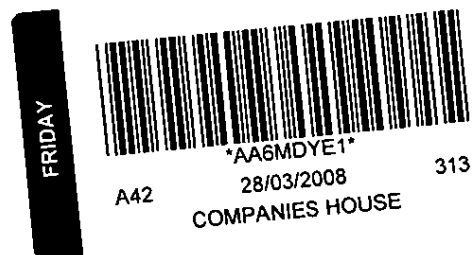


Company Registration No. 1165001

Monarch Holdings plc

Annual Report and Financial Statements

31 October 2007



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Monarch Holdings plc

Annual report and financial statements 2007

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Monarch Holdings plc

Annual report and financial statements 2007

Officers and professional advisers

Directors

D L Bernstein
P R Brown
F J Donagh

Secretary

G Atkinson

Registered office

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

Independent auditors

Deloitte & Touche LLP
Chartered Accountants
Crawley

Monarch Holdings plc

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 October 2007

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 positions of the Group and Company at the balance sheet date are set out on pages 11 and 12. The directors are pleased that, despite continued challenging market conditions, the Group has recorded a profit before tax of £7.5m (2006 - £8.8m) on turnover that decreased by £28.3m to £705.1m. The Group also won a number of travel industry awards in 2007.

During the year Monarch Airlines operated 31 aircraft from its main bases at Gatwick, Manchester, Birmingham and Luton. It took delivery of three A321 aircraft during the year to enhance its scheduled services operations through the development of new routes. There are plans to increase the fleet in 2008 by a further two aircraft. An order has been placed by the Group's ultimate shareholders for six Boeing 787 aircraft which are expected to be delivered between 2010 and 2013.

The Group's intention to operate Boeing 787's demonstrates its commitment to the sustainability of aviation with this aircraft type being the most environmentally efficient aircraft currently available. Furthermore, Monarch now offers its scheduled customers the opportunity to make a contribution to a carbon offset scheme during the booking process.

Monarch Aircraft Engineering Limited saw considerable changes occurring within the charter airline sector in the UK with the merger of Thomas Cook and MyTravel as well as the merger of First Choice with TUI. First Choice and Thomas Cook are major customers of Monarch Engineering and whilst there has been no impact in the current financial year from the First Choice merger, Thomas Cook had an immediate impact as the maintenance capacity as it was absorbed by MyTravel. Additionally BMED was purchased by BMI but again this had no impact in the financial year. Going forward, whilst volatility in the maintenance environment remains, the capacity for maintenance in the UK has decreased and therefore there remains opportunity in the market. It is also heartening to see that maintenance man-hour rates have increased as a result. The Group also initiated major internal projects to replace its information and control systems and to rationalise its logistical control of spares. This is now complete and places the organisation in a good position to take full advantage of the efficiencies this will bring in the competitive market in which we work.

The Cosmos Holidays plc results for the year continued to show trading improvements as a result of an ongoing focus towards the Eastern Mediterranean and away from short haul Western Mediterranean destinations. With continued focus on distribution through controlled channels, the Group believes it is better prepared to capitalise on the continually changing market requirements. The Group continues to be affected by the competitive market in which it operates, and by economic and political factors in both the UK and worldwide.

The Avro plc results for the year were a significant improvement on the previous year and were aided by better market conditions in the UK and improved technology and distribution methods that enabled the Group to compete more profitably in a competitive market. Avro continues to re-shape its business model, reducing its reliance on some of the more traditional 'seat only' sectors, while growing new destinations. The Group is also further improving its technology and distribution methods in order to enable it continue to compete in a crowded market.

First Aviation's result for the year have been acceptable, given the economic and business climate. The directors anticipate that there will be an acceptable outcome to the future year's trading given a favourable economic climate.

Monarch Holdings plc

Directors' report (continued)

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 re-cyclable 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 continues to be actively 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 survey 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 revenue.

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 US Dollar and 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, and investments

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). The Group also actively manages the level of working capital.

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 proposed a dividend of £3,500,000 (2006 - £4,500,000) for the year. During the year the company paid the 2006 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 £1,163 (2006 - £1,332), comprising £nil (2006 - £550) to national and £1,163 (2006 - £782) to local charities. The Group made no donations during the year for political purposes (2006 - £nil).

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.

Monarch Holdings plc

Directors' report (continued)

Directors

The directors of the Company during the year were

D L Bernstein

P R Brown

F J Donagh

All directors served throughout the year

Policy on payment of creditors

The Company's policy for the year to 31 October 2007 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 2007 was 42 (2006 - 44)

Independent auditors

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

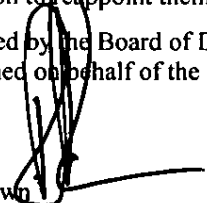
(1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(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 s234ZA of the Companies Act 1985

Deloitte & Touche 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

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



P R Brown
Director
14 March, 2008

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). The financial statements are required by law to 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 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 proper accounting records that 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 1985. 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 (the "financial statements") of Monarch Holdings plc for the year ended 31 October 2007 which comprise the 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 and the consolidated and Company combined statements of movements in reserves and reconciliation of movements in shareholders' funds and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent Company's affairs as at 31 October 2007 and of the Group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors,
Crawley, United Kingdom

14 March, 2008

Monarch Holdings plc

Consolidated profit and loss account Year ended 31 October 2007

	Note	2007 £'000	2006 £'000
Turnover	1, 2	705,061	733,391
Cost of sales		(629,789)	(656,044)
Gross profit		75,272	77,347
Administrative expenses		(68,252)	(65,856)
Other operating income		5,513	5,195
Operating profit	4	12,533	16,686
Interest receivable		3,778	3,948
Interest payable	5	(8,835)	(11,873)
Profit on ordinary activities before taxation	2	7,476	8,761
Tax credit/(charge) on profit on ordinary activities	6	1,565	(2,586)
Profit for the financial year		9,041	6,175

All amounts relate to continuing activities

Monarch Holdings plc

Consolidated statement of total recognised gains and losses Year ended 31 October 2007

	Note	2007 £'000	2006 £'000
Profit for the financial year		9,041	6,175
Actuarial gain relating to the pension scheme	22	38,582	42,558
Deferred tax attributable to actuarial gain		(10,807)	(12,767)
Change in tax rate – FRS 17		(2,095)	-
Unrealised revaluation gain on investment		-	23,694
Foreign exchange translation adjustment	18	(2,674)	(2,463)
Deferred tax on foreign exchange translation adjustment	16	749	739
Change in tax rate – foreign exchange	16	(412)	-
Total recognised gains and losses relating to the financial year		<u>32,384</u>	<u>57,936</u>

Monarch Holdings plc

Consolidated and company combined statements of movements on reserves and reconciliation of movements in shareholders' funds 31 October 2007

Group	Called up share capital £'000	Merger reserve £'000	Revaluation reserve £'000	Profit and loss account £'000	Total 2007 £'000	Total 2006 £'000
At the beginning of the year	50	4,963	23,694	(4,780)	23,927	(31,509)
Profit for the financial year	-	-	-	9,041	9,041	6,175
Dividends paid (note 7)	-	-	-	(4,500)	(4,500)	(2,500)
Actuarial gain relating to the pension scheme (note 22)	-	-	-	38,582	38,582	42,558
Deferred tax attributable to actuarial gain	-	-	-	(10,807)	(10,807)	(12,767)
Change in tax rate – FRS 17	-	-	-	(2,095)	(2,095)	-
Foreign exchange translation adjustment (note 11)	-	-	-	(2,674)	(2,674)	(2,463)
Deferred tax on foreign exchange	-	-	-	749	749	739
Change in tax rate – foreign exchange	-	-	-	(412)	(412)	-
Revaluation gain on fixed asset investments	-	-	-	-	-	23,694
At the end of the financial year	50	4,963	23,694	23,104	51,811	23,927

Company	Called up share capital £'000	Profit and loss account £'000	2007 £'000	2006 £'000
At the beginning of the financial year	50	772	822	864
Profit for the financial year (note 21)	-	4,885	4,885	2,458
Dividends paid (note 7)	-	(4,500)	(4,500)	(2,500)
At the end of the financial year	50	1,157	1,207	822

Monarch Holdings plc

Consolidated balance sheet 31 October 2007

	Note	£'000	2007 £'000	2006 £'000
Fixed assets				
Intangible assets	8		8,031	8,778
Tangible assets	9		250,339	269,965
Investments	10		36,433	35,453
			<u>294,803</u>	<u>314,196</u>
Current assets				
Stocks	11	11,155	10,787	
Debtors - due after more than one year	12	2,666	3,645	
- due within one year	12	122,855	82,082	
Total debtors		125,521	85,727	
Investments	13	16,018	13,348	
Cash at bank and in hand	25(b)	25,835	51,352	
		178,529	161,214	
Creditors: amounts falling due within one year	14	(244,148)	(222,316)	
Net current liabilities			(65,619)	(61,102)
Total assets less current liabilities			229,184	253,094
Creditors amounts falling due After more than one year	15		(99,460)	(117,315)
Provisions for liabilities	16		(32,673)	(38,634)
Net assets excluding pension liability			97,051	97,145
Pension liability	22		(45,240)	(73,218)
Net assets including pension liability	2		<u>51,811</u>	<u>23,927</u>
Capital and reserves				
Called up share capital	17		50	50
Merger reserve			4,963	4,963
Revaluation reserve			23,694	23,694
Profit and loss account surplus/(deficit)			23,104	(4,780)
Total shareholders' funds			<u>51,811</u>	<u>23,927</u>

These financial statements were approved by the Board of Directors on 14 March, 2008

Signed on behalf of the Board of Directors

P R Brown
Director

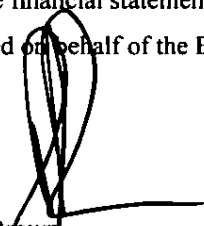
Monarch Holdings plc

Company balance sheet 31 October 2007

	Note	£'000	2007 £'000	2006 £'000
Fixed assets				
Investments	10		2,037	2,037
Current assets				
Debtors - due after more than one year	12	14,500	1,500	
- due within one year	12	1	13,004	
Total debtors		14,501	14,504	
Creditors: amounts falling due within one year	14	(4,406)	(4,861)	
Net current assets			10,095	9,643
Total assets less current liabilities			12,132	11,680
Creditors: amounts falling due after more than one year	15		(10,925)	(10,858)
Net assets			1,207	822
Capital and reserves				
Called up share capital	17		50	50
Profit and loss account			1,157	772
Total shareholders' funds			1,207	822

These financial statements were approved by the Board of Directors on 14 March, 2008

Signed on behalf of the Board of Directors


P R Brown
Director

Monarch Holdings plc

Consolidated cash flow statement Year ended 31 October 2007

	Note	£'000	2007 £'000	2006 £'000
Net cash inflow from operating activities	23		16,511	45,049
Returns on investments and servicing of finance				
Interest received		3,696	3,731	
Interest paid		(7,502)	(7,287)	
Finance lease and hire purchase interest	5	(14)	(11)	
Net cash outflow from returns on investments and servicing of finance			(3,820)	(3,567)
Taxation				
UK corporation tax received/(paid)			2,700	(787)
Capital expenditure and financial investments				
Payments to acquire tangible fixed assets		(27,428)	(19,344)	
Receipts from sales of tangible fixed assets		8,013	97	
Purchase of fixed asset investments		(980)	(913)	
Net cash outflow from capital expenditure and financial investments			(20,395)	(20,160)
Dividends paid			(4,500)	(2,500)
Net cash (outflow)/inflow before financing			(9,504)	18,035
Management of liquid resources				
Decrease in restricted cash	25(b)	2,366	10,632	
Increase in short-term deposits		(2,670)	(5,407)	
Net cash (outflow)/inflow from management of liquid resources			(304)	5,335
Financing				
Capital element of finance lease payments		(108)	(83)	
New bank loans		83,477	-	
Bank loan repayments		(96,712)	(13,839)	
Net cash outflow from financing			(13,343)	(13,922)
(Decrease)/increase in cash in the year	24, 25(a)		(23,151)	9,338

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2007

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 consolidation

The Group financial statements consolidate the financial statements of the Company and all of its subsidiary undertakings as at 31 October 2007 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.

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.

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2007

1. Accounting policies (continued)

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 a residual value of 20% of cost
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. Such costs are then depreciated in full in the period to the next major overhaul, on a straight line basis.

Long-term maintenance and major overhaul of aircraft and engines held under operating leases is capitalised as incurred and amortised over the period until the next scheduled major overhaul. Minor engine and airframe maintenance costs, for example A and B checks, are written off as incurred.

Stock

Stock, including aircraft consumables, and work in progress are 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.

The cost of aircraft and engines which have been financed by loans, finance leases and hire purchase arrangements in foreign currency are adjusted at each period end to take account of the period end rate of exchange. The repayments during the period against the financing arrangements together with the period end financing balances are also adjusted to period end rates of exchange. All such foreign exchange differences are taken directly to reserves (see note 18 for details). The aircraft and engines are carried until disposal at the exchange rate prevailing upon full repayment of the finance instrument.

Investments

The Group has adopted the alternative valuation rules of the Companies Act 1985 in relation to its other fixed asset investments and these are presented at market value. 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.

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2007

1. Accounting policies (continued)

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 services 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 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

Aircraft maintenance provisions

Where the Company 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. The provisions are based on estimated future costs of major airframe, certain engine maintenance checks and one-off costs incurred at the end of the lease by making appropriate charges to the profit and loss account calculated by reference to the number of flying hours or engine cycles operated during the year

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2007

2. Turnover, profit before tax and net assets

Group turnover, profit before tax and net assets are analysed as follows

Description of class of business:	Turnover		Profit before tax		Net assets	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Airline operations	467,777	466,964	6,703	14,248	26,164	27,664
Engineering services	25,850	27,118	1,200	888	22,659	22,232
Sale of airline seats	70,251	82,825	72	(3,037)	2,057	1,646
Tour operations	141,183	156,484	2	(496)	9,738	10,162
Net Group investments and borrowings	-	-	(3,685)	(3,822)	36,433	35,441
FRS 17 adjustment	-	-	3,184	980	(45,240)	(73,218)
	<u>705,061</u>	<u>733,391</u>	<u>7,476</u>	<u>8,761</u>	<u>51,811</u>	<u>23,927</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.

	2007 £'000	2006 £'000
Turnover by origin and destination is analysed by geographical market below:		
United Kingdom	687,897	720,064
Europe	11,936	9,040
North America	4,589	2,584
Australia	-	1,076
Africa	162	-
Asia	477	627
	<u>705,061</u>	<u>733,391</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 2007

3. Information regarding directors and employees

	2007 £'000	2006 £'000
Directors' remuneration:		
Remuneration for management services	464	471

The emoluments of the highest paid director were	415	419
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The accrued pension of the highest paid director from the defined benefit scheme at 31 October 2007 was £15,896 (2006 - £13,614) per annum

	2007 No.	2006 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	1,818	1,635
Aircraft engineers	508	492
Tour operations	213	216
Administrative	725	701
	3,264	3,044

	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Staff costs during the year (including directors):				
Wages and salaries		95,731		88,258
Social security costs		9,786		8,902
Pension costs				
Amounts within operating profit	6,862		8,018	
Amounts included as other finance costs	1,319		4,103	
Amounts recognised in statement of total recognised gains and losses	(38,582)		(42,558)	
		(30,401)		(30,437)
		75,116		66,273

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2007

4. Operating profit

	2007 £'000	2006 £'000
Operating profit is after charging:		
Loss on sale of tangible fixed assets	63	1,169
Depreciation – tangible assets	31,071	30,742
Amortisation of intangible assets	747	747
Operating lease rentals - plant and machinery	32,337	33,655
- other	2,583	1,374
	<u> </u>	<u> </u>

The analysis of auditors' remuneration is as follows:

	2007 £'000	2006 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	32	24
<i>Fees payable to the Company's auditors and their associates for other services to the Group:</i>		
The audit of the Company's subsidiaries pursuant to legislation	262	264
	<u> </u>	<u> </u>
Total audit fees	294	288
	<u> </u>	<u> </u>
- Tax services	68	77
- Other services	48	69
	<u> </u>	<u> </u>
Total non-audit fees	116	146
	<u> </u>	<u> </u>
Fees payable to the Company's auditors and their associates in respect of associated pension schemes		
Audit	12	12
	<u> </u>	<u> </u>

Fees payable to Deloitte & Touche 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 2007

5. Interest payable and similar charges

	2007 £'000	2006 £'000
On bank loans	7,502	7,759
On finance lease and hire purchase contracts	14	11
Net finance charge on pension scheme	1,319	4,103
	<u>8,835</u>	<u>11,873</u>

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

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

	2007 £'000	2005 £'000
Current tax		
United Kingdom corporation tax on profit for the year at 30% (2006 – 30%)	525	216
Adjustments in respect of previous periods	(529)	(361)
Total current tax credit	<u>(4)</u>	<u>(145)</u>
Deferred tax		
Origination and reversal of timing differences (see note 16)	(2,407)	2,424
Adjustment in respect of prior years (see note 16)	(47)	-
Movement on pension deferred tax asset taken to profit and loss account	893	307
Total deferred tax (credit)/charge	<u>(1,561)</u>	<u>2,731</u>
Tax (credit)/charge on profit on ordinary activities	<u>(1,565)</u>	<u>2,586</u>

(b) Factors affecting current tax (credit)/charge 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

	2007 %	2006 %
Standard rate of corporation tax	30	30
Effects of		
Expenses not deductible for tax purposes	(8)	(1)
Capital allowances for year in excess of depreciation	(8)	(21)
Other timing differences	(7)	(7)
Utilisation of tax losses	-	1
Adjustment to tax charge in respect of previous periods	(7)	(4)
Current tax credit for the year	<u>-</u>	<u>(2)</u>

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2007

7. Dividends paid

	2007 £'000	2006 £'000
a) Amounts recognised as distributions to equity holders in the period		
Final paid dividend for the year ended 31 October 2007 of £90 (2006 - £50) per share	4,500	2,500
b) Proposed dividends not recognised in the period:		
Proposed final dividend for the year ended 31 October 2007 of £70 (2006 - £90) per ordinary share	3,500	4,500

Proposed final dividends are subject to approval by shareholders at the Annual General Meeting and have not been included as a liability in these financial statements

8. Intangible fixed assets

Group	Goodwill on consolidation £'000	Intellectual property rights £'000	Total £'000
Cost			
At 1 November 2006 and at 31 October 2007	15,854	500	16,354
Amortisation			
At 1 November 2006	7,076	500	7,576
Charge for the financial year	747	-	747
At 31 October 2007	7,823	500	8,323
Net book value			
At 31 October 2007	8,031	-	8,031
At 31 October 2006	8,778	-	8,778

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2007

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 2006	16,205	7,322	272,481	57,465	26,232	36,741	55,138	471,584
Foreign exchange movements (note 18)	-	-	(9,957)	(106)	-	-	-	(10,063)
Reclassifications	-	-	-	(717)	-	-	-	(717)
Additions	159	1,121	3,041	1,863	2,202	5,238	13,958	27,582
Disposals	-	-	(28,058)	(2,412)	(845)	(3,862)	(14,791)	(49,968)
At 31 October 2007	16,364	8,443	237,507	56,093	27,589	38,117	54,305	438,418
Accumulated depreciation								
At 1 November 2006	5,533	3,244	84,274	32,181	16,259	31,100	29,028	201,619
Foreign exchange movements (note 18)	-	-	(2,498)	(29)	-	-	-	(2,527)
Charge for the year	323	445	11,889	1,586	2,374	2,828	11,626	31,071
Disposals	-	-	(21,622)	(1,681)	(334)	(3,722)	(14,725)	(41,988)
At 31 October 2007	5,856	3,689	72,043	32,057	18,299	30,206	25,929	188,079
Net book value								
At 31 October 2007	10,508	4,754	165,464	24,036	9,290	7,911	28,376	250,339
At 31 October 2006	10,672	4,078	188,207	25,284	9,973	5,641	26,110	269,965

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2007

9. Tangible fixed assets (continued)

The plant and equipment cost includes £190,000 (2006 - £189,050) in respect of assets which are subject to hire purchase and finance lease contracts. The accumulated depreciation of these assets is £26,000 (2006 - £38,149). The related depreciation charge for the year was £24,000 (2006 - £28,851).

The cost of the long leasehold property includes £68,000 (2006 - £68,000) of capitalised interest.

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Commitments for capital expenditure				
Contracted for but not provided in the financial statements	51	140	-	-

10. Fixed asset investments

Group	Other non-listed investments £'000
Cost	
At 1 November 2006	38,477
Additions	980
At 31 October 2007	39,457
Provision for impairment	
At 1 November 2006 and at 31 October 2007	3,024
Net book value	
At 31 October 2007	36,433
At 31 October 2006	35,453
Company	
Shares in subsidiary undertakings	
Cost and net book value	
At 1 November 2006 and 31 October 2007	2,037

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2007

10. Fixed asset investments (continued)

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	11,100,000 ordinary £1 shares	100
Cosmos Holidays plc	England and Wales	Tour operator	14,200,000 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
Other investments and loans	Country of incorporation and operation	Principal activity	Holding	%
Airline Group Limited	England and Wales	Holding Company for the investment in	10,152 ordinary £1 shares	13
		National Air Traffic Services Limited	12,271,258 unsecured loan notes of £1 each	-

*Held directly by Monarch Holdings plc

A valuation exercise was undertaken in the prior year by a third party consultancy firm for the Airline Group, which the directors have used in order to comply with the alternative valuation rules under schedule 4 31(3) of the Companies Act 1985.

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2007

11. Stocks

	Group 2007 £'000	Group 2006 £'000
Cabin consumables	941	841
Engineering stock	9,884	9,644
Goods held for resale	330	302
	<u>11,155</u>	<u>10,787</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 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Amounts falling due within one year:				
Trade debtors	74,218	37,505	-	-
Amounts owed by Group undertakings	-	-	-	13,000
Corporation tax recoverable	-	2,138	-	-
VAT recoverable	2	433	-	-
Other debtors	5,876	5,339	1	4
Prepayments and accrued income	42,759	36,667	-	-
	<u>122,855</u>	<u>82,082</u>	<u>1</u>	<u>13,004</u>
Amounts falling due after more than one year:				
Amounts owed by Group undertaking	-	-	14,500	1,500
Other debtors	2,666	3,645	-	-
	<u>2,666</u>	<u>3,645</u>	<u>14,500</u>	<u>1,500</u>
Total debtors	<u>125,521</u>	<u>85,727</u>	<u>14,501</u>	<u>14,504</u>

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2007

13. Current asset investments

	Group 2007 £'000	Group 2006 £'000
Other investments – cash on deposit	16,018	13,348

14. Creditors: amounts falling due within one year

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Bank loans (secured)	11,998	13,269	-	-
Obligations under hire purchase contracts and finance leases	138	93	-	-
Trade creditors	46,608	42,479	-	-
Amounts owed to Group undertakings	-	-	4,229	4,742
Group relief payable	-	-	-	80
Corporation tax	620	-	15	14
Other taxation and social security costs	3,714	3,112	79	-
Other creditors	4,652	3,475	25	25
Accruals and deferred income	176,418	159,888	-	-
	<u>244,148</u>	<u>222,316</u>	<u>4,348</u>	<u>4,861</u>

Further details regarding loans, finance leases and hire purchase contracts are shown in note 15

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2007

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

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Bank loans (secured)	98,254	116,110	-	-
Obligations under hire purchase contracts and finance leases	56	55	-	-
Amounts owed to Group undertakings	-	-	9,775	9,708
Other loan	1,150	1,150	1,150	1,150
	<u>99,460</u>	<u>117,315</u>	<u>10,925</u>	<u>10,858</u>
Borrowings repayable in more than five years:	<u>43,469</u>	<u>55,435</u>	<u>-</u>	<u>-</u>
Obligations under hire purchase contracts and finance leases	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Between one and two years	88	55	-	-
On demand or within one year (note 15)	106	93	-	-
	<u>194</u>	<u>148</u>	<u>-</u>	<u>-</u>
Amounts owing to Group undertakings				
After five years	<u>-</u>	<u>-</u>	<u>9,775</u>	<u>9,708</u>
Other loan				
After five years (see note 27)	<u>1,150</u>	<u>1,150</u>	<u>1,150</u>	<u>1,150</u>

The bank loans are secured upon aircraft and leasehold property. These loans bear interest linked to US Dollar LIBOR and 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 (2006 – 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.

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2007

16. Provisions for liabilities

Group	Un-utilised Leasehold £'000	Maintenance reserves £'000	Deferred Tax £'000	Total £'000
At 1 November 2006	572	5,545	32,517	38,634
Charged/(credited) to profit and loss account	-	2,745	(2,454)	291
Credited to statement of total recognised gains and losses	-	-	(337)	(337)
Utilised in the year	-	(5,915)	-	(5,915)
At 31 October 2007	<u>572</u>	<u>2,375</u>	<u>29,726</u>	<u>32,673</u>

Deferred taxation

The total potential amount of deferred tax on timing differences and the amount for which provision at 28% (2006 – 30%) has been made is

	Group Provided 2007 £	Group Provided 2006 £
Accelerated capital allowances	23,404	27,851
Other timing differences	(574)	(977)
Foreign exchange	6,896	5,643
	<u>29,726</u>	<u>32,517</u>

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. The provisions are based on estimated future costs of major airframe, certain engine maintenance checks and one-off costs incurred at the end of the lease by making appropriate charges to the profit and loss account calculated by reference to the number of flying hours or engine cycles operated during the year

Pensions

Provision has been made for the deferred tax on the pension liability calculated under FRS 17 'Retirement Benefits' (see note 23). This deferred tax asset is offset against the pension liability and is not included in provisions for liabilities

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2007

17. Called up share capital

	2007 £'000	2006 £'000
Authorised, called up, allotted and fully paid		
50,000 ordinary shares of £1 each	50	50

18. Foreign exchange translation adjustment

	2007 £'000	2006 £'000
The foreign exchange translation adjustment comprises:		
Aircraft and engines – cost (note 9)	(10,063)	(12,799)
Aircraft and engines – depreciation (note 9)	2,527	2,340
	(7,536)	(10,459)
Outstanding loans (note 25)	5,891	9,047
Depreciation charge	(596)	(700)
Interest charge	(433)	(351)
	(2,674)	(2,463)

19. Contingent liabilities

Charges have been registered over certain bank deposits held in a subsidiary's name as security for guarantee facilities provided by those banks. The total amount of bank deposits subject to these charges at 31 October 2007 was £8,841,000 (2006 - £11,207,000)

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 £30,073,000 (2006 - £28,974,000) 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

At 31 October 2007, 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 2006

Monarch Holdings plc

Notes to the accounts Year ended 31 October 2007

20. Commitments

Operating leases

At 31 October 2007, 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	11,884	289	776	12,949
In the second to fifth year inclusive	24,186	1,237	45	25,468
After five years	-	1,363	-	1,363
	<u>36,070</u>	<u>2,889</u>	<u>821</u>	<u>39,780</u>

At 31 October 2006 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	4,782	290	11	5,083
In the second to fifth year inclusive	25,813	1,051	901	27,765
After five years	-	1,279	-	1,279
	<u>30,595</u>	<u>2,620</u>	<u>912</u>	<u>34,127</u>

Other finance commitments

At 31 October 2007, the Group had commitments under forward exchange contracts entered into in the ordinary course of business amounting to £442,999,523 (2006 - £357,770,123)

At 31 October 2007, the Group had aircraft fuel swaps in place to fix the price of £40,873,827 (2006 - £59,719,006) of their 2008 (2007) fuel purchase

The fair value of derivatives taken out to hedge future operating costs is not recognised in the accounts. At 31 October 2007 the Group had an unrecognised loss on their forward exchange contracts of £15,828,537 (2006 - loss of £6,177,647) and an unrecognised gain on their fuel price swaps of £8,727,043 (2006 - loss of £7,143,161)

21. Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, 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 £4,885,000 (2006 - £2,458,000) which has been dealt with in the financial statements of the Company

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2007

22. Pension arrangements

Defined contribution schemes

The Group made contributions to the defined contribution scheme of £684,576 (2006 – £541,000). There were outstanding contributions at the year end of £59,541 (2006 – £14,000).

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 carried out at 30 June 2004, although a revised valuation based on the plan's financial position at 30 June 2007 is currently taking place.

During the twelve month period, in accordance with the actuary's recommendations, in respect of the Groundstaff section the Group and the employees have 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 and the employees 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 and also made a one off payment of £2 million during the year. 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 2006. 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 2007

22. Pension arrangements (continued)

Defined benefit schemes (continued)

The financial assumptions under FRS 17 used by the actuaries were

	2007		2006		2005	
	Cosmosair Pension and Life Assurance Scheme	Monarch Airlines Limited Retirement Benefit Plan	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	5.0%	4.2%	4.7%	3.8%	4.4%	4.9%
Rate of increase for pensions in payment	3.1%	3.0%	2.8%	3.0%	2.6%	3.0%
Discount rate	5.8%	5.85%	4.9%	5.1%	5.0%	5.0%
Inflation assumption	3.5%	3.1%	3.2%	2.8%	2.9%	2.9%
Increase in deferred pension	3.5%	3.1%	3.2%	2.8%	2.9%	2.9%

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	
	2007 %	2007 £'000	2006 %	2006 £'000	2005 %	2005 £'000
Equities	8.1	211,072	7.1	184,828	7.0	155,979
Bonds	5.77	43,488	5.1	36,665	5.0	26,111
Other – Cash	5.77	3,249	5.1	1,948	5.0	4,088
Total market value of assets		257,809		223,441		186,178
Present value of scheme liabilities		(321,008)		(328,207)		(334,747)
Deficit in the scheme		(63,199)		(104,766)		(148,569)
Related deferred tax asset		17,698		31,430		44,571
Net pension liability on an FRS 17 basis		(45,501)		(73,336)		(103,998)

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2007

22. Pension arrangements (continued)

Defined benefit schemes (continued)

	Cosmosair Pension and Life Assurance Scheme		Cosmosair Pension and Life Assurance Scheme		Cosmos Pension and Life Assurance Scheme	
	2007 %	2007 £'000	2006 %	2006 £'000	2005 %	2005 £'000
Equities	7.1	1,401	7.4	1,497	6.2	1,310
Fixed interest and cash	5.8	1,009	4.9	844	5.0	1,354
Property	7.1	391	7.4	380	6.2	334
Purchased annuities	5.8	653	4.9	602	-	-
Total market value of assets		3,454		3,323		2,998
Present value of scheme liabilities		(2,913)		(3,155)		(2,560)
Surplus in the scheme		541		168		438
Unrecoverable surplus		(168)		-		-
Related deferred tax liability		(112)		(50)		(131)
Net pension asset on an FRS 17 basis		261		118		307

	2007 £'000	2006 £'000	2005 £'000
Net pension liability:			
Pension liability of Monarch Airlines Limited Retirement Benefits Plan	(45,501)	(73,336)	(103,998)
Pension asset of Cosmosair Pension and Life Assurance Scheme	261	118	307
Total net pension liability included in consolidated balance sheet	(45,240)	(73,218)	(103,691)

Analysis of the amount charged to operating profit

	2007 £'000	2006 £'000
Current service cost	6,790	8,018

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2007

22. Pension arrangements (continued)

Defined benefit schemes (continued)

Analysis of the amount charged to finance costs

	2007 £'000	2006 £'000
Expected return on pension scheme assets	15,628	12,728
Interest on pension liabilities	(16,947)	(16,831)
Net negative return	(1,319)	(4,103)

Analysis of the amount recognised in the statement of total recognised gains and losses

	2007 £'000	2006 £'000
Actual return less expected return on pension schemes assets	9,318	20,409
Experience gains and losses arising on schemes liabilities	30,193	(4)
Changes in assumptions underlying the present value of schemes liabilities	(761)	22,153
Change in restriction due to unrecoverable surplus	(168)	-
	38,582	42,558

Movement in net deficit during the year

	2007 £'000	2006 £'000
Net deficits in schemes at the beginning of the year	(73,218)	(103,691)
Current service cost	(6,790)	(8,018)
Contributions	11,363	13,096
Past service costs	(72)	-
Other financial costs	(1,319)	(4,103)
Actuarial gains	38,582	42,558
Deferred tax asset movement	(13,786)	(13,060)
Net deficit in schemes at the end of the year	(45,240)	(73,218)

	2007 £'000	2006 £'000
Represented by		
Monarch Airlines Limited Retirement Benefit Plan	(45,501)	(73,336)
Cosmosair Pension and Life Assurance Scheme	261	118
Net pension deficit	(45,240)	(73,218)

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2007

22. Pension arrangements (continued)

Defined benefit schemes (continued)

History of experience gains and losses

	2007	2006	2005	2004	2003
Difference between expected and actual return on scheme assets:					
Amount (£'000)	9,318	20,409	14,672	2,242	(26,022)
Percentage of schemes assets	3.6%	9.0%	7.9%	1.5%	(19.22%)
Experience gains and losses on schemes liabilities:					
Amount (£'000)	27,693	(4)	(1,962)	67	(6,650)
Percentage of schemes liabilities	(8.6%)	(0.0%)	(1.0%)	0.0%	(2.7%)
Total actuarial loss in the statement of total recognised gains and losses:					
Amount (£'000)	38,582	42,558	(19,055)	(16,365)	(58,088)
Percentage of schemes assets	(11.91%)	18.8%	(10.1%)	(10.6%)	(23.6%)

23. Reconciliation of operating profit to net cash inflow from operating activities

	2007 £'000	2006 £'000
Operating profit	12,533	16,686
Amortisation – intangible fixed assets	747	747
Depreciation – tangible fixed assets	31,071	30,742
Loss on sale of tangible fixed assets	63	1,169
Decrease/(increase) in stocks	349	(1,560)
Increase in debtors	(42,961)	(7,758)
Increase in creditors	20,242	11,153
Adjustment for net investment hedge	(1,032)	(1,052)
Adjustment for pension funding	(4,501)	(5,078)
Net cash inflow from operating activities	16,511	45,049

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2007

24 Reconciliation of net cash flow to movement in net debt

	2007 £'000	2006 £'000
(Decrease)/increase in cash in the year	(25,151)	9,338
Cash used to repay debt	13,343	13,922
Increase/(decrease) in liquid resources	304	(5,225)
Change in net debt resulting from cash flows	(9,504)	18,035
New finance leases	(154)	(73)
Foreign exchange movements (note 18)	5,891	9,047
Movement in net debt in the year	(3,767)	27,009
Opening net debt	(65,977)	(92,986)
Closing net debt	(69,744)	(65,977)

25. (a) Analysis of net debt

	At 1 November 2006 £'000	Cash flows £'000	Non-cash changes £'000	Foreign exchange movement £'000	At 31 October 2007 £'000
Cash at bank and in hand	40,145	(23,151)	-	-	16,994
Bank loans due after one year	(116,110)	(83,477)	96,083	5,250	(98,254)
Bank loans due within one year	(13,269)	96,712	(96,083)	641	(11,999)
Finance leases and hire purchase obligations	(148)	108	(154)	-	(194)
Other loan	(1,150)	-	-	-	(1,150)
	(130,677)	13,343	(154)	5,891	(111,597)
Restricted cash	11,207	(2,366)	-	-	8,841
Current asset investments	13,348	2,670	-	-	16,018
Total	(65,977)	(9,504)	(154)	5,891	(69,744)

25. (b) Reconciliation of cash at bank and in hand

As described in note 19, charges have been registered over certain bank deposits to guarantee facilities provided by those banks. These amounts do not meet the definition of cash at bank and in hand as per paragraph 2 of FRS1, accordingly a reconciliation of cash at bank and in hand as defined by FRS1 to the amount disclosed in the balance sheet is presented below

	2007 £'000	2006 £'000
Cash in bank and in hand, as defined by FRS1	16,994	40,145
Restricted cash	8,841	11,207
Cash at bank and in hand –balance sheet presentation	25,835	51,352

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2007

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 Transactions'

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 2007 was £1.15m (2006 - £1.15m)	Cosmosguide Holding International NV as lender
2	Operating leases to the company of aircraft, engines and rotatable components at a cost of £18.3m (2006 - £19.23m) in the period. These leases are for periods of between 1 and 6 years at rentals ranging from £0.34m to £4.9m per annum (2006 - £0.36m to £4.9m)	Various lessors
	The amount due to the lessors at 31 October 2007 was £3.01m (2006 - £3.3m)	
	Included in the above is an operating lease in respect of an aircraft. The terms of that lease were amended by an agreement dated 15 March 2002 with effect from 15 March 2002. The lease runs for a period of 5 years at a rental of approximately £1.3m per annum	Rossana Leasing Corporation as lessor
	Included in the above is an operating lease in respect of an aircraft. The terms of that lease were amended by an agreement dated 17 April 2002 with effect from 17 April 2002. The lease runs for a period of 7 years at a rental of approximately £1.4m per annum	Project Investment Corporation as lessor
3	Provision of insurance and insurance services to the company in respect of the aircraft fleet, property, and motor vehicles amounting to £5.63m (2006 - £6.1m) in the year. The amount due to the related party at 31 October 2007 was £3.4m (2006 - £3.9m). There were also amounts due from Voyager to Monarch Airlines Limited to the value of £0.4m (2006 - £1.8m) in relation to insurance claims agreed and awaiting settlement	Voyager Insurance Company Limited as provider of insurance and insurance services

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2007

26. Related party transactions (continued)

	Transaction	Related Party
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 £1.09m. 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	Sale of seats to customers of a related party amounting to £nil (2006 £157,000). The balance as at 31 October 2007 was £0 (2006 £nil).	Cosmos Coach Tours Limited as the user of airline seats
8	Sale of seats to the related party by subsidiary undertakings of the Company amounting to £2,404,000 (2006 - £2,451,000). At 31 October 2007 £852,000 (2006 - £2,286,000) was due from the related party.	Cosmos Transport Services Limited as seat broker
9	The sum of £1,899,000 (2006 - £1,111,000) was due to the related party at 31 October 2007 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 £621,461 (2006 - £758,000) of which £589,656 (2006 - £566,000) relates to future accounting periods.	Tourama Limited as provider

Monarch Holdings plc

Notes to the accounts

Year ended 31 October 2007

26. Related party transactions (continued)

	Transaction	Related Party
11	Fee for provision of resort and administrative services and liability insurance £451,782 (2006 -£538,290)	Tourama Limited as provider
12	The balance due from Tourama Limited at 31 October 2007 was £16,345,417 (2006 balance due to - £1,553,332) 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 (2006 - £50,000)	Cosmosguide Holding International NV as provider
14	Licence fee for use of the 'Cosmos' name £125,000 (2006 - £120,000) The balance due at 31 October 2007 was £125,000 (2006 - £120,000)	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 £1,480,814 (2006 - £1,090,723) in the year, and purchases of scheduled service seats from the related parties of £2,489,000 (2006 - £1,746,000) The balance due from these related parties at 31 October 2007 was £nil (2006 - £919,377) The sum of £15,062,718 (2006 - £9,343,305) was due to the related parties at 31 October 2007 and 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	Fee for provision of guarantee to the Civil Aviation Authority £76,866 (2006 - £217,905) of which £nil relates to future accounting periods (2006 - £34,751)	Cosmosguide Holding International NV as guarantor
17	Purchase of hotel accommodation from related party £nil (2006- £21,000)	Hugh Morgan as director of Cosmos Holidays Plc
18	D L Bernstein invoiced the company £48,762 (2006 - £52,000) for his services during the year As at the yearend there were no outstanding invoices owed to D L Bernstein	D L Bernstein as a director of Monarch Airlines Limited

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