

Company Registration No. 01165001

Monarch Holdings Limited

Annual Report and Financial Statements

31 October 2013

MONDAY



L37RFAFF

LD4

12/05/2014

#66

COMPANIES HOUSE

Monarch Holdings Limited

Annual report and financial statements 2013

Contents	Page
Officers and professional advisers	1
Chairman's statement	2
Corporate governance	5
Corporate and social responsibility	7
Strategic report	10
Directors' report	20
Directors' responsibilities statement	22
Independent auditor's report	23
Consolidated profit and loss account	24
Consolidated statement of total recognised gains and losses	24
Consolidated balance sheet	25
Company balance sheet	26
Consolidated cash flow statement	27
Notes to the financial statements	28

Monarch Holdings Limited

Annual Report and Financial Statements 2013

Officers and professional advisers

Directors

D I Rawlinson
R M Palmer

Non-Executive Directors

R McNulty
G Atkinson

Secretary

J Marray

Registered office

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

Independent auditor

Deloitte LLP
Chartered Accountants
St Albans

Monarch Holdings Limited

Chairman's Statement (continued)

Overview

While there is much still to do, the success of the actions we have taken in the last two years to return the Group to profitability give us growing confidence in the Group's long term potential

Return to profitability

I am pleased to report that The Monarch Group successfully returned to profitability in 2013 despite the challenges that prevailed in our markets during the period

For the 12 months ending 31 October 2013, Group turnover net of intra-Group sales increased from £825.1 million to £956.9 million, or 16.0 per cent. On an adjusted basis as set out in Note 2, pre-tax profit was £17.1 million, up from a loss of £14.9 million in 2012. Profit before tax was £5.9 million compared to a loss before tax of £33.4 million in 2012.

These encouraging results reflect the underlying profitability of all three trading divisions. The Group's refinancing in 2011 was underpinned by a clear plan for growth for each division, the implementation of business efficiencies and the achievement of intra-Group synergies, all of which have contributed to this performance. The Group's on-going business efficiency programme reduced operating expenditure further in the year, bringing the total reduction during the two-year turnaround to £51.9 million.

Under the "transformation and renewal" agenda, the Group has made steady investment in strengthening the management team, raising awareness of its trusted travel brands, improving distribution, and identifying and answering the needs of its customers.

Monarch Airlines significantly improved its financial performance through a combination of growth and cost control. Sales growth has been encouraged by the development of a more focused offer to customers backed by growing brand awareness and the implementation of a successful e-commerce strategy. The Airline has also expanded from four to six bases and selectively increased the number of destinations it serves.

The Tour Operations division, in which the major brand is Cosmos, has substantially exceeded its revenue target and has significantly out-performed the wider package holiday sector during a period of market uncertainty and rapid change. It has reaped the benefits of investment in technology and e-commerce, and has progressively differentiated its offer to customers. This has been achieved by providing the flexibility of an online travel agent with the service and protection of a traditional tour operator, which has renewed the appeal of the Cosmos brand and proposition to its customer base.

Monarch Aircraft Engineering Limited ("MAEL") has exceeded its targets and almost doubled its capacity, helped by the opening of a new state-of-the-art maintenance facility at Birmingham Airport, a significant investment which was delivered on time and to budget. This has transformed its ability to support Monarch Airlines as well as a growing third-party customer base throughout Europe and worldwide.

Delivering what matters to our customers

Within the travel markets addressed by the Group, 2013 has also seen a marked shift in consumer attitudes, delivery of a high standard of service has returned as a priority alongside price. Providing superior customer experience and value has always been part of Monarch's culture. In 2013, we placed renewed emphasis on delivering what matters most to our customers through the launch of a number of initiatives which will run into the new financial year and beyond.

Monarch Airlines launched a comprehensive project to review and improve each aspect of the customer experience that it delivers. This was accompanied by a new advertising campaign celebrating the day-by-day examples of employees who have had a positive impact on delivering superior customer experience.

In Tour Operations, the launch of the new 'Travelbox' inventory management system is enhancing customers' online experiences, delivering more choice and easier functionality. The division has also embedded a thorough process for tracking and reporting customer Key Performance Indicators (KPIs) within its operations. Similarly detailed customer service metrics have been established within Monarch Airlines since the year-end.

Monarch Holdings Limited

Chairman's Statement (continued)

MAEL's new hangar in Birmingham and the associated investment in tooling, training and systems are all expected to help underpin the business's reputation for service

Across the Group we are rolling out the same 'WorldHost' customer training programme that thousands of volunteers underwent for the 2012 London Olympic Games and Paralympics. The programme will strengthen the Group's core commitment to customer service by ensuring that employees, including cabin crew, call centre staff, resort representatives aircraft engineers, consistently deliver superior experience at every stage of the customer journey. By the beginning of the summer 2014 holiday season, we intend that all employees, including senior management, will have received the training, with the exception of pilots and engineers who will be trained by October 2014.

Management team

During the year we have continued to strengthen the management team as we modernise the Group. A new organisational structure within Monarch Airlines was put in place in June. In November 2013, I temporarily assumed executive responsibility for the airline pending the appointment of Andrew Swaffield as the new Managing Director of Monarch Airlines on 1 April 2014. Andrew joins Monarch from Avios Group Limited, part of International Airlines Group, where he was Managing Director for seven years.

Further senior appointments to the Board of Monarch Airlines were made during the year, with Tim Williamson appointed as Director of Customer Experience and Marketing, Marisa Blasco as Director of Revenue Management and Network Development and Adrian Tighe as Director of Commercial Partnerships and Business Development.

Within Tour Operations, Hugh Morgan was appointed Chairman and Phil Boggon was promoted to Managing Director in November 2013.

On 28 January 2014, Graham Atkinson joined The Board of Monarch Holdings as a Non-Executive Director. Lastly, I would like to thank Austin Reid for his valuable contribution as a Non-Executive Director following his decision to retire from the Board in June 2013.

Monarch Holdings Limited

Chairman's Statement (continued)

Launch of the Monarch Foundation

In May 2013, we launched The Monarch Foundation, an umbrella organisation under which all of the Group's charitable activity is coordinated. By the year-end, we had created partnerships with seven charities and raised a substantial sum for our partners, for Macmillan alone we raised over £175,000 in the period.

Outlook

While there is much still to do to ensure that the Group is profitable and sustainable in the long term, the success of the actions that we have taken over the last two years to return the Group to profitability give us growing confidence in its long-term potential.

In the short term, we remain cautious about the overall travel market in 2014, overcapacity is evident in the airline industry and continued concern about the economic outlook is impacting consumer demand for holiday products.

We are committed to a relentless drive to improve customer experience as we believe it provides the Group with strong differentiation in all of its markets. At the same time, we continue to look for further efficiencies in the Airline in order to bring our unit operating costs into line with those of our low-cost competitors over the medium term. The steps that we are taking to modernise our fleet will contribute significantly to both objectives, improving service levels to the Airline's customers and providing cost savings through better asset utilisation.

We will continue to invest in growth by building the Group's key brands, harnessing new technology, developing our Airline network, and most importantly evolving the customer experience we offer.

I would like to close by thanking our shareholders and all of the Group's employees for their contribution to this encouraging set of financial results, marking an important milestone in the modernisation of the Group.



D I Rawlinson
Chairman

6 May 2014

Monarch Holdings Limited

Corporate governance

Corporate structure

The holding company of The Monarch Group is Monarch Holdings Limited, the principal subsidiaries of which are Monarch Airlines, First Aviation Limited and Monarch 2011 Limited. Monarch 2011 is the parent company of both Monarch Aircraft Engineering and the Monarch Travel Group (comprising the four operating activities of the Group).

Monarch Holdings Limited Board

As the ultimate parent company of The Monarch Group, the Board of Monarch Holdings Limited comprises the Executive Chairman and Finance Director of the Group and two Non-Executive Directors. Monarch Holdings Limited has delegated governance of the day-to-day management of The Monarch Group to a Management Board comprising senior executives from the operating companies of Monarch Airlines, First Aviation Limited, The Monarch Travel Group (the four operating division of the Group), Monarch Aircraft Engineering and other senior Group executives representing Group-wide functions, which is chaired by the Executive Chairman of The Monarch Group. The Management Board is empowered by Monarch Holdings to manage all matters relating to the day-to-day operation of The Monarch Group, and certain matters affecting the management of The Monarch Group are reserved for consideration by the Monarch Holdings Limited Board. Each of the Group's operating companies holds regular Board meetings attended by the Group's General Counsel in the capacity of Company Secretary of each of these companies. Matters which have a Group dimension are escalated to the Management Board of the Group or the Board of Monarch Holdings for consideration.

Governance

Significant contracts

All significant contracts entered into by any of the Group's operating companies are formally reviewed by a Contracts Review Board (CRB) comprising senior executives of the Group and the relevant operating company. A focus of the CRB is on the identification and mitigation of commercial and legal risk to The Monarch Group.

Risk management

Each of the Group's operating companies has a register of Principal Risks and Uncertainties, which is continually updated and is subject to a formal monthly review by the operating company Board. These risks are also documented in a Group risk register which is formally reviewed at the monthly meeting of the Group Management Board.

Conflicts of interest

Directors are required at each Board meeting to declare any conflicts of interest, whether between the operating companies of The Monarch Group or with third parties outside the Group. Such conflicts are considered on a monthly basis by the Boards of each of the Group's operating companies and are formally documented in Board minutes produced by the Company Secretary. Additionally, a senior Director of the Group is tasked with identifying and documenting within a Conflict of Interests Register any conflicts of interest within the Group, which are then reported to and formally considered by the Group Management Board. In exceptional circumstances, these may be escalated to the Board of Monarch Holdings for consideration.

Monarch Holdings Limited

Corporate governance (continued)

Committees

Management Board

The Group's Management Board is responsible for day-to-day activities of the Group, and is described in the chart above

Remuneration Committee

The Remuneration Committee of the Board of Monarch Holdings Limited comprises the Group Executive Chairman and two Non-Executive Directors of the Board. The Committee is chaired by a Non-Executive Director. The Remuneration Committee is authorised on behalf of the Main Board to determine and agree the framework or broad policy for the remuneration, including expenses and pension arrangements, of the Group's Executive Chairman, the Executive Directors, the Company Secretary and such other members of the executive management team as it is designated to consider. The remuneration of Non-Executive Directors is a matter for the Chairman and the executive members of the Main Board. No Director or manager is involved in any decisions as to their own remuneration. Remuneration policy takes into account all factors which the Committee deems appropriate, including relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code and associated guidance.

The Committee has full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary, within budgetary parameters determined by the Main Board. The objective of remuneration policy is to ensure that members of the executive management of the Group are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Group.

Audit Committee

The Audit Committee of the Board of Monarch Holdings Limited comprises the independent Non-Executive Directors of the Company. The Group Finance Director and a representative of the external auditors attend meetings at the invitation of the Committee. The Committee is authorised by the Main Board to investigate any activity within its terms of reference, to seek any information that it requires from any employee of the Company and to obtain outside legal or independent professional advice and such advisers may attend meetings as necessary. The responsibilities of the Committee are, in respect of the external auditor, to oversee the process for its selection, assess its independence, recommend the audit fee to the Main Board and pre-approve fees in respect of non-audit services provided by the external auditor and to review its management letter and management's response. The Committee reviews the Company's procedures for handling allegations from whistle blowers, management's reports on the effectiveness of systems for internal financial control, financial reporting and risk management. The Committee also provides review and challenge, where necessary, for the actions and judgements of management in relation to the Company's financial statements and financial reporting.

Monarch Holdings Limited

Corporate and social responsibility

Our Industry

Corporate responsibility

The Monarch Group is fully committed to its Corporate Responsibility programme

This is how the Group works together with its communities, people and industry to make a positive difference and be a force for good

- The Group's goal is to maintain the highest possible levels of operational safety, and at every level it has a responsibility to ensure that the trust customers place in it is justified
- The Group aims to make lives better for its teams and communities through learning and development programmes and community initiatives
- The Group recognises that its customers care, and that it too should strive to make a positive difference by offering trusted products and informed decisions
- The Group takes its environmental impacts seriously, and it takes care of its business by managing the resources it uses effectively

Safety is our priority

As a leading provider of airline capacity and aircraft engineering, the Group's primary objective is the maintenance of the highest possible levels of operational safety. It is essential that the Group's customers have absolute confidence in their safety when they choose to fly with Monarch Airlines

Safety considerations will always take precedence over other aspects of Monarch Airlines' business. Awareness and diligence by every member of staff is encouraged to ensure maintenance of the required standards. Monarch is committed to a process of continuous review and improvement of its methods of management, aircraft maintenance and operation. In this way, it ensures that the highest standards of safety and regulatory compliance are consistently achieved.

Monarch affords the highest priority to the safety of its passengers. It is currently regulated by the UK Civil Aviation Authority (CAA) which issues the company's Air Operator's Certificate (AOC).

The UK airline industry is moving to regulation under European Aviation Safety Agency which needs to be completed by 28 October 2014. Embedded in this transition is the requirement to have a fully integrated safety management system, this requires managing organisational safety risks to prevent human and material losses by putting safety at the heart of everything we do as an organisation.

Key memberships and affiliations

Through membership and affiliation to key industry organisations, the Group aims to promote an environment that is beneficial to the safety and efficiency of civil aviation and responsible tour operations. The Group is a member of the International Air Carrier Association (IACA), British Air Transport Association (BATA), the Association of British Travel Agents (ABTA) and Air Traffic Organisers' Licensing (ATOL). Monarch Aircraft Engineering is an approved maintenance, design authority and training organisation which is certified by a number of worldwide airworthiness authorities.

Environment

Commitments

The Group strives to improve its environmental performance with the objective of ensuring that its activities contribute to the sustainable development of the communities where it operates.

The Group has a commitment to

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

Monarch Holdings Limited

Corporate and social responsibility (continued)

Sustainable aviation

The Group has been involved in the Carbon Trust's Action Energy initiative to reduce carbon emission, and has participated in energy-saving surveys carried out by a Carbon Trust-nominated consultant and provided the data and platform on which to build a programme for continuous improvement

The Group has established processes to comply with the EU Emissions Trading Scheme. Initial emissions allowances allocated will be 97 per cent of total emissions in 2010. Operators who exceed this allowance will be required to purchase extra allowances in the carbon market. 85 per cent of allowances will be issued free.

The addition of new-technology, fuel-efficient aircraft into Monarch Airlines is progressively rejuvenating its fleet as older, less efficient aircraft are retired. This programme of fleet modernisation, together with further improvements in operating efficiencies, is expected to continue improving the airline's fuel efficiency year-by-year. The Group is considering a range of fleet renewal options, some of which could potentially improve the airline's fuel efficiency by as much as 25% between 2012 and 2022.

As part of the drive for fuel efficiency, MAEL has recently retrofit 'sharklet' wing tips devices on an existing Airbus A320 aircraft in the Monarch fleet. These devices lower fuel burn (by up to 4%) and in so doing, reduce carbon emissions.

Monarch Airlines is also a participant in the UK initiative Sustainable Aviation, which is a grouping of airlines, airports, manufacturers and air traffic control service providers who aim to meet the challenge of building a sustainable environmental future for the industry.

Sustainable tourism

The Group believes that in order to integrate a sustainable way of thinking into the tourism industry it should promote responsible travel and lead the way to a sustainable future.

Sustainable tourism is an industry committed to making a low impact on the environment and local culture, while helping to generate income and employment for local people. The aim is to ensure that development is a positive experience for local people, tour operators and the Group's customers.

Environmentally-friendly hotels not only save money for the owner/manager, but also resources for the world, while at the same time enabling guests to continue doing good things for the environment. Whether through water or energy conservation, recycling or reducing the consumption of natural resources, a positive impact can be made.

The Group has a mission through its Tour Operations division to provide a tourism experience which benefits its guests, suppliers and the destinations in which it operates.

In pursuit of the above, the Group's commitment is to

- Understand and respect cultures by promoting and communicating their traditions, lifestyles and heritage to guests and employees,
- Support communities by involving and co-operating with local people, using local skills and products where practical. The Group will abide by local, national and international laws, discouraging illegal, abusive or exploitative forms of tourism, and

Care for the environment by conserving landscapes, plants, animals and protected areas and by encouraging guests and employees to take a responsible approach in their use of natural resources.

People

Unified vision and values

The Monarch Group's vision is to be the travel group best known for superior customer experience and value, and this vision is at the heart of everything it does and it is what drives people across the Group's businesses.

The Group and its people operate to five core values which are passionate, meticulous, brave, responsive and candid.

The Monarch Group strives to attract the right people with the right skills and the drive to make its vision a reality and to bring its values to life. The Group employs some 3,000 people across a diverse range of

Monarch Holdings Limited

Corporate and social responsibility (continued)

Unified vision and values (continued)

roles located in a number of bases and locations across the UK and beyond, all focused on providing high-quality travel products and supporting services combined with superior customer service

People strategy

The Group's recruitment processes aim to identify the people who possess the potential to add the most value to its businesses. A comprehensive candidate selection and recruitment process is complemented by an in-depth induction for all new-joiners, making each new member of the Group's teams fully aware of The Monarch Group's work ethos, vision, mission and values

Learning and development

As the Group operates in a change environment, it is focused on creating a culture which equips its leaders with the skills needed to drive the business transformation that is critical to future success. As a matter of priority, the Group's leaders are encouraged to discover and demonstrate a more engaging and authentic approach which will inspire higher levels of performance across their teams

During 2012 and 2013, over 130 leaders across the Group embarked on the first phase of 'Lead to Succeed,' a programme comprised of three modules tailored to the needs of the Group's businesses and its change priorities. This initiative is part of a wider learning and development framework which focuses on key aspects of the people strategy, including the retention of talented people, the maintenance of professional standards, the development of a pipeline of new talent, increasing internal mobility and creating teams of people which are more engaged and satisfied

Engagement and communication

The Monarch Group's employees work across a number of locations and countries, consistent communication and engagement is becoming increasingly important, particularly as the Group seeks to build its reputation for superior customer service

The management teams of each of the three main businesses within the Group hold regular briefings which, in turn, trigger cascades into each business. In addition, directors and members of these teams are expected to visit, and to spend time with, staff at the Group's various locations

A Group-wide Intranet serves as a focal point for news and information from all the Group's businesses, and provides essential forms and policies to employees. Plans are underway to launch a new intranet in the summer of 2014

Complementing this is a bi-weekly e-newsletter focusing on the achievements and dedication of the Group's people and keeps the entire company up to date with new products, services and supporting initiatives

The Group's people enjoy a range of attractive benefits, including pension plans and a variety of travel-related discounts and offers

As part of the Group's overall commitment to stakeholder engagement, close working relationships are maintained with union representatives, pension trustees and charitable partners

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 six bases in the UK - London Gatwick, Manchester, Birmingham, East Midlands, Leeds-Bradford and London Luton airports – to leisure destinations around the Mediterranean and the Canary Islands and to ski destinations in winter

Through First Aviation, the flight broking division of the Group, scheduled airline and traditional charter capacity is offered to tour operators. This flexible model underpins demand and de-risks development of the Monarch Airlines route network

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

Monarch Aircraft Engineering

MAEL 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 its new state-of-the-art facility at Birmingham, opened in November 2013

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. In January 2013, it was voted 'MRO of the Year 2013'

Retail and Online

The Retail and Online provides a centralised e-commerce expertise to ensure that each of the Group's divisions continues to innovate by exploiting new technology and online trends. It is responsible for delivering new applications and content across the increasing variety of devices that consumers use. It also manages the Group's social media activity. In 2013, it helped the Group win several online awards

2013 Highlights

- Profit before tax of £5.9m compared to a loss before tax of £33.4 million in prior year
- Strong growth in turnover, up 16% from £825.1 million to £956.9 million
- Further Group-wide operational like for like cost savings of £20.3m bringing total cost savings delivered during two year turnaround to £51.9 million
- 17% increase in Monarch Airlines' scheduled passenger volumes from 5.2 million to 6.1 million
- 12% increase in the number of Monarch Travel Group passengers from 813,000 to 911,000
- New 110,000 square foot state-of-the-art Monarch Aircraft Engineering hangar opened at Birmingham Airport
- 21.9 million unique visitors to Group customer online platforms, up 9.5% on prior year

Monarch Holdings Limited

Strategic Report

Business Review

The results of the Group for the year are set out in the consolidated profit and loss account on page 24 and the notes relating to it. The position of the Group at the balance sheet date is set out on page 25.

Marking the successful completion of its two year turnaround, the Group returned to profitability for the 12 months ending 31 October 2013. Profit before tax on an adjusted basis was £17.1m compared to the a loss before tax of £14.9m in 2012 as a result of further cost control, ongoing network and revenue management improvements in Monarch Airlines, and strong contributions by Tour Operations and Monarch Aircraft Engineering. Adjustments made to profit before tax are set out in more detail in note 2 to the Financial Statements and relate to aircraft impairment, foreign exchange translation losses, contract terminations, and engine refinancing gains. Profit before tax before adjustments was £5.9m compared to a loss before tax of £33.4m in 2012.

Monarch Airlines

Monarch Airlines has made solid progress in the last two years, achieving steady overall growth in passenger volumes accompanied by improved margins. With plans for network growth and the re-equipping of Monarch's fleet, the Airline is also taking a variety of steps designed to reduce its unit operating costs and bring them into line with those of its scheduled airline peer group.

At the same time, a focus on relentless customer service improvement is being established in order to build on the Airlines' heritage and differentiation in this critical area. This is being underpinned by the introduction, and tracking, of a number of customer experience metrics and the roll-out of a 'WorldHost' customer service training programme to all employees.

2013 highlights

- 13.9% increase in gross revenues¹ to £767.5 million
- 10.1% increase in capacity to 8.1 million sector seats
- 9.4% increase in airline passenger volumes to 7.0 million sector seats
- New base at Leeds-Bradford Airport established

For the year ended 31 October 2013, Monarch Airlines achieved growth in gross revenue of 13.9 per cent to £767.5 million (2012: £673.7 million). The year was the second in a two-year turnaround programme designed to return the division to profitability, this objective was achieved as it reported a profit before tax of £8.7 million (2012: £43.6 million loss), despite the uncertain economic environment that prevailed during the year.

Monarch Airlines' total capacity increased by 10.1 per cent to 8.1 million sector seats. This was assisted by the first full year of flying from East Midlands Airport, following the absorption of some of the leisure routes previously flown by bmi baby, as well as the launch of services from a sixth UK base at Leeds-Bradford Airport in December 2012.

During the year, the Airlines' total passenger volumes increased by 9.4 per cent to 7.0 million passengers (2012: 6.4 million).

The mix of business reflected a further shift in capacity to scheduled flying (under the ZB code) from charter flying (under the MON code) to match demand in the external market.

New disciplines in revenue management helped to drive a three per cent increase in total revenue per seat to £92.78 (2012: £90.07) and total retail revenue per seat increased in spite of a slight reduction in the average sector length flown.

On-going cost reduction

The Airlines' improved underlying financial performance during the year was assisted by a further reduction in its cost base. This was delivered as part of an on-going efficiency programme, the objective of which is to bring the Airline's unit operating costs into line with those of key competitors over the medium term. Over the last two financial years, this programme has reduced the Airline's total annualised costs by approximately £51.9 million.

¹ Gross revenue is the total divisional turnover before intra-divisional eliminations (see Note 2)

Monarch Holdings Limited

Strategic Report (continued)

A growing network

With a long-term plan to grow its network, the Airline introduced six new destinations in the period, bringing the total number to 35, and the number of routes increased to 115 routes (2012 88)

This expansion included the introduction of several new destinations as part of a scheduled ski programme designed to improve the Airlines' winter capacity utilisation. Demand was encouraged through the simultaneous launch of a ski brochure by Monarch's Tour Operations division.

Market share strengthened

The Airline maintains strong market positions within its chosen UK bases and on its chosen routes. It's Gatwick and Luton bases provide an important presence in the London area, meanwhile its two newest bases at East Midlands and Leeds Bradford have strengthened Monarch's footprint in the Midlands and the North of the UK. With this improved geographical coverage, over two-thirds of the UK population now lives within a 90-minute drive of a Monarch base.

During summer 2013, Monarch Airlines was either the number one or number two carrier on 68 per cent of its routes. For the full-year period, the Airline had the leading market share of all UK carriers on its routes from Birmingham (45 per cent market share) and Manchester (28 per cent market share) and had the second-largest share on its routes from each of its four other bases.

Improving customer experience

In October, the Group announced the roll-out of the Olympics-inspired 'WorldHost' customer service training programme. Monarch is the first European Airline to do this, and its employees are being trained in advance of the summer 2014 flying programme. This initiative is part of the Airlines' commitment to deliver superior customer service and value, differentiating it from low-cost carriers.

Online growth

The Airline continued to grow the number of unique visitors to the Monarch.co.uk website during the year, up 14 per cent (2012 18 per cent), while online bookings for scheduled flights increased by 4.2 per cent. The Airline's online proposition was enhanced by the launch of an innovative smartphone app in April and subsequent updates, which have made it one of the UK's top travel apps with over 80,000 downloads from the iOS and Android APP stores by the year end.

Underpinned by tour operator volumes

Wholesale seat allocations delivered to the Airline by the Group's flight broking division, First Aviation, represented 30% of the Airlines' inventory and this distribution channel continues to provide a strategically important underpinning of sales across the network.

Re-equipping the fleet

As part of its existing fleet expansion programme, Monarch took delivery of nine additional aircraft during the period, all of which were Airbus A320s or A321s, and retired two older aircraft. Next financial year, a further eight aircraft are due to join the fleet and five will be retired, including Monarch's remaining A300 aircraft, the remaining Boeing 757 aircraft will also be retired by the end of the calendar year, meaning that by 2015, the fleet will be comprised of Airbus A320, A321 and A330 aircraft only. This progressive rejuvenation is reducing operating costs and improving both customer experience and on-time performance.

During the year, the airline also continued a review of competitive tenders from Airbus, Boeing and Bombardier for a more substantial fleet expansion programme. Extensive planning for the potential introduction of up to 60 new technology aircraft into the fleet over the next decade continues.

Monarch Holdings Limited

Strategic Report (continued)

Key Performance Indicators	2013	2012	Change
Gross revenue (£m)	767.5	673.7	+13.9%
Total Airline capacity ('000)	8,126	7,382	+10.1%
Total Airline passengers ('000)	7,008	6,398	+9.5%
Airline load factor (%)	86.2%	86.7%	-0.5%
Average Number of Aircraft	35.4	31.8	11.3%
Revenue Per Seat (£)	92.78	90.07	+3.0%

Tour Operations

Flexible travel products

Consumers are increasingly recognising the benefits that package holidays provide when compared with self-packaged holidays. Against this backdrop, Cosmos once again out-performed the overall market in 2013 by refreshing its offering and delivering fully-protected and intrinsically flexible holiday products, backed by a long-established reputation for reliability. At the heart of the Cosmos proposition is its ability to offer the range and flexibility of an online travel agent and to combine this with the service levels and customer experience of a trusted tour operator.

2013 highlights

- 15.4% increase in gross revenues to £336.5 million
- 12% growth in passenger volumes to 911,000, substantially out-performing the market
- 18% growth in package holiday volumes, continuing the trend for consumers to seek 'care, convenience and financially protected holidays'
- 4% increase in unique visitors to the division's websites to 9.1 million
- Successful migration to new, flexible enterprise technology platform
- Continued investment in differentiated offer for customers

For the 12 months ending 31 October 2013, the Tour Operating division, comprising Cosmos Holidays, Avro and somewhere2stay, achieved a 15.4 per cent increase in total gross revenues to £336.5 million (2012: £291.4 million), reflecting an underlying growth in total passenger volumes of 12 per cent to 911,000.

Gross profit margin improved slightly to 7.1% (2012: 6.9%), helped by underlying margin improvement in all of its product sectors – package holidays, flight-only and accommodation-only. After a significant increase in marketing spend and brand investment, together with investment in a new operating platform, the division delivered profit before tax of £4.4 million, down 21 per cent (2012: £5.6 million).

Outperforming the market

Tour Operations steadily grew market share in all of its core destinations during the year, with strong performances in package holidays for both winter 2012/13 and summer 2013. The division also launched a ski programme, to complement Monarch Airlines' entry into popular Alpine ski destinations, as well as a range of new City break destinations.

Monarch Holdings Limited

Strategic Report (continued)

Investment in the brands

Customers look to the Cosmos brand and its long-established reputation for expertise and reliability to help them navigate through a changing landscape for holiday travel and to purchase holiday products with confidence. The Cosmos proposition is focused on offering the flexibility of dynamic packages to match customers' demands, combined with simple-to-use search and booking, destination-based customer support, fully-secure and ATOL-protected holidays and value for money.

Cosmos continues to achieve high ratings against these brand priorities in customer research, since tracking was introduced in late 2012, 94 per cent of responding customers rated their holiday overall as 'good' or 'excellent', and 89 per cent rated them as 'good' or 'excellent' value for money.

Getting a broader inventory to market faster

During the year, the division continued the implementation of TravelBox, its new core reservation, contracting and inventory management system. This is enabling Tour Operations to integrate greater third-party inventory into its sales platform, thereby enhancing the breadth of holiday products on offer. The division is, therefore, successfully developing a travel 'marketplace', selling both own-brand and third-party stock across its diverse distribution base. Travelbox is also increasing the speed with which those products are brought to market.

This investment is central to a broader business transformation programme taking place in the Tour Operating division and is delivering improvements in the division's business efficiency. By providing a more intuitive and straightforward online customer booking path, both for consumers and appointed trade agents, conversion rates and customer experience levels are also expected to grow.

Balanced distribution channels

The Tour Operations division has a mix of direct and third-party retail distribution channels. The division has seen share growth in both channels. Unique visitors to the division's websites increased by 4 per cent year-on-year to 9.1 million (2012: 8.8 million), and online booking revenue increased by 22 per cent to £83.6 million (2012: £68.6 million).

The business continued to invest in its UK customer contact centre in Stockport and its agency sales and support team in Bromley. A new telephony system and additional staff helped the division to provide excellent service levels through its contact centres.

Relentlessly evolving customer service

In late 2012, the division introduced a comprehensive process for tracking and reporting customer Key Performance Indicators (KPIs). These KPIs are based on a number of measures important to the business, including results from customer service questionnaires and regular qualitative feedback collected through focus groups.

Insights from this process have led to the launch of a number of new service initiatives including 'Cosmos Concierge'. This service enables customers to get personalised, destination-specific advice on their holidays on topics as varied as hotel details, trips and excursions, and information about the liveliest bars and friendliest restaurants. This innovation has received excellent feedback from customers.

100% holidays – a new proposition

Building on the results of customer research and the drive for superior service, Cosmos has introduced a clear customer proposition under the banner "100% Holidays - holidays with no compromises". 100% Holidays banner encompasses the essence of what Cosmos Holidays offers its customers, differentiating it from low service alternatives, whether that be in terms of financial protection, flexibility, superior research and booking experience, Cosmos Concierge or any element of the full holiday experience. Investment in this differentiated proposition is expected to help drive growth in the new financial year.

Monarch Holdings Limited

Strategic Report (continued)

Key Performance Indicators	2013	2012	Change
Gross turnover (£m)	336.4	291.4	+15.4%
Passengers ('000)	911.0	813.0	+12.0%

Monarch Aircraft Engineering

State-of-the-art capability

MAEL delivered all of its targets for the year and has embarked on FY14 having increased its capability and growth prospects. The completion of an outstanding new state-of-the-art maintenance facility at Birmingham Airport in November 2013 provides the capability to maintain both wide and narrow body aircraft for customers throughout Europe, the Middle East, Australia and North America and opens up new potential.

MAEL has a long-standing global reputation for quality and high standards of service and this reputation is the cornerstone of its relationships with customers, regulatory bodies and Original Equipment Manufacturers (OEMs), including Bombardier, Boeing, Airbus and Embraer.

2013 highlights

- 22.0% increase in gross revenues to £100.2 million
- 6.7% growth in revenue from 3rd party customers
- 80% increase in maintenance capacity following the opening of a new state-of-the-art facility at Birmingham Airport
- Introduced Bombardier and Embraer type aircraft servicing capability

In the 12 months to 31 October 2013, MAEL delivered a solid financial performance with total gross revenues increasing year-on-year by £18.1 million, or 22.0 per cent, to £100.2 million (2012: £82.1 million), marking an important milestone in the growth of the business.

Profit before tax of £4.0 million was lower than the prior year (2012: £5.4 million) following the introduction of a number of long-term, strategic third-party contracts at lower margins and the finance costs associated with the investments made to deliver growth during the year.

A growing blue-chip customer base

Revenue from third-party customers rose 6.7% year-on-year, sales derived from this source account for approximately 30 per cent of MAEL's revenue, a proportion that the division intends to grow. MAEL's blue-chip customer base includes easyJet, Flybe, Thomson Airways, Wizz, Cyprus Airways, Air India, Titan, Jet2, DHL, Air Arabia, Emirates and LOT Polish Airlines.

New state-of-the-art facility at Birmingham Airport

Over the last 12 months, MAEL has extended its maintenance capacity significantly, enabling it to handle a strong order book of third-party business while serving the needs of Monarch Airlines' own expanding fleet. Shortly after the year end, MAEL officially opened its 110,000 square foot state-of-the-art hangar facility at Birmingham Airport. The multi-million pound project, completed just one year after Monarch announced its intention to build the facility, was delivered on time and to budget.

The facility is capable of managing various configurations of aircraft including eight A320s or two B787s. It also includes an advanced maintenance planning and control centre that has full authority and overview of the entire operations underway across all of MAEL's facilities. These include Line Maintenance stations in various locations around the world, including three stations established during the year in Warsaw, Poland, Leeds-Bradford and East Midlands airports.

The Birmingham facility complements the company's existing engineering operations at London Gatwick, London Luton and Manchester Airports and supports the continuing growth of MAEL's high quality aircraft engineering activities.

Monarch Holdings Limited

Strategic Report (continued)

Bombardier and Embraer capability added

MAEL also broadened its MRO capability during the year, following an agreement signed with Flybe in April 2013, the UK-based regional airline's maintenance facility, operations and workforce at Birmingham and Manchester airports were integrated into MAEL's operations. The agreement also enabled MAEL to add Bombardier and Embraer aircraft types to MAEL's already extensive and long-standing Boeing and Airbus service capability in the UK.

Training capability extended

In order to offer the most comprehensive support to its customers, MAEL opened a brand new training facility, Monarch Aircraft Engineering Training Academy (MAETA), at London Luton Airport in January 2013. The training academy is equipped with theatre-style classrooms and facilities for composite and fibre-optic training, a technology that is now being employed on next-generation aircraft. Building on its long term capability to deliver Part-147 approved training, and B1 & B2 type training, on Airbus and Boeing aircraft, MAETA is now the only European independent Maintenance Repair Overhaul (MRO) organisation accredited to provide training for the Boeing 787 Dreamliner.

Talent for the future

In 2013, twelve apprentices joined MAEL's highly-regarded apprenticeship scheme, and nine successfully graduated. The scheme has delivered a strong pipeline of skilled engineers for MAEL's own operations and the wider aviation industry, more than 700 apprentices have been through the scheme since its inception.

Industry-leading recognition

Shortly after the year-end, on 3 December 2013, MAEL was awarded first place in the category 'Through Life Engineering' at The Manufacturer of the Year Awards 2013. This followed the strong endorsement received by the business in January 2013 when it was voted by aviation industry customers globally 'MRO of the Year 2013' at the Aviation 100 Awards.

Key Performance Indicators	2013	2012	Change
Gross turnover (£m)	100.2	82.1	+22.0%
Profit before tax (£m)	4.0	5.4	-25.9%

Retail & Online

Driving the Group's e-commerce activity

The Retail and Online activity supports the Group's divisions in delivering their online and e-commerce strategies, and provides e-commerce expertise to ensure that the Group exploits new technology, online trends and continues to innovate in the travel market. Where appropriate, the Group's divisions share common themes to ensure efficiency in delivery and management of online and e-commerce solutions, although this is balanced by the bespoke requirements driven by operating in very different areas of the online travel market.

2013 highlights

- 8.6% increase in gross e-commerce revenues to £519.6 million
- Unique visitors to the Group's customer online platforms increased 9.5 per cent to 21.9 million
- Unique visitors to the Monarch Airlines' website rose 14.4% to 12.7 million

Strong and rapidly growing online market positions

The Group continues to make significant advances in its e-commerce capabilities. Unique visitors to the Group's customer online platforms increased year-on-year by 9.5 per cent to 21.9 million (2012: 20.0 million), and overall booking revenue increased year-on-year by 8.6 per cent to £519.6 million (2012: £478.5 million). Unique visitors to the Monarch Airlines' website rose 14.4% to 12.7 million (2012: 11.1 million).

Over 1.2 million customer bookings were made through the Group's websites during the year, generating £519.6 million of Group revenue in Monarch Airlines and Tour Operations (2012: £478.5), an increase of 8.6 per cent on the prior year.

Monarch Holdings Limited

Strategic Report (continued)

Mobile innovation

A key theme of the Group's digital strategy during the year was the development of applications for mobile devices in order to meet demand by consumers who are increasingly using multiple screens

Since its launch in November 2012, Monarch Airline's mobile booking service has evolved rapidly. Customers can now use their smart phones to search and book all scheduled flights, select seating and baggage options and pay for their booking using a card or PayPal's mobile-optimised check-out

An innovative Smartphone app was also launched for the Airline in April 2013, designed to make customers' journeys more enjoyable, specifically at departure airports. The app contains a variety of useful features, including the ability to find and book flights, check the status of a flight, find directions to the airport and traffic reports, as well as a function for locating a parked car on return to a departure airport. In September, Monarch's app and mobile booking process were recognised as being amongst the highest ranked of any UK airlines by eDigitalResearch. By March 2014 the app had enjoyed 100,000 downloads from the iOS and Android app stores

Faster development at lower cost

The Group is adopting an 'agile' approach to web development projects, ensuring that each delivers value to the business rapidly, and that projects keep pace with rapidly advancing technology and consumer trends. This approach includes the live testing of changes and developments in order to respond rapidly to customer behaviour, it also helps optimise consumers' experience of Monarch's online retail processes

Website

Using this approach, further investment was made into Monarch Airlines' website during the year. Customers visiting the site are now being delivered content personalised to their location, party size, previous website behaviour, and booking history. This is helping to improve booking conversion rates and customer satisfaction ratings of the site

In December 2013, Monarch Airlines' site was named 'site of the year' by Sitecore, the developers of the personalised content management system behind the site. Monarch was also recognised for the quality of its digital marketing strategy at the event. Monarch.co.uk was also judged to be the 4th most visited UK airline website for the year by Experian Hitwise

Within the Tour Operations division, the roll-out of TravelBox-powered booking processes was a priority during the year. The Group's first 'responsive' online booking process went live in November 2013 for hotels bookings, responsive designs, which automatically resize according to the screen size of the user's device, are expected to become a standard across the Group in the future

Growing social media and online measurement

The Group's social media capability is becoming increasingly important as creative and targeted activities are helping grow the Group's online following. Across the Group's brands, customer engagement with social media continues to grow rapidly, with a four-fold increase in Facebook 'likes' and a five-fold increase in Twitter followers during calendar 2013

In January 2014, both Monarch Airlines and Tour Operations launched online customer satisfaction ratings on the 'Feefo' rating platform. Every customer is invited by Feefo to rate their booking experience and flight anonymously. All reviews are collated and presented publically on Google using star ratings. Both divisions have received strong customer ratings so far

Key Performance Indicators	2013	2012	Change
Web traffic – unique visitors (m)	21.9	20.0	+9.5%
Monarch Airlines (m)	12.7	11.1	+14.4%
Tour Operations (m)	9.1	8.8	+3.5%
Gross e-commerce revenue in Monarch Airlines and Tour Operations (£m)	520.0	479.0	+8.5%

Monarch Holdings Limited

Strategic Report (continued)

Group Cashflows and financial position

Net cash inflow from operating activities fell by 12% in the year to £28.6m (2012: £32.6m). Interest paid in cash increased to £7.8m (2012: £2.3m) due to the timing of when accrued interest payments fell due and were made. There was substantial capital investment during the year to support the turnaround with a £30.4m cash outflow to acquire tangible fixed assets, principally related to aircraft and the new hangar at Birmingham Airport. An inflow of £32.6m from the sale of tangible fixed assets, again mainly aircraft related and part of the Group's wider fleet renewal strategy, was used to repay £14.4m of bank debt and £17m of shareholder aircraft lease deferrals. Restricted deposits increased by £7.9m or 15% in line with the growth of the business. During the year, the Group continued to make progress in broadening the range of card processing arrangements available, as well as reducing both the cost of these and the related collateral required.

Principal risks and uncertainties

The Group uses approximately 400,000 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 airline industry is currently heavily regulated, with expected increased regulator intervention, this includes environmental, security and airport regulation in which charges are levied by regulator decision rather than by commercial negotiation. This could have an adverse impact on the Group's cost base and market share.

The Group is exposed to regulation across its network, including the Civil Aviation Authority (CAA) which issues an Air Travel Organisers Licence (ATOL) to certain Group companies which is required in order for the Group to operate. This licence is renewed annually in September subject to assessments of fitness and financial criteria, the broad framework for which is available via the CAA website (www.caa.co.uk).

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.

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. As highlighted in the Principal Risks and Uncertainties section of the Strategic Report, the Group is required to maintain an ATOL licence in order to operate.

The Group has held discussions with the CAA about the ATOL renewal. Based on these discussions, the Group's forecasts, taking into account reasonably possible changes in trading performance, show that the Group is forecasting to meet the financial terms expected to be required by the CAA. Accordingly, the Group has no reason to believe that the renewal will not be granted on acceptable terms using an equivalent basis to previous years.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements. Further details of the going concern basis can be found in note 1 to the financial statements, Accounting Policies.

Financial risk management objectives and policies

The Group's activities expose it to a number of financial risks including cashflow risk, credit risk, liquidity risk, price risk and market 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.

Monarch Holdings Limited

Strategic Report (continued)

Cash flow risk

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

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. Within the engineering division, credit insurance is maintained against the insolvency of its third-party customers. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group uses a mixture of long-term and short-term debt finance (including operating leases) for the purposes of capital expenditure and also actively manages the level of working capital. Most aircraft are now financed with third-party operating lessors, with all debt being provided from the shareholders.

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. Over the last few years, the availability of financial credit and trading lines has become less certain. 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.

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.

Dividends

The Directors have not proposed a dividend for the year (2012: £nil).



R M Palmer
Group Finance Director

6 May 2014

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 auditors' report for the year ended 31 October 2013

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.

Post balance sheet events

On the 31 December 2013 the Group completed the sale and leaseback two B757 aircraft and engines. At 31 October 2013 the Group carried out an impairment review of these assets, resulting in a write down of £4,537,000 reflected in these financial statements. Sales proceeds for the two aircraft and engines totalled £6,010,000.

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.

The Group has been involved in the Action Energy initiative run by the Carbon Trust to reduce carbon emissions and has participated in energy surveys with a Carbon Trust nominated consultant. The surveys resulted in the identification of certain inefficiencies and methods of conservation in the Group's use of energy. Further details on the steps taken to remedy these deficiencies can be found on the 'Monarch and the Planet' ("MAP") section of www.monarch.co.uk

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 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 period ending 31 December 2012 in April 2013. We have not been notified of our free allowances for the current compliance period through to April 2014. 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.

Monarch Holdings Limited

Directors' Report (continued)

Disabled persons

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

Charitable and political donations

During the year the Group made charitable donations of £800 (2012 - £619). No donations were made during the year for political purposes (2012 - £nil). The Group is now formalising and expanding its charitable activities through the Monarch Foundation.

Directors

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

D I Rawlinson	
R Palmer	
R McNulty	
A Reid	(resigned 23 June 2013)
G Atkinson	(appointed 28 January 2014)

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 forthcoming Annual General Meeting.

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

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



D I Rawlinson
Director

6 May 2014

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

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

Independent 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 2013 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 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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. 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 2013 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.

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
St Albans, United Kingdom

7 May 2014

Monarch Holdings Limited

Consolidated profit and loss account For the year ended 31 October 2013

	Note	2013 £'000	2012 £'000
Turnover	1, 2	956,894	825,148
Cost of sales		(850,449)	(767,525)
Gross profit		106,445	57,623
Administrative expenses (including £4.5m, (2012: £11.5m) relating to impairment of B757 aircraft, 2012 A320 aircraft)		(100,370)	(83,392)
Other operating income		175	435
Operating profit/(loss)	4	6,250	(25,334)
Profit on sale of tangible fixed assets		6,910	202
Net finance charges	5	(7,281)	(8,270)
Profit/(loss) on ordinary activities before taxation	2	5,879	(33,402)
Tax (charge)/credit on profit/(loss) on ordinary activities	6	(1,822)	7,259
Profit/(loss) for the financial year		4,057	(26,143)

All amounts relate to continuing activities. The notes on pages 28 to 59 form an integral part of the financial statements.

Consolidated statement of total recognised gains and losses For the year ended 31 October 2013

	Note	2013 £'000	2012 £'000
Profit/(loss) for the financial year		4,057	(26,143)
Actuarial loss relating to the pension scheme	20	(16,104)	(42,564)
Deferred tax charge in relation to the pension scheme due to rate change		(5,925)	(3,642)
Deferred tax credit in relation to the pension scheme due to movement in year		3,627	10,633
Deferred tax in relation to the rate of tax change		(30)	(169)
Deferred tax origination and reversal of timing differences		(1,711)	-
Other reserves		2,208	(11)
Total recognised gains and losses relating to the financial year		(13,878)	(61,896)

Monarch Holdings Limited

Consolidated balance sheet 31 October 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Intangible assets	8	3,549	4,296
Tangible assets	9	124,468	156,492
		<u>128,017</u>	<u>160,788</u>
Current assets			
Stocks	11	6,517	4,336
Debtors - due within one year	12	161,344	152,191
Debtors - due after more than one year	12	18,215	13,067
Investments	13	59,466	51,578
Cash at bank and in hand		36,995	49,858
		<u>282,537</u>	<u>271,030</u>
Creditors amounts falling due within one year	14	(140,790)	(147,220)
Net current assets		<u>141,747</u>	<u>123,810</u>
Total assets less current liabilities		<u>269,764</u>	<u>284,598</u>
Creditors amounts falling due after more than one year	15	(3,471)	(5,544)
Provisions for liabilities	16	(42,206)	(40,336)
Accruals and deferred income		(221,671)	(240,215)
Net assets/(liabilities) excluding pension liability		<u>2,416</u>	<u>(1,497)</u>
Net pension liability	20	(158,002)	(140,211)
Net liabilities including pension liability	2	<u>(155,586)</u>	<u>(141,708)</u>
Capital and reserves			
Called up share capital	17, 21	20,050	20,050
Merger reserve	21	4,963	4,963
Profit and loss deficit	21	(180,599)	(166,721)
Total shareholders' deficit	21	<u>(155,586)</u>	<u>(141,708)</u>

The financial statements of Monarch Holdings Limited, registered number 01165001, were approved by the board of directors and authorised for issue on 6 May 2014

They were signed on its behalf by



D I Rawlinson
Director



R Palmer
Director

Monarch Holdings Limited

Company balance sheet 31 October 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Investments	10	33,398	33,398
Intangible assets	8	35,000	35,000
		<u>68,398</u>	<u>68,398</u>
Current assets			
Debtors - due within one year	12	7,511	151
- due after more than one year	12	500	2,000
Investments	13	10,000	10,000
		<u>18,011</u>	<u>12,151</u>
Creditors amounts falling due within one year	14	<u>(58,693)</u>	<u>(41,353)</u>
Net current assets		<u>(40,682)</u>	<u>(29,202)</u>
Total assets less current liabilities		<u>27,716</u>	<u>39,196</u>
Creditors amounts falling due after more than one year	15	<u>(10,925)</u>	<u>(10,925)</u>
Net assets		<u>16,791</u>	<u>28,271</u>
Capital and reserves			
Called up share capital	17, 21	50	50
Profit and loss account	21	16,741	28,221
Total shareholders' funds	21	<u>16,791</u>	<u>28,271</u>

The financial statements of Monarch Holdings Limited, registered number 01165001, were approved by the board of directors and authorised for issue on 6 May 2014

They were signed on its behalf by



D I Rawlinson
Director



R Palmer
Director

Monarch Holdings Limited

Consolidated cash flow statement Year ended 31 October 2013

	Note	2013 £'000	2012 £'000
Net cash inflow from operating activities	23	12,001	32,611
Returns on investments and servicing of finance			
Interest received		805	597
Interest paid		(7,841)	(2,363)
Finance lease and hire purchase interest	5	(616)	(146)
Net cash outflow from returns on investments and servicing of finance		(7,652)	(1,912)
Taxation			
UK corporation tax received		-	1,791
Capital expenditure and financial investments			
Payments to acquire tangible fixed assets		(30,324)	(11,227)
Receipts from sales of tangible fixed assets		38,993	7,612
Net cash inflow/(outflow) from capital expenditure and financial investments		8,669	(3,615)
Net cash inflow before management of liquid resources and financing		13,018	28,875
Management of liquid resources			
Increase in restricted deposits		(7,888)	(34,933)
Net cash inflow/(outflow) after management of liquid resources		5,130	(6,058)
Financing			
Capital element of finance lease payments		(766)	(684)
Finance lease receipts		5,232	-
Shareholder funding		5,185	-
Shareholder aircraft lease deferrals repaid		(17,000)	-
Bank loan repayments		(14,381)	(3,984)
Other loans		3,737	-
Issue of preference shares		-	20,000
Net cash (outflow)/inflow from financing		(17,993)	15,332
(Decrease)/increase in cash in the year	24, 25	(12,863)	9,274

Monarch Holdings Limited

Notes to the financial statements Year ended 31 October 2013

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, with exception of the revaluation of other fixed asset investments, and in accordance with appropriate United Kingdom accounting standards.

Basis of preparation

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 which forms part of the directors' report. The directors' report also describes the financial position of the Group, its cash flows, liquidity position and borrowing facilities, the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk.

The Group meets its day to day working capital requirements through a combination of operating cash flows, shareholder loans and facilities, and a bank overdraft guaranteed by the shareholders. The shareholder loan, facilities, and guarantees were extended during the year for the period from 31 October 2014 to 31 October 2015. The bank overdraft is due for renewal in November 2014 and the directors have already started discussing this process with the lender, who has confirmed that they do not anticipate any issues in renewing the facility on the existing terms. The directors have considered the uncertainties presented by current economic conditions in relation to demand and pricing, fuel prices, foreign exchange rates and the ability to raise finance in the foreseeable future.

The Group's forecasts and projects, taking into account reasonably possible changes in trading performance and the impact of mitigating actions that the directors can take, show that the Group should be able to trade using operating cash flows for at least twelve months from the signing date of these accounts. This forecast is based on budget and experience of prior years, adjusting for known changes, although the nature of the industry and the market make it difficult to be precise about possible outcomes. The board has completed a sensitised review of the budget and believes that there is sufficient headroom using its available resources.

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.

As highlighted in the Directors' report, the Group is required to maintain an ATOL in order to operate. The Group has held discussions with the CAA about the ATOL renewal. Based on these discussions, the Group's forecasts, taking into account reasonably possible changes in trading performance, show that the Group is forecasting to meet the financial terms expected to be required by the CAA. Accordingly the Group has no reason to believe that the renewal will not be granted on acceptable terms using an equivalent basis to previous years. Principal risks and uncertainties are discussed in more detail in the strategic report.

Turnover

Airline Division turnover represents the invoiced value of airline traffic revenue and related income exclusive of intra-group trading, value added tax and other taxation. Airline traffic revenue is recognised from the date of customer departure. Other related revenue, such as bar sales, is recognised as revenue at the date that the right to receive consideration occurs. 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.

Engineering Division turnover represents amounts receivable in the normal course of business from engineering services and incidental revenue, exclusive of value added tax.

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.

Monarch Holdings Limited

Notes to the financial statements Year ended 31 October 2013

1. Accounting policies (continued)

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 – intellectual property rights

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

Intangible assets - goodwill

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

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 are therefore 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 **Year ended 31 October 2013**

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

Investments

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

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

Monarch Holdings Limited

Notes to the financial statements Year ended 31 October 2013

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.

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 operates two defined benefit schemes, both of which are closed to new entrants. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until the vesting occurs. The interest cost and the expected return on assets are shown as a net pension funding cost in interest receivable and payable. Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses.

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

Financial Liabilities and Equity

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 19 under Other Financial Commitments.

Monarch Holdings Limited

Notes to the financial statements Year ended 31 October 2013

2. Turnover, loss before tax and net liabilities

For management purposes, the Group is organised into 5 operating units, Airline, Engineering, Tour Operations, First Aviation, 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, loss before tax and net liabilities are analysed as follows:

	Gross Divisional Turnover	Eliminations	Net Turnover	Gross Divisional Turnover	Eliminations	Net Turnover
	2013	2013	2013	2012	2012	2012
	£'000	£'000	£'000	£'000	£'000	£'000
Description of class of business:						
Airline	767,482	(187,469)	580,013	673,715	(169,390)	504,325
Engineering	100,196	(70,464)	29,732	82,115	(57,750)	24,365
Tour operations	336,456	-	336,456	291,441	-	291,441
First Aviation	19,118	(8,425)	10,693	7,389	(2,372)	5,017
Group	7,493	(7,493)	-	10,395	(10,395)	-
	<u>1,230,745</u>	<u>(273,851)</u>	<u>956,894</u>	<u>1,065,055</u>	<u>(239,907)</u>	<u>825,148</u>

	Profit/(loss) before tax		Net assets/(liabilities)	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Description of class of business:				
Airline	8,701	(43,568)	(16,478)	(18,594)
Engineering	4,022	5,409	22,740	18,859
Tour operations	4,460	5,651	1,370	6,231
First Aviation	232	114	1,275	472
Group	(11,536)	(1,008)	(164,493)	(148,676)
	<u>5,879</u>	<u>(33,402)</u>	<u>(155,586)</u>	<u>(141,708)</u>

Monarch Holdings Limited

Notes to the financial statements Year ended 31 October 2013

2. Turnover, loss before tax and net liabilities (continued)

The £8.7m Airline profit before tax includes an impairment charge of £4.5m (2012 £11.5m) on two B757 aircraft and engines (2012 two A320 aircraft), accelerated depreciation of £7.4m on A300 aircraft, a loss of £1.6m relating to contract terminations, a £6.6m gain on the disposal of a Trent engine, and a £4.3m foreign exchange translation loss

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

	2013 £'000	2012 £'000
Turnover by origin is analysed by geographical market below:		
United Kingdom	942,655	812,474
Europe	7,419	6,785
North America	6,044	5,478
Africa	718	77
Asia	58	334
	<u>956,894</u>	<u>825,148</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) and profit/(loss) on ordinary activities before taxation can be analysed as follows

	2013		2012	
	Operating profit £'000	Profit before tax £'000	Operating loss £'000	Loss before tax £'000
Reported result	6,250	5,879	(25,334)	(33,402)
Impairment of aircraft	4,537	4,537	11,521	11,521
Accelerated depreciation of aircraft	7,444	7,444	-	-
Termination of B757 maintenance contract	-	-	6,948	6,948
Termination of other contracts	1,609	1,609	-	-
Gain on sale and leaseback on engine	-	(6,639)	-	-
Foreign exchange translation losses	4,312	4,312	-	-
	<u>24,152</u>	<u>17,142</u>	<u>(6,865)</u>	<u>(14,933)</u>
Reported result before impairment of aircraft, termination of contracts, gain on sale and leaseback of engine and foreign exchange translation losses				

Monarch Holdings Limited

Notes to the financial statements Year ended 31 October 2013

3. Information regarding directors and employees

	2013 £'000	2012 £'000
Directors' remuneration:		
Emoluments	1,587	1,417

The emoluments of the highest paid director were	1,103	646
--	-------	-----

The accrued pension of the highest paid director from the defined benefit scheme at 31 October 2013 was £nil (2012 - £nil) per annum

	2013 Number	2012 Number
The number of directors in a defined benefit pension scheme	-	-

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

Airline operations	1,520	1,593
Engineering services	545	389
Tour operations	304	302
Administrative	822	563
	3,191	2,847

	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Staff costs during the year (including directors):				
Wages and salaries		120,613		104,128
Social security costs		13,996		12,256
Pension costs				
- FRS17 service charge	28		20	
- Amounts included as other finance costs	2,353		3,379	
- Contributions to money purchase scheme	10,806		6,445	
- Amounts recognised in statement of total recognised gains and losses	16,104		42,564	
		29,291		52,408
		163,900		168,792

Monarch Holdings Limited

Notes to the financial statements Year ended 31 October 2013

4. Profit on ordinary activities before taxation

	2013 £'000	2012 £'000
Operating profit/(loss) is after charging:		
Impairment of assets	4,537	11,521
Depreciation of tangible fixed assets		
- owned	42,345	31,832
- held under finance leases and hire purchase contracts	1,041	844
Amortisation of intangible assets	747	747
Operating lease rentals - plant and machinery	65,564	55,851
- other	2,745	2,260
	<u> </u>	<u> </u>

The analysis of auditor's remuneration is as follows:

	2013 £'000	2012 £'000
Fees payable to the Company's auditor for the audit of the Company's financial statements	47	26
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	245	254
Total audit fees	<u>292</u>	<u>280</u>

Non-audit Fees	2013 £'000	2012 £'000
- Tax services	60	90
- Other assurance services	78	59
Total non-audit fees	<u>138</u>	<u>149</u>

Fees payable to the Company's auditor and their associates in respect of associated pension schemes:

Audit	<u>36</u>	<u>12</u>
-------	-----------	-----------

Monarch Holdings Limited

Notes to the financial statements Year ended 31 October 2013

5. Finance charges (net)

	2013 £'000	2012 £'000
Interest payable and similar charges		
Bank loans and overdrafts	5,169	5,307
Finance leases and hire purchase contracts	616	146
	<u>5,785</u>	<u>5,453</u>
Investment income		
Interest receivable and similar income	(857)	(562)
Other finance charges		
Net finance charges on pension scheme	2,353	3,379
	<u>7,281</u>	<u>8,270</u>
Total net finance charges	<u>7,281</u>	<u>8,270</u>

6. Tax charge on profit on ordinary activities

(a) Tax charge on profit on ordinary activities	2013 £'000	2012 £'000
Current tax		
UK corporation tax at 23.4% (last year 24.8%) based on the profit/(loss) for the year	8	-
	<u>8</u>	<u>-</u>
Total current tax charge	8	-
Deferred tax		
Origination and reversal of timing differences	1,878	(6,543)
Adjustment in respect of prior years	(48)	(353)
Change in effective tax rate	(99)	237
FRS17 charge	83	(600)
	<u>1,814</u>	<u>(7,259)</u>
Total deferred tax charge/(credit)	1,814	(7,259)
Tax charge/(credit) on profit/(loss) on ordinary activities	<u>1,822</u>	<u>(7,259)</u>

Monarch Holdings Limited

Notes to the financial statements Year ended 31 October 2013

6. Tax charge on profit on ordinary activities (continued)

(b) Factors affecting current tax credit for the year

The tax assessed for the period is lower (2012 – lower) than the standard rate of corporation tax in the UK of 23.4% (2012 – 24.8%). The differences are explained below

	2013 %	2012 %
Standard rate of corporation tax	23.4	24.8
Effects of		
Expenses not deductible for tax purposes	37.8	(4.4)
Capital allowances in excess of depreciation	21.4	(9.1)
Movement in short term timing differences	(1.9)	(0.1)
Utilisation of tax losses	(114.0)	-
Total losses carried forward	-	(9.9)
FRS17 movement	(1.4)	(1.8)
Taxable foreign exchange in reserves	32.0	-
Consol adjs with no tax effect	1.7	0.5
Exceptional items	1.1	-
Current tax charge for the year	0.1	-

(c) Factors affecting current tax credit for the year

The Finance Act 2013, which provides for reductions in the main rate of corporation tax from 23% to 21% effective from 1 April 2014 and to 20% effective from 1 April 2015, was substantively enacted on 2 July 2013. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

7. Profit attributable to the Company

The loss for the financial year dealt with in the financial statements of the parent Company was £11,480,000 (2012 - £1,581,000 profit). 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 Year ended 31 October 2013

8. Intangible fixed assets

Group	Goodwill £'000	Patents /trademarks £'000	Total £'000
Cost			
At 1 November 2012 and at 31 October 2013	15,854	500	16,354
Amortisation			
At 1 November 2012	11,558	500	12,058
Charge for the financial year	747	-	747
At 31 October 2013	12,305	500	12,805
Net book value			
At 31 October 2013	3,549	-	3,549
At 31 October 2012	4,296	-	4,296
Company			Brand £'000
Cost			
At 1 November 2012 and 31 October 2013			35,000
Amortisation			
At 1 November 2012 and 31 October 2013			-
Net book value			
At 31 October 2013			35,000
At 31 October 2012			35,000

During the year ended 31 October 2011, the Company acquired the Monarch brand from Monarch Airlines Limited for a total consideration of £35m, supported by an independent valuation. From 1 November 2011 the Company receives an annual royalty payment from Monarch Airlines of 0.5% of revenue and from Monarch Aircraft Engineering Limited based on 0.25% of third party revenue. The Company agreed a brand royalty waiver with Monarch Airlines in the year ended 31 October 2013 to provide additional resources for the Airline to complete its turnaround.

Monarch Holdings Limited

Notes to the accounts Year ended 31 October 2013

9 Tangible fixed 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
Cost								
At 1 November 2012	16,997	4,727	111,798	46,093	26,959	50,985	157,348	414,907
Additions	10,458	-	(528)	1,719	8,806	8,740	18,784	47,979
Transfers	-	-	-	-	452	(452)	-	-
Disposals	-	-	(98,772)	(2,184)	(5,954)	(1,142)	(22,110)	(130,162)
At 31 October 2013	27,455	4,727	12,498	45,628	30,263	58,131	154,022	332,724
Accumulated depreciation								
At 1 November 2012	7,638	3,295	73,984	28,108	22,163	38,432	84,795	258,415
Charge for the year	351	151	2,767	4,168	3,916	4,215	27,818	43,386
Transfers	-	-	-	-	74	(74)	-	-
Impairment	-	-	874	516	-	-	3,147	4,537
Disposals	-	(1)	(68,947)	(1,551)	(4,535)	(1,116)	(21,932)	(98,082)
At 31 October 2013	7,989	3,445	8,678	31,241	21,618	41,457	93,828	208,256
Net book value								
At 31 October 2013	19,466	1,282	3,820	14,387	8,645	16,674	60,194	124,468
At 31 October 2012	9,359	1,432	37,814	17,985	4,796	12,553	72,553	156,492

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

9. Tangible fixed assets (continued)

In the year ended 31 October 2013, the group sold and lease back two Airbus A321 and two Airbus A320 aircraft with a net book value of £31,454,000. Sales proceeds for the four Aircraft totalled £35,049,000. The group did not sell and leaseback any aircraft in the year ended 31 October 2012.

At 31 October 2013 an impairment review was performed. This resulted in the write down of £4,537,000 (2012: £11,521,000) in the income statement of two B757 aircraft and engines (2012: two A320 aircraft).

The rotables cost includes £13,801,488 (2012: £6,571,683) in respect of assets which are subject to hire purchase arrangements. The accumulated depreciation of these assets is £3,608,658 (2012: £2,669,746). The related depreciation charge for the year was £1,042,015 (2012: £821,460).

The plant and equipment cost of the group and company includes £6,844,683 (2012: £6,581,000) in respect of assets which are subject to hire purchase and finance lease contracts. The accumulated depreciation of these assets is £3,701,657 (2012: £2,763,000). The related depreciation charge for the year was £1,042,015 (2012: £844,000).

The cost of the long leasehold property includes £131,529 (2012: £68,000) of capitalised interest.

The Group and Company had no commitments for capital expenditure at the year end (2012: £nil).

10. Fixed asset investments

Company	Shares in subsidiary undertakings £'000	Loans to subsidiaries £'000	Total £'000
Cost or valuation			
At 1 November 2012	20,398	13,000	33,398
Additions	-	-	-
Disposals	-	-	-
At 31 October 2013	20,398	13,000	33,398
Provisions for impairment			
At 1 November 2012 and at 31 October 2013	-	-	-
Net book value			
At 31 October 2013	20,398	13,000	33,398
At 31 October 2012	20,398	13,000	33,398

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

10. Fixed Asset Investments (continued)

Principal Group investments

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

Subsidiary undertakings	Country of incorporation and operation	Principal activity	Holding	%
Avro Limited	England and Wales	Sale of airline seats	16,100,000 ordinary £1 shares	100
Cosmos Holidays Limited	England and Wales	Tour operator	25,200,000 ordinary £1 shares	100
Monarch Aircraft Engineering Limited	England and Wales	Aircraft engineering and maintenance	100,000 ordinary £1 shares	100
Monarch Airlines Limited*	England and Wales	Airline operator	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
First Aviation Limited*	England and Wales	Charter aircraft broker	25,000 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

*Held directly by Monarch Holdings Limited

11. Stocks

	Group 2013 £'000	Group 2012 £'000
Engineering stock	6,154	4,035
Cabin consumables	363	301
	<u>6,517</u>	<u>4,336</u>

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

Monarch Holdings Limited

Notes to the accounts Year ended 31 October 2013

12. Debtors

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Amounts falling due within one year:				
Trade debtors	30,722	25,050	-	-
Amounts owed by Group undertakings	-	-	5,087	151
Other debtors	16,359	20,040	2,424	-
Prepayments and accrued income	114,263	107,101	-	-
	<u>161,344</u>	<u>152,191</u>	<u>7,511</u>	<u>151</u>
Amounts falling due after more than one year:				
Amounts owed by Group undertaking	-	-	500	2,000
Deposits held by lessors	18,215	13,067	-	-
	<u>18,215</u>	<u>13,067</u>	<u>500</u>	<u>2,000</u>
Total debtors	<u>179,559</u>	<u>165,258</u>	<u>8,011</u>	<u>2,151</u>

13. Current asset investments

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Restricted cash	<u>59,466</u>	<u>51,578</u>	<u>10,000</u>	<u>10,000</u>

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

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

14. Creditors: amounts falling due within one year

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Bank loans and overdraft (secured)	-	14,381	-	-
Shareholder loans (secured, see note 25)	71,947	83,858	-	-
Other loans	3,737	-	-	-
Obligations under hire purchase contracts and finance leases	6,024	765	-	-
Trade creditors	48,591	32,752	-	-
Amounts owed to Group undertakings	-	-	58,693	40,707
Other taxation and social security costs	6,435	11,227	-	646
Other creditors	4,056	4,237	-	-
	<u>140,790</u>	<u>147,220</u>	<u>58,693</u>	<u>41,353</u>

Further details regarding loans, finance leases and hire purchase contracts are shown in note 25. The 'other loan' is secured against certain aircraft owned by the group.

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

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Obligations under hire purchase contracts and finance leases	2,321	3,114	-	-
Amounts owed to Group undertakings	-	-	9,775	9,775
Other loan	1,150	1,150	1,150	1,150
Other creditors	-	1,280	-	-
	<u>3,471</u>	<u>5,544</u>	<u>10,925</u>	<u>10,925</u>
Borrowings repayable in more than five years	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Obligations under hire purchase contracts and finance leases				
On demand or within one year (note 14)	6,024	765	-	-
Between one and two years	820	3,114	-	-
Between two and five years	1,501	-	-	-
After five years	-	-	-	-
	<u>8,345</u>	<u>3,879</u>	<u>-</u>	<u>-</u>
Amounts owing to Group undertakings				
After five years	-	-	9,775	9,775
Other loan				
After five years (see note 25)	<u>1,150</u>	<u>1,150</u>	<u>1,150</u>	<u>1,150</u>

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

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

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

The amount owed by the Company to a Group undertaking of £9,775,000 was not interest-bearing during the year (2012 – £9,775,000) This amount is repayable after more than five years, there are no other terms for repayment

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

16. Provisions for liabilities

Group	Un-utilised leasehold £'000	Emission reserves £'000	Maintenance reserves £'000	Deferred tax £'000	Total £'000
At 1 November 2012	1,126	4,820	37,621	(3,231)	40,336
(Credit)/charge to profit and loss account	(233)	-	-	1,729	1,496
Provisions made in year	-	3,979	19,271	-	23,250
Utilised in the year	(1)	(4,820)	(19,796)	-	(24,617)
Charge to the statement of total recognised gains and losses	-	-	-	1,741	1,741
At 31 October 2013	892	3,979	37,096	239	42,206

Deferred taxation

The total potential amount of deferred tax on timing differences and the amount for which recognition at 20% (2012 – 23%) has been made is

	Group Recognised 2013 £	Group Recognised 2012 £
Tax losses	(1,746)	(9,420)
Accelerated capital allowances	2,566	5,447
Other timing differences	(134)	(592)
Foreign exchange	(447)	1,334
	239	(3,231)

Un-utilised leasehold

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

Emissions reserves

Emission reserves represent a commitment to purchase emissions allowances to meet the requirements of the EU Emissions Trading Scheme, which became effective for the aviation industry on 1 January 2012 The provision is made for the CO2 emitted in the period based on emission allowance utilised The provision will be utilised at the end of the period when the initial allowance was granted for

Maintenance reserves

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

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

17. Called up share capital

	2013 £'000	2012 £'000
Authorised, called up, allotted and fully paid		
50,000 ordinary shares of £1 each	50	50
20,000,000 redeemable preference shares of £1 each	20,000	20,000

Under the terms of the 2011 Refinancing, on 15 November 2011, Amerald Investments NV (ultimate and immediate parent and controlling party of Monarch Holdings Limited) provided £40m of funds to Monarch 2011 Limited, a newly incorporated subsidiary of the Group, as additional working capital. The £40m comprised £20m of preference share capital and a £20m loan.

18. 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 £9,383,445 (2012 - £9,547,586). These guarantees are in addition to the restricted cash disclosed in note 15 and financial commitments disclosed in note 21.

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

During the financial year the group paid contributions at 50% of the due rates in line with the Schedule of Contributions into the Monarch Airlines Limited Retirement Benefits Plan. The group are due to pay the balance of contributions when the 'Pension Contribution Payback Trigger' has been met. The amount due has been estimated at approximately £633,600.

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 accounts

Year ended 31 October 2013

19. Commitments

Operating leases

At 31 October 2013, the Group had annual commitments under non-cancellable operating leases as set out below

	Aircraft and engines £'000	Land and buildings £'000	Other £'000	Total £'000
Operating leases which expire:				
Within one year	4,032	129	449	4,610
In the second to fifth year inclusive	53,552	492	926	54,970
After five years	10,724	1,317	1,103	13,144
	<u>68,308</u>	<u>1,938</u>	<u>2,478</u>	<u>72,724</u>

At 31 October 2012, the Group had annual commitments under non-cancellable operating leases as set out below

	Aircraft and engines £'000	Land and buildings £'000	Other £'000	Total £'000
Operating leases which expire:				
Within one year	4,509	129	-	4,638
In the second to fifth year inclusive	42,425	490	169	43,084
After five years	5,186	1,359	1,251	7,796
	<u>52,120</u>	<u>1,978</u>	<u>1,420</u>	<u>55,518</u>

Other finance commitments

At 31 October 2013, the Group had commitments under fixed forward exchange contracts entered into in the ordinary course of business amounting to £543 6m (2012 - £431 4m)

At 31 October 2013, the Group had jet fuel swaps entered into in the ordinary course of business amounting to £203 7m (2012 - £173 8m)

At 31 October 2013, the Group had carbon credit swaps entered into in the ordinary course of business to hedge an amount of £nil (2012 - £5 8m) of their future carbon credit purchases

The fair value of derivative transactions entered into to hedge future operating costs is not recognised in the accounts. At 31 October 2013, the Group had an unrecognised loss on its forward exchange contracts of £9 7m (2012 - loss of £5 2m), an unrecognised profit on its jet fuel swaps of £1 7m (2012 - profit of £1 8m) and an unrecognised profit on carbon credit swap of £nil (2012 - profit of £0 4m)

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

20. Pension arrangements

For the year ended 31 October 2013, 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 £6.7m (2012 – £6.3m). There were outstanding contributions at the year-end of £0.1m (2012 – £0.6m).

Defined benefit schemes

Monarch Airlines Limited Retirement Benefits Plan

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

The scheme has been closed to new entrants since 2002 and ceased future benefit accruals from 30 April 2010. The benefits of certain employees retain 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.

The scheme is subject to a triennial valuation by independent actuaries. A full actuarial valuation was last carried out at 30 June 2010, a summary of the following position as at 30 June 2010, produced in accordance with the Pensions Act 2004, 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 with the last full actuarial valuation carried out at 31 May 2012. The employers' contribution rate over the average remaining service lives of the members of the scheme takes account of the surplus disclosed by the valuation.

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

20. Pension arrangements (continued)

Defined benefit schemes (continued)

The financial assumptions under FRS 17 used by the actuaries were

	2013		2012	
	Cosmosair Pension and Life Assurance Scheme	Monarch Airlines Limited Retirement Benefit Plan	Cosmosair Pension and Life Assurance Scheme	Monarch Airlines Limited Retirement Benefit Plan
Rate of increase in salaries	3.40%	3.25%	2.60%	2.90%
Rate of increase for pensions in payment	3.40%	3.08%	2.30%	2.83%
Discount rate	4.20%	4.45%	4.00%	4.25%
Inflation assumption	3.40%	3.25%	2.60%	2.65%
Increase in deferred pension	2.25%	2.25%	2.00%	2.00%
Mortality before retirement				
Males	PMA92 Medium Cohort (Y O B)	84% S1PA CMI 2010 1% Per Annum	PMA92 Medium Cohort (Y O B)	84% S1PA CMI 2010 1% Per Annum
Females	PFA92 Medium Cohort (Y O B)	95% S1PA CMI 2010 1% Per Annum	PFA92 Medium Cohort (Y O B)	95% S1PA CMI 2010 1% Per Annum
Mortality before retirement				
Males	PMA92 Medium Cohort (Y O B)	84% S1PA CMI 2010 1% Per Annum	PMA92 Medium Cohort (Y O B)	84% S1PA CMI 2010 1% Per Annum
Females	PFA92 Medium Cohort (Y O B)	95% S1PA CMI 2010 1% Per Annum	PFA92 Medium Cohort (Y O B)	95% S1PA CMI 2010 1% Per Annum
Weighted average life expectancy to determine benefit obligations:				
Member age 65 (current life expectancy)				
Males	22.3	23.3	22.2	23.2
Females	25.2	24.5	25.1	24.4
Member age 45 (life expectancy at 65):				
Males	23.3	24.7	23.2	24.6
Females	26.0	26.0	26.0	25.9

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

20. Pension arrangements (continued)

Defined benefit schemes (continued)

Assumptions and sensitivities

The directors have chosen assumptions as 31 October 2013, which reflect a consistent approach with previous years. Key sensitivities within those assumptions are as follows:

- the discount rate is determined with reference to AA rated corporate bond yields of appropriate term and currency to the liabilities of the Plan. This year's determination of a 4.45% discount rate 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 an 21 year duration.
- a 0.25% movement in the discount rate would impact liabilities by approximately £23m.
- a 0.25% movement in inflation would impact liabilities by approximately £12m.

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	
	2013	2013	2012	2012	2011	2011
	%	£'000	%	£'000	%	£'000
Equities	7.40	235,590	7.00	207,031	7.00	194,966
Bonds	4.45	61,730	4.25	56,481	5.00	56,677
Cash	3.20	4,987	2.80	1,346	3.10	2,018
Total market value of assets		302,307		264,858		253,661
Present value of scheme liabilities		(500,079)		(447,134)		(391,069)
Deficit in the scheme		(197,772)		(182,276)		(137,408)
Related deferred tax asset		39,554		41,924		34,352
Net pension liability on an FRS 17 basis		<u>(158,218)</u>		<u>(140,352)</u>		<u>(103,056)</u>

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

20. 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	
	2013 %	2013 £'000	2012 %	2012 £'000	2011 %	2011 £'000
Equities	6.3	958	6.0	994	7.0	1,225
Fixed interest and cash	3.3	3,109	2.8	1,890	3.1	1,746
Property	6.3	282	6.0	319	7.0	348
Purchased annuities	4.2	213	4.0	1,171	5.0	1,180
		<hr/>		<hr/>		<hr/>
Total market value of assets		4,562		4,374		4,499
Present value of scheme liabilities		(4,249)		(3,814)		(3,844)
		<hr/>		<hr/>		<hr/>
Surplus in the scheme		313		560		655
Unrecoverable surplus		(43)		(376)		(407)
Related deferred tax liability		(54)		(43)		(62)
		<hr/>		<hr/>		<hr/>
Net pension asset on an FRS 17 basis		216		141		186
		<hr/>		<hr/>		<hr/>

	2013 £'000	2012 £'000	2011 £'000
Net pension liability:			
Net pension liability of Monarch Airlines Limited Retirement Benefits Plan	(158,218)	(140,352)	(103,056)
Pension asset of Cosmosair Pension and Life Assurance Scheme	216	141	186
	<hr/>	<hr/>	<hr/>
Total net pension liability included in consolidated balance sheet	(158,002)	(140,211)	(102,870)
	<hr/>	<hr/>	<hr/>

Analysis of the amount charged to operating profit

	2013 £'000	2012 £'000
Current service cost	28	20
	<hr/>	<hr/>

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

20. Pension arrangements (continued)

Defined benefit schemes (continued)

Analysis of the amount charged to finance costs (continued)

	2013 £'000	2012 £'000
Expected return on pension scheme assets	16,510	16,051
Interest on pension liabilities	(18,863)	(19,430)
Net charge (note 5)	(2,353)	(3,379)
Actual return on plan assets	48,843	22,862

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

	2013 £'000	2012 £'000
Actuarial loss recognised in the STRGL	(16,104)	(42,595)
Change in restriction on unrecoverable surplus	-	31
	(16,104)	(42,564)
Cumulative loss recognised in the STRGL	106,531	90,427

Movement in net deficit during the year

	2013 £'000	2012 £'000
Changes in benefit obligations		
Benefit obligations at beginning of year	450,948	394,913
Current service costs	28	20
Interest cost	18,863	19,430
Plan participants' contributions	6	4
Past service costs	257	-
Actuarial losses	48,437	49,375
Benefits paid	(14,211)	(12,794)
Benefits obligations at end of year for plans that are wholly or partly funded	504,328	450,948

Change in plan assets

Fair value of assets at beginning of year	269,232	258,160
Expected return on plan assets	16,510	16,051
Actuarial gains	32,333	6,811
Employer contributions	3,000	1,000
Member contributions	6	4
Benefits paid	(14,211)	(12,794)
Fair value of plan assets at year end	306,870	269,232

Restrictions due to unrecoverable surplus	(43)	(376)
Net amount recognised	(197,501)	(182,092)

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

20. Pension arrangements (continued)

Defined benefit schemes (continued)

Movement in net deficit during the year (continued)

	2013 £'000	2012 £'000
Represented by		
Monarch Airlines Limited Retirement Benefit Plan	(197,772)	(182,276)
Cosmosair Pension and Life Assurance Scheme	271	184
Net pension deficit	<u>(197,501)</u>	<u>(182,092)</u>

Five year history

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Benefit obligation at end of year	(504,328)	(450,948)	(394,913)	(397,676)	(382,386)
Fair value of assets at end of year	306,870	269,232	258,160	264,628	246,448
Unrecoverable surplus	(43)	(376)	(407)	(413)	(345)
	<u>(197,501)</u>	<u>(182,092)</u>	<u>(137,160)</u>	<u>(133,461)</u>	<u>(136,283)</u>
Difference between actual and expected return of scheme assets:					
Amount (£'000)	32,333	6,811	(10,692)	14,524	32,842
Percentage of schemes assets (%)	10.5%	2.5%	(4.1%)	5.5%	13.3%
Experience gains and losses on scheme liabilities:					
Amount (£'000)	(48,437)	(49,375)	(9,484)	(1,352)	(1,837)
Percentage of schemes liabilities (%)	9.6%	10.9%	2.4%	0.3%	0.5%

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

21. Reserves

Group	Called up share capital £'000	Preference share capital £'000	Merger reserve £'000	Profit and loss account (deficit) £'000	Total 2013 £'000	Total 2012 £'000
At the beginning of the year	50	20,000	4,963	(166,721)	(141,708)	(99,812)
Issue of preference shares	-	-	-	-	-	20,000
Profit/(loss) for the financial year	-	-	-	4,057	4,057	(26,143)
Actuarial loss relating to the pension scheme (note 20)	-	-	-	(16,104)	(16,104)	(42,564)
Deferred tax charge in relation to the pension scheme due to rate change	-	-	-	(5,925)	(5,925)	(3,642)
Deferred tax credit in relation to the pension scheme due to movement in year	-	-	-	3,627	3,627	10,633
Deferred tax in relation to rate of change of tax	-	-	-	(30)	(30)	(169)
Deferred tax origination and reversal of timing differences	-	-	-	(1,711)	(1,711)	-
Other reserves	-	-	-	2,208	2,208	(11)
At the end of the financial year	<u>50</u>	<u>20,000</u>	<u>4,963</u>	<u>(180,599)</u>	<u>(155,586)</u>	<u>(141,708)</u>

Company	Called up share capital £'000	Profit and loss account £'000	Total 2013 £'000	Total 2012 £'000
At the beginning of the financial year	50	28,221	28,271	26,690
Profit for the financial year (note 7)	-	(11,480)	(11,480)	1,581
At the end of the financial year	<u>50</u>	<u>16,741</u>	<u>16,791</u>	<u>28,271</u>

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

22. Reconciliation of movements in Group shareholders' funds

	2013 £'000	2012 £'000
Profit/(loss) for the financial year	4,057	(26,143)
Other recognised gains and losses relating to the year	(17,935)	(35,753)
	<u>(13,878)</u>	<u>(61,896)</u>
Preference shares issued	-	20,000
Net additions to shareholders' funds	<u>(13,878)</u>	<u>(41,896)</u>
Opening shareholders' funds	(141,708)	(99,812)
Closing shareholders' funds	<u>(155,586)</u>	<u>(141,708)</u>

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

	2013 £'000	2012 £'000
Operating profit/(loss)	6,250	(25,334)
Profit on sale of fixed assets	-	202
Amortisation – intangible fixed assets	747	747
Depreciation – tangible fixed assets	43,386	32,677
Impairment – tangible fixed assets	4,537	11,521
Increase in stocks	(2,181)	(36)
Increase in debtors	(14,257)	(22,415)
Increase in creditors	(23,766)	36,229
Pension adjustments	(2,715)	(980)
Net cash inflow from operating activities	<u>12,001</u>	<u>32,611</u>

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

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

	2013 £'000	2012 £'000
(Decrease)/increase in cash in the year	(12,863)	9,274
Cash used to repay debt	26,292	814
Cash inflow from financing activities	(8,203)	(20,000)
Increase in liquid resources	7,888	34,933
Change in net debt resulting from cash flows	13,114	25,021
Opening net debt	(1,832)	(26,853)
Closing net debt	11,282	(1,832)

25. Analysis of net debt

	At 1 November 2012 £'000	Cash flows £'000	At 31 October 2013 £'000
Cash at bank and in hand	49,858	(12,863)	36,995
Bank loans due within one year	(14,381)	14,381	-
Shareholder loans due within one year	(83,858)	11,911	(71,947)
Finance leases and hire purchase obligations	(3,879)	(4,466)	(8,345)
Other loan	(1,150)	(3,737)	(4,887)
	(103,268)	18,089	(85,179)
Current asset investments	51,578	7,888	59,466
Total	(1,832)	13,114	11,282

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

26. Related party transactions

Set out below is a summary of related party transactions between

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

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

A) 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 26 below in the same or similar proportions as to those holdings in the Group

Transaction	Related Party
1 Loan to Monarch Holdings Limited on interest free terms and with no fixed terms for repayment. The amount due to the related party at 31 October 2013 was £1.15m (2012 - £1.15m)	Amerald Investments N V as the controlling shareholder of Monarch Holdings Limited and lender
2 Operating leases to Monarch Airlines Limited of aircraft, engines and rotatable components at a cost of £2.7m (2012 - £12.3m) in the period. These leases are for periods of between 1 and 12 years at rentals ranging from £0.1m to £0.9m per annum (2012 - £0.5m to £3.8m). The amount due to the lessors at 31 October 2013 was £nil (2012 - £0.3m)	Various shareholder owned lessors
3 From 14 October 2011, shareholder owned aircraft lessors suspended lease payments on 8 aircraft leased by Monarch Airlines. Deferred payments totalled £11.2m at 31 October 2013 (2012 - £22.0m)	Various shareholder owned lessors
4 Provision of insurance and insurance services to the Group in respect of the aircraft fleet, property, and motor vehicles amounting to £5.2m (2012 - £4.9m) in the year. The amount due to the related party at 31 October 2013 was £3.6m (2012 - £3.3m). There were also amounts due from Voyager to Monarch Airlines Limited to the value of £57,000 (2012 - £356,000) in relation to insurance claims agreed and awaiting settlement.	Voyager Insurance Company Limited as a shareholder owned captive insurer and provider of insurance and insurance services
5 Under a Rebate Assignment dated 15 April 1988, and supplemental agreements dated 15 July 1991 and 29 June 1992, the company is providing security for the obligations of Andrair Limited, to the head lessor (an unrelated third party) of an aircraft which is subleased by Andrair Limited to Monarch Airlines Limited. The annual lease rental was £1.0m. However, a liability will only arise if Andrair Limited defaults in its lease payment obligations. The quantum of any such liability would be based on the net proceeds of sale of the aircraft which cannot be determined at the present time.	Andrair Limited as shareholder owned lessor and lessee of an aircraft to Monarch Airlines and beneficiary of security agreements

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

26. Related party transactions (continued)

	Transaction	Related Party
6	During the year, Monarch Airlines Limited incurred costs of £nil (2012 - £47,000) in respect of guarantee fees payable in connection with the acquisition of aircraft	SMG Asset Management Limited as a shareholder owned company and guarantor
7	Sale of seats to the related party by subsidiary undertakings of the Company amounting to £316,000 (2012 - £281,000) At 31 October 2013 £nil (2012 - £nil) was due from the related party	Cosmos Transport Services Limited as a shareholder owned seat broker
8	Fee for provision of resort and administrative services and liability insurance £1,196,000 (2012 - £1,079,000)	Tourama Limited as a shareholder owned provider of beds
9	The balance due to Tourama Limited at 31 October 2013 was £19,350,000 (2012 - £11,097,227) This covers transaction 8 and payments made by Tourama Limited to unrelated third parties as paying agent of a subsidiary undertaking	Tourama Limited as a shareholder owned provider of beds and creditor
10	Licence fee for use of the 'Cosmos' name £156,000 (2012 - £138,000) The balance due at 31 October 2013 was £156,000 (2012 - £138,000)	Cosmos European Travels Aktiengesellschaft as the shareholder owned brand licensor
11	Administration fees, contribution to central overheads, supply of UK airport departure point services charged to the related parties amounted to £1,953,000 (2012 - £1,988,000) in the year, and purchases of scheduled service seats from the related parties of £2,560,000 (2012 - £2,624,000) The balance due from these related parties at 31 October 2013 was £583,000 (2012 - £257,000) includes holiday booking monies received on behalf of Cosmos Coach Tours Limited	Cosmos Coach Tours Limited, Archers Tours Limited, and Cosmos Transport Services Limited as shareholder owned users and providers of services
12	In October 2009, Monarch Airlines Leasing Limited borrowed £15m from Transcontinental Aviation Limited Interest on the loan of £1,555,000 (2012 - £1,793,000) was incurred during the year ended 31 October 2013	Transcontinental Aviation Limited as a shareholder owned lender
13	In December 2009, Monarch Airlines Limited borrowed £25m from Transcontinental Aviation Limited Interest on the loan of £1,938,000 (2012 - £1,917,000) was incurred during the year ended 31 October 2013	Transcontinental Aviation Limited as a shareholder owned lender

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

26. Related party transactions (continued)

	Transaction	Related Party
14	On 23 March 2011, Transcontinental Aviation Limited provided a £2m guarantee to Morgan Stanley on behalf of Monarch Airlines Limited to enable Monarch Airlines Limited to hedge fuel	Transcontinental Aviation Limited as a shareholder owned guarantor
15	On 25 August 2011, Transcontinental Aviation Limited provided a £10m guarantee to Barclays Bank PLC on behalf of Monarch Airlines to provide guarantees to suppliers	Transcontinental Aviation Limited as a shareholder owned guarantor
16	On 15 November 2011, Monarch 2011 Limited borrowed £20m from Amerald Investments N V Interest on the loan of £710,000 (2012 - £750,000) was incurred during the year ended 31 October 2013	Amerald Investments N V as the controlling shareholder of Monarch Holdings Limited and lender
17	On 24 April 2013, Monarch Airlines Limited entered into an agreement with Transcontinental Aviation Limited to transfer the benefit of a \$100m USD hedge transaction undertaken in early May 2012	Transcontinental Aviation Limited as the shareholder owned hedging counterparty
18	FAMTAAA Limited invoiced Monarch Group Management Limited £115,310 (2012 - £nil) for its consulting services during the year At the year end £95,310 was outstanding for amounts owed to FAMTAA Limited (2012 - £nil)	Fabio Mantegazza as a director of FAMTAAA Limited and ultimate controlling party of Monarch Holdings Limited
19	Fee for provision of bonds with regulatory bodies £44,115 (2012 - £48,456) of which £nil (2012 - £nil) relates to future accounting periods	SMG Asset Management Limited as the shareholder owned provider

B) Arrangements with other related parties

1	Rawlinson Partners Limited invoiced Monarch Airlines £nil (2012 - £172,000) for its consulting services during the year As at the year end there were no outstanding amounts for invoices owed to Rawlinson Partners Limited	D I Rawlinson as a director of Rawlinson Partners Limited and Monarch Holdings Limited
---	--	--

Monarch Holdings Limited

Notes to the accounts

Year ended 31 October 2013

27. Ultimate parent company and controlling party

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

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

28. Post balance sheet events

On the 31 December 2013 the Group completed the sale and leaseback two B757 aircraft and engines. At 31 October 2013 the Group carried out an impairment review of these assets, resulting in a write down of £4,537,000 reflected in these financial statements. Sales proceeds for the two aircraft and engines totalled £6,010,000.

On 28 February 2014 Monarch Aircraft Engineering entered into an Asset Based Loan with RBSIF. This £16m facility is secured over rotables, consumables, third party receivables and three properties (Birmingham hangar and Luton hangars 127 & 60).

On the same date, a loan from Birmingham Airport Limited (BAL) of £3.9m was repaid (releasing the security BAL had over the Birmingham hangar), and £4.9m of Avtrade finance lease debt was repaid, with the rotables returning to MAEL ownership.