Dear Frank,

Monarch Airlines Limited Retirement Benefits Plan

Thank you for your further letter dated 31 October.

By way of background, the restructuring discussions in 2014 took place within a relatively short time frame (five weeks) and from the outset it was clear that the company was on the brink of insolvency with the imminent renewal of its operating licence in doubt.

Against this backdrop, we nonetheless considered each proposal on its merits and whether they met our published restructuring principles. I think the fact that we rejected a number of proposals we deemed to be unsatisfactory clearly demonstrates that we are always prepared to walk away if we do not believe the uplift offered over a straight insolvency is adequate.

Given that the recovery to the Monarch scheme in the event of insolvency would have been zero, we and ultimately our levy payers are £30 million better off as a result of the upfront cash payment we negotiated. Depending on the outcome of the administration process, we may in time receive additional recoveries from our secured loan notes negotiated as part of the RAA.

In answer to your specific questions:

1. What was the PPF's opening bid for the financial settlement to be paid by the Mantegazzas?

   It is important to note that in any such restructuring scenario, it is the company's representatives or its shareholders which put forward a proposal to The Pensions Regulator (TPR) and us, not vice versa. We consider each proposal in the light of our RAA restructuring criteria and indicate whether the proposal is acceptable or not. As such we never make a bid, opening or otherwise. In this case, as has been reported recently, the initial proposal put to us amounted to less than £10 million in readily available funds and was rejected.

2. How many different financial proposals did the Mantegazzas make before the RAA was agreed?

   As noted in TPR's section 89 report, following the initial proposal outlined above, a further offer of £20 million in cash, together with 10 per cent anti-embarrassment equity, was
submitted to us. After careful consideration, this was rejected as insufficient, and did not offer adequate value to the pension scheme compared to what other creditors were purportedly being asked to forgive in relation to monies owed to them. Following further robust negotiations, agreement was eventually reached upon a settlement which provided the scheme with £30 million in upfront cash, £7.5 million in secured loan notes and 10 per cent anti-embarrassment equity.

3. You mentioned that the RAA settlement “was and is considered a good return in the circumstances.” Was one of the circumstances the fact that the Mantegazzas could have been expected to walk away from the negotiating table if you had pushed for more?

The existing shareholders made very clear to all parties that they were not willing to continue funding the loss making business in its existing form. In the absence of a compromise of the substantial pension deficit and the introduction of fresh capital, insolvency was therefore deemed by all parties to be inevitable.

In all restructuring discussions, we have to make a judgement as to what constitutes a sufficient increase in value over the expected insolvency return for us to provide our ‘non-object’. In this case, we were satisfied that the final offer met our published principles. In view of this, the scenario you describe did not arise.

It should also be noted that one of our published principles when considering a RAA proposal is that we must be sure that the pension scheme would not be better off by TPR exercising its moral hazard powers, through the issue of a contribution notice or financial support direction. In this case, TPR considered that there were no grounds for the use of their powers and subsequently provided clearance for the transaction. It is difficult to speculate on whether a different anti-avoidance regime would have resulted in a different outcome.

I hope this information is helpful, and I would be more than happy to assist if you have any further questions.

Yours sincerely,

Alan Rubenstein
Chief Executive