessary access to funding is in place;
  - (ii) it is anticipated that much of the required funding associated with the repatriation exercise would need to be provided by HM Government. This cost is estimated to be in the region of several hundred million pounds on the reasonable assumption that there need to be some payments to ransom creditors (for example, hoteliers) in order to ensure a smooth repatriation process. In comparison to this funding requirement, the proposed (subject to final stakeholder feedback) £150 million to £250 million guarantee arrangement would likely constitute a moderate investment and risk for HM Government;

- (iii) the requested guarantee would only ever be provided as a contingency. HM Government would only be exposed under the guarantee if the Company needs to draw down under the standby facility and is then unable to repay amounts owed to the primary lenders thereunder. In addition, HM Government would be paid the guarantee fee, even if the guarantee is never called. As such, HM Government would incur an unconditional benefit in exchange for a contingent risk; and
  - (iv) the maximum cost to HM Government that could arise under this proposal would likely be extremely modest when compared with Project Saturn. The support provided pursuant to this proposal would not be a bail-out, and there can be no basis for saying that the Company – or its shareholders or management – is being rewarded for failure or for past mistakes. The Company's shareholders have already suffered significant losses, as the Company's market capitalisation has decreased significantly over the past year. Furthermore, if shareholders are to obtain any interest in the Thomas Cook group following completion of Project Avenue, they can expect to be subjected to significant dilution as a result of the proposed debt for equity swap. In addition, as a result of the debt for equity swap and the provision of the new money as part of Project Avenue, the Company's existing lenders and noteholders will incur significant financial losses and will be required to make further investments in Thomas Cook's business. As such, the key beneficiaries of Project Avenue will be Thomas Cook's customers, suppliers and employees, who will continue to receive uninterrupted support;
- (B) second, that you consider our alternative request in Option 2 for HM Government to help us to exert pressure on the various stakeholders to encourage them to support the Compromise Proposal and, in the event that it is not possible for the Company to reach agreement with its stakeholders, to discuss in principle what alternative support may be available to the Company to assist with the implementation of a contingency plan on a more coordinated basis.

I apologise that the outlook of this letter is negative, and that the requests that have been made in this letter require such swift action. However, this reflects the circumstances we unavoidably find ourselves in. Your prompt feedback would be appreciated, and I am, of course, available at any point to continue our discussions. In the meantime, our legal and financial advisers will make themselves available to you at short notice to help.

Yours sincerely,



Peter Fankhauser  
Chief Executive Officer  
Thomas Cook Group plc

**Appendix 1**

**Key terms of HM Government funding proposal**

**TERM SHEET  
FOR THE LAST DRAW TOUR OPERATOR PROCEEDS  
LOAN FACILITY GUARANTEED BY HM GOVERNMENT**

**GBP 150,000,000 - 250,000,000 REVOLVING CREDIT FACILITY GUARANTEED  
BY HM GOVERNMENT RELATING TO THE RECAPITALISATION OF THE  
THOMAS COOK GROUP**

[Please note that the terms set out in this term sheet are indicative only and do not constitute an offer to arrange or finance the Facility. The provision of the Facility is subject to lock-up agreement (the "**Lock-up Agreement**"), due diligence, board approval, shareholder approval, regulatory and anti-trust clearances and approvals, other agreed performance conditions, satisfactory documentation and agreement between the Parent, the Lenders, HM Government and the Parent's regulators, existing creditors and key stakeholders (including, pensions trustees and key contractual counterparties) on the terms of the Proposed Transaction]<sup>1</sup>.

Capitalised terms which are not defined in this Term Sheet have the meaning given to them in the Fosun Bridge Facilities Agreement (draft circulated 4 September 2019).

DRAFT DATE: 18 SEPTEMBER 2019

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<sup>1</sup> To be deleted on signing



**PART 1  
THE FACILITY**

<b>Facility:</b>	A £[150,000,000 - 250,000,000] multi-currency revolving credit facility which may be utilised by way of drawing of Loans.  The multi-currency tranche of the Facility may be drawn in sterling and any other Optional Currency.
<b>Total Commitments:</b>	GBP [150,000,000 - 250,000,000]
<b>Optional Currencies:</b>	If readily available when required, euro or US dollars or such other currency approved by the Lender.
<b>Borrower:<sup>2</sup></b>	Thomas Cook Group Tour Operations Limited (the "TO Holdco")
<b>Original Lender:</b>	[Lending Vehicle TBD].
<b>Signing Date</b>	To be signed as a condition precedent to drawdown under the Bridge Financing Agreements
<b>Termination Date:</b>	The date [immediately before the date] falling 3 years after the [Fosun Equitisation Time].
<b>Performance Target Satisfaction Date:</b>	The first date falling twelve (12) months after the Fosun Equitisation Time on which the Performance Target Satisfaction Tests are satisfied.
<b>Performance Target Satisfaction Test:</b>	<i>[To be agreed]</i>
<b>Purpose:</b>	For general corporate purposes of the TO Group but excluding cash collateralisation of bonding lines.
<b>Availability Period</b>	Upon the occurrence of Fosun Equitisation Time, and subject to the Termination Date, the Facility shall be available for draw-down from (i) 15 October 2020 to 31 December 2020, (ii) 15 October 2021 to 31 December 2021, and (iii) 14 October 2022 to 31 December 2022 (and if any of these days is not a Business Day, the next applicable Business Day).
<b>First Draw Tour Operator Proceeds Loan Agreement</b>	A £200,000,000 multi-currency and a £150,000,000 - 250,000,000 sterling revolving credit facility to be made available by [New FinCo].
<b>Limitation on Utilisation:</b>	No Utilisation shall be made unless:

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<sup>2</sup> TBC if there will be further borrowers.

- (a) the facility under the First Draw Tour Operator Proceeds Loan Agreement is fully drawn on the proposed Utilisation Date;
- (b) no [Default]/[Event of Default] is outstanding or would occur as a result of the Utilisation;
- (c) the repeating representations are true in all material respects;
- (d) compliance with the Drawdown Liquidity Test;
- (e) compliance with the Minimum Liquidity Covenant;
- (f) [New Finco] (acting reasonably) consents in writing to a draw-down being made by the Borrower under the Facility; and
- (g) the Borrower's finance director or other authorised signatory certifies on behalf of the Borrower that the conditions set out in (a) to (e) are satisfied on the date of the Utilisation Request.

**Drawdown Liquidity Test**

To be tested on the submission of a Utilisation Request.

On the submission of a Utilisation Request, a 26 week cashflow (certified by TO Holdco directors) must also be delivered and must evidence on a pro forma basis that the Borrower will have sufficient funds to repay the amounts to be drawn under the Facility.

26-week cashflow (certified by TO Holdco directors) to be provided together with Utilisation Request.

**Minimum Liquidity Covenant:**

To be tested in respect of the first quarter date falling at least 3 months after the Fosun Equitisation Time and each quarter date thereafter (each a "scheduled test date").<sup>3</sup>

13-week cashflow (certified by TO Holdco directors) to be provided within 5 BD of the relevant test date.

If the Minimum Liquidity Covenant is not satisfied on any scheduled test date, it will be tested on the date falling one week after the original test date. If the

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<sup>3</sup> Covenant headroom TBC.

Minimum Liquidity Covenant is not satisfied on the second test date, it will be tested for a third time on the date falling two weeks after the original test date. A breach of the Minimum Liquidity Covenant will occur only if the Test is not satisfied on three (3) consecutive test dates.

No later than 15 BD following delivery of a liquidity forecast evidencing a breach of the Minimum Liquidity Covenant, Fosun may cure such breach by subscribing for shares / making a shareholder loan to TO Holdco.

There shall be no limit on the number of equity cures and no limit on overcures. No equity cure amount shall be required to be applied in prepayment of the Facility.

Any equity cure amount may be repaid to Fosun if the Test is subsequently satisfied.

**Minimum Amount of each Loan:** GBP [5],000,000 or appropriate equivalent minimum amounts for Optional Currencies.

**Maximum Number of Loans:** No more than 10 Loans may be outstanding.

**Repayment:** Each Loan shall be repaid on the last day of its Interest Period.

A Borrower may not repay the principal amount of any loans outstanding under the First Draw Tour Operator Proceeds Loan Agreement if any Loans are outstanding under the Facility. For the avoidance of doubt, a Borrower shall be permitted at any time to rollover any existing loans, and pay interest and/or fees, in each case pursuant to and/or in connection with the First Draw Tour Operator Proceeds Loan Agreement.

**Clean Down:** The Borrower shall repay any Loans outstanding under the Facility on:

1) 31 January in each calendar year (or if this day is not a Business Day, the next Business Day) to ensure that the aggregate principal amount outstanding under the Facility does not exceed £100,000,000 on such date;

2) 28 February in each calendar year (or if this day is not a Business Day, the next Business Day) to ensure that the aggregate principal amount outstanding under

the Facility does not exceed £50,000,000 on such date; and

3) 31 March in each calendar year (or if this day is not a Business Day, the next Business Day) to ensure that no Loans are outstanding on such date.