

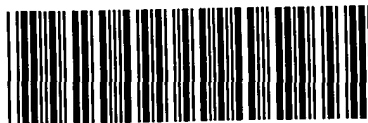
**Company Registration No. 01165001**

**Monarch Holdings Limited**

**Annual Report and Financial Statements**

**For the year ended 31 October 2015**

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# **Monarch Holdings Limited**

## **Annual Report and Financial Statements for the year ended 31 October 2015**

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# **Monarch Holdings Limited**

## **Annual Report and Financial Statements for the year ended 31 October 2015**

### **Officers and professional advisers**

#### **Directors**

C Bennett  
M Meyohas  
N Meyohas  
R Perlhagen  
A Swaffield

#### **Non-Executive Director**

R McNulty

#### **Company Secretary**

A Lingard

#### **Registered office**

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

#### **Independent auditor**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom

# Monarch Holdings Limited

## Directors' Report

The directors present their annual report on the affairs of Monarch Holdings Limited (the "Company", together with its subsidiaries, the "Group" or "Monarch"), together with the audited financial statements and auditor's report for the year ended 31 October 2015.

### Principal activities

The Group's principal activities are those of airline operator, tour operator and aircraft engineer. The Company's principal activity is that of a holding company. The subsidiaries and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in note 10 to the financial statements.

### Business review

The Group is required by the Companies Act to include a review for the Company's business in this report. The information that fulfils the requirements of the review can be found in the Strategic Report on pages 5 to 9.

### Future developments and events after the balance sheet date

Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic Report on pages 5 to 9 and in note 30 to the financial statements and form part of this report by cross-reference.

### Dividends

The Directors have not proposed a dividend for the year (2014: £nil).

### 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, price risk, market risk and regulatory 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 and options 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 LIBOR.

#### *Credit risk*

The Group's principal financial assets are bank balances and cash, trade and other debtors. The majority of Airlines' and Tour Operations' 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. 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. All aircraft are now financed with third-party operating lessors.

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 cashflows and loan 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 its exposure to short-term fuel price changes. The Group, however, remains exposed to longer-term changes in the fuel price.

#### *Market risk*

The Group is dependent on credit and trading lines being made available by various banking and financial institutions to allow operating leases of aircraft, credit card processing, banking facilities and hedging lines. The Group has sufficient lines for its present needs and is managing the risk through expanding the range of arrangements to a larger number of counterparties.

# Monarch Holdings Limited

## Directors' Report (*continued*)

### **Regulatory risk**

The travel industry is heavily regulated. This includes environmental, security, airport, and financial regulation which have charges levied by regulatory decision rather than by commercial negotiation. The Group is exposed to various regulators across its network and this could adversely impact its reputation, cost base and market share if the Group did not comply with their regulations.

The Group currently holds three Air Travel Organisers' Licences ('ATOL') issued by the Civil Aviation Authority ("CAA").

In order to offer air inclusive package holidays, the Group requires the annual renewal by the CAA of its ATOL licences; these are due to be renewed in September 2016. The directors are not aware of any reason why the ATOL licences in September 2016 will not be renewed.

### **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 its activities;
- actively engage and communicate with employees on the means of achieving these commitments;
- endeavour to purchase from suppliers who share its 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.

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.

From January 2010, monitoring of emissions and traffic data began in preparation for entry into the EU Emissions Trading System in 2012. Having successfully submitted verified annual emissions reports for 2010 and 2011 we were notified of our free allowances for 2012. The Company has submitted its annual emissions return for the periods ended 31 December 2013 and 2014 in April 2015 and return for 31 December 2015 in April 2016. The Group has set up a registry account to hold and trade these allowances.

### **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.

# Monarch Holdings Limited

## Directors' Report (*continued*)

### Directors

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

G Atkinson	(resigned 31 December 2014)
P Boggon	(resigned 30 April 2015)
C Bennett	(appointed 26 January 2016)
A Lavery	(resigned 2 January 2015)
R McNulty	
M Meyohas	(appointed 2 January 2015)
N Meyohas	(appointed 16 April 2015)
B Nightingale	(appointed 2 January 2015 and resigned 28 January 2016)
R Perlhagen	(appointed 16 April 2015)
A Swaffield	

### Directors indemnities

Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

### Auditor

Deloitte LLP have expressed their willingness to continue in office as auditor of the Company and a resolution to reappoint them will be proposed at the next appropriate Board 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 auditor is 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 auditor is 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 its behalf by:



A J Swaffield  
Chief Executive Officer

10 June 2016

# Monarch Holdings Limited

## Strategic Report

### Overview

The Monarch Group is the UK's leading independent travel Group, with core activities in scheduled airline operations, tour operations and aircraft engineering.

#### Monarch Airlines

Monarch Airlines is a leading UK-based scheduled airline operating flights from five bases in the UK - London Gatwick, Luton, Manchester, Birmingham and Leeds-Bradford airports - to leisure destinations around the Mediterranean and the Canary Islands and to ski destinations in winter.

#### Tour Operations

The Tour Operations division comprises Cosmos Holidays, Avro and somewhere2stay; it offers a range of specialist and mainstream holidays to over 70 destinations worldwide from airports across the UK.

Founded in 1961, Cosmos is the UK's largest independent tour operator. Its expertise and flexible online service helps customers tailor and purchase fully-protected holidays with confidence.

Avro provides flight-only seats to tour operators and travel agents, selling more than a million sector seats annually. Meanwhile, somewhere2stay offers low-cost hotel, villa and apartment accommodation worldwide.

Two of the Group subsidiaries are members of the Association of British Travel Agents Limited ("ABTA").

#### Monarch Aircraft Engineering (MAEL)

The Engineering division provides aircraft maintenance, repair and overhaul (MRO) services for Monarch's fleet and a growing list of third-party clients worldwide. Its primary bases are at London Gatwick, London Luton, Manchester, and Birmingham.

MAEL has expertise in maintaining both legacy fleets and new technology aircraft. It services Airbus, Boeing, Bombardier and Embraer aircraft, and is one of only six Boeing-approved GoldCare providers for the 787 Dreamliner.

### Business Review

The results of the Group for the year are set out in the consolidated profit and loss account on page 13 and the notes relating to it. The position of the Group at the balance sheet date is set out on page 14.

For the year ended 31 October 2015, the Group reported a profit before tax of £19.2m (2014: loss before tax of £57.3m) on turnover that decreased from £990.0m to £828.1m. The operating profit of £27.7m (2014: loss £49.8m) includes a number of exceptional items. Operating profit before exceptionals is £45.0m (2014: loss £94.0m) as set out on page 21.

At 31 October 2015, the Group had net liabilities of £173.9m (2014: £211.5m). This includes £140.7m (2014: £122.8m) of shareholder loans.

The Group's key earnings measure, pre-exceptional EBITDAR, increased by £124.8m compared to the previous year reflecting the benefit of the significant restructuring. Pre-exceptional EBITDAR is defined as earnings before interest, tax, depreciation, amortisation and rentals excluding any exceptional items.

#### Key performance indicators

	2015	2014	Change
EBIT – pre exceptional (£m)	45.8	(93.3)	149.1%
EBITDA – pre exceptional (£m)	73.6	(61.6)	219.5%
EBITDAR – pre exceptional (£m)	145.3	25.7	465.4%

During the year ended 31 October 2015, the Group completed the significant restructuring commenced in the previous year. The Group stopped flying from the East Midland base at the end of May 2015, discontinued charter flying and become a scheduled only airline from May 2015. In addition it made significant changes to staff terms and conditions, amendments to leases, including the early return of ten aircraft, and numerous other less material changes. The restructuring has seen a significant decrease in the ongoing operating costs of the Group.

In October 2014, the Group contractually committed to the acquisition of 30 next generation Boeing 737 Max 8 aircraft with a total list price of US\$3.1b before escalations and discounts for delivery starting 2018.

Details of significant events since the balance sheet date are contained in note 30 to the financial statements.

# Monarch Holdings Limited

## Strategic Report (continued)

### Monarch Airlines

For the year ended 31 October 2015, the airline division reported a profit before tax of £26.0m (2014: loss before tax of £206.2m) on gross divisional turnover (see note 2) that decreased from £777.5m to £668.3m.

#### Key performance indicators

	2015	2014	Change
Gross revenue (£m)	668.3	777.5	(14.0)%
Total Airline capacity (000)	7,196	8,730	(17.6)%
Total Airline booked passengers (000)	5,975	7,210	(17.1)%
Airline load factor (%)	83.0%	82.6%	0.4%
Average number of Aircraft	35.3	38.9	(9.3)%
EBIT – pre exceptional (£m)	45.0	(113.3)	139.7%
EBITDA – pre exceptional (£m)	68.3	(87.1)	178.8%
EBITDAR – pre exceptional (£m)	138.4	(2.1)	6590.5%
On Time Performance	82%	75%	7%

During the year ended 31 October 2015, the Group completed the significant restructuring commenced in the previous year. The Group stopped flying from the East Midland base at the end of May 2015, discontinued charter flying and become a scheduled only airline from May 2015. In addition it made significant changes to staff terms and conditions, amendments to leases, including the early return of ten aircraft, and numerous other less material changes. The restructuring has seen a significant decrease in the ongoing operating costs of the Group.

Monarch faced a number of trading headwinds, especially during the second half of the year.

The terror attacks in Tunisia closed the country as a destination for UK tourism and increased the overall carrying capacity on other routes, including to Monarch's heartland destinations.

The Greek Eurozone crisis depressed bookings to the country by 50% for two months in mid-summer. Turkey and Cyprus were weaker than in 2014, while the European migrant crisis affected bookings across the Eastern Mediterranean.

On the positive side, the Group benefitted from the success of the restructuring, the tail wind of lower jet fuel prices and a Euro exchange rate which proved good value for UK tourists.

Strong trading in the summer delivered higher than forecast core yields and exceeded the Group's gross revenue targets. The Canaries and the Western Mediterranean were the best performing routes, with more frequencies and improved flight times to the most popular destinations resulting in a significant increase in yields compared to last year.

The absence of charter and long haul flying allowed the Group to improve operational performance by better asset utilisation, with two aircraft on stand-by for the busy summer season.

Over the period, Monarch also improved its on time performance by 7 points on the prior year, with over 82% of flights departing within 15 minutes.

For the year ended 31 October 2015 the average number of aircraft operated by the Group decreased from 38.9 to 35.3 as the Group implemented the restructuring. The decrease in aircraft and the restructuring led to a significant decrease in operating costs. The Airlines' total passenger booked volumes decreased by 17.1% to 6.0 million (2014: 7.2 million) but load factor improved by 0.4pts to 83.0%.

# Monarch Holdings Limited

## Strategic Report (continued)

### Tour Operations

For the year ended 31 October 2015, the Tour Operating division, comprising Cosmos Holidays, Avro and somewhere2stay reported a loss before tax of £2.8m (2014: profit £1.7m) on gross divisional turnover that decreased from £344.3m to £234.2m.

This decrease of £110.1m in revenue reflects the restructuring of the Monarch Group as discussed in the Airline section.

Turnover fell by 32% during the year and the number of passengers carried fell by 31.4%. Gross profit margin increased from 6.0% in 2014 to 6.8%, due to higher margin earned on package holidays using both committed and scheduled airlines seats.

The Group's objectives are to increase passenger volume while streamlining the product range towards Monarch Airlines scheduled flights, and this will be achieved by enhancing technology to improve distribution as well as providing greater access to competitively priced stock. The key performance indicators in the Group are passenger volumes, margins and customer satisfaction and progress against these indicators are measured on a regular basis. The Group continues to be affected by the competitive and fast changing travel industry and by economic and political factors in both the UK and worldwide.

The Group is committed to promoting sustainable tourism worldwide and our aim is to provide a tourism experience that benefits our guests, suppliers and the destinations in which we operate. The Group supports the work of the Travel Foundation, which develops practical ways to help and protect holiday destinations and works in partnership with the UK tourism industry to encourage widespread action.

#### Key financial performance indicators

The Company uses, amongst others, the following key financial performance indicators to measure performance of its operations:

	2015 £m	2014 £m	Movement %
Turnover	234.2	344.3	(32.0)%
Gross profit	16.0	20.7	(22.7)%
Gross profit percentage	6.8%	6.0%	0.8%
Passengers (000)	625.9	912.4	(31.4)%
EBITDA – pre exceptional (£m)	(2.1)	2.2	(195.5)%

### Monarch Aircraft Engineering

For the year ended 31 October 2015, the Company reported a profit before tax of £1.0m (2014: £nil) on gross divisional turnover that fell from £119.8m to £96.2m.

The fall in turnover of £23.6 million (19.7%) was driven by decreases in the Monarch fleet and trade therewith. Third party revenue fell by 6.2%.

The Company continues to retain a strong focus on managing efficiency and succeeded in increasing the overall gross profitability to 28.6%.

On 28 October 2015, Monarch Aircraft Engineering Limited exited the Asset Based Loan with RBS Invoice Finance and replaced it with a similar arrangement with PNC Financial Services UK Ltd. (PNC). This new £23m facility is secured over the rotables, consumables, third party receivables and three of the Company's properties (Birmingham Hangar and Luton Hangars 127 & 60) and two properties of Monarch Airlines Limited.

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 year.

# Monarch Holdings Limited

## Strategic Report (continued)

### Key performance indicators

The key performance indicators for the Company are represented below;

	2015	2014	Change
Turnover (£m)	96.2	119.8	(19.7)%
Gross Profit (£m)	27.5	31.0	(11.3) %
GP %	28.6%	25.9%	2.7 %
EBITDA – pre exceptional (£m)	4.4	4.8	(8.3)%
EBITDA %	4.6%	4.0%	0.6%

### **Group Cash flows and financial position**

Net cash outflow from operating activities for the year was £28.2m (2014: outflow 55.2m), a reduction of £27.0m. The net cash outflow was caused by the fact that the Group settled liabilities created as part of the group restructure in October 2014. Interest paid in cash decreased to £4.2m (2014: £4.9m) due to the timing of when accrued interest payments fell due and were made. Capital investment during the year was £11.9m (2014: £20.9m), a 43% reduction compared to the previous year. An inflow of £1.4m from the sale of tangible fixed assets and was mainly aircraft related. Restricted cash deposits decreased by £53.9m as the amount of restricted cash held by card acquirers was reduced as a result of the restructure. Net cash inflow from financing was £25.2m (2014: inflow £59.5m); due to shareholder funding and the new PNC facility.

### **Principal risks and uncertainties**

The Group uses approximately 301,000 tonnes of jet fuel a year. Volatility in the price of oil and petroleum products can have a material impact on operating results. This price risk is partly hedged through the purchase of jet fuel in forward markets, which can generate a profit or a loss, and through setting budget fuel price assumptions above market price.

The Airline operation faces competition from other airlines on its routes and from other modes of transport. Tour Operations competes against larger rivals and online travel agents, and MAEL tenders for business against competitors based in lower cost economies. The Group's revenue is highly sensitive to economic conditions and, in particular, UK consumer confidence.

The travel industry is heavily regulated. This includes environmental, security, airport, and financial regulation which have charges levied by regulatory decision rather than by commercial negotiation. The Group is exposed to various regulators across its network and this could adversely impact its reputation, cost base and market share if it did not comply with their regulations.

The Group currently holds three Air Travel Organisers' Licences ('ATOL') issued by the Civil Aviation Authority ('CAA').

In order to offer air inclusive package holidays, the Group requires the annual renewal by the CAA of its ATOL licences; these are due to be renewed in September 2016. The Directors expect the ATOL licences to be renewed in September 2016.

The Group's business can also be affected by macro-economic uncertainty outside of its control such as weakening consumer confidence, political uncertainty, inflationary pressure or currency volatility. This could give rise to adverse pressure on revenue, load factors and residual values of aircraft, which the Group mitigates through regular monitoring of markets and route performance. Other issues that can adversely impact performance include pandemics, environmental factors, safety and security incidents, and industrial disputes.

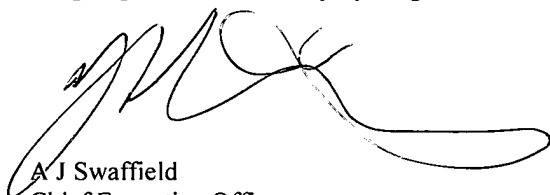
# Monarch Holdings Limited

## Strategic Report (continued)

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review section of this Strategic Report. This Strategic Report and the Directors' Report also describe the financial position of the Company, its objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to cash flow risk, liquidity risk, price risk, market risk and regulatory risk.

The Directors' assessment of going concern is discussed in note 1 to the financial statements, Accounting Policies, including the existence of a material uncertainty in relation to the completion of external refinancing to cover reasonably possible downside trading scenarios and commitments to stakeholders. Nevertheless, after making enquiries and considering these uncertainties, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and, through discussion with the Directors of the Group have given due consideration to the expectations for the Group. Thus, they continue to adopt the going concern basis in preparing the financial statements.



A J Swaffield  
Chief Executive Officer

June 2016

# **Monarch Holdings Limited**

## **Directors' responsibilities statement**

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 judgements 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.

# **Monarch Holdings Limited**

## **Independent auditor's report to the members of Monarch Holdings Limited**

We have audited the Group and parent company financial statements of Monarch Holdings Limited for the year ended 31 October 2015 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement, and the related notes 1 to 30. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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 auditor**

As explained more fully in the Directors' Responsibilities Statement, 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 and express an opinion on 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 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 Group's and parent company'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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 31 October 2015 and of the profit 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 and Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Emphasis of matter – going concern**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 in the financial statements concerning the Group and Company's ability to continue as a going concern. The Group and Company are forecasting to be reliant on the provision of additional facilities totalling £35m, either from external sources or its shareholders, to cover reasonably possible downside trading scenarios and commitments to stakeholders. Whilst a process to secure these facilities is ongoing, they have not yet been finalised. Although the Directors expect the additional financing to be provided, the fact that they have not yet been agreed indicates the existence of a material uncertainty that may cast significant doubt about the Group and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

# **Monarch Holdings Limited**

## **Independent auditor's report to the members of Monarch Holdings Limited**

### **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 parent company's 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.



Kerr Mitchell FCA  
(Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
10 June 2016

# Monarch Holdings Limited

## Consolidated profit and loss account For the year ended 31 October 2015

	Notes	2015 £'000	2015 £'000	2014 £'000	2014 £'000
Turnover	1,2		828,056		990,037
Cost of sales - pre exceptional		(684,615)		(969,102)	
Cost of sales – exceptional	2	<u>(17,133)</u>		<u>(91,634)</u>	
Cost of sales			<u>(701,748)</u>		<u>(1,060,736)</u>
Gross profit / (loss)			126,308		(70,699)
Administrative expenses - pre exceptional		(99,592)		(115,208)	
Administrative expenses - exceptional	2	<u>(140)</u>		<u>135,873</u>	
Administrative expenses			(99,732)		20,665
Other operating income			<u>1,128</u>		<u>261</u>
Operating profit / (loss)	2,4		27,704		(49,773)
<b>Operating profit / (loss) before exceptional items</b>	2		<b>44,977</b>		<b>(94,012)</b>
Profit on sale of tangible fixed assets			783		670
Net finance charges	5		<u>(9,240)</u>		<u>(8,199)</u>
Profit / (loss) on ordinary activities before taxation	2		19,247		(57,302)
Tax credit on profit / (loss) on ordinary activities	6		<u>18,411</u>		<u>15,426</u>
Profit / (loss) for the financial year			<u><u>37,658</u></u>		<u><u>(41,876)</u></u>

All amounts relate to continuing activities.

The notes on pages 17 to 47 form an integral part of the financial statements.

## Consolidated statement of total recognised gains and losses For the year ended 31 October 2015

	Notes	2015 £'000	2014 £'000
Profit / (loss) for the financial year		37,658	(41,876)
Actuarial loss relating to the pension scheme	22	(118)	(1,387)
Deferred tax (charge) / credit in relation to the pension scheme due to movement in year	22, 23	-	(39,554)
Deferred tax origination and reversal of timing differences		-	(199)
Total recognised gains and losses relating to the financial year		<u><u>37,540</u></u>	<u><u>(83,016)</u></u>

# Monarch Holdings Limited

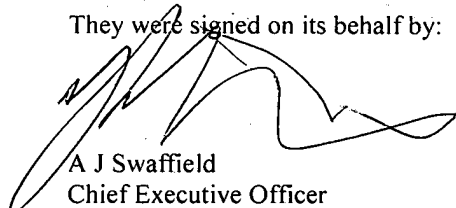
## Consolidated balance sheet As at 31 October 2015

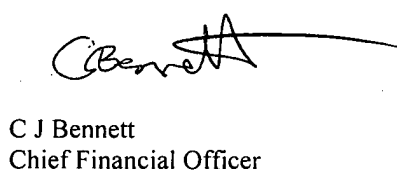
	Notes	2015 £'000	Restated * 2014 £'000
<b>Fixed assets</b>			
Intangible assets	8	-	-
Tangible assets	9	122,514	95,570
		<u>122,514</u>	<u>95,570</u>
<b>Current assets</b>			
Stocks	11	6,301	6,899
Debtors - due within one year	12	108,105	104,163
Debtors - due after more than one year	12	98,935	76,178
Investments	14	22,099	76,005
Cash at bank and in hand		42,225	5,869
		<u>277,665</u>	<u>269,114</u>
Creditors: amounts falling due within one year	15	(121,682)	(69,306)
<b>Net current assets</b>		<u>155,983</u>	<u>199,808</u>
<b>Total assets less current liabilities</b>		<u>278,497</u>	<u>295,378</u>
Creditors: amounts falling due after more than one year	16	(95,153)	(141,673)
Provisions for liabilities	17	(118,770)	(112,034)
Accruals and deferred income	18	(238,519)	(253,277)
<b>Net liabilities excluding pension assets</b>		<u>(173,945)</u>	<u>(211,606)</u>
Net pension asset	22	27	148
<b>Net liabilities including pension assets</b>	2	<u>(173,918)</u>	<u>(211,458)</u>
<b>Capital and reserves</b>			
Share capital	19, 23	20,050	20,050
Merger reserve	23	4,963	4,963
Profit and loss deficit	23	(198,931)	(236,471)
<b>Total shareholders' deficit</b>	23	<u>(173,918)</u>	<u>(211,458)</u>

\* Please refer to Note 12.

The financial statements of Monarch Holdings Limited, registered number 01165001, were approved by the board of directors and authorised for issue on 10 June 2016.

They were signed on its behalf by:

  
A J Swaffield  
Chief Executive Officer

  
C J Bennett  
Chief Financial Officer

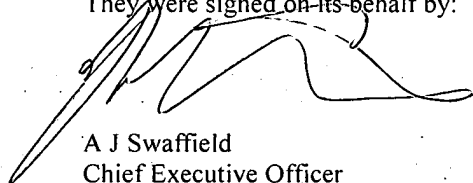
# Monarch Holdings Limited

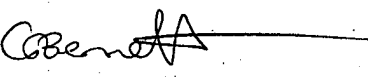
## Company balance sheet As at 31 October 2015

	Notes	2015 £'000	2014 £'000
<b>Fixed assets</b>			
Investments	10	33,125	33,125
Intangible assets	8	-	-
		<u>33,125</u>	<u>33,125</u>
<b>Current assets</b>			
Debtors - due within one year	12	45,604	24,240
- due after more than one year	12	500	500
Cash at bank and in hand		38	38
		<u>46,142</u>	<u>24,778</u>
Creditors: amounts falling due within one year	15	(38,130)	(23,689)
<b>Net current assets</b>		<u>8,012</u>	<u>1,089</u>
<b>Total assets less current liabilities</b>		41,137	34,214
Creditors: amounts falling due after more than one year	16	(77,275)	(70,925)
Accruals		(5,465)	-
<b>Net liabilities</b>		<u>(41,603)</u>	<u>(36,711)</u>
<b>Capital and reserves</b>			
Called-up share capital	19, 23	50	50
Profit and loss account	23	(41,653)	(36,761)
<b>Total shareholders' deficit</b>	23	<u>(41,603)</u>	<u>(36,711)</u>

The financial statements of Monarch Holdings Limited, registered number 01165001, were approved by the board of directors and authorised for issue on 10 June 2016.

They were signed on its behalf by:

  
A J Swaffield  
Chief Executive Officer

  
C J Bennett  
Chief Financial Officer

# Monarch Holdings Limited

## Consolidated cash flow statement For the year ended 31 October 2015

	Notes	2015 £'000	2014 £'000
<b>Net cash outflow from operating activities</b>	25	(28,008)	(55,188)
<b>Returns on investments and servicing of finance</b>			
Interest received		206	496
Interest paid		(4,204)	(4,860)
Finance lease and hire purchase interest	5	-	(84)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(3,998)	(4,448)
<b>Taxation</b>			
UK corporation tax (paid) / received		(52)	8
<b>Capital expenditure and financial investments</b>			
Payments to acquire tangible fixed assets		(11,865)	(20,872)
Receipts from sales of tangible fixed assets		1,374	6,434
<b>Net cash outflow from capital expenditure and financial investments</b>		(10,491)	(14,438)
<b>Net cash outflow before management of liquid resources and financing</b>		(42,549)	(74,066)
<b>Management of liquid resources</b>			
Decrease / (increase) in restricted deposits		53,906	(16,539)
<b>Net cash inflow / (outflow) after management of liquid resources</b>		11,357	(90,605)
<b>Financing</b>			
Capital element of finance lease payments		(3)	(5,359)
Finance lease receipts		-	-
Shareholder funding		17,900	69,838
Shareholder aircraft lease deferrals repayments		-	(11,290)
New bank loans		18,248	21,775
Bank loan repayments		(11,146)	(1,254)
Shareholder loan repayments		-	(10,494)
Other loan repayments		-	(3,737)
<b>Net cash inflow from financing</b>		24,999	59,479
<b>Increase / (decrease) in cash in the year</b>	26, 27	36,356	(31,126)

# Monarch Holdings Limited

## Notes to the financial statements *(continued)* For the year ended 31 October 2015

### 1. Accounting policies

The principal accounting policies adopted are described below. They have all been applied consistently throughout the current and preceding financial year.

#### **Basis of accounting**

The financial statements are prepared under the historical cost convention and in accordance with appropriate United Kingdom accounting standards.

#### **Going Concern**

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 5 to 8. The financial position of the Group, its cash flows and liquidity position are described in the Strategic Report on page 8. Information about the Group's financial risk management objectives and policies, including its exposures to cash flow risk, credit risk, liquidity risk, price risk, market risk and regulatory risk, are detailed on pages 2 to 3 of the Directors' Report. In addition, notes 16 and 28 to the financial statements include details of the Group's borrowing facilities.

At 31 October 2015, the Group had net liabilities of £173.9 million (2014: £211.5million) and net current assets of £156.0 million (2014: £199.8 million). The Company had net liabilities of £41.6 million at 31 October 2015 (2014: net liabilities of £36.7 million).

The cash flows of the business have improved in the past year by £36.4 million. The key drivers to the increase in cash are the Group achieving an operating profit of £27.7 million following the successful restructure, Shareholder facilities draw down of £17.9 million, reducing the level of restricted cash by £53.9 million and increased third party loans of £7.1 million. The cash improvements were partly offset by a net working capital outflow as liabilities relating to the restructure were settled.

The Group meets its day to day working capital requirements through a combination of operating cash flows, shareholder loans and facilities, and other third party facilities. The maturity dates of the facilities are disclosed in note 16.

The Group is forecasting an operating profit for the year to 31 October 2016 and the Group's forecast show that the Group should be able to operate within the level of its current level of facilities. Having considered reasonably possible downside trading scenarios and commitments to stakeholders, the Directors have concluded that additional facilities will be required which rely on the completion of certain external refinancing activities which the Group is in the process of securing. The Directors have commenced a process to secure these facilities, including an amount of £35 million and have appointed advisers. The Group is committed to the arrangement of these facilities and negotiations with lenders are currently ongoing. Having made appropriate enquires, the Directors have an understanding that the ultimate shareholders have funds available and an intention to provide these required facilities should alternative external facilities not be available.

Due to the external financing not having been currently agreed and the arrangement with the shareholders not being legally binding, there is a material uncertainty which may cast significant doubt upon the Group's and Company's ability to continue as a going concern and as a result, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquires and considering the uncertainties described above, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### **Turnover**

Airline Division turnover from ticket sales relating to passenger flights is recognised at the date of departure. Retail revenue from in-flight sales commission, hold baggage charges, advanced seat assignment, extra leg room charges and other administrative fees are recognised once the associated flight has departed. Separately identified incremental credit card charges and call centre booking fees are recognised at the date of booking and booking change fees are recognised when the change is made, in line with the costs incurred which such charges are designed to cover.

Engineering Division turnover represents amounts receivable in the normal course of business from engineering services and incidental revenue, exclusive of value added tax. Revenue is recognised at the time the service is provided.

# Monarch Holdings Limited

## Notes to the financial statements (*continued*) For the year ended 31 October 2015

### 1. Accounting policies (*continued*)

#### Turnover (*continued*)

Travel Division turnover represents amounts derived from the provision of goods and services which fall within the Group's ordinary activities after deduction of trade discounts and Value Added Tax. Turnover is recognised from the date of customer departure.

The Group operates a loyalty programme and allows members of the scheme to accumulate points that entitle them to substantially free travel. Revenue is recorded according to the amount of consideration received or receivable, less the fair value of the points awarded. The full fair value of the points collected is carried forward as a liability.

#### Deferred income 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 - 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 deemed to be 20 years. Provision is made for any impairment.

#### Intangible assets - brand

Intangible assets arising on the purchase of brands are carried at historical cost and are deemed to have an indefinite useful economic life, subject to an annual impairment review, and therefore are not amortised.

#### Intangible assets – carbon allowances

Carbon allowances received free of charge under the EU Emissions Trading Scheme, which became effective for the aviation industry on 1 January 2012, are recognised as intangible assets at market value on the date of receipt. Purchased allowances are also recognised initially at cost (purchase price) within intangible assets.

Consistent with Statement of Standard Accounting Practice 4 'Accounting for Government Grants', the value of allowances received is deferred and recognised in income on a systematic basis over the period to which the grant relates. The estimated gross cost of settling the liability for CO2 emitted in the period is recognised in the profit and loss account as incurred.

#### Tangible fixed assets

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

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 the relevant 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.

# Monarch Holdings Limited

## Notes to the financial statements (*continued*) For the year ended 31 October 2015

### 1. Accounting policies (*continued*)

#### **Leased aircraft maintenance costs**

The Group incurs liabilities for maintenance costs in respect of aircraft leased under operating leases. 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 maintenance work prior to the return of the aircraft to the lessor.

The provisions recorded and charged to the profit and loss account are dependent on the life of the component or maintenance interval used and the individual terms of the lease. Once the component or maintenance interval has passed the point such that the Group is contractually obliged to carry out the required maintenance work, a full provision for the related cost is recorded, and a corresponding maintenance asset is recognised within Fixed Assets. The asset is depreciated over the expected period to the next contractual obligation.

Maintenance deposits paid to lessors, which may be offset against the eventual cost of maintenance, are recognised as other debtors within the Group financial statements until such time as the maintenance work is undertaken.

Estimates are required for the likely utilisation and condition of the aircraft and the expected cost of the maintenance check at the time it is expected to occur. The bases of all estimates are reviewed once each year and in addition, when there is an indication of a material change to an estimate arising from a specific event, such as renegotiation of the end of lease return conditions, increased or decreased utilisation, or unanticipated changes in the cost of heavy maintenance services.

#### **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 occur 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 24 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.

#### **Equity**

Ordinary shares are classified as equity. Preference shares are classified as equity as the Group has full discretion over the transfer of benefits associated with the shares.

# Monarch Holdings Limited

## Notes to the financial statements (continued) For the year ended 31 October 2015

### 1. Accounting policies (continued)

#### 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. Onerous contracts are provided for and charged to the profit and loss account once they become onerous.

#### 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.

The Group operated two defined benefit schemes during the year, both of which were closed to new entrants. Past service costs are recognised immediately in the profit and loss account if the benefits had vested. If the benefits had not vested immediately, the costs were recognised over the period until the vesting occurred. 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 were funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets were measured at fair value and liabilities were 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.

#### Financial liabilities

The Group has not adopted FRS26 *Financial Instruments; Recognition and Measurement*. This would require the recognition of financial instruments such as open currency and jet fuel hedges on the balance sheet and revaluation to fair value. Instead, commitments relating to unrecognised gains and losses on derivative transactions are disclosed in note 21 under Other Financial Commitments.

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

For management purposes, the Group is organised into 4 operating units; Airline, Engineering, Tour Operations and Group. These units are consistent with the internal reporting as reviewed by the Group Management and Monarch Holdings Boards. Each unit includes businesses with similar operating and market characteristics.

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

Description of class of business:	Gross Divisional	Eliminations	Net	Gross Divisional	Eliminations	Net
	Turnover		Turnover	Turnover		Turnover
	2015 £'000		2015 £'000	2014 £'000		2014 £'000
Airline	668,285	(113,421)	554,864	777,488	(174,555)	602,933
Tour operations	234,196	-	234,196	344,269	-	344,269
Engineering	96,223	(57,227)	38,996	119,792	(78,296)	41,496
Group	21,519	(21,519)	-	28,773	(27,434)	1,339
	<u>1,020,223</u>	<u>(192,167)</u>	<u>828,056</u>	<u>1,270,322</u>	<u>(280,285)</u>	<u>990,037</u>

# Monarch Holdings Limited

## Notes to the financial statements (*continued*) For the year ended 31 October 2015

### 2. Turnover, profit/(loss) before tax and net liabilities (*continued*)

Description of class of business:	Profit/(loss) before tax		Net assets/(liabilities)	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Airline	25,960	(206,228)	(77,945)	(122,880)
Tour operations	(2,769)	1,746	(44,183)	(12,229)
Engineering	999	27	10,421	14,871
Group	(4,943)	147,153	(62,211)	(91,220)
	<u>19,247</u>	<u>(57,302)</u>	<u>(173,918)</u>	<u>(211,458)</u>

The Group operated two defined benefit pension schemes for staff in the airline operations, engineering services and tour operations divisions. The assets and liabilities of these schemes could not 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.

	2015 £'000	2014 £'000
<b>Turnover by origin is analysed by geographical market below:</b>		
United Kingdom	808,657	973,697
Europe	10,794	11,063
North America	6,811	4,445
Africa	86	255
Asia	1,708	577
	<u>828,056</u>	<u>990,037</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.

The adjusted result represents the underlying trading of the Group on a consistent basis year on year and includes additional non-statutory performance indicators. The operating profit/(loss) can be analysed as follows:

	2015 £'000	2014 £'000
<b>Reported operating profit/(loss)</b>	27,704	(49,773)
<b>Exceptional Items:</b>		
Impairment of aircraft	1,145	21,142
Impairment of other tangible assets	-	-
Accelerated depreciation of aircraft	-	6,450
Restructuring costs	15,988	64,042
Cost of sales - exceptional	17,133	91,634
Impairment of other tangible assets	-	3,747
Restructuring costs	140	21,281
Settlement of pension liability	-	(160,901)
Administrative expenses - exceptional	140	(135,873)
Operating profit/(loss) before exceptional items	<u>44,977</u>	<u>(94,012)</u>

# Monarch Holdings Limited

## Notes to the financial statements (*continued*) For the year ended 31 October 2015

### 2. Turnover, profit/(loss) before tax and net liabilities (*continued*)

#### Impairment of aircraft

At 31 October 2015 an impairment review was performed. This resulted in the write down of £309,000 (2014: £21,142,000) in the income statement of one A320 engine, (2014: two A330, three A320 and two A321 aircraft) in engine overhaul (2014: in rotables, aircraft modifications and engine overhaul). The aircraft in 2014 left the fleet earlier than anticipated as a result of the Group restructuring.

#### Accelerated depreciation of aircraft

In the year ended 31 October 2015, the Group incurred accelerated depreciation of £nil (2014: £6,450,000) for its A300/B757 fleet which have now exited the fleet ahead of plan.

#### Restructuring costs

During the year ended 31 October 2014, the Group undertook significant restructuring. The restructuring led to announcements to stop flying from the East Midland base at the end of May 2015, to discontinue charter flying and become a scheduled only airline from May 2015, significant changes to staff terms and conditions, amendments to leases including the early return of ten aircraft, and numerous other less material changes. The restructuring will see a significant decrease in the operating costs of the Group.

Exceptional costs of £16,128,000 (2014: £85,324,000) have been recognised in total between cost of sales and administrative expenses relating to onerous contracts and maintenance costs in relation to the early return of aircraft following the restructuring commenced in October 2014.

#### Impairment of other tangible and intangible assets

An impairment review was performed on plant and machinery. As a result an impairment charge of £836,000 has been recognised (2014: Due to the sale of the Group an impairment charge was recognised in relation to goodwill of £2,802,000 and other tangible assets of £945,000).

#### Settlement of pension liability

On 19 September 2014, Monarch Holdings Limited applied to the Pension Regulator for clearance (on behalf of the principal employer and participating employers) in respect of a series of steps to transfer the scheme out of the Monarch Group. On 25 October 2014, Monarch Holdings Limited ceased to be the principal employer and was fully discharged of all liabilities to the Scheme. This has resulted in an exceptional gain of £nil (2014: £160,901,000) in these financial statements. Refer to note 22 for further details.

# Monarch Holdings Limited

## Notes to the financial statements (continued) For the year ended 31 October 2015

### 3. Information regarding directors and employees

	2015 £'000	2014 £'000
<b>Directors' emoluments:</b>		
Remuneration for management services	924	1,969
Compensation for loss of office	-	534
Company contributions to money purchase pension schemes	89	77
	<u>1,013</u>	<u>2,580</u>

#### Remuneration of the highest paid director was:

Remuneration for management services	476	1,088
Compensation for loss of office	-	385
Company contributions to money purchase pension schemes	44	9
	<u>520</u>	<u>1,482</u>

The accrued pension of the highest paid director from the defined benefit scheme at 31 October 2015 was £nil (2014: £nil) per annum.

	2015 Number	2014 Number
The number of directors in the defined contribution pension scheme	<u>4</u>	<u>6</u>

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

Airline operations	1,163	1,733
Engineering services	387	531
Tour operations	192	313
Administrative	815	893
	<u>2,557</u>	<u>3,470</u>

	2015 £'000	2015 £'000	2014 £'000	2014 £'000
<b>Staff costs during the year (including directors):</b>				
Wages and salaries		99,592		143,199
Social security costs		12,090		15,187
Pension costs:				
- FRS17 service charge	19		24	
- Amounts included as other finance costs	(19)		2,268	
- Contributions to money purchase scheme	5,611		17,633	
- Amounts recognised in statement of total recognised gains and losses	<u>118</u>		<u>1,387</u>	
		<u>5,729</u>		<u>21,312</u>
		<u>117,411</u>		<u>179,698</u>

# Monarch Holdings Limited

## Notes to the financial statements (continued) For the year ended 31 October 2015

### 4. Profit /(loss) on ordinary activities before taxation

	2015 £'000	2014 £'000
<b>Operating profit / (loss) is after charging/(crediting):</b>		
Impairment of tangible fixed assets	1,145	22,087
Depreciation of tangible fixed assets		
- owned	27,874	37,356
- held under finance leases and hire purchase contracts	7	119
Amortisation of intangible assets	-	747
Impairment of intangible assets	-	2,802
Operating lease rentals - plant and machinery	68,960	84,587
- other	2,726	2,639
Settlement of pension liability	-	(160,901)
	<u>          </u>	<u>          </u>

### The analysis of auditor's remuneration is as follows:

	2015 £'000	2014 £'000
<b>Fees payable to the Company's auditor for the audit of the Company's financial statements</b>	110	110

### Fees payable to the Company's auditor and their associates for other services to the Group:

The audit of the Company's subsidiaries pursuant to legislation	250	270
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<b>Total audit fees</b>	<u>360</u>	<u>380</u>
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	2015 £'000	2014 £'000
--	---------------	---------------

- Audit related assurance services	492	4
- Taxation compliance	85	59
- Other taxation advisory services	55	268

<b>Total non-audit fees</b>	<u>632</u>	<u>331</u>
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### Fees payable to the Company's auditor and their associates in respect of associated pension schemes:

Audit	<u>3</u>	<u>28</u>
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# Monarch Holdings Limited

## Notes to the financial statements *(continued)* For the year ended 31 October 2015

### 5. Net finance charges

	2015 £'000	2014 £'000
<b>Interest payable and similar charges</b>		
Bank loans, overdrafts and other loans	9,390	6,310
Finance leases and hire purchase interest	-	84
	<u>9,390</u>	<u>6,394</u>
<b>Investment income</b>		
Interest receivable and similar income	(131)	(463)
<b>Other finance charges</b>		
Net finance (credit)/charge on pension scheme (note 22)	(19)	2,268
	<u>(19)</u>	<u>2,268</u>
<b>Total net finance charges</b>	<u>9,240</u>	<u>8,199</u>

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

(a) Tax charge / (credit) on profit / (loss) on ordinary activities	2015 £'000	2014 £'000
<b>Current tax</b>		
UK corporation tax at 20.41% (2014: 21.83%) based on the profit /(loss) for the year	-	4
Adjustment in respect of prior years	-	40
Total current tax charge	<u>-</u>	<u>44</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(19,946)	(15,943)
Adjustment in respect of prior years	(35)	(845)
Change in effective tax rate	1,570	1,318
Total deferred tax credit	<u>(18,411)</u>	<u>(15,470)</u>
Tax credit on profit on ordinary activities	<u>(18,411)</u>	<u>(15,426)</u>

# Monarch Holdings Limited

## Notes to the financial statements (*continued*) For the year ended 31 October 2015

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

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

The tax assessed for the year is lower (2014: lower) than the standard rate of corporation tax in the UK of 20.41% (2014: 21.83%). The differences are explained below:

	2015 %	2014 %
Standard rate of corporation tax	20.4	21.8
Effects of:		
Expenses not deductible for tax purposes	19.0	(20.8)
Depreciation in excess of capital allowances	(3.7)	(11.2)
Movement in short-term timing differences	4.6	(12.4)
Total prior period adjustments on Corporation tax and Group relief	-	(0.2)
Utilisation of tax losses (losses carried forward)	(40.3)	(137.7)
FRS17 movement	-	159.2
Taxable foreign exchange in reserves	-	0.8
Consolidation adjustments with no tax effect	-	0.3
Current tax charge / (credit) for the year	-	(0.2)

#### (c) Factors that may affect the future tax charges

The Finance (No 2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020, was substantively enacted by the balance sheet date. These rate reductions have been reflected in the calculation of deferred tax.

### 7. Loss attributable to the Company

The loss for the financial year dealt with in the financial statements of the parent Company was £4,892,000 (2014: £53,502,000 loss). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent Company.

# Monarch Holdings Limited

## Notes to the financial statements (*continued*) For the year ended 31 October 2015

### 8. Intangible assets

<b>Group</b>	<b>Goodwill £'000</b>	<b>Patents/ trademarks £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 November 2014 and at 31 October 2015	15,854	500	16,354
<b>Amortisation</b>			
At 1 November 2014 and at 31 October 2015	15,854	500	16,354
<b>Net book value</b>			
At 31 October 2015	-	-	-

<b>Company</b>	<b>Brand £'000</b>
<b>Cost</b>	
At 1 November 2014 and at 31 October 2015	35,000
<b>Amortisation</b>	
At 1 November 2014 and at 31 October 2015	35,000
<b>Net book value</b>	
At 31 October 2015 and at 31 October 2015	-

## Monarch Holdings Limited

### Notes to the financial statements *(continued)* For the year ended 31 October 2015

#### 9. Tangible assets

	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
<b>Cost</b>								
At 1 November 2014	27,611	4,035	1,909	33,492	28,341	63,294	134,367	293,049
Additions	116	-	81	1,128	19,979	1,833	34,202	57,339
Disposals	-	(15)	(530)	(7,381)	(6,520)	(13,524)	(29,631)	(57,601)
At 31 October 2015	27,727	4,020	1,460	27,239	41,800	51,603	138,938	292,787
<b>Accumulated depreciation</b>								
At 1 November 2014	8,462	2,958	530	22,766	19,374	46,295	97,094	197,479
Charge for the year	545	148	-	727	7,043	5,351	14,067	27,881
Impairment	-	-	-	-	836	-	309	1,145
Disposals	-	26	(530)	(5,986)	(6,541)	(13,474)	(29,727)	(56,232)
At 31 October 2015	9,007	3,132	-	17,507	20,712	38,172	81,743	170,273
<b>Net book value</b>								
At 31 October 2015	18,720	888	1,460	9,732	21,088	13,431	57,195	122,514
At 31 October 2014	19,149	1,077	1,379	10,726	8,967	16,999	37,273	95,570

# Monarch Holdings Limited

## Notes to the financial statements (*continued*) For the year ended 31 October 2015

### 9. Tangible assets (*continued*)

In 2014 two B757 aircraft and engines with a net book value of £5,612,000 were sold and leased back. Sales proceeds for the two aircraft and engines totalled £6,010,000.

At 31 October 2015 an impairment review was performed. This resulted in the write down of £1,145,000 (2014: £21,142,000) in the income statement in relation to one A320 engine and Aircraft modifications, (2014: two A330, three A320 and two A321 aircraft for rotables, aircraft modifications and engine overhaul). The aircraft in 2014 left the fleet earlier than anticipated as a result of the Group restructuring.

In the year ended 31 October 2015, the Group incurred accelerated depreciation of £nil (2014: £6,450,000) for its A300/B757 fleet which are scheduled to exit the fleet earlier than anticipated.

The cost of the long leasehold property includes £19,405,000 (2014: £15,190,000) of assets which are security for the loan liability of £9,911,000, (2014: £11,146,000) disclosed within bank loans and overdraft.

The rotables cost includes £nil (2014: £nil) in respect of assets which are subject to hire purchase arrangements. The accumulated depreciation of these assets is £nil (2014: £nil). The related depreciation charge for the year was £nil (2014: £119,000).

The cost of the long leasehold property includes £113,000 (2014: £113,000) of capitalised interest.

The plant and equipment cost of the Group and Company includes £158,000 (2014: £93,000) in respect of assets which are subject to a finance lease contract. The accumulated depreciation of these assets is £6,600 (2014: £93,000). The related depreciation charge for the year was £6,600, (2014: £nil).

### Commitments for Capital Expenditure

Monarch Airlines Group is contractually committed to the acquisition of 30 next generation Boeing 737 Max 8 aircraft with a total list price of US\$3.1bn before escalations and discounts for deliveries starting in 2018.

### 10. Fixed asset investments

Company	Shares in subsidiary undertakings £'000	Loans to subsidiaries £'000	Total £'000
<b>Cost</b>			
At 1 November 2014 and at 31 October 2015	20,398	13,000	33,398
<b>Provisions for impairment</b>			
At 1 November 2014 and at 31 October 2015	(273)	-	(273)
<b>Net book value</b>			
At 31 October 2014 and at 31 October 2015	20,125	13,000	33,125

# Monarch Holdings Limited

## Notes to the financial statements *(continued)* For the year ended 31 October 2015

### 10. Fixed Asset Investments *(continued)*

#### Principal Group investments

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

Subsidiary undertakings	Country of incorporation and operation	Principal activity	Holding	%
Avro Limited	England and Wales	Sale of airline seats	16,100,000 ordinary £1 shares	100
Avro Aviation Limited	England and Wales	Airline broker	2,000 ordinary £1 shares	100
Cosmos Aviation Limited	England and Wales	Airline broker	100 ordinary £1 share	100
Cosmos Holidays Limited	England and Wales	Tour operator	25,200,000 ordinary £1 shares	100
Distant Dreams Limited	England and Wales	Dormant	50,000 ordinary £1 shares	100
First Aviation Limited*	England and Wales	Sale of airline seats	25,000 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	20,100,000 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
Monarch 2011 Limited*	England and Wales	Financing	1 ordinary £1 share	100
Monarch Group Management Limited *	England and Wales	Group recharging	2 ordinary £1 share	100
Vantage Aircraft 2014 Limited	Guernsey	Purchase & Leasing of equipment	310,000 ordinary £1 shares	100
Pullman Holidays (UK) Limited	England Wales	Dormant	100,000 ordinary £1 shares	100
Somewhere2stay Limited	England and Wales	Sale of overseas holiday accommodation	50,000 ordinary £1 shares	100
The Charter Warehouse Limited	England and Wales	Dormant	20,000 ordinary £1 shares	100

\*Held directly by Monarch Holdings Limited.

### 11. Stocks

	Group 2015 £'000	Group 2014 £'000
Engineering stock	6,301	6,899

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

# Monarch Holdings Limited

## Notes to the financial statements (*continued*) For the year ended 31 October 2015

### 12. Debtors

	Group 2015 £'000	Restated Group 2014 £'000	Company 2015 £'000	Company 2014 £'000
<b>Amounts falling due within one year:</b>				
Trade debtors	14,342	23,548	-	-
Amounts owed by Group undertakings	-	-	43,138	21,943
Other debtors	16,540	15,538	2,216	2,297
Deferred tax (note 13)	2,339	2,342	-	-
Prepayments and accrued income *	74,884	62,735	250	-
	<u>108,105</u>	<u>104,163</u>	<u>45,604</u>	<u>24,240</u>
<b>Amounts falling due after more than one year:</b>				
Amounts owed by Group undertaking	-	-	500	500
Deposits held by lessors	14,246	13,955	-	-
Prepayments and accrued income *	53,585	49,533	-	-
Deferred tax (note 13)	31,104	12,690	-	-
	<u>98,935</u>	<u>76,178</u>	<u>500</u>	<u>500</u>
<b>Total debtors</b>	<u>207,040</u>	<u>180,341</u>	<u>46,104</u>	<u>24,740</u>

\* The prior year adjustment is to reclassify supplemental rents from prepayments and accrued income in debtors due within one year to debtors due after one year. The 2014 financial statements reported £112,268,000 within one year, and this has been reclassified as £62,735,000 within one year and £49,533,000 more than one year.

The directors consider that this will provide a fairer presentation of the financial position of the Group as it reflects the correct age analysis of prepayments and accrued income for supplemental rents. The comparative figures in the primary statements and the notes have been restated to reflect the change.

### 13. Deferred Tax

At the balance sheet date the Group and Company has a recognised deferred tax asset of:

	2015 £'000	2014 £'000
At 1 November	15,032	(239)
Provisions made in year	18,411	15,470
Charge to the Statement of Total Recognised Gains and Losses	-	(199)
At 31 October	<u>33,443</u>	<u>15,032</u>

#### Deferred tax

The total potential amount of deferred tax on timing differences and the amount for which provision at 20% (2014 – 20%) has been made is:

	2015 £'000	2014 £'000
Depreciation in excess of capital allowances	2,564	1,641
Tax losses carried forward	27,677	9,960
Other	3,202	3,431
	<u>33,443</u>	<u>15,032</u>

# Monarch Holdings Limited

## Notes to the financial statements *(continued)* For the year ended 31 October 2015

### 13. Deferred Tax (continued)

The deferred tax asset of £33,443,000 (2014 : £15,032,000) has been recognised in full in the financial statements as the directors consider that, based upon the Group's financial projections, it is probable that future taxable profits will arise against which the asset can be utilised.

£141,013,000 (2014: £181,210,000) of tax losses are carried forward for tax purposes at the end of the period. The recognition of the deferred tax asset is supported by management's forecasts of the whole Group's performance which estimate that sufficient future taxable profits will be generated against which the deferred tax asset can be recovered.

### 14. Current asset investments

	Group 2015 £'000	Group 2014 £'000	Company 2015 £'000	Company 2014 £'000
Restricted cash	22,099	76,005	-	-

Restricted cash provides security on facilities made available by banks in respect of advanced bookings, security for certain hedging arrangements and guarantee arrangements.

### 15. Creditors: amounts falling due within one year

	Group 2015 £'000	Group 2014 £'000	Company 2015 £'000	Company 2014 £'000
Bank loans and overdraft (secured)	392	1,668	-	-
Shareholder loans (see note 16, 27)	73,220	-	11,550	-
Obligations under hire purchase and finance leases	79	-	-	-
Trade creditors	35,976	53,527	-	-
Amounts owed to Group undertakings	-	-	24,403	21,440
Corporation tax	-	52	-	-
Other taxation and social security costs	2,617	4,421	-	-
Other creditors	9,398	9,638	2,177	2,249
	121,682	69,306	38,130	23,689

Further details regarding loans, finance leases and hire purchase contracts are shown in note 16.

# Monarch Holdings Limited

## Notes to the financial statements (continued) For the year ended 31 October 2015

### 16. Creditors: amounts falling due after more than one year

	Group 2015 £'000	Group 2014 £'000	Company 2015 £'000	Company 2014 £'000
Bank loans and overdraft (secured)	27,577	18,853	-	-
Shareholder loans (see note 27)	67,500	122,820	67,500	61,150
Obligations under hire purchase and finance leases	76	-	-	-
Amounts owed to Group undertakings	-	-	9,775	9,775
	<u>95,153</u>	<u>141,673</u>	<u>77,275</u>	<u>70,925</u>
<b>Bank loans and overdraft</b>				
On demand or within one year (note 15)	392	1,668	-	-
Between one and two years	392	1,668	-	-
Between two and five years	17,464	7,810	-	-
In five years or more	9,721	9,375	-	-
	<u>27,969</u>	<u>20,521</u>	<u>-</u>	<u>-</u>
<b>Obligations under hire purchase and finance leases</b>				
On demand or within one year (note 15)	79	-	-	-
Between one and two years	76	-	-	-
	<u>155</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Shareholder loans (see note 28)</b>				
On demand or within one year (note 15)	73,220	-	11,550	-
Between one and two years	-	62,820	-	1,150
Between two and five years	67,500	60,000	67,500	60,000
	<u>140,720</u>	<u>122,820</u>	<u>79,050</u>	<u>61,150</u>

Bank loans and overdrafts includes £9,721,000 in five years or more that is denominated in United States dollars and interest bearing linked to 3 month US LIBOR. The loan is repayable on delivery of the new Boeing aircraft or December 2022. The remainder of the Bank loans and overdrafts relates to an interest bearing Asset Based Loan facility that is repayable in October 2020.

£9,911,000 (2014: £11,146,000) of bank loans and overdraft is secured against long leasehold property of £19,405,000 (2014: £15,190,000).

The shareholder loans on demand or within one year includes £10,400,000 of interest bearing revolving shareholder facility with repayment date in October 2017. This was extended from October 2016 subsequent to the year end. It also includes £62,820,000 that is interest free with no fixed repayment date, but are not repayable before April 2017. This was extended from March 2016 subsequent to the year end. The shareholder loan due between 2-5 years includes £60,000,000 of interest bearing revolving facility with repayment date in October 2017 with option to extend to October 2019. In addition the shareholder loans due between 2-5 years includes £7,500,000 of interest free loan notes that is repayable in three equal instalments in October 2017, 2018 and 2019. There are no other terms for repayment.

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

The amount owed by the Company to a Group undertaking of £9,775,000 was not interest-bearing during the year (2014: £9,775,000). This amount is repayable after more than five years; there are no other terms for repayment.

# Monarch Holdings Limited

## Notes to the financial statements (*continued*) For the year ended 31 October 2015

### 17. Provisions for liabilities

Group	Reorganisation and Restructuring £'000	Maintenance reserves £'000	Deferred tax £'000	Other £'000	Total £'000
At 1 November 2014	31,257	45,042	-	35,735	112,034
Credit to profit and loss account	-	-	-	(2,207)	(2,207)
Provisions made in year	796	58,911	-	20,787	80,494
Utilised in the year	(24,072)	(22,343)	-	(25,136)	(71,551)
At 31 October 2015	7,981	81,610	-	29,179	118,770

#### Reorganisation and restructuring

The provision relates to liabilities for committed restructuring costs of the Company. The provision includes onerous contracts, early termination payments of aircraft leases and other staff related liabilities. The majority of the provisions are expected to be settled within one year.

#### 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. The provision is expected to be utilised within 7 years.

#### Deferred taxation

Deferred tax is recognised to the extent that it is regarded as more likely than not that they will be recovered (note 13).

#### Other reserves

Other represents liabilities where there is uncertainty of the timing or amount of the future expenditure required in settlement and includes such items as customer compensation claims, emission trading liabilities, frequent flyer liabilities and un-utilised leasehold. The un-utilised leasehold relates to part of a property lease which is currently being marketed for tenants.

### 18. Accruals and deferred income

	Group 2015 £'000	Group 2014 £'000
Deferred income	142,144	143,215
Accruals	96,375	110,062
	<u>238,519</u>	<u>253,277</u>

In the Company, there is a £5,139,000 accrual for interest on shareholder loan tranches (2014: £68,000).

# Monarch Holdings Limited

## Notes to the financial statements *(continued)* For the year ended 31 October 2015

### 19. Share capital

	Group 2015 £'000	Group 2014 £'000	Company 2015 £'000	Company 2014 £'000
<b>Allotted, called-up and fully paid</b>				
45,000 ordinary shares of £1 each (2014: 45,000)	45	45	45	45
5,000 'A' ordinary shares (2014: 5,000)	5	5	5	5
1 preference share of £1 each (2014: 1)	-	-	-	-
20,000,000 redeemable preference shares of £1 each	20,000	20,000	-	-
	<u>20,050</u>	<u>20,050</u>	<u>50</u>	<u>50</u>

The ordinary shares and 'A' ordinary shares are entitled pro rata to their holdings to dividend payments or returns of capital after distributions to the preference share have been paid. The ordinary shares entitle their holders to attend, speak and vote at a general meeting of the Company whereas the 'A' ordinary shares do not have these rights.

The preference shares shall rank ahead of all other classes in respect of the first £147m of all distributions and returns of capital made by the Company. The share will carry no rights as to interest or other fixed rate of return, and shall have no rights to distributions or returns of capital once the first £147m of all distributions have been paid in full.

Under the terms of the 2011 Refinancing, on 15 November 2011, £20m of preference shares were issued by Monarch 2011 Limited. These shares are held by Petrol Jersey Limited. The shares carry no rights as to interest or other fixed rate of return.

On 26 January 2016 the Company allotted 1,000,000 ordinary shares with a nominal value of £1.

### 20. 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 £2,561,543 (2014: £10,166,968). These guarantees are in addition to the restricted cash disclosed in note 14 and financial commitments disclosed in note 21.

The Group is involved in various disputes or litigation in the normal course of business. Whilst the result of such disputes cannot be predicted with certainty, the Group believes that the ultimate resolution of these disputes will not have a material effect on the Group's financial position or results.

# Monarch Holdings Limited

## Notes to the financial statements *(continued)* For the year ended 31 October 2015

### 21. Commitments

#### Operating leases

At 31 October 2015, 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
<b>Operating leases which expire:</b>				
Within one year	133	523	-	656
In the second to fifth year inclusive	44,641	261	-	44,902
After five years	22,165	2,225	-	24,390
	<u>66,939</u>	<u>3,009</u>	<u>-</u>	<u>69,948</u>

At 31 October 2014, 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
<b>Operating leases which expire:</b>				
Within one year	7,759	133	44	7,936
In the second to fifth year inclusive	46,619	648	28	47,295
After five years	24,655	2,239	-	26,894
	<u>79,033</u>	<u>3,020</u>	<u>72</u>	<u>82,125</u>

#### Other finance commitments

At 31 October 2015, the Group had commitments under fixed forward exchange contracts entered into in the ordinary course of business amounting to £251.0m (2014: £339.7m).

At 31 October 2015, the Group had jet fuel swaps entered into in the ordinary course of business amounting to £180.6m (2014: £55.3m).

The fair value of derivative transactions entered into to hedge future operating costs is not recognised in the financial statements. At 31 October 2015, the Group had an unrecognised gain on its forward exchange contracts of £1.72m (2014: gain of £0.09m) and an unrecognised loss on its jet fuel swaps of £2.63m (2014: loss of £21.2m).

# Monarch Holdings Limited

## Notes to the financial statements (*continued*) For the year ended 31 October 2015

### 22. Pension arrangements

For the year ended 31 October 2015, the Group has applied FRS17 as outlined by the Accounting Standards Board.

#### Defined contribution schemes

The Group made contributions to the defined contribution scheme of £5.6m (2014: £7.7m). There were outstanding contributions at the year-end of £0.6m (2014: £0.9m).

#### Defined benefit schemes

##### Monarch Airlines Limited Retirement Benefits Plan

Up to 24 October 2014 certain subsidiaries operated a jointly funded defined benefit pension scheme for UK employees. The assets of the scheme were administered by Trustees and were held in separate funds.

The scheme has been closed to new entrants since 2002 and ceased future benefit accruals from 30 April 2010. The benefits of certain employees retained a link to salaries in line with a pre-agreed formula. On 1 March 2011, the remaining Permanent Health Insurance members became members of a new defined contribution scheme.

On 24 October 2014, Monarch Holdings Limited was sold from Amerald Investment NV to Petrol Jersey Limited. As part of the sale Monarch Airlines Limited ceased to be the principal employer of the Scheme on 25 October 2014 and as such a settlement was triggered. The settlement is based on the balance sheet shortfall at 25 October 2014. A section 75 debt was triggered following cessation of the Company's participation in the Scheme, and the statutory debt arising was apportioned to the new principal employer, Stonehouse South East Limited, which is not part of the Group headed by Monarch Airlines Limited. No allowance has been made in respect of the debt as this is no longer a debt of the Company. The balance sheet at 31 October 2015 therefore shows no liability in respect of the scheme.

The scheme was subject to a triennial valuation by independent actuaries. A full actuarial valuation was last carried out at 30 June 2010 in accordance with the Pensions Act 2004 and showed a shortfall in the scheme relative to the Statutory Funding Objective of £234.8m.

##### 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, the last valuation being carried out at 31 May 2012 using the projected unit credit method, as updated to the balance sheet date. **The financial assumptions under FRS 17 used by the actuary were:**

	2015 %	2014 %	2013 %
Rate of increase of salaries	3.4	3.3	3.4
Rate of increase in pensions in payment	3.0	2.9	3.0
Discount rate	3.7	3.8	4.2
Inflation assumption	3.4	3.3	3.4
Increase in deferred pensions	3.4	3.3	3.4

At the last actuarial valuation date, the value of the assets of the scheme was £5,064,000 and this actuarial value was sufficient to cover 106% of benefits accruing to members. 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.

The estimated amounts of contributions expected to be paid to the scheme during the year is £nil.

# Monarch Holdings Limited

## Notes to the financial statements (*continued*) For the year ended 31 October 2015

### 22. Pension arrangements (*continued*)

#### Defined benefit schemes (*continued*)

The financial assumptions under FRS 17 used by the actuaries were:

	31 October 15 Cosmosair Pension and Life Assurance Scheme	31 October 15 Monarch Airlines Limited Retirement Benefit Plan	31 October 14 Cosmosair Pension and Life Assurance Scheme	24 October 14 Monarch Airlines Limited Retirement Benefit Plan
Rate of increase in salaries	3.40%	N/a	3.30%	3.10%
Rate of increase for pensions in payment	3.00%	N/a	3.30%	3.03%
Discount rate	3.70%	N/a	3.80%	3.90%
Inflation assumption	3.40%	N/a	3.30%	3.10%
Increase in deferred pension	3.40%	N/a	3.30%	2.10%
<b>Mortality before retirement</b>				
Males	PMA92 Medium Cohort (Y.O.B.)	N/a	PMA92 Medium Cohort (Y.O.B.)	84% S1PA CMI 2010 1% Per Annum
Females	PFA92 Medium Cohort (Y.O.B.)	N/a	PFA92 Medium Cohort (Y.O.B.)	95% S1PA CMI 2010 1% Per Annum
<b>Member age 65 (current life expectancy):</b>				
Males	22.4	N/a	22.3	23.3
Females	25.3	N/a	25.2	24.5
<b>Member age 45 (life expectancy at 65):</b>				
Males	23.3	N/a	23.3	24.7
Females	26.1	N/a	26.1	26.0

# Monarch Holdings Limited

## Notes to the financial statements *(continued)* For the year ended 31 October 2015

### 22. Pension arrangements *(continued)*

#### Defined benefit schemes *(continued)*

##### Assumptions and sensitivities

The directors have chosen assumptions at 31 October 2015, 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 used the Markit iBoxx AA 15 year index rate and adjusted it relative to the Bank of England GILT spot rate for a plan with liabilities of a 21 year duration.

##### 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	
	2015	2015	2014	2014	2013	2013
	%	£'000	%	£'000	%	£'000
Equities	-	-	-	-	7.40	235,590
Bonds	-	-	-	-	4.45	61,730
Cash	-	-	-	-	3.20	4,987
Total market value of assets		-		-		302,307
Present value of scheme liabilities		-		-		(500,079)
Deficit in the scheme		-		-		(197,772)
Related deferred tax asset		-		-		39,554
Net pension liability on an FRS 17 basis		-		-		(158,218)

# Monarch Holdings Limited

## Notes to the financial statements *(continued)* For the year ended 31 October 2015

### 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	
	2015 %	2015 £'000	2014 %	2014 £'000	2013 %	2013 £'000
Equities	3.7	1,120	5.9	888	6.3	958
Fixed interest and cash	3.7	1,039	2.9	1,249	3.3	3,109
Property	3.7	219	5.9	240	6.3	282
Purchased annuities	3.7	2,686	3.8	2,450	4.2	213
		<hr/>		<hr/>		<hr/>
Total market value of assets		5,064		4,827		4,562
Present value of scheme liabilities		(4,761)		(4,437)		(4,249)
		<hr/>		<hr/>		<hr/>
Surplus in the scheme		303		390		313
Unrecoverable surplus		(268)		(205)		(43)
Related deferred tax liability		(8)		(37)		(54)
		<hr/>		<hr/>		<hr/>
Net pension asset on an FRS 17 basis		27		148		216
		<hr/>		<hr/>		<hr/>

	2015 £'000	2014 £'000	2013 £'000
<b>Net pension liability:</b>			
Net pension liability of Monarch Airlines Limited Retirement Benefits Plan	-	-	(158,218)
Pension asset of Cosmosair Pension and Life Assurance Scheme	27	148	216
	<hr/>	<hr/>	<hr/>
Total net pension asset/(liability) included in consolidated balance sheet	27	148	(158,002)
	<hr/>	<hr/>	<hr/>

#### Analysis of the amount charged to operating profit

	2015 £'000	2014 £'000
Current service cost	(19)	(24)
	<hr/>	<hr/>

#### Analysis of the amount charged to effect of settlement of pension liability

	2015 £'000	2014 £'000
Curtailments	-	15,661
Settlements	-	145,240
	<hr/>	<hr/>
	-	160,901
	<hr/>	<hr/>

# Monarch Holdings Limited

## Notes to the financial statements (*continued*) For the year ended 31 October 2015

### 22. Pension arrangements (*continued*)

#### Defined benefit schemes

##### Analysis of the amount charged to finance costs

	2015 £'000	2014 £'000
Expected return on pension scheme assets	200	19,744
Interest on pension liabilities	(164)	(22,012)
Restriction to expected return	(17)	-
Net credit/(charge) (note 5)	19	(2,268)
Actual return on plan assets	478	39,286

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

	2015 £'000	2014 £'000
Actuarial loss recognised in the STRGL	(104)	(1,261)
Restrictions due to irrecoverable surplus recognised in the STRGL	(14)	(126)
	(118)	(1,387)
Cumulative loss recognised in the STRGL	107,800	107,918

##### Movement in net deficit during the year

	2015 £'000	2014 £'000
<b>Changes in benefit obligations</b>		
Benefit obligations at beginning of year	4,437	504,328
Current service costs	19	24
Interest cost	164	22,012
Plan participants' contributions	3	4
Past service costs	-	-
Actuarial losses	382	20,803
Benefits paid	(244)	(19,143)
Curtailment	-	(15,661)
Plan settlements	-	(507,930)
<b>Benefits obligations at end of year for plans that are wholly or partly funded</b>	<b>4,761</b>	<b>4,437</b>
<b>Change in plan assets</b>		
Fair value of assets at beginning of year	4,827	306,870
Expected return on plan assets	200	19,744
Actuarial gains	278	19,542
Employer contributions	-	10,500
Related Party contributions	-	30,000
Member contributions	3	4
Benefits paid	(244)	(19,143)
Plan Settlements	-	(362,690)
<b>Fair value of plan assets at year end</b>	<b>5,064</b>	<b>4,827</b>
Restrictions due to unrecoverable surplus	(268)	(205)
<b>Net amount recognised</b>	<b>35</b>	<b>185</b>

# Monarch Holdings Limited

## Notes to the financial statements (*continued*) For the year ended 31 October 2015

### 22. Pension arrangements (*continued*)

#### Defined benefit schemes

#### Movement in net deficit during the year

	2015 £'000	2014 £'000
Represented by:		
Monarch Airlines Limited Retirement Benefit Plan	-	-
Cosmosair Pension and Life Assurance Scheme	35	185
Net pension surplus	35	185

#### Five year history

	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Benefit obligation at end of year	(4,761)	(4,437)	(504,328)	(450,948)	(394,913)
Fair value of assets at end of year	5,064	4,827	306,870	269,232	258,160
Unrecoverable surplus	(268)	(205)	(43)	(376)	(407)
	35	185	(197,501)	(182,092)	(137,160)

#### Difference between actual and expected return of scheme assets:

Amount (£'000)	278	19,542	32,333	6,811	(10,692)
Percentage of schemes assets (%)	5.5%	404.8%	10.5%	2.5%	(4.1%)

#### Experience gains and losses on scheme liabilities:

Amount (£'000)	(382)	(20,803)	(48,437)	(49,375)	(9,484)
Percentage of schemes liabilities (%)	8.0%	468.9%	9.6%	10.9%	2.4%

### 23. Reserves

Group	Called-up share capital £'000	Preference share capital £'000	Merger reserve £'000	Profit and loss account (deficit) £'000	Total 2015 £'000	Total 2014 £'000
At the beginning of the year	50	20,000	4,963	(236,471)	(211,458)	(158,442)
Profit / (loss) for the financial year	-	-	-	37,658	37,658	(41,876)
Actuarial loss relating to the pension scheme (note 22)	-	-	-	(118)	(118)	(1,387)
Deferred tax credit in relation to the pension scheme due to movement in year	-	-	-	-	-	(39,554)
Deferred tax origination and reversal of timing differences	-	-	-	-	-	(199)
Other reserves	-	-	-	-	-	30,000
At the end of the financial year	50	20,000	4,963	(198,931)	(173,918)	(211,458)

# Monarch Holdings Limited

## Notes to the financial statements (*continued*) For the year ended 31 October 2015

### 23. Reserves (*continued*)

Company	Called up share capital £'000	Profit and loss account £'000	Total 2015 £'000	Total 2014 £'000
At the beginning of the financial year	50	(36,761)	(36,711)	16,791
Loss for the financial year (note 7)	-	(4,892)	(4,892)	(53,502)
At the end of the financial year	50	(41,653)	(41,603)	(36,711)

### 24. Reconciliation of movements in Group shareholders' deficit

	2015 £'000	2014 £'000
Profit / (loss) for the financial year	37,658	(41,876)
Other recognised gains and losses relating to the year	(118)	(11,140)
Net additions/(reduction) to shareholders' deficit	37,540	(53,016)
Opening shareholders' deficit	(211,458)	(158,442)
Closing shareholders' deficit	(173,918)	(211,458)

### 25. Reconciliation of operating profit to net cash inflow from operating activities

	2015 £'000	2014 £'000
Operating profit / (loss)	27,704	(49,773)
Amortisation – intangible fixed assets	-	747
Impairment – intangible fixed assets	-	2,802
Depreciation – tangible fixed assets	27,881	37,475
Impairment – tangible fixed assets	1,145	22,087
Decrease / (increase) in stocks	598	(382)
(Increase) / decrease in debtors	(8,344)	14,208
(Decrease) / increase in creditors	(76,992)	89,025
Settlement of pension liability	-	(160,901)
Pension adjustments	-	(10,476)
Net cash (outflow) from operating activities	(28,008)	(55,188)

# Monarch Holdings Limited

## Notes to the financial statements *(continued)* For the year ended 31 October 2015

### 26. Reconciliation of net cash flow to movement in net debt

	2015 £'000	2014 £'000
Increase / (decrease) in cash in the year	36,356	(31,126)
Cash used to repay debt	11,149	32,134
Cash inflow from financing activities	(36,306)	(91,613)
(Decrease) / increase in liquid resources	(53,906)	16,539
Change in net debt resulting from cash flows	(42,707)	(74,066)
Other non-cash changes in net debt	(346)	1,317
Opening net debt	(61,467)	11,282
Closing net debt	(104,520)	(61,467)

### 27. Analysis of net debt

	At 1 November 2014 £'000	Cash flows £'000	At 31 October 2015 £'000
Cash at bank and in hand	5,869	36,356	42,225
Bank loans due within one year	(1,668)	1,276	(392)
Bank loans due after more than one year	(18,853)	(8,724)	(27,577)
Shareholder loans due after more than one year	(122,820)	(17,900)	(140,720)
Finance leases and hire purchase obligations	-	(155)	(155)
	(143,341)	(25,503)	(168,844)
Current asset investments	76,005	(53,906)	22,099
Total	(61,467)	(43,053)	(104,520)

# Monarch Holdings Limited

## Notes to the financial statements (*continued*) For the year ended 31 October 2015

### 28. 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.

#### Arrangements with companies and individuals related to the ultimate controlling parties

The following transactions and arrangements are with companies or individuals which the directors believe are owned or controlled by the ultimate controlling parties as set out in note 29 below in the same or similar proportions as to those holdings in the Group.

Transaction	Related Party
1 Loan to Monarch Holdings Limited with no fixed terms for repayment and interest free. The loan was transferred to Windsor Jersey Limited on 19 August 2015. The amount due to the related party at 31 October 2015 was £Nil (2014: £1.15m).	Petrol Jersey Limited as the ultimate parent company of Monarch Holdings Limited and lender
2 Loan to Monarch Holdings Limited with no fixed terms for repayment and interest free. The loan was transferred from Petrol Jersey Limited on 19 August 2015. The amount due to the related party at 31 October 2015 was £1.15m (2014: £Nil).	Windsor Jersey Limited as the controlling shareholder of Monarch Holdings Limited and lender
3 Loan to Monarch Airlines Leasing Limited with no fixed terms for repayment and interest free. The loan was transferred to Windsor Jersey Limited on 19 August 2015. The amount due to the related party at 31 October 2015 was £Nil (2014: £15.38m).	Petrol Jersey Limited as the ultimate parent company of Monarch Holdings Limited and lender
4 Loan to Monarch Airlines Leasing Limited with no fixed terms for repayment and interest free. The loan was transferred from Petrol Jersey Limited on 19 August 2015. The amount due to the related party at 31 October 2015 was £15.38m (2014: £Nil).	Windsor Jersey Limited as the controlling shareholder of Monarch Holdings Limited and lender
5 Loan to Monarch Airlines Limited with no fixed terms for repayment and interest free. The loan was transferred to Windsor Jersey Limited on 19 August 2015. The amount due to the related party at 31 October 2015 was £Nil (2014: £25.56m).	Petrol Jersey Limited as the ultimate parent company of Monarch Holdings Limited and lender

# Monarch Holdings Limited

## Notes to the financial statements (*continued*) For the year ended 31 October 2015

### 28. Related party transactions (*continued*)

	Transaction	Related Party
6	Loan to Monarch Airlines Limited with no fixed terms for repayment and interest free. The loan was transferred from Petrol Jersey Limited on 19 August 2015. The amount due to the related party at 31 October 2015 was £25.56m (2014: £Nil).	Windsor Jersey Limited as the controlling shareholder of Monarch Holdings Limited and lender
7	Loan to Monarch 2011 Limited with no fixed terms for repayment and interest free. The loan was transferred to Windsor Jersey Limited on 19 August 2015. The amount due to the related party at 31 October 2015 was £Nil (2014: £20.69m).	Petrol Jersey Limited as the ultimate parent company of Monarch Holdings Limited and lender
8	Loan to Monarch 2011 Limited with no fixed terms for repayment and interest free. The loan was transferred from Petrol Jersey Limited on 19 August 2015. The amount due to the related party at 31 October 2015 was £20.69m (2014: £Nil).	Windsor Jersey Limited as the controlling shareholder of Monarch Holdings Limited and lender
9	Revolving facility to Monarch Holdings Limited for borrowing up to £60m with repayment date in October 2017 with an option to extend to October 2019. Interest and arrangement fee on the facility was incurred at a cost of £5.32m. The amount due to the related party at 31 October 2015 was £65.39m (2014: £52.57m).	Petrol Jersey Limited as the ultimate parent company of Monarch Holdings Limited and lender
10	Revolving facility to Monarch Holdings Limited for borrowing up to £15m with repayment date in October 2017. Interest and arrangement fee on the facility was incurred at a cost of £1.27m (2014: £7,000). The amount due to the related party at 31 October 2015 was £10.47m (2014: £7,000)	Petrol Jersey Limited as the ultimate parent company of Monarch Holdings Limited and lender
11	Facility available to Monarch Holdings Limited for Additional Equity Subscription up to £14.5m if requested prior to October 2017. On 26 January 2016 the Company allotted 1m ordinary shares with a nominal value of £1 under this facility.	Windsor Jersey Limited as the controlling shareholder of Monarch Holdings Limited
12	In October 2014, three interest free loan notes of £2.5m each were issued to the Pension Trustee as part of the settlement of the pension liabilities. These loan notes are repayable in October 2017, 2018 and 2019.	Pension Trustee as a shareholder
13	Fee for the provision of monitoring services for the year ended 31 October 2015 of £0.75m.	Greybull Capital LLP with common directors that are ultimate controlling party
14	Fee for the provision of merger and acquisition services for the year ended 31 October 2015 of £0.75m.	Greybull Capital LLP with common directors that are ultimate controlling party

## Notes to the financial statements (*continued*) For the year ended 31 October 2015

### 29. Ultimate parent company and controlling party

The directors consider that the Company's ultimate parent company is Petrol Jersey Limited whilst its immediate parent company is Windsor Jersey Limited. Both companies are incorporated in Jersey. The financial statements of both companies are neither consolidated nor publicly available.

The directors consider that Marc Meyohas, Nathaniel Meyohas, Opera Finance Europe SARL and The Oden Trust are together the ultimate controlling parties of the Company.

### 30. Post balance sheet events

Following the travel advice from the UK Government, the Foreign and Commonwealth Office and the Department for Transport regarding travel to Sharm El Sheikh Airport, the Group has cancelled all flights to Sharm El Sheikh up to and including 30 October 2016.

Should the FCO travel advice change prior to 30 October, the Group will reassess the situation and decide when to restart services to Sharm El Sheikh. Monarch plans to resume flights to Sharm El Sheikh when there is a change in travel advice from the UK Government and hope to resume services from the beginning of the winter season.

The Group has added extra flights to the Canary Islands, the Algarve, Palma de Mallorca, Malaga, and other destinations.

On 26 January 2016 the Company allotted 1,000,000 ordinary shares with a nominal value of £1.

The shareholder loans on demand or within one year includes £10,400,000 of interest bearing revolving shareholder facility with repayment date in October 2017. This was extended from October 2016 subsequent to the year end.

The shareholder loans on demand or within one year also includes £62,820,000 that is interest free with no fixed repayment date, but are not repayable before April 2017. This was extended from March 2016 subsequent to the year end.