

Air Travel Trust

Annual Report & Accounts

31 March 2016

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Contact Details

Central Address

CAA House
45 – 59 Kingsway
London
WC2B 6TE

Chair

Mr M G Medicott

Trustees

Mrs C R Staples
Mr C J Tingle (*appointed 25 January 2016*)
Mr R J Moriarty (*appointed 31 January 2016*)
Miss C Jesnick (*resigned 25 January 2016*)
Mr R T R Jackson (*resigned 31 January 2016*)

Secretary

Ms J Griffin

Bankers

Lloyds Bank plc
25 Gresham street
London
EC2V 7HN

Auditor

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Report of the Trustees

Constitution and terms of reference

The ATOL scheme, which is managed by the Civil Aviation Authority ('CAA'), is a statutory financial protection system. It comprises the ATOL licensing scheme which ensures that only businesses regarded as financially robust and fit are awarded ATOLs, and a financial protection scheme so that if an ATOL holder fails, affected consumers are either repatriated or receive a replacement holiday or a refund. The Air Travel Trust ('ATT' or 'the Trust') funds the cost of administering this financial protection, under its primary purpose to provide compensation for consumers. 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 CAA, appointed in accordance with the Trust Deed. The Trustees met six times during the year. Two Trustees, Richard Jackson and Chris Jesnick, retired from the CAA in January 2016 and consequently also retired as Trustees. They were replaced by Richard Moriarty and Chris Tingle respectively on the same dates.

During the year two of the Trustees, Michael Medlicott and Richard Jackson, were also members of the Air Travel Insolvency Protection Advisory Committee ('ATIPAC'). Richard Moriarty became a member of ATIPAC on 31 January 2016 following Mr Jackson's retirement. ATIPAC's membership includes 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 for agenda items that do not include commercially confidential information.

The CAA performs the administrative functions of 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 consumers and refunding them for losses incurred as a result of the failure of an ATOL holder. In administering the ATT's funds the CAA acts in accordance with the Air Travel Trust Payment Policy. This outlines how the Trustees have determined to exercise their discretion to make payments for the benefit of consumers.

Consumer confidence

The UK holiday market overall remains strong – holidays abroad were up 9% year-on-year in the quarter to January 2016¹. A strong labour market, real wage growth as well as low inflation and interest rates provide a boost to consumer confidence. Travel is one of the main beneficiaries of this positive consumer sentiment. Risks to this however include geopolitical events, weakening of the pound against the Euro and household debt continuing to rise.

¹ ONS Statistical bulletin: Overseas travel and tourism provisional results for January 2016
<https://www.ons.gov.uk/peoplepopulationandcommunity/leisureandtourism/bulletins/overseastravelandtourism/provisionalresultsforjanuary2016>

Report of the Trustees

Consumer confidence *(continued)*

The recent terrorist attacks in Tunisia, Turkey, Egypt, Paris and Brussels demonstrate how exposed the travel industry is to geo-political risks. As a result of these attacks bookings to destinations in northern Africa have collapsed whilst demand for holidays to Turkey is well below previous years. As a consequence there has been strong rise in interest in alternative destinations perceived by consumers as safer or less volatile, in particular those at the western end of the Mediterranean and long haul destinations. The increased demand for holidays to western Mediterranean destinations has led to substantial price rises in accommodation costs to tour operators, which may affect their margins.

Consumer awareness

The primary purpose of the Trust is to compensate consumers for losses arising from the insolvency of ATOL holders. As this protection only applies to ATOL bookings, the Trustees believe that raising awareness of the benefits of ATOL helps ensure that consumers can make better-informed buying decisions. To this end, the Trustees continue to support and contribute towards the CAA's "Pack Peace of Mind" advertising campaign. This year the Trust contributed £576,139 to the campaign.

The campaign's aim is to reach the widest possible audience, and families in particular, as they research and book their flights and holidays. For the first time since its launch the campaign now features advertisements on major commercial radio stations as well as adverts in popular weekly consumer magazines. Greater emphasis has also been placed on driving awareness through social media channels. Survey evidence shows that since the campaign began, there have been improvements in consumers' understanding of insolvency protection, and that they recognise its importance and are aware of whether it applies to their bookings.

Protecting more consumers

At present there are some ways in which travel businesses can arrange and sell flight-based holidays to UK consumers which those businesses believe excludes them from the need to provide ATOL protection. For instance, this may be because the business has sold the holiday by a means referred to as 'Agent for Consumer'. The CAA believes that these sales are licensable transactions which incur an obligation to pay APC and should be protected under an ATOL licence. Outside ATOL, consumers could suffer financial detriment either because their booking is unprotected or the protection in place is not as comprehensive as that provided by ATOL.

Report of the Trustees

Protecting more consumers (*continued*)

The legal ambiguity is likely to be resolved in the short to medium term when the new European Package Travel Directive is implemented in the UK in 2018. In the meantime, both the CAA and the Trustees have agreed it is not a good use of resources to litigate this issue with the businesses concerned. Instead a short term compromise has been agreed with these businesses under which the CAA offers a 50% credit against APC payments in return for those businesses fully protecting their holidays under an ATOL licence. This pragmatic solution has ensured that more consumers benefit from the comprehensive protection offered by the ATOL scheme. During the year the ATT recognised credits of £2.7 million to travel firms for holidays that would otherwise have been sold without ATOL protection.

Enhancing the resilience of Accredited Bodies

In 2015 the Accredited Bodies were required to put into place more robust protection arrangements by establishing CAA approved trust accounts. This built on the service they already provided (fulfilment of holidays purchased by the customers of their members, in the event of any member's insolvency, without recourse to the ATT) and in recognition of these services, the Trustees and CAA announced that they would pay Accredited Bodies a fulfilment charge of £1.25 per protected passenger.

This charge, paid by the Trust, recognises the benefits Accredited Bodies confer on the ATT - by reducing its exposure - but more importantly, on the consumers who book their ATOL flights and holidays through Accredited Body members. If one of their members fails, the Accredited Body takes full responsibility for protecting all affected consumers. If the Accredited Body itself fails, consumer monies are held in trust meaning their bookings can be fulfilled, benefiting consumers and reducing the ATT's exposure.

During the year the ATT paid fulfilment charges amounting to £2.2 million to Accredited Bodies for bookings processed through the above mechanism.

The future face of financial protection

The Trustees were pleased to note that the Package Travel Directive, which has been in place since 1992, has been revised to reflect modern booking and selling methods. The new Directive, which was published on 1 January 2016, will come into force via UK implementing regulations in 2018. Amongst other things it will widen the definition of a 'package', ensuring that more consumers benefit from financial protection. How this will be implemented in the UK, and the changes the ATT will need to make to its Payment Policy, will emerge during the next reporting year.

Report of the Trustees

ATT Insurance

On 1 April 2016, the ATT renewed its insurance cover to 31 March 2018. The previous policies provided the Trust with an annual policy limit of £300 million. This applied to the failure of larger ATOL holders where costs arising from refunds and repatriations exceeded £75 million.

Under renegotiated arrangements the cover is now provided by a larger panel of insurers and the annual limit has increased to £450 million. In addition to providing enhanced cover for larger ATOL holder failures, the ATT is now also insured for the failure of smaller ATOL holders. This represents a much greater level of cover for the premium paid, and is a welcome improvement in value for money.

The Trust Fund

For the fourth consecutive year the volume and cost of failures has been relatively low, resulting in 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 financing costs, further strengthening its ability to provide financial protection for the consumer.

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 (2015: £2.50).

Total contributions (before accounting for APC credits) received during the year amounted to £62,970,719, relating to 25,187,573 passengers booked (2015: £59,431,710, relating to 23,772,570 passengers). The Trustees operate a policy of pursuing penalty interest payments from ATOL holders who fail to pay their APC on time.

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 £327,609 (2015: £1,023,298) from liquidation dividends. The Trust takes all reasonable steps to ensure that companies or individuals are held to account for any losses that they cause the ATT to incur. This year, the Trust pursued the director of Air Travel Consultants for overtrading under the terms of his personal guarantee and received an out of court settlement of £30,000.

The Trust actively employs an investment strategy of notice and term deposits in line with an 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 £609,507 (2015: £320,375).

Report of the Trustees

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 £4,773,400 (2015: £5,573,870) (see note 7).

Administrative costs and expenditure on professional services remain similar to last year totalling £13,256,579 (2015: £13,656,523). Expenses charged by the CAA under its agreement with the ATT amounted to £491,188 (2015: £536,045), 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.

The Trust remains in surplus for a fourth year and is not reliant on the borrowing facilities available to it. Bank fees and charges for the year were £273,340 (2015: £167,565).

Details of failures during the year

Despite the prevailing geopolitical challenges, only ten ATOL holders failed in the year (five less than last year), which is the lowest number of ATOL holder failures since 2003. The largest failure - and the only one involving consumers overseas - was Exclusive Escapes Limited. This ATOL holder offered high-end air holidays to villas and hotels in Turkey and its failure has been attributed to the geopolitical situation and a significant drop in demand for Turkey.

In total, 339 passengers of those failed ATOL holders required repatriation and a further 4,391 customers, all who had bookings to travel at a later date, were due refunds for amounts paid in respect of their bookings.

Report of the Trustees

Failure amounts provided for and released

The Trust recorded calls on its funds of £4,766,112 (2015: £5,344,273) in respect of eight of the ten ATOL holder failures during the year. For prior year failures, where further information has become available after the reporting period leading to expenditure being more than originally forecast, the Trust has recorded additional calls on its funds of £7,288. The total call on the Trust in respect of the above was £4,773,400. These amounts represent both amounts paid in the year and estimated balances payable and provided for at the year end.

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 £1,170,675 (2015: £638,960) back to the fund.

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.

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, being not less than twelve months.

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, renegotiation of the insurance policy and the management of the Trust's activities.

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 • Failure of major ATOL holder | <ul style="list-style-type: none"> • Increased borrowing facilities • Insurance policies held • Cash and liquid resources held |
| 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 • New CAA compliance unit, monitoring ATOL holders' compliance with ATOL Standard Terms • Introduction of ATOL Reporting Accountants scheme, in conjunction with all the major UK accountancy bodies • Independent assurance on 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 Auditor's Report

Independent Auditor's 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 27 April 2016 we have audited the non-statutory financial statements of the Air Travel Trust for the year ended 31 March 2016, which comprise the Statement of Financial Activities, the Statement of Financial Position, the Statement of Cash Flows and the related Notes 1 to 17. 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, 27 April 2012 and 18 May 2016 (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 auditor's 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 Auditor's 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 2016 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.



Deloitte LLP
Chartered Accountants and Statutory Auditor
London
22 June 2016

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 auditor does not involve consideration of these matters and, accordingly, the auditor accepts 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 2016

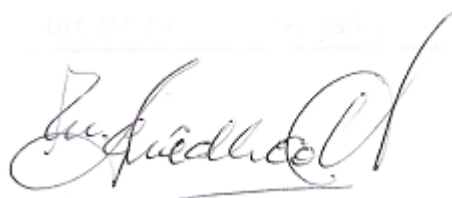
| | Notes | Year to 31.03.16 £ | Year to 31.03.15 £ |
|--|-------|--------------------------|--------------------------|
| Incoming Resources | | | |
| ATOL Protection Contributions | 3 | 61,250,925 | 56,738,917 |
| Liquidation dividends and settlements | 4 | 1,110,407 | 1,026,824 |
| Other income | | 5,227 | - |
| Total Incoming Resources | | 62,366,559 | 57,765,741 |
| Resources Expended | | | |
| Audit and legal expenses | 5 | (56,520) | (184,078) |
| Other administrative expenses | 6 | (13,256,579) | (13,656,523) |
| Provisions for compensation claims charged in the year | 7, 14 | (4,773,400) | (5,573,870) |
| Total Resources Expended | | (18,086,499) | (19,414,471) |
| Gain on release of provisions for compensation claims | 7, 14 | 1,170,675 | 638,960 |
| Interest receivable | | 609,507 | 320,375 |
| Finance costs | 8 | (273,340) | (167,565) |
| Tax expense | 9 | (254,340) | (143,919) |
| Net Movement in Fund | | 45,532,562 | 38,999,121 |
| Reconciliation of Fund | | | |
| Fund balance brought forward | | 93,722,310 | 54,723,189 |
| Fund balance carried forward | | 139,254,872 | 93,722,310 |

Statement of Financial Position

as at 31 March 2016

| | Notes | 31.03.16 £ | 31.03.15 £ |
|---|-------|--------------------|--------------------|
| Current Assets | | | |
| Cash and liquid resources | | 131,059,377 | 88,778,839 |
| Restricted cash on deposit | 10 | 28,626 | 23,440 |
| ATOL Protection Contributions and other debtors | | 12,133,663 | 11,717,576 |
| Prepayments and accrued income | 11 | 44,570 | 39,607 |
| Total Current Assets | | 143,266,236 | 100,559,462 |
| Current Liabilities | | | |
| Provisions | 14 | (2,775,255) | (4,571,756) |
| Restricted cash held from obligors and administrators | 10 | (28,626) | (23,440) |
| Trade and other payables | 13 | (1,000,329) | (2,115,194) |
| Income tax | 9 | (207,154) | (126,762) |
| Total Current Liabilities | | (4,011,364) | (6,837,152) |
| Net Current Assets | | 139,254,872 | 93,722,310 |
| Represented by | | | |
| Fund account | | 139,254,872 | 93,722,310 |

The financial statements and notes 1–17 were approved by the Trustees on 22 June 2016 and signed on their behalf by:



Michael Medlicott
Chair



Chris Tingle
Trustee

Statement of Cash Flows

for the year ended 31 March 2016

| | Year to 31.03.16 £ | Year to 31.03.15 £ |
|---|--------------------------|--------------------------|
| Cash flows from operating activities | | |
| Net surplus of fund before tax | 45,786,902 | 39,143,040 |
| <i>Adjustments for:</i> | | |
| Interest Income | (609,507) | (320,375) |
| Net finance costs | 273,340 | 167,565 |
| | 45,450,735 | 38,990,230 |
| Increase in trade and other receivables | (416,087) | (2,022,074) |
| Increase in prepayments | (4,963) | (20,267) |
| (Decrease) / increase in provisions | (1,796,501) | 1,161,332 |
| (Decrease) / increase in trade and other payables | (1,109,679) | 331,632 |
| Cash generated from operating activities | 42,123,505 | 38,440,853 |
| Finance costs | (273,340) | (167,565) |
| Tax paid | (173,948) | (73,257) |
| Net cash from operating activities | 41,676,217 | 38,200,031 |
| Cash flows from investing activities | | |
| Interest received | 609,507 | 320,375 |
| Net cash from financing activities | 609,507 | 320,375 |
| Cash flows from financing activities | | |
| Interest paid | - | - |
| Repayment of borrowings | - | - |
| Net cash used in financing activities | - | - |
| Net movement in cash and cash equivalents | 42,285,724 | 38,520,406 |
| Net cash and cash equivalents at beginning of period | 88,802,279 | 50,281,873 |
| Net cash and cash equivalents at end of period | 131,088,003 | 88,802,279 |

Notes to the Financial Statements

for the year ended 31 March 2016

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 8) 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 for the foreseeable future, being not less than twelve months.

1.3 Basis of measurement

The financial statements have been prepared on the historical cost basis.

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 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 Taxation

Income tax is payable on interest income and is calculated using the tax rates for trusts enacted or substantively enacted at the balance sheet date.

1.9 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 and liquid resources

Cash comprises cash-on-hand accessible immediately and without penalty. Liquid resources are cash deposits maturing on fixed terms of between one and six months, or notice deposits requiring under 100 days notice.

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.

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 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 ATOL holder, 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 reporting 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 APC credits provision

APC credits provision - Background

As a short to medium term compromise in respect of a legal dispute relating to obligations to hold an ATOL and pay APC, the CAA has made available limited credit schemes for certain ATOL holders provided that, *inter alia*, their 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.

APC credit provision - Measurement

The CAA and the Trust have concluded that the measurement of the provision should be calculated as 50% of qualifying bookings, specifically the provision in respect of 'Agent for the Consumer' sales should be calculated as 50% of 85% of qualifying Flight Plus bookings, based on communications with those ATOL holders signed up to the agreement and the experience and expert knowledge of CAA staff.

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 provide 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 31.03.16 | Year to 31.03.15 |
|-------------------------------|---------------------|---------------------|
| | £ | £ |
| ATOL Protection Contributions | 62,970,719 | 59,431,710 |
| APC credits | (1,719,794) | (2,692,793) |
| Total | 61,250,925 | 56,738,917 |

4 Liquidation Dividends and Settlements

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

| | Year to 31.03.16 | Year to 31.03.15 |
|--|---------------------|---------------------|
| | £ | £ |
| Allbury Travel Ltd (<i>liquidation dividend</i>) | - | 6,475 |
| Complete World Travel Ltd (<i>liquidation dividend</i>) | - | 2,883 |
| Selsdon Travel Ltd (<i>liquidation dividend</i>) | - | 38,786 |
| Academy of International Sport Ltd (<i>liquidation dividend</i>) | - | 7,249 |
| Holidays 4 UK Ltd (<i>liquidation dividend</i>) | - | 967,905 |
| Onshine Ltd (<i>Court compensation</i>) | - | 3,526 |
| Flight Options Ltd (<i>liquidation dividend</i>) | 327,449 | - |
| Bowen Travel Ltd (<i>liquidation dividend</i>) | 160 | - |
| Air Travel Consultants Ltd (<i>director's guarantee</i>) | 30,000 | - |
| Guarantor settlement (<i>subject to NDA</i>) | 752,798 | - |
| Total | 1,110,407 | 1,026,824 |

Notes to the Financial Statements

5 Audit and Legal Expenses

| | Year to 31.03.16 £ | Year to 31.03.15 £ |
|--|--------------------------|--------------------------|
| Fees payable to the Trust's auditor for the audit of the Trust's annual accounts | 39,054 | 43,000 |
| Fees payable to the Trust's auditor for other services to the Trust | 3,300 | 11,500 |
| Legal expenses | 14,166 | 129,578 |
| Total | 56,520 | 184,078 |

6 Other Administrative Expenses

| | Year to 31.03.16 £ | Year to 31.03.15 £ |
|---|--------------------------|--------------------------|
| Insurance premiums | 9,653,880 | 11,441,016 |
| Fulfilment charges from Accredited Bodies | 2,196,604 | - |
| Marketing and promotion expenses | 576,139 | 495,510 |
| Charge from CAA for administrative services | 491,188 | 536,045 |
| Other expenditure | 338,768 | 1,183,952 |
| Total | 13,256,579 | 13,656,523 |

Insurance premiums

The Trust has in place insurance policies that provide the Trust with access to funds in the event of large ATOL holder failure(s), where costs arising from refunds and repatriation exceed £75 million in a policy year. The policies were extended from 1 April 2016 to additionally provide access to funds in the event of small ATOL holder failure(s), where costs arising from refunds and repatriation exceed £10 million in a policy year. There have been no claims on the policies during the year (2015: 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 Trustees see this as an important part of ensuring all travel consumers are aware of the level of protection afforded when making their travel arrangements and continue to provide financial support to this campaign.

Fulfilment charge

The Trust recognises and supports the benefits provided by Accredited Bodies, both to the Trust itself and to consumers, and pays a fulfilment charge of £1.25 in respect of each qualifying booking taken.

Notes to the Financial Statements

7 Compensation Claims

Provisions for compensation claims charged or released to the income statement in the year. Recognition and subsequent measurement is disclosed in note 2.1

| | Year to 31.03.16 £ | Year to 31.03.15 £ | | Year to 31.03.16 £ | Year to 31.03.15 £ |
|-------------------------------------|--------------------------|--------------------------|-------------------------------|--------------------------|--------------------------|
| Abbott Travel Ltd | (104,678) | 152,299 | Failures from 01.04.15 | | - |
| Academy of International Sport Ltd | - | 14,331 | A & M Travel Ltd | 77,565 | - |
| African Safari Club | 1,698 | - | Elixir Holidays Ltd | 337,579 | - |
| Air Parade Ltd | (28,759) | 850,966 | Exclusive Escapes Ltd | 3,491,329 | - |
| Airliner Ltd | (171,738) | 1,295,837 | Flights and Fly Ltd | 15,166 | - |
| AList Flyers Ltd | (247) | 9,434 | Fone N Fly Ltd | 170,102 | - |
| Augusta Golf Tours Ltd | (7,102) | (30,455) | Holiday Routes Ltd | 55,289 | - |
| Bents Bicycle & Walking Tours | (6,070) | 114,606 | Mirecki M | 16,318 | - |
| Bookable Holidays Ltd | (53,000) | 150,373 | Travel Definitions Ltd | 602,764 | - |
| GBCE Ltd | (88,304) | 620,744 | | | |
| Global Enduro Ltd | - | 1,517 | | | |
| Goldtrail Travel Ltd | - | 30,000 | | | |
| Liberty Travel (UK) Ltd | (11,530) | 15,834 | | | |
| Lorenz Voyager Travel Company Ltd | (354,184) | 829,922 | | | |
| Mapmart Ltd | (5,200) | 1,005,932 | | | |
| Ola Holidays Ltd | 5,590 | (255,680) | | | |
| Preston Travel (CI) Ltd | (18,247) | (269,627) | | | |
| Quest World Travel Ltd | - | (64,576) | | | |
| Sea Breeze Holidays Ltd | (206) | (10,989) | | | |
| Shire Sports Ltd | - | (100) | | | |
| Sikdar N A | (6,764) | 9,404 | | | |
| Star & Key Travel Ltd | (195,210) | 250,425 | | | |
| Sunwest Leisure Ltd | - | 31,450 | | | |
| T.D. Europe Ltd | - | (1,813) | | | |
| The Mountain Training School UK Ltd | - | (197) | | | |
| Timeless Travel Ltd | (112,561) | 168,503 | | | |
| TJM Travel Ltd | - | (300) | | | |
| Travel Click Ltd | - | (5,223) | | | |
| Worldbound Travel Ltd | (6,875) | 22,293 | | | |
| | | | Total charged | 4,773,400 | 5,573,870 |
| | | | Total released | (1,170,675) | (638,960) |
| | | | Total net charged | 3,602,725 | 4,934,910 |

Notes to the Financial Statements

8 Finance Costs

| | Year to 31.03.16 | Year to 31.03.15 |
|---|---------------------|---------------------|
| | £ | £ |
| Bank administration fees and other bank charges | 249,740 | 147,565 |
| Overdraft and loan facility arrangement fees | 23,600 | 20,000 |
| Total finance costs | 273,340 | 167,565 |

9 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 £254,340 has been recorded in the statement of financial activities in relation to interest income received in the current year (2015: £143,919).

10 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.

Notes to the Financial Statements

11 Prepayments and Accrued Income

| | Year to 31.03.16 £ | Year to 31.03.15 £ |
|-------------------------|--------------------------|--------------------------|
| Accrued interest income | 44,570 | 39,607 |
| Total | 44,570 | 39,607 |

12 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 (2015: nil).

13 Trade and Other Payables

| | Year to 31.03.16 £ | Year to 31.03.15 £ |
|--------------------------|--------------------------|--------------------------|
| Trade and other payables | 1,000,329 | 2,115,194 |
| Total | 1,000,329 | 2,115,194 |

Trade creditors and accruals principally comprise amounts outstanding for Fulfilment Charges payable to the Accredited Bodies and other 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

14 Provisions

| | Year to 31.03.16 £ | Year to 31.03.15 £ |
|---|--------------------------|--------------------------|
| Provisions for compensation claims | | |
| At the beginning of the period | 2,171,237 | 1,990,469 |
| Provisions for new failures during the period | 4,766,112 | 5,344,273 |
| Additional charges for prior year failures | 7,288 | 229,597 |
| Releases relating to prior year failures | (1,170,675) | (638,960) |
| Payments made during the year | (4,660,085) | (4,754,142) |
| At the end of the period | 1,113,877 | 2,171,237 |
| Provisions for APC credits | | |
| At the beginning of the period | 2,400,519 | 1,419,955 |
| New provisions charged during the period | 2,697,481 | 2,692,793 |
| Releases relating to prior periods | (977,687) | - |
| Payments made during the year | (2,458,935) | (1,712,229) |
| At the end of the period | 1,661,378 | 2,400,519 |
| Total | 2,775,255 | 4,571,756 |

The provision for compensation claims and the APC credits 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.

Notes to the Financial Statements

15 Financial Risk Management

15.1 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 borrowing facilities, as disclosed in note 12, cash and the fund as disclosed in the statement of financial position.

The Trust does not have any externally imposed capital requirements.

15.2 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.

15.3 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.

15.4 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.

15.5 Liquidity and interest risk

The Trust's contractual maturity for its 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 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.

17 Events After the Reporting Period

Since the balance sheet date and up to 22 June 2016, there has been one ATOL holder failure, which is not expected to be material to the Trust.

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, 27 APRIL 2012 AND 18 MAY 2016

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, 18 March 2008 and 27 April 2012 (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 18 thereof by a deed of variation dated 18 May 2016 (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 amended 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 supply 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;

“certified licensable transaction” means a transaction which the CAA has certified in an Expenditure Report to be a licensable transaction;

“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;

“Expenditure Report” means a report provided by CAA to the Trustees, in which *inter alia*, the CAA certifies that the ATOL holder named in the report is a person who is a Failed ATOL holder or Potential Failed ATOL holder and

- (a) losses, liabilities or expenses have been incurred by or on behalf of consumers as a result of that Failed ATOL holder not fulfilling its obligations under or in connection with transactions that CAA certifies to be licensable transactions as defined in this Deed; and/or
- (b) liabilities or expenses that have been incurred by the Trustees prior to failure of that ATOL holder were in respect of contingency plans for a Potential Failed ATOL holder; and/or
- (c) losses, liabilities or expenses have otherwise been incurred which the Trustees have powers to make payments for under the terms of this Trust Deed;

“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 be booked 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” means a “relevant booking” as defined in the ATT Regulations; a relevant booking being an offer:

- (a) made by a consumer to purchase flight accommodation for one or more persons on a flight; and
- (b) 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;

“Potential Failed ATOL holder” means an ATOL holder that CAA has certified in an Expenditure Report to be an ATOL holder, or a person who held an ATOL within the previous 6 months:

- (a) who, in the opinion of the CAA is at risk of:
 - (i) going into insolvency; or
 - (ii) not being willing or able to meet in whole or in part its obligations to its consumers; and/or
 - (iii) failing to meet in whole or part its obligations to its consumers; and
- (b) in respect of whom there is potential that the CAA may have to consider whether to publish a notice of failure of that ATOL holder in the “Register of Failed ATOL holders” published by the CAA;

“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) three or more Members appointed as Trustees jointly by the CAA’s Chief Executive Officer and CAA Chair;
 - (b) one or more employee of the CAA appointed as a Trustee jointly by the CAA’s Chief Executive Officer and CAA Chair; 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 losses 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 certified licensable transactions (whether being part of a package, a Flight-Plus or otherwise).

6. THE Trustees 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 where relevant 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 certified 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 certified 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 certified 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 certified licensable transaction or a Flight-Plus with a certified 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 its obligations under or in connection with the relevant certified licensable transaction and, in addition, by providing living accommodation and funds to meet incidental expenses occasioned to consumers by the failure of an ATOL holder;
 - (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)(a), (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 the ATOL Regulations);
 - (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 suppliers of services, including (without limitation) professional services and aviation services in respect of contingency plans for a Potential Failed ATOL holder, whether or not that ATOL holder in fact subsequently fails and whether or not in consequence of making that payment a person may also benefit who is not a consumer having a certified licensable transaction;
 - (i) to meet the cost of ancillary services or professional fees relating to the purposes of this Trust, including (without limitation) the administrative needs and promotion of the ATOL protection provided by the Air Travel Trust, the promotion of the ATOL protection provided by the ATOL Certificate and/or the education of consumers and/or the public about the ATOL protection provided by the Air Travel Trust, including but not limited to any retainer fees charged by

- external call centres (and subsequent fees charged for call handling) whether or not those services are in fact ultimately required to be delivered by the Trustees;
- (j) 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 (i) above whether those expenses were incurred by the Trustees or by any agent acting on their behalf; and
 - (k) in meeting any administration fee charged in accordance with clause 10(17) hereof.

7. IN relation to the powers set out in clause 6(2) (other than clauses 6(2)(g), (i) and (j)) hereof:

- (1) the powers may only be exercised if:
 - (a) a 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 certified licensable transaction; or
 - (b) the CAA has certified in an Expenditure Report that expenses have been reasonably incurred in respect of a Potential Failed ATOL holder;
- (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 any of the said powers 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 or an ATOL holder;
- (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 make payment for the purpose of seeking professional advice in respect of the circumstances of potential as well as actual failures of ATOL holders; whether or not in consequence of making that payment a person may also benefit who is not a consumer having a certified licensable transaction;
- (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 delegates and including provision for the delegates 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 delegates 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 its obligations under any certified 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 of 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 a Trustee retiring from or otherwise vacating any office or employment of the CAA referred to in subsection (a) or (b) 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 CAA Chair and CAA CEO shall jointly appoint another Trustee provided that in the event of a delay in the appointment the remaining Trustees can act notwithstanding a vacancy in their number;
- (2) upon a Trustee being appointed pursuant to clause 11(1) above 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;
- (3) 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;
- (4) 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;
- (5) 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, provided that:

- (a) all Trustees have been notified and not raised any objection; or
- (b) the act or decision is one in respect of which all the Trustees have agreed that at least two or more of them have the authority of the others to act.

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, including membership of, or employment by, the CAA.
- 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.
- 19.** **THE** Secretary of State may, but shall not be obliged to, give the Trustees guidance on their exercise of their powers under this Deed and the Trustees shall have regard to that guidance, but shall not be obliged to follow it. The Trustees shall comply with any obligations they have agreed to in relation to government spending controls.

Appendix 2 – Details of ATOL Holder Failures April 2015 – March 2016

| ATOL Holder Name | Date of Failure | Licensed Passengers | Security Provided £'000 | Number of Passengers Repatriated | Cost of Repatriation & Overseas Costs £'000 | Expected Number of Passengers to Refund | Estimated Refund Cost £'000 | Estimated Total Expenditure £'000 | Estimated Call on Air Travel Trust £'000 |
|--|-----------------|---------------------|----------------------------|----------------------------------|--|---|--------------------------------|--------------------------------------|---|
| Awimaway.com Ltd | 01/04/2015 | 500 | - | - | - | - | - | - | - |
| Travel Incentives Meetings Exhibitions | 20/05/2015 | 509 | - | - | - | - | - | - | - |
| Holiday Routes Ltd | 22/05/2015 | 501 | 34 | - | - | 211 | 89 | 89 | 55 |
| Fone N Fly Ltd | 18/08/2015 | 500 | 40 | - | - | 450 | 210 | 210 | 170 |
| Exclusive Escapes Ltd | 02/09/2015 | 7,754 | - | 339 | 327 | 2,693 | 3,164 | 3,491 | 3,491 |
| Flights & Fly Ltd | 10/11/2015 | 500 | 55 | - | - | 138 | 70 | 70 | 15 |
| A & M Travel Ltd | 15/01/2106 | 740 | - | - | - | 165 | 78 | 78 | 78 |
| Mirecki M | 19/01/2016 | 500 | - | - | - | 9 | 16 | 16 | 16 |
| Elixir Holidays Ltd | 17/02/2016 | 1,495 | - | - | - | 227 | 338 | 338 | 338 |
| Travel Definitions Ltd | 04/03/2016 | 1,237 | - | - | - | 498 | 603 | 603 | 603 |
| | | | 129 | 339 | 327 | 4,391 | 4,568 | 4,895 | 4,766 |