

Company Registration No. 01165001

Monarch Holdings plc

Annual Report and Financial Statements

31 October 2009



Monarch Holdings plc

Annual report and financial statements 2009

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Monarch Holdings plc

Annual report and financial statements 2009

Officers and professional advisers

Directors

F J Donagh
D I Rawlinson

Secretary

G Atkinson

Registered office

Prospect House
Prospect Way
London Luton Airport
Luton
Bedfordshire
LU2 9NU

Independent auditors

Deloitte LLP
Chartered Accountants
Crawley

Monarch Holdings plc

Directors' report (continued)

The directors present their annual report and the audited financial statements for the year ended 31 October 2009

Principal activities

The Group's principal activities remain those of airline operator, aircraft engineers and tour operators. The Company's principal activity is that of a holding company.

Business review

The results of the Group for the year are set out in the consolidated profit and loss account on page 8 and the notes to the accounts relating to it. The position of the Group at the balance sheet date is set out on page 11 and for the Company on page 12. During a period of exceptionally challenging market conditions, the Group incurred a loss before tax of £30.4m (2008 – profit £6.7m) on turnover down 2.8% to £790.8m. This result was driven primarily by a combination of high fuel costs and the inability to pass on these costs to passengers due to a suppressed market place.

During the year, Monarch Airlines operated 31 aircraft and sub-chartered additional capacity to fulfil its flying programme from Manchester. The reduction in the B757 fleet from 7 aircraft to 3 was successfully executed and plans are now in place to return the single B767 in the fleet to its lessor in April 2010. 20 year checks were completed on two Airbus 300 aircraft allowing us to retain this aircraft type in front line service to cover delays to the B787 programme, the first of which was due for delivery in November 2010. Despite difficult trading conditions, our risk business – Monarch Scheduled – continues to perform strongly against its competitors and since the year end a number of competitors have withdrawn from routes overlapping our network which will assist in recovery of passenger yields which were impacted by excess capacity and a materially weakened market in the year to 31 October 2009. Charter volumes and margins remained strong throughout the year and Monarch remains the airline of choice for the UK's independent tour operators.

Monarch Aircraft Engineering Limited's principal operations are the maintenance and repair of aircraft and associated activities. There have not been any significant changes to these activities in the year under review and it is not expected that there will be any in the next year. During the year the overall volume of activity has increased with a greater proportion attributable to Monarch Airlines Limited. There have been further airline industry failures, amongst them FlyGlovespan being a customer, but the impact of this failure was minimal. The improved performance in all areas was down to management efficiency initiatives and again due to the company's previous investments in its information and control systems. There remains opportunity in the market as aircraft maintenance capacity in Europe has once again reduced. The next year will remain challenging but the elements are in place to adapt and further improve efficiency. The directors are satisfied with the performance in the past year given the difficult trading environment.

The Cosmos Holidays plc results for the year showed a growth in turnover of 11% as a result of an ongoing focus to improve technology and distribution methods in order to enable the company to compete more effectively in a challenging market. However the company also experienced a significant increase in cost of sales as a result of an increase in the cost of fuel and a weakened Sterling currency value, both of which had a negative effect on the results for the year. The company supports the work of the Travel Foundation and provides every customer with the opportunity to make a donation to this charity when making their booking. The Travel Foundation develops practical ways to help and protect holiday destinations and works in partnership with the UK tourism industry to encourage widespread action.

The Avro plc results for the year showed a similar level of turnover as in 2008. However, like Cosmos Holidays plc, the company experienced a significant increase in the cost of buying charter flights due to an increase in the cost of fuel and a weakened Sterling currency value, and thus has a negative impact on the results for the year. The company continues to improve its technology and distribution methods to enable it to compete profitably in its market place, as well as reducing its reliance on some of the more traditional 'seat only' sectors.

First Aviation's results for this year have been satisfactory, given the economic and business climate. As the market continued to suffer from poor yields and margins for tour operators (the company principal business partners) unsurprisingly demand for charter commitments reduced as operators looked to reduce their risk. In the year, group tour operators' capacity reduced by 38%, third party customers business also decreased by 34%. The third party capacity is however distorted due to the impact of the sales of capacity to the Civil Aviation Authority in September.

Monarch Holdings plc

Directors' report (continued)

Business review (continued)

2008 as the company operated a rescue package for XL Leisure Group. On a like-for-like basis with that activity removed the restated third party reduction is 19%.

Environmental matters

The Group strives to improve its social and environmental performance, with the objective of ensuring that its activities contribute to the sustainable development of the communities in which it operates.

The Group commitment is to –

- Comply with and wherever possible exceed all relevant environmental legislation,
- Set environmental objectives, monitor our environmental performance and aim for continuous improvement,
- Seek to minimise emissions and reduce waste from our activities,
- Actively engage and communicate with employees on the means of achieving these commitments,
- Endeavour to purchase from suppliers who share our concern for the environment and whenever possible purchase and use recyclable products or products from sustainable sources,
- Seek to minimise waste and emissions from its operations and re-cycle as much as possible, and
- Maintain a quality waste management system to reduce costs of waste disposal and protect the environment for the future.

The Group has been involved in the Action Energy initiative run by the Carbon Trust to reduce carbon emissions and has participated in energy surveys with a Carbon Trust nominated consultant. The surveys resulted in the identification of certain inefficiencies and methods of conservation in the Group's use of energy.

Monarch has also signed up to an initiative within the UK called 'Sustainable Aviation'. This grouping of airlines, airports, manufacturers, and air traffic control is seeking to respond to the challenge of building a sustainable future.

Principal risks and uncertainties

Competitive pressure is a continuing risk which demands that the Group provides high quality and affordable services to its customers and accordingly it has further developed its range of ancillary products to enhance both revenue and earnings.

Certain costs are denominated in foreign currencies, particularly US Dollar and Euro. Furthermore, the Group has exposure to the volatility of the jet fuel market. The Group treasury function takes out forward contracts to minimise such risks. The Group operates in a strict European regulatory structure, which is overseen by the UK Civil Aviation Authority. This is designed to minimise the risk of operational incidents.

Financial risk management objectives and policies

The Group's activities expose it to a number of financial risks including cash flow risk, credit risk, liquidity risk and price risk. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide principles on the use of financial derivatives to manage these risks. The Group does not use derivative financial instruments for speculative purposes.

Cash flow risk

The Group's activities expose it to the financial risks of changes in foreign currency exchange rates. The Group uses foreign exchange forward contracts to hedge these exposures. Cash reserves are invested on a commercial basis to achieve returns of interest both in the short and medium term. Loans on aircraft are negotiated with a fixed margin over Sterling LIBOR.

Monarch Holdings plc

Directors' report (continued)

Financial risk management objectives and policies (continued)

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other debtors

The majority of Monarch Airlines and tour operator receipts are in advance of flight date and so the credit risk of customers defaulting on payment is small. Relationships are maintained with customers and reviews of credit are undertaken on a regular basis. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. Within Monarch Aircraft Engineering Limited credit insurance is maintained against the insolvency of its third party customers.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group uses a mixture of long-term and short-term debt finance (including operating leases) for the purposes of capital expenditure and also actively manages the level of working capital.

Having produced detailed forecasts and budgets for the Group, the directors believe that the Group will be able to continue trading through effective use of operating cash flows, sale and leaseback arrangements, and shareholder facilities.

Price risk

The Group is exposed to commodity price risk. The main commodity purchased by the Group is jet fuel and the Group uses fuel hedging contracts to try and reduce their exposure to short-term fuel price changes. The Group, however, remains exposed to longer-term changes in the fuel price.

Dividends

The directors have not proposed a dividend for the year (2008 - £4,000,000). During the year the company paid the 2008 dividend and this has been charged to the accounts (see note 7).

Employment policy

It is the policy of the Group that training, career development and promotion opportunities should be available to all employees. The directors are committed to encouraging employee involvement in the business.

The Group keeps employees informed on matters relevant to them as employees through regular meetings and newsletters. Employee representatives are consulted formally and regularly on a wide range of matters affecting their interests.

Disabled persons

Full and fair consideration has and will be given to employment applications from disabled persons having regard to their particular aptitude and abilities. If an appropriate vacancy is available then, where practicable, arrangements will be made to continue under normal terms and conditions the employment of an employee who becomes disabled. Disabled employees are given fair consideration for training, career development and promotion.

Charitable and political donations

During the year the Group made charitable donations of £350 (2008 - £100). No donations were made during the year for political purposes (2008 - £nil).

Monarch Holdings plc

Directors' report (continued)

Market value of land and buildings

The directors are of the opinion that there is no material difference between the market value of long leasehold property and the amount at which they are shown in the financial statements

Directors

The directors of the Company throughout the year and since, except where otherwise stated, were

D L Bernstein	(resigned on 31 December 2009)
P R Brown	(resigned on 26 March 2010)
F J Donagh	
I Rawlinson	(appointed 15 October 2009)

Policy on payment of creditors

The Company's policy for the year to 31 October 2009 for all suppliers, which is also applied by the Group, is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms and to abide by the agreed terms of payment

The number of days' purchases represented by the trade creditors at 31 October 2009 was 40 (2008 - 36)

Post balance sheet events

Subsequent to the year end the Group drew down on a further shareholder facility of £25m as well as revising the terms of the loan disclosed in notes 14 and 26 in order to provide further working capital to the group. Please refer to notes 1 and 28 for further details

Independent auditors and statement of provision of information to the independent auditors

Deloitte LLP have expressed their willingness to continue in office as auditors of the Company and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Each of the persons who is a director at the date of approval of this report confirms that

- (1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Approved by the Board of Directors
and signed on behalf of the Board



D I Rawlinson
Director

9 April, 2010

Monarch Holdings plc

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Monarch Holdings plc

We have audited the Group and parent company financial statements of Monarch Holdings plc for the year ended 31 October 2009 which comprise consolidated profit and loss account, the consolidated and Company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the consolidated and Company combined statements of movements in reserves and reconciliation of movements in Shareholders' Funds and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the 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 Company's and the Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's and Group's affairs as at 31 October 2009 and of the loss of the Group for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

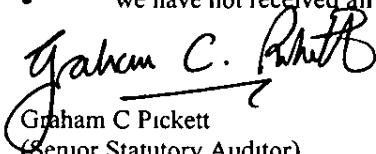
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Graham C Pickett
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Crawley, United Kingdom
14 April, 2010

Monarch Holdings plc

Consolidated profit and loss account Year ended 31 October 2009

	Note	2009 £'000	2008 £'000
Turnover	1, 2	790,771	813,319
Cost of sales		<u>(761,392)</u>	<u>(737,198)</u>
Gross profit		29,379	76,121
Administrative expenses		(62,300)	(71,633)
Other operating income		<u>8,677</u>	<u>4,031</u>
Operating (loss)/profit	4	(24,244)	8,519
Profit on disposal of fixed asset investment		490	-
Net finance charges	5	<u>(6,607)</u>	<u>(1,861)</u>
(Loss)/profit on ordinary activities before taxation	2	(30,361)	6,658
Tax credit/(charge) on (loss)/profit on ordinary activities	6	<u>3,587</u>	<u>(1,684)</u>
(Loss)/profit for the financial year		<u><u>(26,774)</u></u>	<u><u>4,974</u></u>

All amounts relate to continuing activities

Monarch Holdings plc

Consolidated statement of total recognised gains and losses Year ended 31 October 2009

	Note	2009 £'000	2008 £'000
(Loss)/profit for the financial year		(26,744)	4,974
Actuarial loss relating to the pension scheme	22	(82,002)	(4,756)
Deferred tax attributable to actuarial loss		22,961	1,337
Foreign exchange translation adjustment	18	-	294
Deferred tax – adjustment in respect of prior years	16	25	(107)
Total recognised gains and losses relating to the financial year		<u>(85,760)</u>	<u>1,742</u>

Monarch Holdings plc

Consolidated and Company combined statements of movements on reserves and reconciliation of movements in shareholders' funds Year ended 31 October 2009

Group	Called up share capital £'000	Merger reserve £'000	Revaluation reserve £'000	Profit and loss account (deficit) £'000	Total 2009 £'000	Total 2008 £'000
At the beginning of the year	50	4,963	23,694	21,346	50,053	51,811
Realisation of revaluation surplus	-	-	(23,694)	23,694	-	-
(Loss)/profit for the financial year	-	-	-	(26,774)	(26,774)	4,974
Dividends paid (note 7)	-	-	-	(4,000)	(4,000)	(3,500)
Actuarial loss relating to the pension scheme (note 22)	-	-	-	(82,002)	(82,002)	(4,756)
Deferred tax attributable to actuarial loss	-	-	-	22,961	22,961	1,337
Foreign exchange translation gain adjustment (note 18)	-	-	-	-	-	294
Deferred tax on foreign exchange	-	-	-	25	25	(107)
At the end of the financial year	50	4,963	-	(44,750)	(39,737)	50,053

Company	Called up share capital £'000	Profit and loss account £'000	2009 £'000	2008 £'000
At the beginning of the financial year	50	975	1,025	1,207
Profit for the financial year (note 21)	-	3,389	3,389	3,318
Dividends paid (note 7)	-	(4,000)	(4,000)	(3,500)
At the end of the financial year	50	364	414	1,025

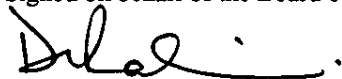
Monarch Holdings plc

Consolidated balance sheet 31 October 2009

	Note	£'000	2009 £'000	2008 £'000
Fixed assets				
Intangible assets	8		6,537	7,284
Tangible assets	9		261,591	254,152
Investments	10		-	37,515
			<u>268,128</u>	<u>298,951</u>
Current assets				
Stocks	11	12,620	12,213	
Debtors - due after more than one year	12	2,389	2,572	
- due within one year	12	157,667	136,079	
Total debtors		160,056	138,651	
Investments	13	18,685	20,280	
Cash at bank and in hand		11,758	26,131	
		<u>203,119</u>	<u>197,275</u>	
Creditors: amounts falling due within one year	14	(85,705)	(73,508)	
Net current assets			<u>117,414</u>	<u>123,767</u>
Total assets less current liabilities			<u>385,542</u>	<u>422,718</u>
Creditors: amounts falling due after more than one year	15		(81,793)	(88,810)
Provisions for liabilities	16		(48,741)	(40,407)
Accruals and deferred income			(196,621)	(199,399)
Net assets excluding pension liability			<u>58,387</u>	<u>94,102</u>
Pension liability	22		(98,124)	(44,049)
Net (liabilities)/assets including pension liability	2		<u>(39,737)</u>	<u>50,053</u>
Capital and reserves				
Called up share capital	17		50	50
Merger reserve			4,963	4,963
Revaluation reserve			-	23,694
Profit and loss account – (deficit)			(44,750)	21,346
Total shareholders' (deficit)/funds			<u>(39,737)</u>	<u>50,053</u>

The financial statements of Monarch Holdings plc, registered number 01165001 were approved by the board of directors and authorised for issue on 9 April, 2010

Signed on behalf of the Board of Directors



D I Rawlinson
Director

Monarch Holdings plc

Company balance sheet 31 October 2009

	Note	£'000	2009 £'000	£'000	2008 £'000
Fixed assets					
Investments	10		15,037		2,037
Current assets					
Debtors - due after more than one year	12	1,500		14,500	
- due within one year	12	800		10	
Total debtors		2,300		14,510	
Creditors: amounts falling due within one year	14	(5,998)		(4,597)	
Net current assets			(3,698)		9,913
Total assets less current liabilities			11,339		11,950
Creditors: amounts falling due after more than one year	15		(10,925)		(10,925)
Net assets			414		1,025
Capital and reserves					
Called up share capital	17		50		50
Profit and loss account			364		975
Total shareholders' funds			414		1,025

The financial statements of Monarch Holdings plc, registered number 01165001 were approved by the board of directors and authorised for issue on 9 April, 2010

Signed on behalf of the Board of Directors



D I Rawlinson
Director

Monarch Holdings plc

Consolidated cash flow statement Year ended 31 October 2009

	Note	£'000	2009 £'000	2008 £'000
Net cash inflow from operating activities	23		8,814	59,606
Returns on investments and servicing of finance				
Interest received		739	2,835	
Interest paid		(6,368)	(7,105)	
Finance lease and hire purchase interest	5	(17)	(8)	
Net cash outflow from returns on investments and servicing of finance			(5,646)	(4,278)
Taxation				
UK corporation tax (paid)/received			(382)	394
Capital expenditure and financial investments				
Payments to acquire tangible fixed assets		(35,876)	(37,628)	
Receipts from sales of tangible fixed assets		10,379	2,135	
Receipt from sale of fixed asset investments		1,600	-	
Net cash outflow from capital expenditure and financial investments			(23,897)	(35,493)
Dividends paid			(4,000)	(3,500)
Net cash (outflow)/inflow before financing			(25,111)	16,729
Management of liquid resources				
Decrease/(increase) in short-term deposits		1,595	(4,262)	
Net cash inflow/(outflow) from management of liquid resources			1,595	(4,262)
Financing				
Proceeds of sale and leaseback transactions		5,991	-	
Capital element of finance lease payments		(282)	(102)	
Shareholder loans		15,000	-	
Bank loan repayments		(11,566)	(12,069)	
Net cash inflow/(outflow) from financing			9,143	(12,171)
(Decrease)/increase in cash in the year	24, 25		(14,373)	296

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2009

1. Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below. These have been applied consistently throughout the current and preceding financial year.

Accounting convention

The financial statements are prepared under the historical cost convention, with exception of the revaluation of other fixed asset investments.

Basis of preparation

The directors have considered the uncertainties presented by current economic conditions in relation to demand, inflation and deflation, foreign exchange rates and the ability to raise finance in the foreseeable future.

The Group has incurred a loss for the year in exceptionally difficult trading conditions but has continued to meet all its debt repayment and interest obligations as they have fallen due through a combination of operating cash flows, sale and leaseback arrangements and shareholder facilities. Capital expenditure has been similarly funded.

The Group prepares a detailed budget by subsidiary company on an annual basis, each being approved by the relevant board of directors and Group Executive. A cash flow forecast extending to 30 April 2011 suggests (after separately assessing all amounts due regarding the Group's pension fund arrangements over that period) that the Group will be able to trade using operating cash flows for at least twelve months from the signing date of these accounts. This forecast is based on budget and experience of prior years, adjusting for known changes, although the nature of the industry and the market make it difficult to be precise about possible outcomes. The board believes that there is headroom in the forecast as well as having adopted some conservative assumptions.

Accordingly, the directors believe that the Group should be able to operate using available resources and that the going concern assumption remains appropriate.

Principal risks and uncertainties are discussed earlier in the directors' report.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all of its subsidiary undertakings as at 31 October 2009 using the acquisition method of accounting.

Turnover

Turnover represents the amount receivable from airline traffic revenue and related income, engineering services and incidental revenue, and for flights and tour operations departing within the year, exclusive of intra-Group trading, value added tax and other taxes. Other related revenues, such as aircraft bar sales, are recognised as revenue on the date that the right to receive consideration occurs.

Deferred revenue and related expenditure

Services invoiced prior to the year end, in respect of customer departures in future accounting periods, are carried forward as deferred income in the balance sheet. Costs incurred prior to the year end in respect of those services are also deferred until the date of customer departure. Brochure and promotional costs are charged to the profit and loss account over the season to which they relate where recovery of the costs is reasonably assured.

Intangible assets – intellectual property rights

Intellectual property assets are stated at cost, and are amortised over a period of 10 years. Provision is made for any impairment.

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2009

1. Accounting policies (continued)

Intangible assets - goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is 20 years. Provision is made for any impairment.

Tangible fixed assets – capitalisation

Fixed assets are stated at cost, less accumulated depreciation and any provision for impairment.

Tangible fixed assets – depreciation

Fixed assets are depreciated from the date when available for use at rates estimated to reduce them to their residual values over their estimated useful lives or the periods of applicable leases. The principal bases used are as follows:

Long leasehold property	Straight line over 50 years
Short leasehold property	Straight line over term of lease
Aircraft and engines	Straight line over 22 years to its residual value
Rotables	Net expenditure is written off over a period of up to 22 years to a residual value of 20% of cost on a straight line basis
Aircraft modifications and special work	Straight line over periods of up to 22 years. A residual value of 20% of cost is applied in respect of owned aircraft
Plant and equipment	Straight line over 3 to 10 years
Engine overhaul and maintenance costs	Amortised on a straight line basis over the period until the next scheduled overhaul

An element of the cost of a new aircraft is attributed on acquisition to prepaid maintenance of its engines and airframe and is amortised over the period until the next scheduled major overhaul. Subsequent costs incurred which extend the useful life to future periods, such as long-term maintenance and major overhaul of aircraft and engines, are capitalised as incurred.

Leased aircraft maintenance costs

The Group incurs liabilities for maintenance costs in respect of aircraft leased under operating leases during the term of the lease. These arise from the legal and constructive contractual obligations relating to the condition of the aircraft when it is returned to the lessor.

To discharge these obligations, the Group may need to carry out the maintenance check before the return of the aircraft to the lessor. The provisions recorded and charged to the profit and loss account are dependant on the life of the component or maintenance interval used and the individual terms of the lease, split into two categories,

1. No charge is recorded during the initial period of lease agreements where no compensation or maintenance is required prior to hand-back.
2. Once the component or maintenance interval has passed the trigger point such that the Group is contractually obliged to carry out the related work, a full provision for the work is recorded.

A maintenance asset is established within Engine Overhaul & Maintenance costs and Aircraft Modifications. The asset is depreciated over the expected period to the next maintenance event, or the end of lease, whichever is sooner.

Estimates are required for the likely utilisation of the aircraft, the expected cost of the maintenance check at the time it is expected to occur, the condition of the aircraft and the lifespan of the life limited parts. The bases of all estimates are reviewed once each year and also when information becomes available that is capable of causing a material change to an estimate, such as renegotiation of the end of lease return conditions, increased or decreased utilisation, or unanticipated changes in the cost of heavy maintenance services.

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2009

1. Accounting policies (continued)

Stock

Stock, including aircraft consumables, and work in progress is valued at the lower of cost and net realisable value. Cost is the original purchase cost. Provision is made for obsolete or defective items.

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred or, if explicitly hedged with a foreign currency forward contract, and not separately hedged against the cost of an aircraft as described below, at the forward contract rate. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date or, if appropriate, the forward contract rate. Any differences are taken to the profit and loss account.

Investments

The Company's investments in subsidiary undertakings are held at cost less any provision for impairment.

Current asset investments are shown at the lower of cost and net realisable value. Cash on deposit is classified as a current asset investment if it is not available, without penalty, within twenty-four hours.

Taxation

Current UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Leases

Assets held under finance leases and hire purchase contracts are capitalised and are depreciated over their estimated useful lives. Finance costs are charged to the profit and loss account over the period of the lease or hire purchase contract so as to produce a constant periodic rate of charge on the remaining balance of the obligation for each accounting period. Amounts payable under operating leases are charged to the profit and loss account as incurred. Crew training and aircraft introductory costs in respect of aircraft under operating leases are written off as incurred.

Pension costs

Contributions to defined contribution pension schemes are charged to the profit and loss account when payable. Any differences between the amounts payable and paid are recorded as either accruals or prepayments on the balance sheet.

For defined benefit schemes, of which the Group operates two, the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until the vesting occurs. The interest cost and the expected return on assets are shown as a net pension funding cost in interest receivable and payable. Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses.

The defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on high quality corporate bonds of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit schemes' assets or liabilities, net of the related deferred tax, are represented separately after other net assets on the face of the consolidated balance sheet.

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2009

1. Accounting policies (continued)

Aircraft maintenance provisions

Where the Group has a commitment to maintain aircraft held under operating leases, provision is made during the lease term for the rectification obligations contained within lease agreements, when the condition of a specific component falls below that specified in the lease. The provisions are based on estimated future costs of major airframe, certain engine maintenance checks and one-off costs to be incurred at the end of the lease.

2 Turnover, (loss)/profit before tax and net (liabilities)/assets

Group turnover, (loss)/profit before tax and net (liabilities)/assets are analysed as follows

Description of class of business:	Turnover		(Loss)/profit before tax		Net (liabilities)/assets	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Airline operations	517,681	551,192	(19,123)	3,283	22,122	21,845
Engineering services	21,615	21,962	2,483	445	26,374	24,006
Sale of airline seats	103,134	91,412	(5,227)	51	1,791	2,082
Tour operations	148,341	148,753	(12,450)	(328)	8,099	8,701
Net Group investments and borrowings	-	-	(2,887)	(3,196)	-	37,515
FRS 17 adjustment	-	-	6,843	6,403	(98,123)	(44,096)
	<u>790,771</u>	<u>813,319</u>	<u>(30,361)</u>	<u>6,658</u>	<u>(39,737)</u>	<u>50,053</u>

The Group operates two defined benefit pension schemes for staff in the airline operations, engineering services and tour operations divisions. The assets and liabilities of these schemes cannot be split between these divisions. Consequently in the analysis above each division has accounted for these schemes as defined contribution schemes, and only recognised their contributions payable to the schemes.

	2009 £'000	2008 £'000
Turnover by origin and destination is analysed by geographical market below:		
United Kingdom	780,163	798,287
Europe	9,316	9,353
North America	206	5,288
Africa	131	-
Asia	955	391
	<u>790,771</u>	<u>813,319</u>

The principal revenue earning assets of the Group are its aircraft fleet. Since the Group's aircraft fleet is employed flexibly across its route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2009

3. Information regarding directors and employees

	2009 £'000	2008 £'000
Directors' remuneration:		
Remuneration for management services	610	623

The emoluments of the highest paid director were	572	580
--	-----	-----

The accrued pension of the highest paid director from the defined benefit scheme at 31 October 2009 was £12,797 (2008 - £18,362) per annum

	2009 No.	2008 No.
The number of directors in a defined benefit pension scheme	1	1

Average number of employees of the Group during the year, including directors, was as follows:

Airline operations	1,935	1,964
Aircraft engineers	450	472
Tour operations	154	218
Administrative	547	564
	3,086	3,218

	2009 £'000	2009 £'000	2008 £'000	2008 £'000
Staff costs during the year (including directors):				
Wages and salaries		100,487		97,318
Social security costs		10,236		10,406
Pension costs				
- FRS17 service charge	2,926		6,600	
- Amounts included as other finance costs	3,665		(1,335)	
- Contributions to money purchase scheme	2,177		1,941	
- Amounts recognised in statement of total recognised gains and losses	82,002		4,756	
		90,770		11,962
		201,493		119,686

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2009

4. Operating (loss)/profit

	2009 £'000	2008 £'000
Operating (loss)/profit is after charging/(crediting):		
(Profit)/loss on sale of tangible fixed assets	(7)	433
Depreciation – tangible assets	38,878	32,661
Amortisation of intangible assets	747	747
Other operating income – exceptional gain on currency contracts	(4,731)	-
Operating lease rentals - plant and machinery	57,657	43,621
- other	3,841	3,021
	<u>3,841</u>	<u>3,021</u>

The analysis of auditors' remuneration is as follows:

	2009 £'000	2008 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	26	32
Fees payable to the Company's auditors and their associates for other services to the Group:		
The audit of the Company's subsidiaries pursuant to legislation	244	262
Total audit fees	<u>270</u>	<u>294</u>
- Tax services	48	101
- Other services	-	24
Total non-audit fees	<u>48</u>	<u>125</u>
Fees payable to the Company's auditors and their associates in respect of associated pension schemes		
Audit	12	12

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed for either year because the consolidated financial statements are required to disclose such fees on a consolidated basis

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2009

5. Net finance charges

	2009 £'000	2008 £'000
Interest payable and similar charges	3,652	7,113
Less investment income	(710)	(3,917)
Other finance charges/(income) – note 22	3,665	(1,335)
	<u>6,607</u>	<u>1,861</u>
Interest payable and similar charges		
Bank loans and overdrafts	3,665	7,105
Finance leases and hire purchase contracts	17	8
	<u>3,682</u>	<u>7,113</u>
Investment income		
Interest receivable and similar income	710	3,917
	<u>710</u>	<u>3,917</u>
Other finance charges/(income)		
Net finance charges/(income) on pension scheme	3,665	(1,335)
	<u>3,665</u>	<u>(1,335)</u>

6. Tax (credit)/charge on (loss)/profit on ordinary activities

(a) Tax (credit)/charge on (loss)/profit on ordinary activities

	2009 £'000	2008 £'000
Current tax		
United Kingdom corporation tax on (loss)/ profit for the year at 28% (2008 – 29%)	-	-
Adjustments in respect of previous periods	(109)	(508)
Total current tax credit	<u>(109)</u>	<u>(508)</u>
Deferred tax		
Origination and reversal of timing differences	(6,168)	378
Adjustment in respect of prior years	1	21
Change in estimate of recoverable amounts of deferred tax assets arising on prior gain	757	-
	<u>(5,410)</u>	<u>399</u>
Movement on deferred tax liability – note 16	(5,410)	399
Movement on pension deferred tax asset taken to profit and loss account	1,932	1,793
Total deferred tax (credit)/charge	<u>(3,478)</u>	<u>2,192</u>
Tax (credit)/charge on (loss)/profit on ordinary activities	<u>(3,587)</u>	<u>1,684</u>

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2009

6. Tax (credit)/charge on (loss)/profit on ordinary activities (continued)

(b) Factors affecting current tax (credit) for the year

The tax assessed for the year is different from the standard rate of corporation tax in the UK. The principal differences are explained below

	2009 %	2008 %
Standard rate of corporation tax	28	29
Effects of		
Expenses not deductible for tax purposes	4	(24)
Capital allowances for year in excess of depreciation	-	(6)
Other timing differences	-	1
Tax losses carried forward	(31)	-
Adjustment to tax charge in respect of previous periods	-	(8)
Current tax credit for the year	1	(8)

7. Dividends paid

	2009 £'000	2008 £'000
a) Amounts recognised as distributions to equity holders in the period		
Final paid dividend for the year ended 31 October 2009 of £80 (2008 - £70) per share	4,000	3,500
b) Proposed dividends not recognised in the period:		
Proposed final dividend for the year ended 31 October 2009 of £nil (2008 - £80) per ordinary share	-	4,000

8. Intangible fixed assets

Group	Goodwill on consolidation £'000	Intellectual property rights £'000	Total £'000
Cost			
At 1 November 2008 and at 31 October 2009	15,854	500	16,354
Amortisation			
At 1 November 2008	8,570	500	9,070
Charge for the financial year	747	-	747
At 31 October 2009	9,317	500	9,817
Net book value			
At 31 October 2009	6,537	-	6,537
At 31 October 2008	7,284	-	7,284

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2009

9. Tangible fixed assets

Group	Long leasehold property £'000	Short leasehold property £'000	Aircraft and engines £'000	Rotables £'000	Aircraft modifications and special work £'000	Plant and equipment £'000	Engine overhaul and maintenance costs £'000	Total £'000
Cost								
At 1 November 2008	16,412	8,467	243,755	54,212	29,967	39,770	71,434	464,017
Additions	21	15	5,267	4,851	4,370	1,180	40,984	56,688
Disposals	-	-	(6,287)	(14,707)	(6,541)	(385)	(14,319)	(42,239)
At 31 October 2009	16,433	8,482	242,735	44,356	27,796	40,565	98,099	478,466
Accumulated depreciation								
At 1 November 2008	6,183	4,083	80,545	30,230	20,030	32,071	36,723	209,865
Charge for the year	328	363	11,950	1,726	2,671	2,670	19,170	38,878
Disposals	-	-	(4,362)	(9,651)	(6,541)	(320)	(10,994)	(31,868)
At 31 October 2009	6,511	4,446	88,133	22,305	16,160	34,421	44,899	216,875
Net book value								
At 31 October 2009	9,922	4,036	154,602	22,051	11,636	6,144	53,200	261,591
At 31 October 2008	10,229	4,384	163,210	23,982	9,937	7,699	34,711	254,152

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2009

9. Tangible fixed assets (continued)

The plant and equipment cost includes £93,000 (2008 - £190,000) in respect of assets which are subject to hire purchase and finance lease contracts. The accumulated depreciation of these assets is £23,000 (2008 - £50,000). The related depreciation charge for the year was £23,000 (2008 - £24,000).

The cost of the long leasehold property includes £68,000 (2008 - £68,000) of capitalised interest.

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Commitments for capital expenditure				
Contracted for but not provided in the financial statements	<u>1,704</u>	<u>2,395</u>	<u>-</u>	<u>-</u>

10. Fixed asset investments

Group	Other non-listed investments £'000
Cost	
At 1 November 2008	40,539
Additions	595
Disposals	<u>(41,134)</u>
At 31 October 2009	<u>-</u>
Provision for impairment	
At 1 November 2008	3,024
Disposals	<u>(3,024)</u>
At 31 October 2009	<u>-</u>
Net book value	
At 31 October 2009	<u>-</u>
At 31 October 2008	<u>37,515</u>

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2009

10. Fixed asset investments (continued)

Company	Shares in subsidiary undertakings £'000	Loans to subsidiaries £'000	Total £'000
Cost or valuation			
At 1 November 2008	2,037	-	2,037
Transfers	-	13,000	13,000
At 31 October 2009	2,037	13,000	15,037
Provisions for impairment			
At 1 November 2008 and at 31 October 2009	-	-	-
Net book value			
At 31 October 2009	2,037	13,000	15,037
At 31 October 2008	2,037	-	2,037

Principal Group investments

The parent Company and the Group have investments in the following subsidiary undertakings and investments, which principally affected the profits or net assets of the Group. The principal investments include the following:

Subsidiary undertakings	Country of incorporation and operation	Principal activity	Holding	%
Avro plc	England and Wales	Sale of airline seats	16,100,000 ordinary £1 shares	100
Cosmos Holidays plc	England and Wales	Tour operator	25,200,000 ordinary £1 shares	100
Monarch Aircraft Engineering Limited*	England and Wales	Aircraft engineering and maintenance	100,000 ordinary £1 shares	100
Monarch Airlines Limited*	England and Wales	Airline operator	100,000 ordinary £1 shares	100
Monarch Airlines Leasing Limited	England and Wales	Leasing of equipment	2 ordinary £1 shares	100
Monarch Technical Support Limited*	England and Wales	Engineering and technical services	2 ordinary £1 shares	100
Monarch Travel Group Limited *	England and Wales	Holding Company	20,000 ordinary £1 shares	100
First Aviation Limited*	England and Wales	Charter aircraft broker	25,000 ordinary £1 shares	100

*Held directly by Monarch Holdings plc

During the year ended 31 October 2009, the Group sold its shares and loan notes in Airline Group Limited for £37m, refer to notes 19 and 26 for further details

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2009

11. Stocks

	Group 2009 £'000	Group 2008 £'000
Cabin consumables	717	1,033
Engineering stock	11,628	10,866
Goods held for resale	275	314
	<u>12,620</u>	<u>12,213</u>

In the opinion of the directors the replacement cost of stocks is not materially different to the above amounts for both accounting period ends

12. Debtors

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Amounts falling due within one year:				
Trade debtors	47,963	75,191	-	-
Amounts owed by group undertakings	-	-	666	-
Corporation tax recoverable	278	210	10	10
Group relief receivable	-	-	124	-
Other debtors	40,805	7,335	-	-
Prepayments and accrued income	68,621	53,343	-	-
	<u>157,667</u>	<u>136,079</u>	<u>800</u>	<u>10</u>
Amounts falling due after more than one year:				
Amounts owed by Group undertaking	-	-	1,500	14,500
Prepayments and accrued income	2,389	2,572	-	-
	<u>2,389</u>	<u>2,572</u>	<u>1,500</u>	<u>14,500</u>
Total debtors	<u>160,056</u>	<u>138,651</u>	<u>2,300</u>	<u>14,510</u>

13. Current asset investments

	Group 2009 £'000	Group 2008 £'000
Other investments – cash on deposit	<u>18,685</u>	<u>20,280</u>

The cash on deposit represents 'restricted cash' to provide security on facilities made available by banks in respect of advanced bookings and certain other arrangements

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2009

14. Creditors: amounts falling due within one year

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Bank loans (secured)	12,094	11,571	-	-
Other loans (secured, see notes 26 and 28)	15,000	-	-	-
Obligations under hire purchase contracts and finance leases	770	122	-	-
Trade creditors	47,117	53,668	-	-
Amounts owed to Group undertakings	-	-	5,951	4,362
Group relief payable	-	-	-	210
Other taxation and social security costs	6,216	4,433	-	-
Other creditors	4,508	3,714	47	25
	<u>85,705</u>	<u>73,508</u>	<u>5,998</u>	<u>4,597</u>

Further details regarding loans, finance leases and hire purchase contracts are shown in note 15. The 'other loan' is secured against certain aircraft owned by the group.

15. Creditors: amounts falling due after more than one year

	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Bank loans (secured)	75,495	87,584	-	-
Obligations under hire purchase contracts and finance leases	5,148	76	-	-
Amounts owed to Group undertakings	-	-	9,775	9,775
Other loan	1,150	1,150	1,150	1,150
	<u>81,793</u>	<u>88,810</u>	<u>10,925</u>	<u>10,925</u>
Borrowings repayable in more than five years	<u>25,423</u>	<u>33,873</u>	<u>-</u>	<u>-</u>
Obligations under hire purchase contracts and finance leases				
On demand or within one year (note 14)	770	122	-	-
Between one and two years	721	61	-	-
Between two and five years	1,495	15	-	-
After five years	2,932	-	-	-
	<u>5,918</u>	<u>198</u>	<u>-</u>	<u>-</u>
Amounts owing to Group undertakings				
After five years	-	-	9,775	9,775
Other loan				
After five years (see note 26)	<u>1,150</u>	<u>1,150</u>	<u>1,150</u>	<u>1,150</u>

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2009

15. Creditors: amounts falling due after more than one year (continued)

The bank loans are secured upon aircraft and leasehold property. These loans bear interest linked to Sterling LIBOR and are repayable over periods of 12-15 years.

The obligations under finance leases and hire purchase contracts are effectively secured on the assets held under those leases.

The amount owed by the Company to a Group undertaking was not interest-bearing during the year (2008 – £nil). This amount is repayable after more than five years, there are no other terms for repayment.

The other loan is interest free and is repayable after more than five years. There are no other terms for repayment.

16. Provisions for liabilities

Group	Un-utilised leasehold £'000	Maintenance reserves £'000	Deferred Tax £'000	Total £'000
At 1 November 2008	817	9,358	30,232	40,407
Credit to profit and loss account	-	(867)	(5,410)	(6,277)
Provisions made in year	-	15,638	-	15,638
Utilised in the year	(502)	-	-	(502)
Other movements (*)	-	(500)	-	(500)
Credited to the statement of total recognised gains and losses	-	-	(25)	(25)
At 31 October 2009	315	23,629	24,797	48,741

(*) The other movements comprise a deposit repaid for a lease of an aircraft.

Deferred taxation

The total potential amount of deferred tax on timing differences and the amount for which provision at 28% (2008 – 28%) has been made is:

	Group Provided 2009 £	Group Provided 2008 £
Tax losses	(6,316)	-
Accelerated capital allowances	24,762	24,217
Other timing differences	(285)	(436)
Foreign exchange	6,636	6,451
	24,797	30,232

Un-utilised leasehold

The provision relates to part of a property lease which is currently being marketed for tenants.

Maintenance reserves

Where the Group has a commitment to maintain aircraft held under operating leases, provision is made during the lease term for the rectification obligations contained within lease agreements, when the condition of a specific component falls below that specified in the lease. The provisions are based on estimated future costs of major airframe, certain engine maintenance checks and one-off costs to be incurred at the end of the lease.

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2009

17. Called up share capital

	2009 £'000	2008 £'000
Authorised, called up, allotted and fully paid 50,000 ordinary shares of £1 each	50	50

18 Foreign exchange translation adjustment

	2009 £'000	2008 £'000
The foreign exchange translation adjustment comprises:		
Aircraft and engines – cost	-	1600
Aircraft and engines – depreciation	-	(292)
	-	1,308
Outstanding loans (note 25)	-	(971)
Depreciation charge	-	14
Interest charge	-	(57)
Overall gain	-	294

19. Contingent liabilities

Bank guarantees have been made to various suppliers of the Group, including airports, fuel suppliers, ground handling agents, customs agencies and lessors, totalling £19,143,000 (2008 - £17,430,000). These guarantees are in addition to the restricted cash disclosed in note 13 and financial commitments disclosed in note 20.

In accordance with the terms of the Cosmos Holidays plc and Avro plc's CAA licence and membership of the Federation of Tour Operators, the Group and Company have arranged bonding of some £732,000 (2008 - £2,205,000) through bankers under which the amount bonded becomes payable in the event that this Company should be unable to carry out its obligations to its customers.

During the year ended 31 October 2009 the Group sold its equity shares and loan stock in Airline Group Limited to the Monarch Airlines Limited Retirement Benefits Plan for £37,000,000. As part of the deal, the Group agreed to reimburse the pension scheme for any loss incurred if the equity shares and loan stock are sold for less than the acquisition price. The directors consider it unlikely that any liability will arise.

In July 2009, Cosmos Holidays plc entered into a joint venture with the Co-op Group to form Co-operative Holidays. As part of this agreement, Cosmos Holidays plc provided a £10,000,000 guarantee.

At 31 October 2009, there were other contingent liabilities and commitments of the Group arising in the ordinary course of business. The directors are of the opinion that no material loss will arise under these arrangements. The directors were of the same opinion about the contingent liabilities in existence at 31 October 2008.

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2009

20. Commitments

Operating leases

At 31 October 2009, the Group had annual commitments under non-cancellable operating leases as set out below

	Aircraft and engines £'000	Land and buildings £'000	Other £'000	Total £'000
Operating leases which expire:				
Within one year	2,254	1,112	7	3,373
In the second to fifth year inclusive	44,348	233	1,018	45,599
After five years	11,055	1,533	225	12,813
	<u>57,657</u>	<u>2,878</u>	<u>1,250</u>	<u>61,785</u>

At 31 October 2008 the Group had annual commitments under non-cancellable operating leases as set out below

	Aircraft and engines £'000	Land and buildings £'000	Other £'000	Total £'000
Operating leases which expire:				
Within one year	1,221	255	982	2,458
In the second to fifth year inclusive	47,600	1,093	80	48,773
After five years	4,830	1,471	-	6,301
	<u>53,651</u>	<u>2,819</u>	<u>1,062</u>	<u>57,532</u>

Other finance commitments

At 31 October 2009, the Group had commitments under fixed forward exchange contracts entered into in the ordinary course of business amounting to £287,145,000 (2008 - £400,923,000)

At 31 October 2009, the Group had jet fuel swaps entered into in the ordinary course of business to hedge an amount of £99,877,000 (2008 - £236,471,000) of their future jet fuel purchases

The fair value of derivative transactions entered into to hedge future operating costs is not recognised in the accounts. At 31 October 2009 the Group had an unrecognised gain on their forward exchange contracts of £2,632,000 (2008 – gain of £59,704,000) and an unrecognised gain on their jet fuel swaps of £136,000 (2008 - loss of £74,611,000)

21. Profit for the financial year

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company has not been presented in these financial statements. The consolidated profit for the financial year includes a profit after tax and before dividends of £3,389,000 (2008 – profit of £3,318,000) which has been dealt with in the financial statements of the Company

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2009

22. Pension arrangements

For the year ended 31 October 2009, the Group has applied FRS17 as outlined by the Accounting Standards Board in December 2006

Future contributions

It is anticipated that contributions of up to £4.9 million could be made to the Monarch Airline Retirements Benefits Plan in the next financial year. From 1 November 2009, employer contributions to the Aircrew Section will remain at 19.0% of pensionable salaries and at 10.7% of pensionable salaries in respect of members of the Groundstaff section. Additional monthly payments will be £nil (2008 £717,000 per month).

Defined contribution schemes

The Group made contributions to the defined contribution scheme of £2,177,000 (2008 – £1,941,000). There were outstanding contributions at the year end of £nil (2008 – £nil).

Defined benefit schemes

Monarch Airlines Limited Retirement Benefits Plan

Certain subsidiaries operate a jointly funded defined benefit pension scheme for UK employees. The assets of the scheme are administered by Trustees and are held in separate funds.

The scheme is subject to a triennial valuation by independent actuaries. A full actuarial valuation was last carried out at 30 June 2007, a summary of the following position as at 30 June 2007, produced in accordance with the Pensions Act 2004, showed a shortfall in the scheme relative to the Statutory Funding Objective of £103.4m.

During the twelve month period, in accordance with the actuary's recommendations, in respect of the Groundstaff section the Group has made contributions of 7.6% of pensionable salaries and members made contributions of 7.5% for those accruing 1/60th, 5.5% for those accruing 1/70th and 4% for those accruing at 1/80th. In respect of the Aircrew Section the Group made contributions of 13.9% of pensionable salaries. Members of the Aircrew Section made contributions of 14.3% for those accruing 1/50th, 12.1% for those accruing 1/55th and 10% for those accruing at 1/60th. In addition to the contributions for each section, the Group contributed a further £615,000 per month to the scheme. These contributions are in accordance with the actuary's recommendations and are considered by him to be sufficient to enable the scheme to meet its liabilities as they fall due.

Cosmosair Pension and Life Assurance Scheme

Certain subsidiaries operate a funded defined benefit scheme for qualifying employees. The assets of the scheme are held in separate funds.

The scheme is subject to a triennial valuation by independent actuaries with the last full actuarial valuation carried out at 1 June 2009. The employers' contribution rate over the average remaining service lives of the members of the scheme takes account of the surplus disclosed by the valuation.

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2009

22. Pension arrangements (continued)

Defined benefit schemes (continued)

The financial assumptions under FRS 17 used by the actuaries were

	2009		2008	
	Cosmosair Pension and Life Assurance Scheme	Monarch Airlines Limited Retirement Benefit Plan	Cosmosair Pension and Life Assurance Scheme	Monarch Airlines Limited Retirement Benefit Plan
Rate of increase in salaries	4.50%	4.50%	3.80%	4.15%
Rate of increase for pensions in payment	2.99%	3.20%	2.70%	3.00%
Discount rate	5.60%	5.60%	7.57%	7.57%
Inflation assumption	3.40%	3.40%	3.05%	3.05%
Increase in deferred pension	3.40%	3.40%	3.05%	3.05%
Mortality before retirement				
Males	PMA92 Medium Cohort (Y O B)	PMA92 Medium Cohort (Y O B)	PMA92 Medium Cohort (Y O B)	PMA92 Medium Cohort (Y O B)
Females	PFA92 Medium Cohort (Y O B)	PFA92 Medium Cohort (Y O B)	PFA92 Medium Cohort (Y O B)	PFA92 Medium Cohort (Y O B)
Mortality before retirement				
Males	PMA92 Medium Cohort (Y O B)	PMA92 Medium Cohort (Y O B)	PMA92 Medium Cohort (Y O B)	PMA92 Medium Cohort (Y O B)
Females	PFA92 Medium Cohort (Y O B)	PFA92 Medium Cohort (Y O B)	PFA92 Medium Cohort (Y O B)	PFA92 Medium Cohort (Y O B)
Weighted average life expectancy to determine benefit obligations:				
Member age 65 (current life expectancy)				
Males	22.0	22.0	22.0	22.0
Females	24.9	24.9	24.9	24.8
Member age 45 (life expectancy at 65)				
Males	23.1	23.1	23.1	23.1
Females	25.9	25.9	25.9	25.9

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2009

22. Pension arrangements (continued)

Defined benefit schemes (continued)

Assumptions and sensitivities

The directors have chosen assumptions as at 31 October 2009, which reflect a consistent approach with previous years. Key sensitivities within those assumptions are as follows:

- the discount rate is determined with reference to AA rated corporate bond yields of appropriate term and currency to the liabilities of the Plan. This year's determination of the 5.60% discount rate used a Mercer yield curve to derive the single equivalent discount rate. This ranged from 5.50% - 5.70% in the 3 months following the end of the financial year.
- a 0.25% movement in the discount rate would impact liabilities by approximately £11m
- a 0.25% movement in inflation would impact liabilities by approximately £16m

Expected return on fund assets

The return on bonds and cash has been determined by taking the market values and/or yields on AA corporate bonds and government bonds applicable at the reporting date. The expected return on equities was set by adding an equity risk premium to the yield available on fixed interest government bonds with a 15 year term as at the balance sheet date.

Reconciliation to balance sheet

The fair value of the assets and the present value of the liabilities in the schemes and the expected rate of return at each balance sheet date were:

	Monarch Airlines Limited Retirement Benefits Plan		Monarch Airlines Limited Retirement Benefits Plan		Monarch Airlines Limited Retirement Benefits Plan	
	2009	2009	2008	2008	2007	2007
	%	£'000	%	£'000	%	£'000
Equities	7.20	163,629	8.10	160,452	8.10	211,072
Bonds	4.75	41,172	6.25	28,096	5.77	43,488
Other – Cash	0.50	37,843	4.50	1,734	5.77	3,249
Total market value of assets		242,644		190,282		257,809
Present value of scheme liabilities		(379,277)		(251,624)		(321,008)
Deficit in the scheme		(136,633)		(61,342)		(63,199)
Related deferred tax asset		38,257		17,176		17,698
Net pension liability on an FRS 17 basis		<u>(98,376)</u>		<u>(44,166)</u>		<u>(45,501)</u>

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2009

22. Pension arrangements (continued)

Reconciliation to balance sheet (continued)

	Cosmosair Pension and Life Assurance Scheme		Cosmosair Pension and Life Assurance Scheme		Cosmos Pension and Life Assurance Scheme	
	2009 %	2009 £'000	2008 %	2008 £'000	2007 %	2007 £'000
Equities	7.0	1,385	8.1	1,509	7.1	1,401
Fixed interest and cash	4.0	1,399	4.9	1,171	5.8	1,009
Property	7.0	369	8.1	400	7.1	391
Purchased annuities	4.0	651	4.9	545	5.8	653
		<u>3,804</u>		<u>3,625</u>		<u>3,454</u>
Total market value of assets		3,804		3,625		3,454
Present value of scheme liabilities		(3,109)		(2,214)		(2,913)
		<u>695</u>		<u>1,411</u>		<u>541</u>
Surplus in the scheme		695		1,411		541
Unrecoverable surplus		(345)		(1,248)		(168)
Related deferred tax liability		(98)		(46)		(112)
		<u>252</u>		<u>117</u>		<u>261</u>
Net pension asset on an FRS 17 basis		252		117		261
		<u>2009</u>		<u>2008</u>		<u>2007</u>
		<u>£'000</u>		<u>£'000</u>		<u>£'000</u>
Net pension liability:						
Pension liability of Monarch Airlines Limited Retirement Benefits Plan		(98,376)		(44,166)		(45,501)
Pension asset of Cosmosair Pension and Life Assurance Scheme		252		117		261
		<u>(98,124)</u>		<u>(44,049)</u>		<u>(45,240)</u>
Total net pension liability included in consolidated balance sheet		(98,124)		(44,049)		(45,240)
Analysis of the amount charged to operating profit						
		<u>2009</u>		<u>2008</u>		<u>2007</u>
		<u>£'000</u>		<u>£'000</u>		<u>£'000</u>
Current service cost		2,926		6,600		

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2009

22. Pension arrangements (continued)

Defined benefit schemes (continued)

Analysis of the amount charged to finance costs (continued)

	2009 £'000	2008 £'000
Expected return on pension scheme assets	15,285	20,315
Interest on pension liabilities	(18,950)	(18,980)
Net (charge)/return	(3,665)	1,335
Actual return on plan assets	48,127	(69,437)

Analysis of the amount recognised in the statement of total recognised gains and losses ("STRGL")

	2009 £'000	2008 £'000
Actuarial loss recognised in the STRGL	(82,905)	(3,676)
Change in restriction on unrecoverable surplus	903	(1,080)
	(82,002)	(4,756)
Cumulative loss/(gain) recognised in the STRGL	38,749	(47,789)

Movement in net deficit during the year

	2009 £'000	2008 £'000
Changes in benefit obligations		
Benefit obligations at beginning of year	253,838	323,921
Current service costs	2,926	6,600
Interest cost	18,950	18,980
Plan participants' contributions	3,139	3,624
Past service costs	-	-
Actuarial losses/(gains)	115,747	(86,076)
Benefits paid	(12,214)	(13,211)

Benefits obligations at end of year for plans that are wholly or partly funded	382,386	253,838
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Change in plan assets

Fair value of assets at beginning of year	193,907	261,263
Expected return on plan assets	15,285	20,315
Actuarial gains/(losses)	32,842	(89,752)
Employer contributions	13,489	11,668
Member contributions	3,139	3,624
Benefits paid	(12,214)	(13,211)

Fair value of plan assets at year end	246,448	193,907
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Restrictions due to unrecoverable surplus	(345)	(1,248)
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Net amount recognised	(136,283)	(61,179)
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Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2009

22. Pension arrangements (continued)

Defined benefit schemes (continued)

Movement in net deficit during the year (continued)

	2009 £'000	2008 £'000
Represented by		
Monarch Airlines Limited Retirement Benefit Plan	(136,633)	(61,342)
Cosmosair Pension and Life Assurance Scheme	350	163
Net pension deficit	<u>(136,283)</u>	<u>(61,179)</u>

Five year history

	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Benefit obligation at end of year	(382,386)	(253,838)	(323,921)	(331,362)	(334,969)
Fair value of assets at end of year*	246,448	193,907	261,263	226,764	185,962
Unrecoverable surplus	(345)	(1,248)	(168)	-	-
	<u>(136,283)</u>	<u>(61,179)</u>	<u>(62,826)</u>	<u>(104,598)</u>	<u>(149,007)</u>

Difference between actual and expected return of scheme assets:

Amount (£'000)	32,842	(89,752)	9,380	20,409	14,072
Percentage of schemes liabilities (%)	13.3%	(46.3%)	3.6%	9.0%	7.0%

Experience gains and losses on scheme liabilities:

Amount (£'000)	(1,837)	2,834	27,862	(261)	(2,029)
Percentage of schemes assets (%)	0.5%	(1.1%)	(8.6%)	0.1%	0.6%

* Note for the years ended 31 October 2007, 2006 and 2005 the fair value of the assets is stated at mid-market price as opposed to bid price

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2009

23. Reconciliation of operating (loss)/profit to net cash inflow from operating activities

	2009 £'000	2008 £'000
Operating (loss)/profit	(24,244)	8,519
Amortisation – intangible fixed assets	747	747
Depreciation – tangible fixed assets	38,878	32,661
(Profit)/loss on sale of tangible fixed assets	(7)	433
Increase in stocks	(407)	(1,058)
Increase in debtors	(2,327)	(13,130)
Increase in creditors, pensions and other items	(3,826)	31,434
Net cash inflow from operating activities	8,814	59,606

24. Reconciliation of net cash flow to movement in net debt

	2009 £'000	2008 £'000
(Decrease)/increase in cash in the year	(14,373)	296
Cash used to repay debt	11,848	12,171
Cash inflow from financing activities	(20,991)	-
(Decrease)/increase in liquid resources	(1,595)	4,262
Change in net debt resulting from cash flows	(25,111)	16,729
New finance leases	(11)	(106)
Foreign exchange movements (note 18)	-	(971)
Movement in net debt in the year	(25,122)	15,652
Opening net debt	(54,092)	(69,744)
Closing net debt	(79,214)	(54,092)

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2009

25. Analysis of net debt

	At 1 November 2008 £'000	Cash flows £'000	Non-cash changes £'000	At 31 October 2009 £'000
Cash at bank and in hand	26,131	(14,373)	-	11,758
Bank loans due after one year	(87,584)	-	12,089	(75,495)
Bank loans due within one year	(11,571)	11,566	(12,089)	(12,094)
Shareholder loans	-	(15,000)	-	(15,000)
Finance leases and hire purchase obligations	(198)	(5,709)	(11)	(5,918)
Other loan	(1,150)	-	-	(1,150)
	(100,503)	(9,143)	(11)	(109,657)
Current asset investments	20,280	(1,595)	-	18,685
Total	(54,092)	(25,111)	(11)	(79,214)

26. Related party transactions

Set out below is a summary of related party transactions between

- The Company or subsidiary undertakings of the Company, and
- Companies or individuals who are related parties of the Company or Group where the transaction or balance is not specifically exempted from disclosure by FRS 8 'Related Party Disclosures'

All such transactions have been executed on an arm's length basis

	Transaction	Related Party
1	Loan to Monarch Holdings plc on interest free terms and with no fixed terms for repayment. The amount due to the related party at 31 October 2009 was £1 15m (2008 - £1 15m)	Cosmosguide Holding International NV as lender
2	Operating leases to the company of aircraft, engines and rotatable components at a cost of £22 9m (2008 - £18 7m) in the period. These leases are for periods of between 1 and 12 years at rentals ranging from £0 3m to £4 3m per annum (2008 - £0 1m to £4 3m)	Various lessors

The amount due to the lessors at 31 October 2009 was £2 8m (2008 - £2 8m)

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2009

26. Related party transactions (continued)

Transaction	Related Party
3 Provision of insurance and insurance services to the company in respect of the aircraft fleet, property, and motor vehicles amounting to £5.4m (2008 - £6.2m) in the year. The amount due to the related party at 31 October 2009 was £4.3m (2008 - £2.9m). There were also amounts due from Voyager to Monarch Airlines Limited to the value of £1.2m (2008 - £0.2m) in relation to insurance claims agreed and awaiting settlement.	Voyager Insurance Company Limited as provider of insurance and insurance services
4 Under a Rebate Assignment dated 15 April 1988, and supplemental agreements dated 15 July 1991 and 29 June 1992, the company is providing security for the obligations of Andrair Limited, to the head lessor (an unrelated third party) of an aircraft which is subleased by Andrair Limited to Monarch Airlines Limited. The annual lease rental was £1.0m. However a liability will only arise if Andrair Limited defaults in its lease payment obligations. The quantum of any such liability would be based on the net proceeds of sale of the aircraft which cannot be determined at the present time.	Andrair Limited as lessee of an aircraft and beneficiary of security agreements
5 On 26 April 1989 the company gave a guarantee in respect of the obligations of Tourwise of London Limited to an unrelated third party, under a property lease. The lease, which is for a term of 25 years, commenced on 25 December 1985 at an initial rent of £135,500 per annum. Any liability of the company is fully indemnified by Glossa Travel Services International NV (see transaction 6).	Tourwise of London Limited as beneficiary of guarantee
6 Pursuant to an agreement dated 24 November 1989 any liability of the company under the guarantee of the lease referred to in transaction 5 is fully indemnified.	Glossa Travel Services International NV as provider of an indemnity
7 During the year Monarch Airlines incurred costs of £m1 (2008 - £239,000) in respect of guarantee fees payable in connection with the acquisition of aircraft. The guarantee expired during the year ended 31 October 2008.	Renfro Corporation as guarantor
8 Sale of seats to the related party by subsidiary undertakings of the Company amounting to £1,248,000 (2008 - £1,764,000). At 31 October 2009 £364,000 (2008 - £616,000) was due from the related party.	Cosmos Transport Services Limited as seat broker

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2009

26. Related party transactions (continued)

	Transaction	Related Party
9	The sum of £3,346,000 (2008 - £2,757,000) was due to the related party at 31 October 2009 in respect of scheduled airline seats paid by the related party on behalf of the Company	Cosmos Coach Tours Limited
10	Fee for provision of bonds with regulatory bodies £75,360 (2008 - £77,190) of which £nil relates to future accounting periods	Tourama Limited as provider
11	Fee for provision of resort and administrative services and liability insurance £710,307 (2008 - £580,012)	Tourama Limited as provider
12	The balance due from Tourama Limited at 31 October 2009 was £192,204 (2008 - £28,390,661) This covers transactions 10 and 11 above and payments made by Tourama Limited to unrelated third parties as paying agent of the company	Tourama Limited as debtor
13	Fee for provision of management services to the company £50,000 (2008 - £50,000)	Cosmosguide Holding International NV as provider
14	Licence fee for use of the 'Cosmos' name £135,000 (2008 - £125,000) The balance due at 31 October 2009 was £168,000 (2008 - £135,000)	Cosmos European Travels Aktiengesellschaft as proprietor
15	Administration fees, contribution to central overheads, supply of UK airport departure point services charged to the related parties amounted to £1,712,229 (2008 - £2,037,267) in the year, and purchases of scheduled service seats from the related parties of £1,965,618 (2008 - £3,019,000) The balance due from these related parties at 31 October 2009 was £3,062,064 (2008 - £12,503,784) includes holiday booking monies received on behalf of Cosmos Coach Tours Limited	Cosmos Coach Tours Limited and Archers Tours Limited as users and providers of services
16	D L Bernstein invoiced the company £37,568 (2008 - £42,271) for his services during the year As at the year end there were no outstanding invoices owed to D L Bernstein	D L Bernstein as a director of Monarch Airlines Limited
17	D I Rawlinson invoiced the company £10,500 (2008 - £nil) for his consulting services during the year As at the year end there was £10,500 outstanding for invoices owed to D I Rawlinson	D I Rawlinson as a director of Monarch Holdings PLC
18	In October 2009, Monarch Aircraft Leasing Limited borrowed £15m from Transcontinental Aviation Limited (also see note 28)	Transcontinental Aviation Limited as lender
19	In October 2009, Monarch Airlines Limited sold its equity shares and loan stock in Airline Group Limited to the Monarch Airlines Limited Retirement Benefits Plan for £37m	Monarch Airlines Limited Retirement Benefits Plan as purchaser

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2009

27. Ultimate parent Company and controlling party

The directors consider that the Company's ultimate and immediate parent Company and its controlling party is Amerald Investments NV, a Company incorporated in the Netherlands Antilles, the accounts of which are neither consolidated nor publicly available

The directors consider that Mr S Mantegazza, Mr G Mantegazza and Mr M Albek are together the ultimate controlling parties of the Company

28. Post balance sheet events

Subsequent to the year end, Transcontinental Aviation Limited (a separate shareholder company) loaned £25,000,000 to Monarch Airlines Limited, a subsidiary of the Group, to provide further working capital. This loan is secured against certain assets of the Group and does not fall due for repayment within a period less than twelve months from the date of approval of the financial statements.

In addition, the terms of the £15,000,000 loan between Monarch Airlines Leasing Limited and Transcontinental Aviation Limited were revised so that the loan does not fall due for repayment within a period less than twelve months from the date of approval of the financial statements.

