

Air Travel Trust

Annual Report & Accounts

31 March 2014

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Contact Details

Central Address

CAA House
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London
WC2B 6TE

Chair

Mr M G Medicott

Trustees

Miss C Jesnick
Mr R T R Jackson
Mrs C R Staples

Secretary

Mr D Holmes

Bankers

Lloyds Bank plc
25 Gresham street
London
EC2V 7HN

Auditors

Deloitte LLP
Crawley
West Sussex
RH10 1DL

Report of the Trustees

Constitution and terms of reference

The ATOL scheme is a statutory UK system that provides financial protection to air travellers against the insolvency of their travel firm. The objective of the Air Travel Trust ('ATT' or 'the Trust') is to provide funds to repatriate stranded holidaymakers and meet claims for losses incurred by customers of failed ATOL holders. The terms of reference of the ATT are contained in the Trust Deed, which is at Appendix 1.

The Trustees are all Board Members or officials of the Civil Aviation Authority ('CAA'), appointed *ex officio*. Mr R P Mountford retired as Chair on 1 May 2013. Mr M G Medicott was appointed as the new Chair of the Trust on 1 May 2013. The Trustees met seven times during the year.

During the year two of the Trustees, Michael Medicott and Richard Jackson, were also members of the Air Travel Insolvency Protection Advisory Committee ('ATIPAC'). ATIPAC's membership includes a wide range of senior travel industry figures, as well as consumer representatives and independent members. It provides advice to the CAA, the ATT and the Secretary of State for Transport on the financial protection arrangements for air travellers and customers of air travel organisers. Mr John Cox OBE, the Chairman of ATIPAC, is invited to attend meetings of the ATT.

The CAA performs all administrative functions for the ATT and an agreement is in force between the two parties which governs that relationship. The CAA acts as agent of the ATT in exercising the ATT's powers, including repatriating customers and settling claims by customers for losses incurred as a result of the failure of an ATOL holder. In this respect, the CAA acts in accordance with the terms of any bond or similar security provided by or in respect of the ATOL holder (where applicable), the Trust Deed, the Air Travel Trust Payment Policy and its agreement with the ATT.

Going concern

The financial statements are prepared on a going concern basis. The Trustees have carefully considered current financial models for the forecast of income and expenditure, including sensitivity analysis towards large failures, for the next three years. These factors, in the context of the cash balances, banking facilities and insurance arrangements available to the Trust, have given reasonable assurance to the Trustees that the Trust has adequate resources to continue in operational existence for the foreseeable future.

Acknowledgements

The Trustees are grateful to the CAA for the continued administrative support and secretariat services provided during the year. They would also like to thank the CAA for the work of its staff relating to the administration of the APC, and the management of the Trust's activities.

Report of the Trustees

Consumer confidence

There was a relatively benign trading environment for the travel sector in 2013/2014, at least for the first half of the year. The early summer booking period was very positive with strong booking levels and an increase in the average price per booking. Since the end of the summer the environment has become somewhat more challenging with a difficult winter, impacted in particular by the political difficulties in Egypt.

Consumer confidence in the UK improved markedly in 2013/2014 as unemployment fell and the gap between average weekly earnings growth and inflation closed, moving into positive territory recently. The announcement in the recent budget of the reform of Air Passenger Duty ('APD') was broadly welcomed as a step in the right direction in relation to the amount of tax levied on long-haul flights.

During the year, thirteen ATOL holders failed, two more than the previous year. The total call on the Trust was higher than the previous year, but remains considerably lower than the levels experienced from some of the major ATOL holder failures since 2008. In the last year, the CAA introduced new, innovative ways to help the consumer to continue with their holiday, following the collapse of their holiday provider. This has increased the proportion of consumers able to take the holiday they originally planned, and contributed to significantly lower forecasts in the value of claims expected by the Trust during the year. This, along with the increasingly well established ATOL Certificate, should continue to reinforce the message to the consumer that they are financially protected and help to grow consumer confidence over the coming months.

The benefit of increased protection

The introduction of 'Flight Plus', whereby a flight sold together with accommodation or car hire also falls within ATOL and the financial protection that it brings, has proven to be a valuable addition this year. Its introduction was driven by the significant pace with which the travel industry and consumers alike have capitalised on an ever-evolving technological environment in which to sell and purchase their travel arrangements. During the year, the Trust experienced its first 'Flight Plus' failure in Ola Holidays Ltd, and with customers' flight arrangements still in place, a fulfilment strategy was implemented enabling holidaymakers to continue with their travel plans without the need for the Trust to refund advance bookings.

Report of the Trustees

The CAA's management of the failure of Ola Holidays Ltd demonstrates how the CAA and the Trust are keeping pace with the travel industry and the needs of the consumer. Ordinarily, the 2,671 customers who had advance bookings at the time of failure would have been issued a refund and left to book alternative travel arrangements elsewhere. However, through an agreement with an external fulfilment partner, all 2,671 customers had their holiday arrangements fulfilled by the CAA. This was made possible because customers' return flight bookings remained valid with the flight suppliers, allowing the CAA to ensure that the accommodation customers had booked, continued to be available.

Consequently, the Trust was only required to cover the shortfall in pre-paid holiday accommodation bookings, which meant a considerable saving over the normal level of expenditure, which would have been to provide full refunds to all customers. A CAA customer satisfaction survey, the first for any ATOL failure, showed high levels of satisfaction with these fulfilment arrangements.

Similarly, the CAA was able to use a fulfilment strategy for the 230 consumers affected by the failure of Preston Travel (CI) Ltd. Given the timing of the failure, just before the school half term, those who had travel arrangements over the half term period were also able to continue with their holiday.

Consumer awareness

The ATOL Certificate is becoming firmly established and each applicable booking must be accompanied by an ATOL Certificate to give the consumer tangible assurance that their holiday is financially protected. This distinctive document also contains useful information and contact details for the consumer in the event that their holiday provider should cease trading during or before travel.

Awareness is the key to ensuring that the consumer is able to make well informed choices over the travel they book, the way they book and the protection available to them. To this end, the Trust maintains its support for, and contributes towards, the funding of the CAA's targeted advertising campaign to ensure that the ATOL scheme and the ATOL Certificate are firmly at the forefront of the consumer's mind when deciding on a holiday purchase.

The Trust Fund

The Trust has continued to build on a second consecutive year where failures have been relatively few and of minimal impact to the Trust. The Trust has been able to capitalise on its positive cash position by way of interest income from short term investments and minimal finance costs, further strengthening its position with regard to financial protection for the consumer.

Report of the Trustees

Incoming resources

ATOL Protection Contributions ('APC') are collected under the powers set out in The Civil Aviation (Contributions to the Air Travel Trust) Regulations 2007, as amended ('ATT Regulations'). The current rate of APC is £2.50 per passenger booked (2013: £2.50).

Total contributions (before accounting for the 'Agent for the Consumer' rebate below) received during the year amounted to £53,789,178, relating to 21,515,228 passengers booked (2013: £48,072,085, relating to 19,208,026 passengers). The Trustees operate a policy of pursuing penalty interest payments from ATOL holders who pay APC late.

Under an 'Agent for the Consumer' agreement, communicated to ATOL holders by the CAA, the Trust has provided for an APC rebate that relates to certain applicable Flight Plus bookings (note 2.2 gives more detail on this agreement). The result is a reduction against total contributions as reflected in the statement of financial activities and disclosed in note 3.

The Trust takes steps to recover amounts from the liquidation of failed companies or through Her Majesty's Court Service where a requirement to do so arises. During the year the Trust received £1,422,196 (2013: £175,306) from liquidation dividends, and in the case relating to the conviction of the directors of Onshine Ltd, the Trust received further payments from the compensation awarded by the Court of £15,675 (2013: £35,873).

The Trust is now actively employing an investment strategy of term deposits in line with a new investment policy that ensures that there is limited risk to liquidity. This adds value to the fund by way of interest receipts which in turn adds value to the financial protection for the consumer. Interest income during the year amounted to £130,939 (2013: £7,350).

Resources expended

As was the case in the last reporting period, ATOL holder failures have been low in number, with the total value being easily managed from current reserves. This year, the total value of expected claims on the Trust is £4,025,166 (2013: £843,744).

Administrative costs and expenditure on professional services remain similar to last year totalling £12,393,867 (2013: 12,266,840). Expenses charged by the CAA under its agreement with the ATT amounted to £409,500 (2013: £409,500), in respect of the operational management of the Trust's affairs in collecting APC, arranging banking and insurance facilities, claims handling and day-to-day financial and secretariat services.

Report of the Trustees

The Trust remains in surplus for a second year and is no longer reliant on the borrowing facilities available to it. However, bank fees and charges have increased from last year due to a one-off arrangement fee for the Trust's new banking and loan facility. The charge for the year is £569,346 (2013: £516,301).

Details of failures during the year

Although consumer confidence was starting to grow, booking numbers had yet to reach the levels seen prior to the recession. It was still quite a challenging environment for many companies, yet in spite of this, only thirteen ATOL holders failed in the year (two more than last year). The call on the Trust in respect of these failures, together with the crystallisation of a contingent liability held last year in respect of Goldtrail Travel Ltd (see below), totalled just over £4 million (2013: £0.8 million). Only three of those ATOL holders failed with customers overseas.

In total, 494 passengers of the failed ATOL holders required repatriation, with a further 10,373 customers, all who had bookings to travel at a later date, were due refunds for amounts paid in respect of their bookings. However, of the 10,373 customers that would ordinarily receive a refund for their forward bookings, 2,901 of them, whose flight arrangements remained valid, had the rest of their travel arrangements fulfilled by the CAA's fulfilment partners enabling them to proceed with their holiday as planned.

Failure amounts provided for and released

The Trust recorded calls on its funds of £3,754,232 (2013: £813,286) in respect of the thirteen ATOL holder failures during the year, and £270,934 crystallised from the contingent liabilities held in the previous year in respect of Goldtrail Travel Ltd. The total call on the Trust in respect of the above was £4,025,166. These amounts represent both amounts paid in the year and estimated balances payable and provided for at the year end.

Provisions for failures are made with careful consideration given to IAS37 *Provisions, contingent liabilities and contingent assets* and the Trust's recognition and measurement criteria, as stated in note 2.1, to provide in full based on information available at the time. Any excess provisions are released as a consequence of the final calls on the Trust being lower than anticipated, or at any time when further information becomes available and the estimates of expenditure can be revised.

For prior year failures, where all expenditure has been concluded, or forecast expenditure has been revised due to the availability of more accurate information and/or claims being lower than forecast, the Trust has been able to release £426,525 (2013: £3,281,747) back to the fund.

Principal Risks and Uncertainties

The Trustees continually review and monitor material risks and uncertainties which could affect the Trust's ability to fulfil its role in supporting the ATOL scheme. The following list highlights what the Trustees consider to be the principal risks and uncertainties together with actions taken or considered to mitigate any adverse consequences on the Trust.

Area	Description of Risk	Mitigating Actions
Economic factors	<ul style="list-style-type: none"> • Reduced passenger numbers and hence lower APC income • Greater number of failed ATOL holders and calls on Trust 	<ul style="list-style-type: none"> • Increased borrowing facilities
APC reporting	<ul style="list-style-type: none"> • ATOL holders incorrectly report passenger numbers and reduce payments of APC 	<ul style="list-style-type: none"> • Regular CAA monitoring of returns and submissions • CAA education programme in support of ATOL reform • CAA monitoring of ATOL holders' compliance with ATOL Standard Terms • Independently audited ATOL holder returns
Claims provisions	<ul style="list-style-type: none"> • Higher numbers or value of claims than originally estimated on an individual failure 	<ul style="list-style-type: none"> • CAA monitoring of returns • Regular review of claims progress and provision levels • CAA engagement with systems providers to obtain high quality information at failure
Insurance policy	<ul style="list-style-type: none"> • Insurers refuse to pay out on claim due to technicality or breach of terms 	<ul style="list-style-type: none"> • CAA continuous internal monitoring of compliance with policy terms

Independent Auditors' Report

Independent Auditors' Report to the Secretary of State for Transport and the Trustees of the Air Travel Trust (the 'Trustees')

In accordance with our engagement letter dated 1 April 2014 we have audited the non-statutory financial statements of the Air Travel Trust for the year ended 31 March 2014, which comprise the Statement of Financial Activities, the Statement of Financial Position, the Statement of Cash Flows and the related Notes 1 to 19. The financial reporting framework that has been applied in their preparation is that required by Clause 17 of the Trust Deed which as directed by the Secretary of State is International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Secretary of State for Transport and the Trustees, as a body, in accordance with Clause 17 of the Trust Deed dated 5 January 2004, as amended by Deeds of Variation dated 4 January 2005, 18 March 2008 and 27 April 2012 (the 'Trust Deed'). Our audit work has been undertaken so that we might state to the Secretary of State for Transport and the Trustees those matters we are required, by our engagement letter, to state to them in our auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Secretary of State for Transport and the Trustees, as a body, for our audit work, for our report, or for the opinions we have formed.

Respective responsibilities of Trustees and auditors

As required by Clause 17 of the Trust Deed, the Trustees are responsible for keeping proper accounting records to enable them to ensure that the financial statements give a true and fair view of the state of affairs of the Trust as at the end of the financial year and of the income and expenditure of the Trust for that period, and that comply with the Trust Deed and the directions made thereunder by the Secretary of State for Transport. They are also responsible for the system of internal control, for safeguarding the assets of the Trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Scope of the audit of the non-statutory financial statements

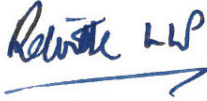
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Trust's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustees; and the overall presentation of the financial statements. In addition, we read the financial and non-financial information in the Report of the Trustees to identify any material inconsistencies with the audited financial statements. If we become aware of any material misstatements or inconsistencies we consider the implications for our report.

Independent Auditors' Report

Opinion on non-statutory financial statements

In our opinion the non-statutory financial statements:

- give a true and fair view of the state of the Trust's affairs as at 31 March 2014 and of its incoming resources and application of resources and the cash flow for the year then ended;
- have been properly prepared in accordance with the provisions of the Trust Deed and the directions made thereunder by the Secretary of State for Transport; and
- have been properly prepared in accordance with International Financial Reporting Standards.

A handwritten signature in blue ink that reads "Deloitte LLP" with a horizontal line underneath.

Deloitte LLP
Chartered Accountants and Statutory Auditors
Crawley
28 May 2014

Note: The Trust's Annual Report is published on the website of the Civil Aviation Authority ('CAA'). The maintenance and integrity of the CAA's website is the responsibility of the Board members of the CAA. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ in other jurisdictions.

Statement of Financial Activities

for the year ended 31 March 2014

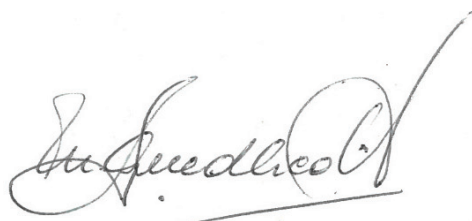
	Notes	Year to 31.03.14 £	Year to 31.03.13 £
Incoming Resources			
ATOL Protection Contributions	3	51,729,065	46,635,564
Liquidation dividends and settlements	4	1,437,871	211,179
Total Incoming Resources		53,166,936	46,846,743
Resources Expended			
Audit and legal expenses	5	(115,395)	(77,721)
Other Administrative expenses	6	(12,278,472)	(12,189,119)
Provisions for compensation claims charged in the year	7, 14	(4,025,166)	(843,744)
Total Resources Expended		(16,419,033)	(13,110,584)
Gain on release of provisions for compensation claims	7, 14	426,525	3,281,747
Change in fair value of derivative financial instruments	8	49,225	85,988
Interest Receivable		130,939	7,350
Finance costs	9	(569,346)	(516,301)
Tax expense	10	(76,100)	-
Net Movement in Fund		36,709,146	36,594,943
Reconciliation of Fund			
Fund balance brought forward		18,014,043	(18,580,900)
Fund balance carried forward		54,723,189	18,014,043

Statement of Financial Position

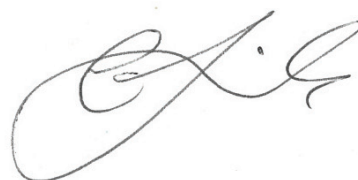
as at 31 March 2014

	Notes	31.03.14 £	31.03.13 £
Current Assets			
Cash at bank and in hand		50,091,146	11,268,457
Restricted cash on deposit	11	190,727	169,569
ATOL Protection Contributions and other debtors		9,695,502	9,407,453
Prepayments and accrued income	12	19,340	728
Total Current Assets		59,996,715	20,846,207
Current Liabilities			
Provisions	14	(3,410,424)	(1,964,053)
Restricted cash held from obligors and administrators	11	(190,727)	(169,569)
Trade and other payables	15	(1,616,275)	(649,317)
Derivative financial instruments	8, 16	-	(49,225)
Income tax	10	(56,100)	-
Total Current Liabilities		(5,273,526)	(2,832,164)
Net Current Assets		54,723,189	18,014,043
Represented by			
Fund account		54,723,189	18,014,043

The financial statements and notes 1–19 were approved by the Trustees on 28 May 2014 and signed on their behalf by:



Michael Medlicott
Chair



Chris Jesnick
Trustee

Statement of Cash Flows

for the year ended 31 March 2014

	Year to 31.03.14 £	Year to 31.03.13 £
Cash flows from operating activities		
Net surplus of fund before tax	36,785,246	36,594,943
<i>Adjustments for:</i>		
Interest Income	(130,939)	(7,350)
Net finance costs	569,346	516,301
Change in fair value of derivative financial instruments	(49,225)	(85,988)
	37,174,428	37,017,906
Increase in trade and other receivables	(288,049)	(1,516,599)
(Increase) / Decrease in prepayments	(18,612)	2,782,571
Increase / (Decrease) in trade and other payables	2,434,487	(3,626,100)
Cash generated from operating activities	39,302,254	34,657,778
Finance costs	(531,264)	(250,541)
Tax paid	(20,000)	-
Net cash from operating activities	38,750,990	34,407,237
Cash flows from investing activities		
Interest received	130,939	7,350
Net cash from financing activities	130,939	7,350
Cash flows from financing activities		
Interest paid	(38,082)	(265,760)
Repayment of borrowings	-	(23,500,000)
Net cash used in financing activities	(38,082)	(23,765,760)
Net movement in cash and cash equivalents	38,843,847	10,648,827
Net cash and cash equivalents at beginning of period	11,438,026	789,199
Net cash and cash equivalents at end of period	50,281,873	11,438,026

Notes to the Financial Statements

for the year ended 31 March 2014

1 Significant Accounting Policies

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and with the terms of Clause 17 of the Trust Deed (shown at Appendix 1) and directions from the Secretary of State as referred to therein.

1.2 Going concern

The financial statements are prepared on a going concern basis. As per the Going Concern note (page 3) in the Report of the Trustees, the use of financial models and other financial arrangements has given the Trustees reasonable assurance on the operational existence of the Trust going forward.

1.3 Basis of measurement

The financial statements have been prepared on the historical cost basis except for those items that fall under IFRS9 *Financial Instruments* (and IAS39 *Financial Instruments: Recognition and Measurement* for hedging arrangements) which are measured at fair value as per notes 8 and 15.

1.4 Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the Trustees to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Information about assumptions and estimates that contain a risk of resulting in a material adjustment within the next financial year are included in note 2.

1.5 Income recognition

The Trust's income arises from contributions by air travel organisers who are required to hold an ATOL, known as ATOL Protection Contributions or APC. APC is a statutory contribution made for each applicable passenger booking taken by an ATOL holder.

Income is recognised when the amount can be reliably measured and it is probable that future economic benefits will flow to the Trust. The Trust recognises income in the period that the passenger bookings are made. The bookings return (disclosing the number of bookings taken) submitted by each ATOL holder provides a reliable measurement of income in accordance with IAS18 *Revenue*.

The Trust also relies on the regular monitoring work carried out by the CAA in support of the ATOL licensing system, together with its own detailed analysis of returns submitted by all licence holders, to provide verification of the accuracy of APC income. This is supplemented with reports from the independent auditors of ATOL holders.

Notes to the Financial Statements

1.6 Other income

Liquidation dividends and income arising from legal settlements are recognised immediately on notification of amounts due or on receipt of cash or cash equivalents and measured at the fair value of the consideration received or receivable.

1.7 Expenditure

Except for those items requiring estimation and judgements disclosed in note 2, all expenditure is accounted for on an accruals basis.

1.8 Financial instruments

Financial assets and financial liabilities are recognised in the Trust's statement of financial position when it becomes a party to the contractual provisions of the instrument.

Receivables

Trade receivables are classed and recognised as short term receivables and relate to APC income. These receivables are measured at fair value and based on the returns from ATOL holders. They are not subject to any impairment given the statutory nature of APC.

Cash

Cash comprises cash-on-hand and demand deposits.

Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss. Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

The Trust will derecognise financial liabilities when, and only when, the Trust's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Trust uses derivative financial instruments purely to reduce its exposure to interest rate movements. The Trust does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss is immediately recognised in the statement of financial activities.

Notes to the Financial Statements

2 Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

2.1 Compensation claims

Compensation claims - Recognition

The Trust recognises an obligation in the event of an ATOL holder failure, and in accordance with the definitions in IAS37 *Provisions, contingent liabilities and contingent assets*, certain responsibilities which will lead to probable economic outflows of uncertain timing and amounts. These obligations, that are a direct result of an ATOL holder failure, are part of the normal course of operations of the Trust and it is expected by all parties that the Trust will discharge these responsibilities in full.

The Trust recognises this obligation as an expense in the income statement and a corresponding provision in the statement of financial position at the date of the ATOL holder failure.

Compensation claims - Measurement

The Trustees can call upon various methods by which to establish a reliable estimate of the obligation including, but not limited to; bookings databases of the failed ATOL holder, information supplied by the management of the failed company, past experience and retained knowledge.

Estimates of the liability to the Trust also take into consideration any security put in place by the failed company, possible claims referred to credit cards and administrative expenses. The progress of each failure is also constantly monitored and provisions are regularly updated to reflect the most accurate position available.

However, given the complexities involved with the administration of an ATOL holder failure and the reliance on multiple and individual responses from external persons and organisations, material adjustments relating to compensation claims may occur in the following financial period where new information relating to the failure facilitates the need to do so.

It is anticipated that all amounts in respect of compensation claims will be settled within one year of the statement of financial position date.

Notes to the Financial Statements

2.2 Agent for the Consumer provision

Agent for the Consumer provision - Background

In 2012, the CAA made available a limited rebate scheme for certain ATOL holders, who have stated that they act as agent for the consumer and that their bookings (that relate to Flight-Plus bookings) are made in accordance with their ATOL licence and APC is paid in accordance with Regulation 7 of the ATT Regulations.

ATOL holders in compliance with the above, and subject to independent verification requirements, will accumulate a credit of 50% of the value of APC paid in respect of these transactions. The accumulated credit can be used only to offset future amounts of APC due.

The Trust fully supports the CAA in this scheme to ensure as many consumers as possible are able to benefit from the protection afforded by ATOL.

Agent for the Consumer provision - Measurement

During the previous period, the Trust concluded that the measurement of the Agent for the Consumer accrual should be calculated as 50% of 85% of Flight Plus bookings, based on communications with those ATOL holders signed up to the agreement and the experience and expert knowledge of CAA staff.

This year, some of those ATOL holders, after demonstrating the agreed verification requirements as mentioned above, have had their credit notes realised in accordance with the terms of the agreement and the provisions held for these companies have not been materially different to the amounts applied to their accounts.

It is therefore the Trust's view that continuing to accrue on this basis demonstrates an accurate and fair view of the value of future outflows required by the Trust under this agreement.

Notes to the Financial Statements

3 ATOL Protection Contributions

Income, all of which arises in the United Kingdom, is attributable to ATOL Protection Contributions ('APC') received in the year (including any late payment penalty interest imposed by the Trust).

	Year to 31.03.14	Year to 31.03.13
	£	£
ATOL Protection Contributions	53,789,178	48,072,085
Agent for the Consumer rebates	(2,060,113)	(1,436,521)
Total	51,729,065	46,635,564

4 Liquidation Dividends and Settlements

Liquidation dividends and settlements were received in the respect of the following:

	Year to 31.03.14	Year to 31.03.13
	£	£
Allbury Travel Ltd (<i>liquidation dividend</i>)	-	23,446
GoldTrail Travel Ltd – Quick Step Leisure (<i>liquidation dividend</i>)	-	39,955
CustomFlights.co.uk Ltd (<i>liquidation dividend</i>)	-	12,992
Grus Travel Pty Ltd (<i>liquidation dividend</i>)	-	57,490
Pinnacle Travel Ltd (<i>liquidation dividend</i>)	-	14,800
Silverbird Travel Ltd (<i>liquidation dividend</i>)	3,652	26,623
Sportability Ltd (<i>liquidation dividend</i>)	29,618	-
Scotttravel Ltd (<i>liquidation dividend</i>)	54,815	-
Dream Holidays Ltd (<i>liquidation dividend</i>)	5,067	-
Flight Options Ltd (<i>liquidation dividend</i>)	818,623	-
XL Leisure Group – UK (<i>liquidation dividend</i>)	510,421	-
Onshine Ltd (<i>Court compensation</i>)	15,675	35,873
Total	1,437,871	211,179

Notes to the Financial Statements

5 Audit and Legal Expenses

	Year to 31.03.14	Year to 31.03.13
	£	£
Fees payable to the Trust's auditors for the audit of the Trust's annual accounts	32,700	31,800
Fees payable to the Trust's auditors for other services to the Trust	3,100	2,200
Legal expenses	79,595	43,721
Total	115,395	77,721

6 Other Administrative Expenses

	Year to 31.03.14	Year to 31.03.13
	£	£
Insurance premiums	11,085,000	11,085,115
Charge from CAA for administrative services	409,500	409,500
Marketing and promotion expenses	259,441	315,221
Other expenditure	524,531	379,283
Total	12,278,472	12,189,119

Insurance premiums

The Trust has in place insurance policies that provide the Trust with access to funds in the event of a large ATOL holder failure or failures, where costs arising from refunds and repatriation exceed £75 million in a policy year. There have been no claims on the policy during the year (2013: none).

Marketing and promotion

The Trust continues to support the CAA with its ongoing targeted advertising campaign to promote the ATOL scheme and the ATOL Certificate. The Trust sees this as an important part of ensuring all travel consumers are aware of the level of protection afforded when making their travel arrangements and continues to provide financial support to this campaign.

Notes to the Financial Statements

8 Financial Derivatives

The derivatives the Trust had in place last year to help mitigate the interest rate on borrowings matured during the year. As the Trust currently has no need to place any reliance on borrowings, there is no requirement to renew the financial instruments that were in place at the beginning of the year.

	Year to 31.03.14	Year to 31.03.13
	£	£
Opening fair value	49,225	135,213
Fair value gain on interest rate swaps	(49,225)	(85,988)
Closing fair value	-	49,225

9 Finance Costs

	Year to 31.03.14	Year to 31.03.13
	£	£
Interest on borrowings	38,082	265,760
Bank administration fees and other bank charges	186,764	250,541
New bank and loan facility arrangement fees	344,500	-
Total finance costs	569,346	516,301

10 Income Tax

Having taken professional advice, the Trust is liable for income tax on interest income received by the Trust. The Trust has provided for income tax at 20% on the first £1,000 and 45% on all interest income received thereafter.

Income tax of £59,000 has been recorded in the statement of financial activities in relation to interest income received in the current year and £17,100 for interest income received relating to prior periods. A Certificate of Tax Deposit for £20,000 was purchased in the year to cover prior year liabilities and any associated penalties that may arise.

Notes to the Financial Statements

11 Restricted Cash on Deposit

Restricted cash on deposit refers to amounts received from bond obligors or from other security provided by failed ATOL holders. The balance represents funds not used but still available for refunds to consumers. Any funds not used over the life of a failure are returned to the bond obligor or administrator / liquidator (as appropriate) upon completion of the administrative functions by the CAA in respect of the failed company.

The Trust recognises an asset in respect of cash and cash equivalents held in relation to any security received, and a corresponding liability in respect of amounts currently unused and due to bond and other security obligors.

12 Prepayments and Accrued Income

	Year to 31.03.14 £	Year to 31.03.13 £
Accrued interest income	19,340	728
Total	19,340	728

13 Borrowings

The Trust currently has in place an unsecured revolving credit facility agreement with its bank that allows the Trust to call upon borrowings of up to £75 million. There have been no calls on this facility in the year (there were no calls on the facility at the end of the prior year).

Notes to the Financial Statements

14 Provisions

	Year to 31.03.14 £	Year to 31.03.13 £
Compensation claims at the beginning of the period	709,434	5,858,220
Provisions for new failures charged to the fund account	3,754,232	813,286
Additional charge to the fund account for prior year failures	270,934	30,458
Released back to the fund account relating to prior year failures	(426,525)	(3,281,747)
Payments made during the year	(2,317,606)	(2,710,783)
Compensation claims at the end of the period	1,990,469	709,434
Agent for the Consumer provision	1,419,955	1,254,619
Total	3,410,424	1,964,053

The provision for compensation claims and the Agent for the Consumer provision are based on estimates outlined in notes 2.1 and 2.2 and in accordance with IAS37 *Provisions, contingent liabilities and contingent assets*. All commitments are expected to be settled within one year.

15 Trade and Other Payables

	Year to 31.03.14 £	Year to 31.03.13 £
Trade and other payables	1,616,275	649,317
Total	1,616,275	649,317

Trade creditors and accruals principally comprise amounts outstanding for services provided by the CAA and other ongoing administrative costs. It is the Trust's policy to pay on receipt of invoice and thereby eliminating any risk of late payment interest and penalty charges.

The Trustees consider that the carrying amount of trade payables approximates to their fair value.

Notes to the Financial Statements

16 Financial Risk Management

16.1 Capital risk management

The Trust manages its capital to ensure that it will be able to continue as a going concern while ensuring an adequate return to the Trust through the optimisation of the fund invested in each transaction. The capital structure of the Trust consists of borrowings, as disclosed in note 13, cash and the fund as disclosed in the statement of financial position.

The Trust does not have any externally imposed capital requirements.

16.2 Financial risk management objectives

The Trust manages the financial risks relating to its ongoing operations. These risks include market risk (including fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. Where borrowing is necessary, the Trust seeks to minimise the effects of certain of these risks by acquiring fixed rate debt that provides a fixed and determinable cash flow for the Trust.

The Trust does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

16.3 Market risk

The Trust's activities expose it to the financial risks of changes in interest rates. The Trust's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section below.

16.4 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Trustees. The Trustees have built an appropriate liquidity risk management framework for the management of the Trust's short, medium and long-term funding and liquidity management requirements.

16.5 Liquidity and interest risk

The Trust's contractual maturity for its non-derivative financial liabilities are currently limited to its short term trade and other payables, all of which are payable within less than six months and, the contractual cash flows are the same as the principal amounts.

Notes to the Financial Statements

16.6 Interest rate swap contracts

Under interest rate swap contracts, the Trust agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is 3 month LIBOR. The Trust will settle the difference between the fixed and floating interest rate on a net basis.

There are no interest rate swap contracts outstanding as at the reporting date.

	Average contract fixed interest rate		Notional principal value		Fair Value	
	2014	2013	2014	2013	2014	2013
	%	%	£	£	£	£
Less than 1 year	-	0.5077	-	12,500,000	-	49,225
1 to 2 years	-	-	-	-	-	-
					-	49,225

17 Ultimate Controlling Party

The Air Travel Trust is controlled by the Trustees under the terms of the Trust Deed made by the Secretary of State for Transport.

18 Post Balance Sheet Events

Since the balance sheet date and up to 20 May 2014, there have been two ATOL holder failures. The Trustees anticipate that the call on the Trust in respect of these failures will be approximately £2.5m.

19 Contingent Liabilities

The Trust recognises an obligation on one outstanding claim against the failure of Goldtrail Travel Ltd which failed on 16 July 2010. Due to the complexities of this failure, an agreement was drawn between several claimants that the Trust would cover part of their losses pending any claims made under each claimant's insurance policies. The outstanding claimant is currently in dispute with their insurance company over the validity of their claim and as a result, the liability to the Trust is dependent on the outcome of this dispute.

Notes to the Financial Statements

19 Contingent Liabilities *(continued)*

Although the Trust has an obligation in relation to this claim, a reliable measurement of the liability to the Trust cannot be established. If the claimant is successful in their complaint, the settlement under their policy will either cover their losses in full or part and hence the liability to the Trust will be minimal. The Trust can however, determine a worst case value based on booking data obtained and in the event that the result of the above dispute is unfavourable. The Trust values this worst case liability at £540,000.

Appendix 1 – Text of the Trust Deed

CONFORMED COPY OF AIR TRAVEL TRUST DEED DATED 5 JANUARY 2004 AS AMENDED BY DEEDS OF VARIATION DATED 4 JANUARY 2005, 18 MARCH 2008 AND 27 APRIL 2012

WHEREAS:

- (A) A fund known as the Air Travel Reserve Fund (the “**Fund**”) was established in 1975 to help repatriate and meet claims for losses and liabilities incurred by passengers and customers of failed air travel operators.
- (B) In 1986, the Fund was wound up and its assets were transferred to a trust known as the Air Travel Trust set up pursuant to a Deed dated 28 January 1986 (the “**1986 Deed**”) to perform the same function.
- (C) The Secretary of State subsequently declared new trusts under which the same function has been performed by a trust also known as the Air Travel Trust.
- (D) The Air Travel Trust in its current form was established by deed on 5 January 2004 (as amended by deeds of variation on 4 January 2005 and 18 March 2008, the “**2004 Deed**”).
- (E) The Secretary of State, with the consent of the Trustees (as defined below), has amended the 2004 Deed in accordance with Clause 16 thereof by a deed of variation dated 27 April 2012 (the “**Deed of Variation**”).
- (F) This deed sets out the terms of the 2004 Deed as varied by the Deed of Variation.

NOW THIS DEED WITNESSETH as follows:

- 1. THIS** deed, being the 2004 Deed as varied by the Deed of Variation, shall hereafter be referred to as the “**Deed**”.
- 2. THE** parties hereto agree that, notwithstanding any provisions to the contrary set out herein or in any other relevant document:
 - (a) any guarantee relating to borrowings by the Air Travel Trust under the 2004 Deed shall not be affected but shall continue to apply as if the same related to the Air Travel Trust as constituted by this Deed;
 - (b) any other right, privilege, obligation or liability acquired, accrued or incurred under the 2004 Deed shall continue as if acquired, accrued or incurred under this Deed; and
 - (c) any investigation, legal proceeding or remedy in respect of any such guarantee, right, privilege, obligation or liability shall not be affected but shall continue to apply as if the same related to the Air Travel Trust as constituted by this Deed.
- 3. THE** trust constituted by this Deed shall be known as the “Air Travel Trust” unless and until the Trustees adopt and apply to it (as they are hereby entitled to do) some other name.
- 4. TERMS** defined in the ATT Regulations and the ATOL Regulations (as each term is defined below) shall bear the same meaning when used in this Deed unless otherwise defined herein. The following expressions have the following meanings:
 - “**Act**” means the Civil Aviation Act 1982 as supplemented and revised from time to time;
 - “**Agent**” means a person who acts as agent on behalf and with the authority of a disclosed identified principal who is an ATOL holder provided that such person, immediately upon their receipt of any payment for flight accommodation being made available:
 - (a) is entitled to issue an ATOL Certificate on behalf of the ATOL holder without reference to the ATOL holder;
 - (b) is able to bind the ATOL holder to the contract for flight accommodation; and
 - (c) acts in accordance with the terms of a written agency agreement which complies with such requirements as the CAA publishes from time to time;
 - “**air travel organiser**” means a person whose activities consist of or include activities in respect of which he is required by virtue of any regulations for the time being in force under Section 71 of the Act to hold an ATOL;
 - “**ATOL**” means an air travel organiser’s licence granted by the CAA under the ATOL Regulations;
 - “**ATOL Certificate**” means a document which complies with such requirement as the CAA publishes from time to time;
 - “**ATOL holder**” means a person who holds an ATOL;
 - “**ATOL Regulations**” means The Civil Aviation (Air Travel Organisers’ Licensing) Regulations 2012 as such regulations may be amended, supplemented or replaced from time to time;
 - “**ATT Regulations**” means The Civil Aviation (Contributions to the Air Travel Trust) Regulations 2007 as such regulations may be amended, supplemented or replaced from time to time;
 - “**Beneficiary**” means a person to whom the Trustees will make a payment of any part of the Trust Fund under their power in Clause 6(2) hereof;
 - “**CAA**” means the Civil Aviation Authority;
 - “**CAA Chair**” means a Member of the CAA appointed as chair of the CAA by the Secretary of State under section 2 of the Act;
 - “**consumer**” means an individual who:
 - (a) makes use of flight accommodation for travel in person or provides it to another person who uses that flight accommodation for travel in person; or

- (b) intends to make use of flight accommodation for travel in person or intends to provide it to another person to use that flight accommodation for travel in person; or
- (c) makes use of flight accommodation for travel in person which has been provided to them by a person who is a consumer by reason of sub-paragraph (a) of this definition,

but is not a person who procures flight accommodation in the course of business while acting as the agent of another person who uses that flight accommodation for travel in person;

“failed ATOL holder” means an ATOL holder or a person who held an ATOL within the previous 6 months:

- (a) who, in the opinion of the CAA:
 - (i) has gone into insolvency; or
 - (ii) cannot or will not be able to meet in whole or in part its obligations to its consumers; and/or
 - (iii) will fail to meet in whole or part its obligations to its consumers; and
- (b) in respect of whom the CAA publishes a notice of failure of that ATOL holder in the “Register of Failed ATOL Holders” published by the CAA;

“flight accommodation” means accommodation for the carriage of persons on a flight in any part of the world;

a **“Flight-Plus”** exists when:

- (a) flight accommodation is made available which includes as a minimum:
 - (i) a flight out of the United Kingdom; or
 - (ii) a flight into the United Kingdom where the consumer has commenced the journey in the United Kingdom and departed the United Kingdom using another means of transport; and
- (b) living accommodation outside the United Kingdom or self-drive car hire outside the United Kingdom or both is supplied by any person under or in connection with the contract for such flight accommodation; and
- (c) such living accommodation or self-drive car hire is requested to book by or on behalf of the consumer on the same day as the consumer requests to book the flight accommodation, the previous day or the next day; and
- (d) the arrangement covers a period of more than twenty-four hours or includes overnight living accommodation.

PROVIDED THAT:

- (I) where a Flight-Plus exists, any other tourist services will be included in the Flight-Plus if such services:
 - (a) are not ancillary to flight accommodation or living accommodation;
 - (b) account for a significant proportion of the Flight-Plus;
 - (c) were supplied under or in connection with the contract for the flight accommodation; and
 - (d) were requested to be booked by or behalf of the consumer on the same day as the consumer requested to book the flight accommodation, the previous day or the next day; and
- (II) a package is not a Flight-Plus except –
 - (a) where a package does not include flight accommodation, flight accommodation (as described in (a) above) is requested to be booked by or on behalf of the consumer on the same day as the consumer requests to book the package, the previous day or the next day; or
 - (b) where a package does include flight accommodation, living accommodation or self-drive car hire outside the United Kingdom is requested to be booked by or on behalf of the consumer on the same day as the consumer requests to book the package, the previous day or the next day;
- (III) a flight which begins and ends in the United Kingdom does not form part of a Flight-Plus;
- (IV) a Flight-Plus will cease to exist if:
 - (a) the consumer withdraws from the contract for any component of the Flight-Plus; and
 - (b) as a consequence of that withdrawal, the requirements in paragraphs (a), (b) or (c) of this definition are no longer satisfied.

“Flight-Plus arranger” means a person (other than the operator of the relevant aircraft) who:

- (a) as a principal or agent, makes available flight accommodation in response to a request to book which has been made directly to them by a consumer; and
- (b) has taken or takes any step which is intended to include, facilitate or enable or has the effect of including, facilitating or enabling the inclusion of that flight accommodation as a component of a Flight-Plus;

“Fulfilment Partner” means any third party, including (without limitation) a claims handler, appointed by the Trustees to act on behalf of or at the request of the Air Travel Trust in making arrangements for consumers in accordance with the terms of this Deed;

“licensable transaction” has the same meaning as relevant booking in the ATT Regulations and means an offer: made by a consumer to purchase flight accommodation for one or more persons on a flight; and which is accepted by:

- (i) an air travel organiser; or
- (ii) where an ATOL is held by an accredited body, a member of that accredited body,

and constitutes an activity in respect of which that organiser or accredited body is required to hold an ATOL;

"Member" means a person appointed by the Secretary of State under section 2 of the Act;

"package" means the pre-arranged combination of at least two of the following components when sold or offered for sale at an inclusive price and when the service covers a period of more than twenty-four hours or includes overnight accommodation:

- (a) transport;
- (b) accommodation;
- (c) other tourist services not ancillary to transport or accommodation and accounting for a significant proportion of the package,

and

- (i) the submission of separate accounts for different components shall not cause the arrangements to be other than a package;
- (ii) the fact that a combination is arranged at the request of the consumer and in accordance with the consumer's specific instructions (whether modified or not) shall not of itself cause it to be treated as other than pre-arranged;

"Secretary of State" means the Secretary of State for Transport for the time being;

"Specified Period" means the period beginning on the 5 January 2004 and enduring for twenty-one years thereafter and the said number of years shall be the perpetuity period applicable to this Deed;

"Trustees" means:

- (a) the holders for the time being of the following Offices within the CAA, namely the Group Director Consumer Protection, the Finance & Corporate Services Director, and the General Counsel and Secretary to the CAA (or the holder for the time being of all or any of those Offices under whichever title might be certified by the Secretary or Deputy Secretary of the CAA for the time being as applicable);
 - (b) a non-executive Member of the CAA nominated by the chair of the CAA; and
 - (c) such additional persons as may be appointed pursuant to clause 11 hereof,
- and in the singular means any one of them.

"Trust Fund" means and includes:

- (a) the trust fund and all other assets subject to the trusts declared by the Deed dated 28 January 1986 made between the Secretary of State of the one part and Raymond Colegate CBE, Ian Edward Donovan, Thomas McMillan and Gillian Mary Eve White of the other part,
- (b) all money investments or other assets hereafter paid or transferred by any person or persons to or into the control of the Trustees and accepted by them as additions to the Trust Fund including (but without limitation) all contributions paid by air travel organisers pursuant to regulations made under section 71A of the Act;
- (c) any property the proceeds of sale whereof are required or directed to be held upon the trusts hereof,
- (d) all other capital assets including any choses in action and capital money which hereafter by any means become or are made subject to the trusts hereof, and
- (e) the investments property and other assets from time to time representing the foregoing items or any part or parts thereof.

5. THE Trustees shall hold the Trust Fund and the income thereof during the Specified Period upon the trusts and with and subject to the powers and provisions hereinafter declared and contained. The primary purpose of the Trust Fund (without limitation) is the provision of compensation for, or relief of, losses or hardship incurred or suffered by consumers and others who suffer losses or incur costs as a result of the provision to consumers of compensation or compensating services, in each case as a result of a failed ATOL holder not fulfilling its obligations in relation to licensable transactions (whether being part of a package, a Flight-Plus or otherwise).

6. EACH Trustee shall have the following powers which are exercisable if and as the Trustees (or two or more of them in accordance with clause 12) in their absolute discretion should see fit (and, where relevant, whether before or after a relevant consumer has departed on the outward leg of the relevant journey on the date of failure of the applicable ATOL holder):

- (1) power from time to time during the Specified Period to accumulate the whole or any part of the income and capital of the Trust Fund by investing the same and the resulting income thereof in any investments authorised in accordance with this Deed and adding the accumulations to the capital of the Trust Fund;
- (2) power (subject to clause 7 hereof) at any time or times during the Specified Period to pay or apply the whole or any part of the Trust Fund and of any income thereof (without making any distinction between capital and income);
 - (a) to or for the benefit of any consumer in respect of any of the following:
 - (i) any loss which, in the opinion of the Trustees, has been incurred by or on behalf of such consumer in respect of any payment made by or on behalf of the consumer to a failed ATOL holder or to the Agent of a failed ATOL holder under or with a view to entering into a licensable transaction; or

- (ii) any loss or liability which, in the opinion of the Trustees has been incurred by or on behalf of such consumer in consequence of a breach by the failed ATOL holder or of the Agent of the failed ATOL holder of any of their relevant obligations towards the consumer under or in connection with a licensable transaction;
- (b) in order to relieve loss occasioned to consumers by the failure of an ATOL holder by providing flight accommodation or other means of transport for consumers in substitution for flight accommodation which a failed ATOL holder was to provide or was to arrange to be provided in accordance with his obligations under or in connection with any licensable transaction;
- (c) in order to relieve loss occasioned to consumers by the failure of an ATOL holder by providing living accommodation, car hire, transfers, food, movement of baggage, funds to meet relevant incidental expenses and any other tourist services which are purchased by a consumer as either part of a package with a licensable transaction or a Flight-Plus with a licensable transaction, in substitution for any of the foregoing which a failed ATOL holder was to provide or was to arrange to be provided in accordance with his obligations under or in connection with the relevant licensable transaction and, in addition, by providing living accommodation and funds to meet incidental expenses to a consumer who has purchased flight accommodation only from a failed ATOL holder until such time as such customer is repatriated;
- (d) to or for the benefit of any Fulfilment Partner who arranges for the provision of any of the services listed in clauses 6(2) (b) and (c) in order to put such Fulfilment Partner in funds either to provide the relevant services itself or to pay the service providers for the provision of the relevant services (whether before or after the Fulfilment Partner has incurred such costs);
- (e) to or for the benefit of any Fulfilment Partner in order to pay for any fees charged by or to the Fulfilment Partner for the provision of its arranging services to the Air Travel Trust;
- (f) to Flight-Plus arrangers which have made the flight accommodation element of a Flight-Plus available as Agent for another ATOL holder and that other ATOL holder has become a failed ATOL holder, by way of a contribution to the cost incurred by such Flight-Plus arranger in making suitable alternative arrangements for the relevant consumers and/or refunding and/or compensating the relevant consumers as required by the terms of that Flight-Plus arranger's ATOL (pursuant to ATOL Regulations 26-30);
- (g) to third parties in settlement of any claim or class of claim pursued by any such third party against the Air Travel Trust, any Trustee (in his or her capacity as such) or otherwise in relation to the Trust Fund or this Deed, such settlements to be made at the sole discretion of the Trustees;
- (h) to meet the cost of ancillary services relating to the administrative needs and promotion of the Air Travel Trust, the promotion of the ATOL Certificate and/or the education of consumers and/or the public about the Air Travel Trust, including but not limited to any retainer fees charged by external call centres and subsequent fees charged for call handling;
- (i) in meeting any expenses incurred in relation to making payments out of the Trust Fund and/or setting up and administering a scheme for the exercise of the powers in (a) to (h) above whether those expenses were incurred by the Trustees or by any agent acting on their behalf; and
- (j) in meeting any administration fee charged in accordance with Clause 10(17) hereof.

7. IN relation to the power set out in clause 6(2) hereof:

- (1) the said power may only be exercised if the failed ATOL holder held an ATOL at the time of booking by or on behalf of a consumer or at any time in the three months prior to the time of booking. For these purposes, the time of booking means the time when a payment was first made by or on behalf of a consumer to the air travel organiser under or in contemplation of entering into a licensable transaction;
- (2) although (the Trustees are entitled to apply all or any part of the Trust Fund for the purposes set out in clause 6(2), where a bond or other security has been provided by or on behalf of the failed ATOL holder in accordance with any regulations made under Section 71 of the Act, then the ultimate burden in respect of payments made under clause 6(2) shall be borne by the money received pursuant to such bond or security; and
- (3) for the avoidance of doubt it is hereby declared that the Trustees may exercise the said power in respect of claims arising from or in connection with any defaults occurring before 5 January 2004.

8. IN default of and subject to any exercise of the power in clause 6(2) hereof and to the extent that the trusts hereby declared shall not validly take effect and subject to clause 16 hereof, the Trustees shall hold the capital and income of the Trust Fund upon trust for such persons and purposes in such shares and upon such conditions as the Secretary of State shall by Order made before the end of the Specified Period direct and, in default of such an Order, for the Secretary of State.

9.

- (1) The Trustees shall have power to effect or concur in effecting any transaction concerning or affecting the trusts and powers contained in this Deed or any part of the Trust Fund or any other property whatsoever if the Trustees think the transaction is beneficial for such trusts and powers as if the Trustees were a sole absolute beneficial owner of the Trust Fund. Without prejudice to the generality of the foregoing, "transaction" includes any sale, exchange, assurance, grant, lease, surrender, reconveyance, release, reservation or other disposition and any purchase or other acquisition and any covenant, contract, licence, option or right, pre-emption and any compromise, partition, insurance guarantee or indemnity or any other dealing or arrangement including the delegation of any of the Trustees' powers under this Deed; "effect" has the meaning appropriate to the particular transaction and references to "property" include references to restrictions and burdens affecting property.
- (2) For the avoidance of doubt insofar as any obligation to pay any money or monies arises pursuant to a transaction which the Trustees effect or concur in effecting pursuant to sub-paragraph (1) of this clause 9, the Trustees shall be entitled to make such payment or payments from the Trust Fund and nothing in clause 7(2) hereof shall affect this entitlement.

10. WITHOUT prejudice to the generality of clause 9 hereof, the Trustees shall have and may exercise at any time or times the following powers:

- (1) power to borrow or to lend money for any purpose connected with the trusts and powers hereof whether with or without giving or receiving security;
- (2) power in connection with the investment and changing of investments of trust money:
 - (a) to obtain and pay for the advice of such broker or other persons as the Trustees may think fit; and
 - (b) to employ any banking or merchant banking company or firm or other person or persons to manage such investments and to delegate to such manager or managers all or any of the duties or powers of the Trustees in respect of the investments or changing of investments of trust money;
- (3) power to appoint any one or more of the Trustees to be the agents of the Trustees for the purpose of operating any bank or building society account of the Trustees or for the purpose of collecting any income of or managing or administering any property (in any part of the world) comprised in the Trust Fund or for any other purpose for which the Trustees may appoint agents;
- (4) power (without prejudice to the jurisdiction of the Court) to decide what money or property represents income and what represents capital and how as between the capital and income of the Trust Fund any expenses or costs shall be borne or provided;
- (5) power to enter into any arrangement or contract notwithstanding that the person or persons with whom or on whose behalf the arrangement or contract is made are or include one or more of the Trustees;
- (6) power to make such rules and regulations and policy statements dealing with the management, administration, payment, application or distribution of the Trust Fund or any part thereof and with matters connected therewith as the Trustees from time to time may think fit and from time to time revoke and replace all or any such rules or regulations or policy statements;
- (7) power to appoint, engage or retain such persons including without limitation, solicitors, accountants, brokers or any other agents as the Trustees may think fit or convenient to transact any business required to be done (including the receipt and payment of money) and any act in connection with such management, administration as is referred to in sub-clause (9) of this clause 10), payment, application or distribution and (pursuant to the general power for that purpose conferred by sub-clause (6) of this clause 10) to make amend revoke and replace rules and regulations for the purpose of defining the functions and powers of any such persons and power also (if the Trustees think fit) to pay an honorarium fee or salary to and the expenses of any persons even if the Trustees could transact that business by their own employees or personally;
- (8) power to investigate potential as well as actual failures of ATOL holders;
- (9) in addition to all statutory powers of delegation, power to delegate all or any of the trusts powers and duties, and discretions vested in the Trustees hereunder for any period or periods (which may be renewed from time to time) or such terms as the Trustees think fit to any person or persons, and may grant powers of sub-delegation, and upon such terms (including the remuneration and the payment of the expenses of the delegatee or delegatees and including provision for the delegatees if more than one to exercise any such power or duty either jointly or jointly and severally) as the Trustees think fit (without being liable for the acts or defaults of any such delegatee) and to revoke or modify any such delegation or conditions or terms. For the avoidance of doubt, where the Trustees delegate the power contained in clause 6(2) hereof, references in clause 6(2) to the opinion of the Trustees shall be construed as also being a reference to the opinion of a delegatee or delegatees where relevant;
- (10) power to enter into any arrangement or transaction or to make any payment with a view to keeping the business of a failed ATOL holder in operation for such period as the Trustees think fit with a view to

providing or assisting in the provision of the carriage which the failed ATOL holder was to provide or was to arrange to be provided in accordance with his obligations under any licensable transaction and/or with a view to minimising potential losses, liabilities and expenses of the types referred to in clause 6(2) hereof;

- (11) power to appoint such persons as the Trustees may think fit or convenient to act in connection with such management or administration and (pursuant to the general power for that purpose conferred by sub-clause (6) of this clause 10) to make, amend, revoke and replace policies and/or contracts for the purpose of defining the functions and powers of any such persons and power also (if the Trustees think fit) to pay an honorarium fee or salary to and the expenses of any persons;
- (12) power to delegate from time to time to any such persons all or any of the powers and duties of the Trustees hereunder;
- (13) power to insure the Trust Fund against claims for payments arising as a result of the inability of one or more ATOL holders to meet their financial commitments or for sharing with insurers the burden of payment of such claims;
- (14) power to issue or grant any mortgage, charge lien or other security over all or any part of the property or assets of the Air Travel Trust (whether present or future) including without limitation the Trust Fund, and also by such means to secure and guarantee the performance by the Trustees of any obligation undertaken by them;
- (15) power to undertake interest rate and currency swaps, options, swap option contracts or other financial instruments including hedging agreements and derivatives of any kind;
- (16) power to bring, defend or fund legal proceedings in relation to the Trust Fund or to any other matter concerning the trusts and powers set out in this Deed or their administration including (but without prejudice to the generality of the above) the power to fund litigation, to enforce any bond or other security provided to the CAA or the Trustees or the Air Travel Trust by any air travel organiser; and
- (17) power to charge beneficiaries an administration fee in relation to the making of payments to them hereunder and to set-off such administration fee from the relevant payment to a beneficiary.

11. **THE** statutory provisions about the appointment retirement and discharge of trustees shall apply to the trusts hereof subject to the following provisions of this clause 11:

- (1) upon retiring from or otherwise vacating any of the Offices of the CAA referred to in subsection (a) of the definition of Trustees and subject to the provisions of that clause the Trustee who until retirement or otherwise held the relevant Office of the CAA shall automatically cease to be a Trustee hereof and the vacant office of Trustee shall devolve on the person appointed to fill the vacant Office of the CAA provided that in the event of a delay in the appointment of the person to the vacant Office of the CAA the remaining Trustees can act notwithstanding a vacancy in their number;
- (2) upon the non-executive Member of the CAA referred to in subsection (b) of the definition of Trustees ceasing to be a non-executive Member of the CAA or upon the CAA Chair withdrawing that non-executive's nomination, that person shall automatically cease to be a Trustee hereof. In the event of there being a delay in the CAA Chair nominating a replacement non-executive Member the remaining Trustees can act notwithstanding a vacancy in their number ;
- (3) upon a Trustee being appointed pursuant to clause 11(1) above or a replacement non-executive Member being nominated by the CAA Chair, the remaining Trustees and the person who has ceased to be a Trustee shall take all steps as are necessary to vest the Trust Fund in the remaining Trustees and the new Trustee jointly subject to the terms hereof;
- (4) the Secretary of State may by deed appoint up to a maximum of 3 trustees in addition to the persons referred to in the definition of Trustees;
- (5) upon a person becoming a Trustee in accordance with the provisions hereof, the other Trustees shall have power to vest the Trust Fund in the new Trustee so that thereafter:
 - (a) the new Trustee shall have all the same powers and discretions as are hereby conferred on the Trustees in relation to the Trust Fund and the income thereof; and
 - (b) subject to paragraph (a) of this sub-clause all property held by such new Trustees and all property retained by the Trustees shall remain subject to the same trusts powers and provisions as if no new Trustees had been appointed;
- (6) a person shall immediately cease to be a Trustee in any of the following circumstances:
 - (a) such person is, or is deemed for the purposes of any applicable law to be, unable to pay its debts as they fall due or insolvent;
 - (b) such person admits its inability to pay its debts as they fall due;
 - (c) such person suspends making payments on any of its debts or announces an intention to do so;
 - (d) such person commits an act of bankruptcy;
 - (e) by reason of actual or anticipated financial difficulties, such person begins negotiations with any creditor for the rescheduling or restructuring of any of its indebtedness;
 - (f) any of such person's indebtedness is subject to a moratorium;

- (g) a certificate is issued for the summary administration of such person's estate;
- (h) such person enters into any composition, scheme, individual voluntary arrangement or other arrangement with its creditors or has an interim order made in relation to him or her;
- (i) a bankruptcy order is made or such person is otherwise adjudicated bankrupt (which includes any order made in relation to the Air Travel Trust under Part 64.2 of the Civil Procedure Rules);
- (j) a receiver, receiver and manager, judicial manager, trustee in bankruptcy, nominee, supervisor, official manager or similar person is appointed in respect of it or any of its assets;
- (k) any step is taken which could result in any of the events referred to in sub-paragraphs (g) to (l) above or a statutory demand is served on such person with respect to any of the matters referred to in sub-paragraphs (g) to (l) above which is not discharged within fourteen days; or
- (l) any other analogous step or procedure is taken in any jurisdiction.

12. ANY act or decision by two or more of the Trustees shall have the same force and effect as if it were the act or decision of all of them.

13. THE Trustees may in the execution of any of the trusts of this Deed or in the exercise of any of the powers given to them by this Deed or by law sell property or lend money to or buy property or borrow money from or carry out any other transaction with the trustees of any other trust or the executors or administrators of any estate notwithstanding that the Trustees or any of them are or is the same person as those trustees, executors or administrators or any of them and where the Trustees are the same persons as those trustees, executors or administrators the transaction shall be binding on all persons then or thereafter interested under this Deed though effected and evidenced only by an entry in the accounts of the Trustees.

14. IN the professed execution of the trusts and powers hereof no Trustee shall be liable for any loss to the Trust Fund arising by reason of anything done or caused by them to be done in the exercise or purported exercise of the powers vested in them herein or by reason of the negligence or fraud of any agent employed by him or by any other Trustee hereof (although the employment of such agent was not strictly necessary or expedient) or by reason of any mistake or omission made in good faith by any Trustee hereof or by reason of any failure to comply with any duty of care applicable to him or by reason of any other matter or thing except wilful and individual fraud or wrongdoing on the part of the Trustee who is sought to be made liable.

15. NO decision of or exercise of a power by the Trustees shall be invalidated or questioned on the ground that the Trustees or any of them had a direct or indirect interest in such decision or in the exercise of the power.

16. WITHOUT prejudice to all indemnities conferred upon the Trustees generally by law the Trust Fund will indemnify the Trustees and each of them and their respective personal representatives against all actions, claims, demands, costs and expenses arising or incurred by them as a result of anything done by them in the exercise or purported exercise of the powers vested in them herein.

17. THE Trustees shall keep proper accounts and proper records in relation to accounts and shall prepare in respect of each period of account a statement of accounts in such form as the Secretary of State may direct and shall arrange for the accounts to be audited in such manner as the Secretary of State may direct and shall make to the Secretary of State within a period to be specified by him at the end of each period of account a report on the performance of their functions during that period and to include in that report a copy of the statement of accounts prepared in respect of that period in accordance with this clause 17 and any report made by the auditors on the statement or on the accounts. In this clause 17 "period of account" means the period beginning on the date hereof or, if later, the date on which the latest variation hereof was made and ending on the subsequent 31st March, and thereafter each subsequent period of twelve months beginning on 1st April and ending on the 31st March.

18. THE trusts, powers and provisions of this Deed may at any time or times be varied or terminated by Deed during the Specified Period by the Secretary of State who may in his complete discretion direct the Trustees to dispose of the Trust Fund as he thinks fit.

Appendix 2 – Details of ATOL Holder Failures April 2013 – March 2014

ATOL Holder Name	Date of Failure	Licensed Passengers	Security Provided £'000	Number of Passengers Repatriated	Cost of Repatriation £'000	Expected Number of Passengers to Refund	Estimated Refund Cost £'000	Estimated Total Expenditure £'000	Estimated Call on Air Travel Trust £'000
Shire Sports Ltd	11 Apr 2013	500	0	0	0	12	2	2	2
The Mountain Training School UK Ltd	13 May 2013	500	20	0	0	53	80	80	60
TJM Travel Ltd	29 May 2013	570	0	0	0	199	72	72	72
Sea Breeze Holidays Ltd	04 Jun 2013	2,659	0	0	0	1,190	521	521	521
Travel Click Ltd	19 Jul 2013	500	10	0	0	155	61	61	51
Britain Travel Ltd	13 Aug 2013	500	40	0	0	30	4	4	0
Academy of International Sport Ltd	28 Aug 2013	2,830	0	0	0	1,798	676	676	676
Abbott Travel Ltd	08 Nov 2013	500	0	0	0	108	351	351	351
Ola Holidays Ltd	20 Nov 2013	54,335	0	339	100	2,671	525	625	625
Quest World Travel Ltd	10 Feb 2014	500	0	28	28	92	141	169	169
Preston Travel (CI) Ltd	13 Feb 2014	20,243	0	127	63	3,956	978	1,041	1,041
Sunwest Leisure Ltd	18 Feb 2014	500	0	0	0	61	40	40	40
Augusta Golf Tours Ltd	28 Mar 2014	500	30	0	0	48	176	176	146
			100	494	191	10,373	3,627	3,818	3,754