Virgin Atlantic Airways Limited and subsidiary companies

Directors' report and consolidated financial statements

28 February 2011

Registered number 1600117

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President's statement

The year ended 28 February 2011 (2010/11) once again provided huge challenges for the airline industry and Virgin Atlantic Airways Whilst the external economic environment improved substantially the impact of airspace closure in April due to the eruption of the Eyjafjallajokull volcano in Iceland the closure of London Heathrow airport in December for three days due to snow disruption and the recent surge in oil prices has made financial year 2010/11 another difficult year

Against this extremely challenging backdrop, I am delighted to announce that Virgin Atlantic Airways recorded a post exceptional profit before tax of £2 5m *(2010 loss of £158 5m)* The exceptional cost of £14 8m relates to the direct cost of compensating passengers and dealing with the operational disruption relating to airspace closure Pre-exceptional operating profit was an encouraging £26 5m *(2010 loss of £148 3m)* Turnover increased strongly by 14% in the year driven by strong demand in both the passenger and cargo business This is especially pleasing as it demonstrates the enduring strength of the Virgin brand and the benefits of a high quality product and service offering

During 2010/11 we successfully launched a new route to Accra in Ghana increasing the number of destinations served in West Africa and demonstrating that we are always looking to expand the number of markets that benefit from our unique mix of product and service From April 2011 Virgin Atlantic started another new route flying from Manchester to Las Vegas cementing our position as the number one airline from the UK to Las Vegas We have been serving Las Vegas successfully from London Gatwick for over 10 years and are delighted to expand our services from Manchester The introduction of new Airbus A330-300 aircraft from April 2011 serving Orlando demonstrates that Virgin Atlantic keeps investing to drive the business forward and provide a leading passenger experience

There have been a number of natural disasters in the last 12 months and my thoughts and best wishes go to all those affected The impact on the business of Virgin Atlantic has been significant The volcanic eruption in Iceland resulted in the unprecedented closure of UK airspace for 6 days This resulted in 250 cancelled flights and 48,000 stranded passengers It is a great credit to the employees of Virgin Atlantic that they managed to return to normal operations incredibly quickly and ensure all our customers were dealt with promptly and efficiently As you would expect Virgin Atlantic was quick to commit to compensating our passengers in line with European legislation and paid £7 5m in compensation.

The adverse weather in November and December saw unusual levels of snowfall in both the UK and the USA A number of airports were impacted and forced to close However, London Heathrow was closed for by far the longest time – over 3 days As a major airline with operations centred on London Heathrow we should be able to rely on being provided with a robust operation The BAA was ill prepared, its own inquiry concluded that Heathrow should never close due to circumstances under its own control Virgin Atlantic has strongly represented the voice of the passenger on this matter and we continue to fight for more robust airport regulation that recognises that the customer comes first – we believe that they are regularly forgotten by everyone other than the airlines

A common theme between the volcanic disruption and the snow fall is that European legislation makes the airline responsible for compensating passengers I am proud that Virgin Atlantic met its commitments, however, the legislation needs review It cannot be right that the burden of passenger compensation falls solely on the airline, especially when in many instances the cause of the disruption rests elsewhere Virgin Atlantic will be lobbying in Europe to produce a fairer system Our passengers should be protected but the burden should not be borne by the airline industry

The UK ranks 134th out of 138 nations on its competitiveness of airport charges and ticket taxes Tourism and aviation have fundamental roles to play in the UK's economic recovery But this economic growth is being stifled by ever increasing levels of air passenger duty (APD) A family of four going to America from the UK now pays £240 in APD alone I welcome that the Government did not increase APD in the March 2011 budget and will consult on reforms to the duty We will continue to lobby the Government to improve the fairness of APD for our passengers

The Group has won several key awards, winning the British Travel Awards best business class and economy airline awards The Travel Agents choice awards selected Virgin Atlantic as the best scheduled transatlantic airline It is very pleasing to be recognised across all classes of travel During the year our innovative advertising campaigns were recognised with a number of key awards from trade bodies, and culminating in Virgin Atlantic Airways being honoured by the Chartered Institute of Marketing Travel Industry Group, who chose it for a special "one off" award of Travel Brand of the Decade

President's statement *(continued)*

I would like take the opportunity to thank all our employees for the way that they have responded to the operational challenges of the last year and know that all of our people contribute hugely to making Virgin Atlantic the great airline that it undoubtedly is

After the difficulties of the global downturn, our industry will continue to be challenged in the coming year by high fuel costs, excess capacity on some routes and reduced consumer demand during recovery from recession Virgin Atlantic Airways will tackle these by deploying more efficient aircraft and operations, measured growth and the unique strengths of its brand, consumer leadership and strategic position at Heathrow and on long-haul leisure flying

Sir Richard Branson

President

Directors' report

Registered number 1600117

The directors present their annual report and the audited financial statements for Virgin Atlantic Airways Limited and subsidiary companies for the year ended 28 February 2011

Principal activities

The principal activities of the Group continue to be the operation of scheduled air services for the carriage of passengers and freight

Directors and directors' interests

The directors who held office during the year were as follows

Sir Richard Branson	(President)
Stephen Murphy	(Chairman)
David Baxby	
Bey Soo Khiang	(resigned 15 December 2010)
Chan Hon Chew	
Stephen Griffiths	
Timothy Livett	(appointed 31 October 2010)
Ng Chin Hwee	(appointed 1 March 2010)
Jonathan Peachey	
Sir Brian Pitman	(deceased 11 March 2010)
Mark Poole	
Stephen Ridgway	
Julie Southern	
Eng Wan Joey Seow	(appointed 15 December 2010)
Paul Tan Wah Liang	
Tan Pee Teck	(appointed 1 June 2010)
Teoh Tee Hooi	(resigned 1 March 2010)

Results

The results of the Group for the year are set out on page 10 and are commented on within the President's statement and below

Employees

In considering applications for employment from disabled people in the UK, the Group seeks to ensure that full and fair consideration is given to the abilities and aptitudes of the applicant against the requirements of the job for which he or she has applied Employees who become temporarily or permanently disabled are given individual consideration, and where possible equal opportunities for training, career development and promotions are given to disabled persons

Within the bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of the Group and are of interest and concern to them as employees The Group also encourages employees, where relevant, to meet on a regular basis to discuss matters affecting them

Directors' report *(continued)*

Business review

A review of operations and future developments is included within the President's statement

After another year that provided many operational and economic challenges the Directors are delighted to announce that Virgin Atlantic Airways returned to profitability and made a pre-exceptional operating profit of £26 5m (*2010 pre exceptional loss before tax £148 3m*) Exceptional items in the year of £14 8m relate to the direct costs incurred by the airline after the airspace closure in April 2010 due to volcanic activity in Iceland The post exceptional profit before tax of £2 5m (*2010 post exceptional loss before tax £158 5m*) represents a strong performance in a year that included significant disruption and airport closures due to volcanic activity and heavy snowfall during December

Turnover increased by 14% with strong demand in both the passenger and cargo business Demand was especially strong up until October 2010 The winter schedule saw an increase in industry capacity that had an impact on turnover during the winter season

Capacity decreased by 4%, mainly due to airspace and airport closure, but pre-exceptional cost of sales increased by 6% due to an increase in fuel costs, the stronger US Dollar and additional sales and marketing costs that supported the strong revenue growth

Management focus was directed at maintaining tight cost control of other operating and administrative expenses Targeted investment in selling systems, product enhancements and information technology infrastructure leaves the Group well placed to benefit from market opportunities

The outlook for 2011/12 remains difficult to predict The UK consumer is under pressure from tax rises and concerns about the economic outlook The current Brent oil price of above US$120 presents a significant cost challenge Management is committed to maintaining control over the cost base and will target activity towards driving revenue and increasing already strong cash balances The enduring strength of the Virgin brand and a high quality product and service offering will ensure that Virgin Atlantic Airways is able to maintain market share in a competitive environment

The Director's continue to monitor performance through a range of key performance indicators (KPIs) A selection of these key measures is shown below

	2010/11	2009/10
Group Turnover (1)	**£2,263 5m**	£1,984 1m
Return on Sales (2)	**0.1%**	(8 0%)
Total Passengers Flown (3)	**5.3m**	5 4m
Available Seat Kilometres (ASK's)(4)	**46.5bn**	48 7bn
Customer Satisfaction(5)	**90%**	90%
Customer Loyalty(6)	**87%**	91%
Customer Advocacy (7)	**91%**	91%

(1)**Group Turnover** – refer to notes 1 & 2

(2)**Return on Sales** - Profit/(loss) on ordinary activities before taxation as a percentage of turnover

(3)**Total Passengers Flown** - Total revenue paying passengers carried

(4)**Available Seat Kilometres (ASK's)** - Number of seats available multiplied by total distance flown

(5)**Customer Satisfaction** - Proportion of passengers rating their overall journey experience as good or excellent Data collected from a sample of passengers throughout the year, across all routes and cabins

(6)**Customer Loyalty** - Proportion of passengers who would be very likely' or 'likely' to fly with Virgin Atlantic Airways again the next time they fly to a Virgin Atlantic Airways destination Data collected from a sample of passengers throughout the year, across all routes and cabins

(7) **Customer Advocacy** - Proportion of passengers who would be very likely' or 'likely to recommend Virgin Atlantic Airways to others Data collected from a sample of passengers throughout the year across all routes and cabins

Directors' report *(continued)*

Post balance sheet events

Prior to 1 March 2011, companies within the Group had trademark licenses from Virgin Travel Group Limited for the use of the Virgin name and logo, which were royalty free Since 1 March 2011, the terms of these trade mark licences have been renegotiated such that from 1 March 2011 the Company will pay royalties to a fellow subsidiary of the Company's holding company, Virgin Atlantic Limited, based on the relevant turnover for the Group

Environmental impacts

The Group is committed to addressing its environmental impacts and at a minimum to complying with those rules and regulations concerning protection of the environment which apply to the Group's operations There are rules and regulations which apply to the Group's operations in respect of emissions, noise, disposal of waste (including hazardous materials) and other environmental parameters

In 2010 the Group launched an external "Change is in the Air" sustainability microsite, covering all aspects of the airline's environmental and community relations activities, and including the first issue of a regularly updated report on the airline s performance against sustainability targets such as waste, energy, fuel efficiency, and on monies raised through the onboard Change for Children fundraising appeal

Energy and fuel efficiency measures remained a priority, as did diverting waste (from both ground and aircraft operations) away from landfill The Group's sustainable procurement policy, which sets out a range of environmental and social standards with which they would be expected to comply, continued to be rolled out to key suppliers

The Group continues to participate actively in various stakeholder groups, including Sustainable Aviation, which brings together different aspects of the UK aviation industry behind a common work programme on issues such as carbon emission modelling, opportunities for operational efficiencies, technological solutions and assessing scientific understanding of non-CO_2 related impacts of aviation During 2010, the Group lobbied extensively - as part of the Aviation Global Deal Group - for the inclusion of CO_2 emissions from international aviation in an ambitious global climate change framework

The charity linked to the Group, Virgin Atlantic Foundation, remained focused on its "Change is in the Air" programme, linking the social and environmental elements of sustainability and maintaining a three year partnership with Free the Children, a charity which shares the Group's objectives of supporting sustainable communities in its destinations

Principal risks and uncertainties

The Virgin Atlantic Airways Limited Group faces a range of risks and uncertainties The directors take action to mitigate, where possible, the impact of these risks and uncertainties However, a number of these remain outside of the control of the directors Detailed below are those specific risks and uncertainties that could have the most significant impact on the Group's long-term performance The risks and uncertainties described below are not intended to be exhaustive

Brand reputation

The strong reputation and loyalty engendered by the Group's brands is a core part of the value of the business Any damage to the brands caused by any single event or series of events could materially impact customer loyalty and the propensity of customers to travel with us and so adversely affect our business

Global economic slowdown

The Group's operations are particularly sensitive to changes in economic conditions in the markets in which it operates A global economic slowdown may adversely affect the demand for business and leisure travel and cargo services which could result in a material adverse impact on the Group's financial performance

Government intervention

The aviation and tour operating industries are highly regulated and any decisions made by government with respect to closure of airspace, slot regulation, security requirements, government taxes and other levies may result in a material adverse impact for the Group from both an operational and financial perspective

Directors' report *(continued)*

Principal risks and uncertainties *(continued)*

Security and terrorism

The safety and security of our passengers, crew and staff forms the foundation of everything we do The history of terrorist attacks against the aviation and tour operating industries demonstrates that Virgin Atlantic's business is exposed to the results of such action even if the attacks are not directed at the Group Any future attack, or attempted attack may adversely affect the Group in terms of disruptions to operations through loss of access to airports or aircraft, increased security costs, increased insurance costs or a reduction in customer demand Any one of these factors may materially affect the operational and financial performance of the Group

Financial risk management

The directors are responsible for setting financial risk management policy and objectives, and approve the parameters within which the various aspects of financial risk management are operated Treasury and Aviation Fuel Price Exposure Management policies, which have been approved by the directors, outline the Group's approach to corporate and asset financing, interest rate risk, fuel price risk, foreign exchange risk and cash and liquidity management These policies also list the financial instruments and time periods authorised for use in managing financial risk

The directors have delegated powers for treasury risk management to the Treasury Risk Committee This Committee ensures that the treasury policies and objectives approved by the directors are fully implemented

Liquidity, financing and interest rate risk

The working capital of the Group is financed by retained profit and sales in advance of carriage The major risks to liquidity are driven by business performance and cash timing differences for the Group's derivative financial instruments (see below) The former is managed by taking corrective actions in the form of amendments to fleet, network and the cost base in response to changing external factors and the latter as described in the derivative financial instruments policy (see below)

All of the Group's debt is asset related, reflecting the capital intensive nature of the airline industry and the attractiveness of aircraft as security to lenders and other financiers These factors are also reflected in the medium-term profile of the Group's loans and operating leases

The Group interest rate management policy aims to provide a degree of certainty for future financing costs, this is achieved by funding the majority of loans and operating leases on a fixed interest rate basis The Group's loans and operating leases are principally denominated in US dollars

Foreign currency risk

The Group has a significant net US dollar cost exposure Capital, lease and a number of operational costs, most significantly aviation fuel, are denominated in US dollars In addition the Group is exposed to a number of other currencies The Group seeks to reduce its foreign exchange exposure arising in various currencies through matching, as far as possible, receipts and payments in individual currencies To this extent, where possible, the Group holds foreign currency balances in the short-term to meet its future trading obligations The loss arising on translation of these foreign currency balances in the current year amounted to £6 9m *(2010 loss of £22 1m)* Where there is a predicted exposure in foreign currency holdings, the Group uses a limited range of hedging instruments as stipulated in the Treasury and Aviation Fuel Price Exposure Management Policies

Fuel price risk

The Group's Aviation Fuel Price Exposure Management Policy aims to provide protection against sudden and significant increases in the jet fuel price while ensuring that the Group may also benefit from price reductions, having regard to cash margin call exposure In order to provide protection the Group uses a limited range of hedging instruments, principally zero-cost collars and forwards, with approved counterparties and within approved limits

Directors' report *(continued)*

Financial risk management *(continued)*

Derivative Financial Instruments

The Group uses derivative financial instruments selectively for foreign currency and aviation fuel price risk management purposes, as described above The Group's policy is not to trade in derivatives but to use these instruments to hedge anticipated future cash flows The Group does not permit selling currency or jet fuel options, except as part of a fully matched collar hedging structure All derivatives are used for the purpose of risk management and accordingly they do not expose the Group to market risk as they are matched to identified physical exposures within the Group However, the timing difference between derivative maturity date and current mark-to-market value can give rise to cash margin exposure, this risk is managed through choice of instrument, appropriate counterparty agreements and, where required, cash deposits with counterparties Counterparty credit risk is controlled through mark-to-market based credit limits

Dividends

The directors recommend that no ordinary interim *(2010 £nil)* or final *(2010 £nil)* dividend be paid in respect of the year ended 28 February 2011

Charitable donations

The Group made charitable donations of £nil *(2010 £nil)* during the year

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

By order of the Board

Ian de Sousa
Company Secretary

Company Secretariat
The Office, Manor Royal
Crawley West Sussex
RH10 9NU

3 May 2011

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' 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 Group and Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 Group and Parent Company and of their profit or loss for that period

In preparing each of the Group and Parent Company financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and Parent Company and to prevent and detect fraud and other irregularities

KPMG

KPMG LLP
15 Canada Square
London
E14 5GL
United Kingdom

Independent auditor's report to the members of Virgin Atlantic Airways Limited

We have audited the financial statements of Virgin Atlantic Airways Limited for the year ended 28 February 2011 set out on pages 10 to 33 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 Statement of Directors' Responsibilities set out on page 8, 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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 28 February 2011 and of the Group's profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent Company 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

J Hills

John Hills (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

9 May 2011

Consolidated profit and loss account

for the year ended 28 February 2011

	Note	**2011** Before exceptional items	Exceptional items (note 6)	Total	**2010** Before exceptional items	Exceptional items (note 6)	Total
		£m	**£m**	**£m**	£m	£m	£m
Turnover	*2*	**2,263 5**	**-**	**2,263 5**	1,984 1	-	1,984 1
Cost of sales		**(1,946.3)**	**(4 2)**	**(1,950 5)**	(1,835 1)	(15 8)	(1,850 9)
Gross profit		**317 2**	**(4 2)**	**313 0**	149 0	(15 8)	133 2
Administrative expenses		**(283 8)**	**(10 6)**	**(294 4)**	(275 2)	(41 3)	(316 5)
Other operating (expense)/income[1]		**(6 9)**	**-**	**(6 9)**	(22 1)	57 9	35 8
Operating profit/(loss)		**26 5**	**(14 8)**	**11 7**	(148 3)	0 8	(147 5)
Loss on disposal of fixed assets				**(3 5)**			(0 1)
Interest receivable and similar income	*4*			**7 6**			2 7
Interest payable and similar charges	*5*			**(13 3)**			(13 6)
Profit/(loss) on ordinary activities before taxation	*6*			**2 5**			(158 5)
Tax on profit/(loss) on ordinary activities	*8*			**8 7**			33 3
Profit/(loss) for the financial year	*18*			**11 2**			(125 2)

There were no recognised gains or losses other than the loss for the year The loss for the year arises from continuing operations

The notes on pages 13 to 33 form part of these financial statements

[1] Other operating (expense)/income relates to exchange gains and losses arising on re-translation of US Dollar denominated balances held in the short-term to meet future US Dollar denominated trading obligations and in the prior year also includes the exceptional income relating to compensation payments from suppliers that have not fulfilled their contractual obligations

Consolidated balance sheet

at 28 February 2011

	Note		2011			2010	
		£m	£m	£m	£m	£m	£m
Fixed assets							
Intangible assets	*9*			**38 3**			38 3
Tangible assets	*10*			**291 9**			303 4
Investments	*11*			**14 0**			15 3
				344 2			357 0
Current assets							
Stocks	*12*		**30 7**			28 5	
Debtors due within one year	*13*	**379 6**			385 0		
Debtors due after one year	*13*	**112 1**			173 5		
			491 7			558 5	
Cash at bank and in hand			**569 7**			444 1	
			1,092 1			1 031 1	
Creditors amounts falling due within one year	*14*		**(901 5)**			(816 8)	
Net current assets				**190 6**			214 3
Total assets less current liabilities				**534 8**			571 3
Creditors amounts falling due after more than one year	*15*			**(79 7)**			(101 5)
Provisions for liabilities and charges	*16*			**(280 2)**			(306 1)
Net assets				**174 9**			163 7
Capital and reserves							
Called up share capital	*17*			**4.5**			4 5
Share premium account	*18*			**5 0**			5 0
Other reserves	*18*			**25 0**			25 0
Profit and loss account	*18*			**140 4**			129 2
Shareholders' funds	*19*			**174 9**			163 7

These financial statements were approved by the Board of Directors on 3 May 2011 and were signed on its behalf by

Timothy Livett
Director

The notes on pages 13 to 33 form part of these financial statements

Company balance sheet
at 28 February 2011

	Note		2011			2010	
		£m	£m	£m	£m	£m	£m
Fixed assets							
Intangible assets	*9*			38 3			38 3
Tangible assets	*10*			298 4			309 8
Investments	*11*			14 1			15 3
				350 8			363 4
Current assets							
Stocks	*12*		30 7			28 5	
Debtors due within one year	*13*	399 7			404 7		
Debtors due after one year	*13*	108 8			169 9		
			508 5			574 6	
Cash at bank and in hand			560 8			437 0	
			1,100 0			1 040 1	
Creditors amounts falling due within one year	*14*		(923 9)			(818 2)	
Net current assets				176 1			221 9
Total assets less current liabilities				526 9			585 3
Creditors amounts falling due after more than one year	*15*			(79 7)			(101 5)
Provisions for liabilities and charges	*16*			(268 3)			(316 7)
Net assets				178 9			167 1
Capital and reserves							
Called up share capital	*17*			4 5			4 5
Share premium account	*18*			5 0			5 0
Other reserves	*18*			25 0			25 0
Profit and loss account	*18*			144 4			132 6
Shareholders' funds	*19*			178 9			167 1

These financial statements were approved by the Board of Directors on 3 May 2011 and were signed on its behalf by

Oln Livett

Timothy Livett
Director

The notes on pages 13 to 33 form part of these financial statements

Notes

(forming part of the financial statements)

1 Principal Accounting policies

The following accounting policies have been applied consistently in dealing with matters which are considered material in relation to the consolidated financial statements

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards

The Virgin Atlantic Limited board having regard for the principle risks and uncertainties, as set out in the Director's report, which could impact the business, consider that the preparation of the financial statements on a going concern basis remains appropriate

The Company has taken advantage of section 408 of the Companies Act 2006 and a separate profit and loss account for the Company has not been published The result for the year attributable to the Company is disclosed in note 18

Under Financial Reporting Standard 1 (Revised), the Group is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of Virgin Atlantic Limited The Group's cash flows are included within the consolidated cash flow statement of this company

Basis of consolidation

The financial statements consolidate Virgin Atlantic Airways Limited ("the Company") and its subsidiaries (together "the Group") The acquisition method of accounting has been adopted

Turnover

Turnover is stated gross of commission and comprises revenue from passenger ticket sales, cargo and ancillary goods and services in respect of flights operated in the accounting period Revenue relating to flights commencing after the accounting period, together with any commission thereon, is carried forward as deferred income Unused tickets are recognised as turnover on a systematic basis

Compensation payments

Income resulting from claims for compensation payments is recognised as income in the profit and loss account when all performance obligations are met, including when a contractual entitlement exists, it can be reliably measured (including the impact of the receipt, if any, on the underlying assets' carrying value) and it is probable that economic benefits will accrue to the Group

Translation of foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction, or, if hedged, at the forward contract rate Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate All exchange differences are included in the profit and loss account

Any gains or losses arising on the re-translation of foreign currency balances held in the short-term to meet future trading obligations are reported as part of Other operating (expense)/income in the profit and loss account

Derivative financial instruments

The Group uses various derivative financial instruments to manage its exposure to foreign exchange and jet fuel price risks Gains and losses on hedges of revenue or operating payments, including amounts received or paid on hedges closed out in advance of maturity, are recognised in the profit and loss account of the period in which the hedged transaction matures or would have matured

Notes *(continued)*

1 Principal Accounting policies *(continued)*

Pension costs

The Group participates in defined contribution pension schemes The assets of the schemes are held separately from those of the Group in independently administered funds

The amount charged in the profit and loss account represents the contributions payable to the schemes by the Group in respect of the accounting period

Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Intangible fixed assets

The Group had previously amortised purchased landing slots over their useful economic life which was estimated at 20 years from the date at which they came into service The directors reassessed this economic life in view of the Open Skies agreements which came into effect in 2008 and which increased and developed a more transparent market for slots and also in view of the legal rights for slots which provide that the holder has 'grandfather rights' for landing slots which continue for an indefinite period As a result of those developments purchased landing slots are considered to have an indefinite economic life and are not amortised Instead, they are subject to an annual impairment review and a provision is recognised for any identified impairment

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment

Depreciation is calculated to write off the cost, less estimated residual value, on a straight-line basis over the useful life of the asset, or the period of the underlying finance lease if shorter

Aircraft and engine maintenance costs in respect of major overhauls which are typically carried out at intervals greater than one year are capitalised and depreciated by reference to their units of economic consumption, typically hours or sectors flown Part of the initial cost of new or used aircraft is treated as such maintenance expenditure based upon its maintenance status on acquisition and the then current cost of the maintenance procedures

The balance of aircraft and engine cost is depreciated on a straight-line basis over periods of up to twenty five years, so as to reduce the cost to estimated residual value at the end of that period The effective depreciation rate per annum in respect of new wide-bodied aircraft is approximately 4%

Rotable spares are depreciated on a straight-line basis so as to reduce the cost or valuation to estimated residual value at the end of their useful lives The effective depreciation rate per annum in respect of rotable spares is 7 25% or 12 5% dependent on type

Notes *(continued)*

1 Principal Accounting policies *(continued)*

Tangible fixed assets (continued)

Expenditure incurred on modifications to aircraft under operating leases is depreciated on a straight-line basis to a nil residual value over a period not exceeding the remaining lease period

The buildings in freehold land and buildings are being depreciated over a period of 50 years, on a straight-line basis

No depreciation is provided in respect of assets in the course of construction

Other tangible fixed assets are depreciated at the following rates

Fixtures and fittings	-	20% - 25% on cost
Plant and equipment	-	25% - 33% on cost
Computer equipment and software	-	25% - 33% on cost
Motor vehicles	-	25% on cost
Leasehold improvements	-	lower of useful economic life or period of lease

Stocks

Stocks are stated at the lower of cost and net realisable value Provision is made for obsolete, slow-moving or defective items where appropriate

Cash and liquid resources

Cash at bank and in hand includes both cash and liquid resources Cash includes cash in hand and deposits repayable on demand held with any financial institution Liquid resources include term deposits

Leases

Rentals under operating leases are charged to the profit and loss account on a straight-line basis over the lease term, even if the payments are not made on such a basis Where operating lease charges are variable based on prevailing interest rates, costs are recognised prospectively over the remaining term of the lease

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets Depreciation is provided at rates designed to write off this cost less residual value in equal annual amounts over the shorter of the period of the lease or the anticipated useful life of the asset The capital elements of future lease obligations are recorded as liabilities and the interest element is charged to the profit and loss account over the period of the lease in proportion to the balance outstanding

Leasehold dilapidations and onerous lease provisions are discounted with the unwinding of the discount being taken to the profit and loss account

Aircraft maintenance costs

Routine maintenance costs are charged to the profit and loss account as incurred Maintenance costs for overhauls relating to aircraft and engines held under operating leases for which there is a contractual obligation are provided for by making appropriate charges to the profit and loss account For owned aircraft and engines, major overhaul expenditure is capitalised and depreciated by reference to the units of economic consumption, typically hours or sectors flown

Where the effect is material, the provision for maintenance costs is discounted to present value using a current pre-tax discount rate that reflects the risks specific to the liability

Development expenditure

Development expenditure, relating to the setting up of new routes and introducing new aircraft to the fleet, is charged to the profit and loss account as incurred

Notes *(continued)*

1 Principal Accounting policies *(continued)*

Frequent flyer programme

The estimated incremental cost of providing free travel and other rewards in exchange for redemption of miles earned by members of The Flying Club frequent flyer scheme is accrued at the expected redemption rate as members of this scheme accumulate mileage

Revenue from sales of miles to third parties is deferred and recognised when flown

Long Term Incentive Plan (LTIP)

The Group accrues for any element of foreseeable future awards for employees and directors under LTIPs which have been agreed by the Board of Directors, and which are deemed to have been earned in the current period

Notes *(continued)*

2 Analysis of turnover

In the opinion of the directors, there is only one core activity that of operating international long-haul scheduled airline services from the UK Other income includes income from engineering services and license fee income relating to rights over use of the Virgin name and its intellectual property

	2011 £m	2010 £m
Scheduled airline services	**2,246 2**	1,970 0
Other	**17 3**	14 1
	2,263 5	1 984 1
Scheduled airline services by source		
United Kingdom	**1,294 4**	1,186 5
North America and the Caribbean	**399 2**	331 1
Far East	**185 2**	146 4
Africa	**148 8**	125 7
Other	**218 6**	180 3
	2,246.2	1,970 0
Scheduled airline services by destination		
North America	**1,193.2**	1,011 9
Caribbean	**220 8**	216 7
Far East	**327 8**	270 5
Africa	**294 5**	262 6
Other	**209 9**	208 3
	2,246 2	1,970 0

The geographical analysis of revenue by source is derived by allocating revenue to the area in which the sale is made

The geographical analysis of revenue by destination is derived by allocating revenue from inbound and outbound services between the United Kingdom and overseas points to the geographical area in which the relevant overseas point lies

A geographical analysis of the Group operating profit is not disclosed as it is neither practical nor meaningful to allocate the Group's operating expenditure on a geographical basis

Since the aircraft fleet (which is the major revenue-earning asset of the Group) is employed flexibly across a worldwide route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments and accordingly no geographical analysis of assets or net liabilities is disclosed

Notes *(continued)*

3 Staff numbers and costs

The average number of persons employed by the Group (including directors), analysed by category, was as follows

	2011	2010
Management and administration	**627**	641
Flight crew	**714**	740
Cabin crew	**3,289**	3,602
Reservations and sales	**1,865**	1,879
Engineering, cargo and production	**1,051**	1,085
	7,546	7,947

The aggregate payroll costs (including directors) of these persons were as follows

	2011 £m	2010 £m
Wages and salaries	**227 9**	239 6
Social security costs	**22 0**	23 7
Other pension costs (note 25)	**17 5**	18 3
	267 4	281 6

4 Interest receivable and similar income

	2011 £m	2010 £m
Interest on bank deposits	**4 0**	1 1
Finance income from fixed asset investments (note 11)	**1 2**	1 2
Exchange gains on foreign currency deposits less borrowings	**1 4**	-
Unwinding of discount on accrued income	**1 0**	0 4
	7 6	2 7

5 Interest payable and similar charges

	2011 £m	2010 £m
Interest on bank loans, overdrafts and similar charges	**9 5**	8 9
Interest payable to group undertakings	**2 4**	2 1
Finance charges in respect of finance leases and hire purchase contracts	**0 9**	0 1
Exchange loss on foreign currency borrowings less deposits	-	2 2
Unwinding of discount on provisions (note 16)	**0 5**	0 3
	13 3	13 6

Notes *(continued)*

6 Profit/(loss) on ordinary activities before taxation

	2011 £m	2010 £m
Profit/(loss) on ordinary activities before taxation is stated after (crediting)/ charging		
Depreciation of tangible fixed assets (note 10)	**57 8**	61 1
Rentals under operating leases		
Aircraft and related equipment	**186 7**	222 2
Hire of plant and machinery	**11 2**	1 2
Land and buildings	**19 9**	24 2
Loss on disposal of fixed assets	**3 5**	0 1
Exceptional items		
Cost of sales (see below)	**4 2**	15 8
Administrative expenses (see below)	**10 6**	41 3
Other operating (income)	**-**	(57 9)
Other operating expense (see below)	**6 9**	22 1

Fees payable to the Group's auditor and its associates for services other than the statutory audit of the Parent Company and subsidiaries are not disclosed in Virgin Atlantic Airways Limited's accounts since the consolidated accounts of Virgin Atlantic Airways Limited's parent, Virgin Atlantic Limited, are required to disclose non-audit fees on a consolidated basis Fees payable to the Company's auditor for the audit of the Company's annual accounts are £192,000 *(2010 £151,000)* Fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation are £9,000 *(2010 £9,000)*

Exceptional items in the current year relate to the incremental costs incurred as a result of the volcanic eruption in Iceland in April 2010, following which the UK's main air traffic control service provider ('NATS') closed UK airspace for 6 days The Group incurred costs of £10 6m relating to the care of passengers awaiting repatriation to their home base (included in administrative expenses) and £4 2m of additional operating costs which included the chartering of aircraft to repatriate stranded passengers, crew costs and fuel costs arising from the changes to standard flight paths necessary to avoid the ash cloud in May 2011 (included in cost of sales)

Exceptional cost of sales in the prior year relates to restructure costs incurred by Virgin Atlantic Airways Limited in response to the global economic downturn The charge of £15 8m in the year comprised costs of £6 8m associated with the voluntary severance scheme and redundancy programme for all direct staff (including crew, pilots and airport staff) and the recognition of an onerous lease provision of £9 0m in respect of two aircraft parked during the year

Exceptional administrative expenses in the prior year relate to restructure costs associated with the voluntary severance scheme and redundancy programme for all overhead staff incurred by Virgin Atlantic Airways Limited in response to the global economic downturn, and the recognition of a provision in connection with the ongoing competition investigations into various aspects of pricing and commercial issues in the airline industry (see note 16)

Exceptional other operating income in the prior year relates to entitlement to compensation payments from suppliers that have not fulfilled their contractual obligations

Other operating expense is the loss arising on re-translation of US Dollar denominated balances held in the short-term to meet future US Dollar denominated trading obligations

Notes *(continued)*

7 Emoluments of directors

During the period of their service, the emoluments of the directors of the Company were

	2011 £m	2010 £m
Aggregate emoluments paid	**1 0**	1 2
Company contributions to money purchase pension schemes	**0 1**	0 1
Aggregate amounts receivable under Long Term Incentive Schemes	-	0 3
	1 1	1 6

Aggregate emoluments receivable for the financial year were £2 1 million *(2010 £1 0m)* Aggregate amounts receivable for the financial year under Long Term Incentive Schemes were £nil *(2010 £nil)*

Retirement benefits are accruing to 4 (*2010 3*) directors under money purchase pension schemes

No directors exercised any share options in the year

	2011 £m	2010 £m
Highest paid director		
Aggregate emoluments and other benefits paid	**0 4**	0 5
Company contributions to money purchase pension schemes	-	-
Aggregate amounts receivable under Long Term Incentive Schemes	-	0 2
	0 4	0 7

Aggregate emoluments and other benefits of the highest paid director receivable for the financial year were £0 8 million *(2010 £0 4m)* Aggregate amounts receivable for the financial year under Long Term Incentive Schemes were £nil *(2010 £nil)*

Notes *(continued)*

8 Tax on profit/(loss) on ordinary activities

Analysis of (credit) in period	**2011** **£m**	2010 £m
Current tax		
UK corporation tax payable	**0 4**	-
Adjustments in respect of prior periods	**(0 8)**	-
Non – UK corporation tax payable	**0 1**	-
Total current tax	**(0 3)**	-
Deferred tax		
Origination and reversal of timing differences	**1 4**	(33 2)
Adjustments in respect of prior years	**(5 0)**	(0 1)
Effect of decrease in tax rate	**(4 8)**	-
Total deferred tax	**(8 4)**	(33 3)
Tax (credit) on profit/(loss) on ordinary activities	**(8 7)**	(33 3)

The standard rate of UK corporation tax for the year is 28% (*2010 28%*) The actual current tax charge for the year differs from that computed by applying the standard tax rate to the profit/(loss) on ordinary activities before tax as reconciled below

	2011 **£m**	2010 £m
Profit/(loss) on ordinary activities before taxation	**2.5**	(158 5)
Tax at the standard rate at 28% *(2010 28%)*	**0 7**	(44 4)
Factors affecting the charge for the year		
Income not subject to corporation tax	**(0 2)**	(0 4)
Depreciation for the year in excess of capital allowances	**11 9**	5 5
Adjustments in respect of prior periods	**(0 8)**	-
UK tax losses not utilised or recognised	**-**	22 8
Utilisation of UK tax losses b/fwd	**(12 4)**	-
Other timing differences	**(1 0)**	5 0
Expenses not deductible for tax purposes	**1 5**	11 5
Total current tax	**(0 3)**	-

The current tax charge for the year includes a credit of £1 0m (*2010 £nil*) in respect of the tax effect of the loss on disposal of fixed assets

Notes *(continued)*

8 Tax on profit/(loss) on ordinary activities *(continued)*

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of 4 years from 2011 The first reduction in the UK corporation tax rate from 28% to 27% was enacted on 27 July 2010 and will be effective from 1 April 2011 The Budget on 23 March 2011 announced further measures to reduce the UK corporation tax rate to 23% by 2014 An additional reduction of 1% will decrease the rate of UK corporation tax from 28% to 26 % with effect from 1 April 2011

These changes will reduce the Company's future current tax charge accordingly The measurement of deferred tax is based upon the expected change in rate to 27% as enacted at the balance sheet date This had the effect of reducing the deferred tax liability recognised at the balance sheet date by £4 8m If the rate change to 26% had been substantively enacted on or before the balance sheet date it would have had the effect of reducing the deferred tax liability recognised at that date by £3 9m It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the Company's future current tax charge and reduce the Company's deferred tax liability accordingly

9 Intangible assets

Group and Company	Landing slots £m
Cost	
At 1 March 2010 and **28 February 2011**	**49 0**
Amortisation	
At 1 March 2010 and **28 February 2011**	**10 7**
Net book value	
At 28 February 2010 and **28 February 2011**	**38 3**

Refer to note 1 for the accounting policy relating to intangible fixed assets

The directors have conducted an impairment review at 28 February 2011 and based on this review no impairment adjustment need to be recognised

Notes *(continued)*

10 Tangible fixed assets

Group	Land and buildings £m	Assets in the course of construction £m	Aircraft, rotable spares and ancillary equipment £m	Modifications to aircraft on operating leases £m	Plant and machinery, fixtures and fittings £m	Total £m
Cost						
At 1 March 2010	30 0	17 7	375 3	190 1	254 4	867 5
Additions	-	20 2	26 5	0 9	3 7	51 3
Disposals	-	(2 4)	(4 2)	(4 9)	(6 9)	(18 4)
Reclassifications	-	(17 6)	-	1 5	16 1	-
At 28 February 2011	**30 0**	**17 9**	**397.6**	**187 6**	**267 3**	**900 4**
Depreciation						
At 1 March 2010	2 0	-	206 0	158 7	197 4	564 1
Charge for the year	0 5	-	14 3	19 5	23 5	57 8
Disposals	-	-	(2 2)	(4 9)	(6 3)	(13 4)
At 28 February 2011	**2 5**	**-**	**218 1**	**173 3**	**214 6**	**608 5**
Net book value						
At 28 February 2011	**27 5**	**17 9**	**179 5**	**14 3**	**52 7**	**291 9**
At 28 February 2010	28 0	17 7	169 3	31 4	57 0	303 4

Included in aircraft, rotable spares and ancillary equipment are progress payments of £20 1m (*2010 £19 9m*)

Notes *(continued)*

10 Tangible fixed assets *(continued)*

Company	Land and buildings	Assets in the course of construction	Aircraft, rotable spares and ancillary equipment	Modifications to aircraft on operating leases	Plant and machinery, fixtures and fittings	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 March 2010	30 0	17 7	375 3	190 1	253 7	866 8
Additions	-	20 2	26 5	0 9	3 7	51 3
Disposals	-	(2 4)	(4 2)	(4 9)	(6 1)	(17 6)
Reclassifications	-	(17 6)	-	1 5	16 1	-
At 28 February 2011	**30 0**	**17 9**	**397 6**	**187 6**	**267 4**	**900 5**
Depreciation						
At 1 March 2010	2 0	-	198 9	158 7	197 4	557 0
Charge for the year	0 5	-	14 9	19 4	23 3	58 1
Disposals	-	-	(2 1)	(4 9)	(6 0)	(13 0)
At 28 February 2011	**2 5**	**-**	**211 7**	**173 2**	**214 7**	**602 1**
Net book value						
At 28 February 2011	**27 5**	**17 9**	**185 9**	**14 4**	**52.7**	**298 4**
At 28 February 2010	28 0	17 7	176 4	31 4	56 3	309 8

Included in aircraft, rotable spares and ancillary equipment are progress payments of £20 1m *(2010 £19 9m)*

The following fixed asset categories include assets held under finance leases and hire purchase contracts

Group and Company	2011	2010
	£m	£m
Net book value		
Aircraft, rotable spares and ancillary equipment	**54 2**	60 4
Plant and machinery	**1 5**	2 0
Depreciation charged for the year		
Aircraft, rotable spares and ancillary equipment	**6 2**	2 5
Plant and machinery	**0.5**	0 2

During the year, the Group entered into no new finance lease and hire purchase contract arrangements in respect of tangible fixed assets *(2010 £19 8m)* Finance leases are shown notes 14 and 15

Notes *(continued)*

11 Fixed asset investments

Group and Company	Investments £m
Cost	
At 1 March 2010	15 3
Additions	1 1
Repayment of unsecured loan notes	(2 4)
At 28 February 2011	**14 0**
Net book value	
At 28 February 2011	**14 0**
At 28 February 2010	15 3

Investments represent an investment in Airline Group Limited consisting of equity and unsecured loan notes

12 Stocks

Group and Company

	2011 £m	2010 £m
Aircraft consumable spares	**29 5**	25 8
Finished goods and goods for resale	**0 4**	0 8
Fuel stocks	**0 2**	1 9
Uniforms and other	**0 6**	-
	30 7	28 5

13 Debtors

Amounts falling due within one year	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Trade debtors	**184 5**	179 3	**184 5**	179 3
Amounts owed by group undertakings	**11 2**	16 1	**31 4**	36 0
Other debtors	**133 3**	147 4	**133 2**	147 2
Corporation tax	**0 8**	-	**0 8**	-
Prepayments and accrued income	**49 8**	42 2	**49 8**	42 2
	379 6	385 0	**399 7**	404 7

Notes *(continued)*

13 Debtors *(continued)*

Amounts falling due after more than one year	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Amounts owed by group undertakings	**14 1**	16 4	**14 1**	16 4
Other debtors	**42.3**	110 2	**39 0**	106 6
Prepayments and accrued income	**55 7**	46 9	**55 7**	46 9
	112 1	173 5	**108 8**	169 9

Included within other debtors due within one year is an amount of £23 8m *(2010 £94 8m)* relating to margin calls on open derivative positions

14 Creditors. amounts falling due within one year

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Bank loans and overdraft	**69 8**	16 2	**69 8**	16 2
Secured bank loans (note 15)	**15 4**	10 2	**15 4**	10 2
Unsecured bank loans	**-**	1 3	**-**	1 3
Obligations under finance leases and hire purchase contracts (note 20)	**3 1**	3 5	**3 1**	3 5
Trade creditors	**67 2**	53 4	**67 2**	53 4
Amounts owed to group undertakings	**91 9**	118 0	**94 3**	120 0
Group relief payable	**-**	0 8	**20 3**	0 5
Other taxes and social security	**9 5**	8 6	**9 5**	8 6
Other creditors	**21 7**	13 9	**21 7**	13 9
Accruals and deferred income	**622 9**	590 9	**622 6**	590 6
	901 5	816 8	**923 9**	818 2

Included within other creditors due within one year is an amount of £17 0m *(2010 £12 2m)* relating to margin calls on open derivative positions

15 Creditors amounts falling due after more than one year

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Secured bank loans	**26 2**	34 2	**26 2**	34 2
Obligations under finance leases and hire purchase contracts (note 20)	**13 5**	17 8	**13 5**	17 8
Amounts owed to group undertakings	**14 5**	16 7	**14 5**	16 7
Accruals and deferred income	**25 5**	32 8	**25 5**	32 8
	79 7	101 5	**79 7**	101 5

The secured bank loans totalling £41 6m (*2010 £44 4m*) are secured by mortgages over certain aircraft None (*2010 £nil*) of these loans fall due for repayment after five years The interest rates charged in the year in respect of these loans are in the range from 0 625% to 2 75 % above US$ LIBOR

Notes *(continued)*

16 Provisions for liabilities and charges

Total provisions at 28 February 2011 were £280 2m for the Group *(2010 £306 1m)* and £268 3m for the Company *(2010 £316 7m)*

Total provisions comprise amounts in respect of

i Deferred taxation balance at 28 February 2011 was £105 7m for the Group *(2010 £114 1m)* and £103 3m for the Company *(2010 £132 0m)* The movement in the year relates to amounts released of £8 4m for the Group and £28 7m for the Company

The amounts provided for deferred taxation at 27% *(2010 28%)* are as follows

	Group		Company	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Accelerated capital allowances	**119 9**	142 8	**115 7**	137 1
Other timing differences	**(5 8)**	(7 4)	**(4 0)**	(5 1)
UK tax losses	**(8 4)**	(21 3)	**(8 4)**	-
	105 7	114 1	**103.3**	132 0

ii Maintenance balance at 28 February 2011 was £128 2m for the Group *(2010 £129 5m)* and was £118 7m for the Company *(2010 £122 2m)* The movement in the year is made up of a gain due to foreign exchange translation of £7 3m for the Group and £6 7m for the Company, amounts provided in the year of £47 2m for the Group and £43 7m for the Company and amounts utilised in the year of £41 2m for the Group and £40 5m for the Company

iii Onerous contracts balance at 28 February 2011 of £0 4m for the Group and Company *(2010 £12 8m Group and Company)* The movement in the year is made up of a loss due to foreign exchange translation of £0 5m, amounts released in the year of £6 0m, amounts utilised in the year of £7 3m, and unwinding of the discount of £0 3m

iv Leasehold dilapidations balance at 28 February 2011 of £2 3m for the Group and Company *(2010 £2 1m Group and Company)* The movement in the year is made up unwinding of the discount of £0 2m

v Litigation at 28 February 2011 of £43 6m for the Group and Company *(2010 £47 6m Group and Company)* These provisions represent the estimated outstanding cost arising from both the settlement of civil actions arising from the investigations by competition authorities in a number of jurisdictions in which Virgin Atlantic Airways Limited operates into various aspects of pricing and commercial issues in the airline industry and an ongoing obligation to co-operate with regulatory bodies The information usually required by Financial Reporting Standard 12 for these litigation provisions is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation

Notes *(continued)*

17 Share capital

	2011 £	2010 £
Authorised		
4 497,498 ordinary shares of £1 each (equity)	**4,497,498**	4,497 498
Allotted, called up and fully paid		
4 497 498 ordinary shares of £1 each (equity)	**4,497,498**	4,497,498

18 Reserves

Group	**Share premium account £m**	**Capital contribution reserve £m**	**Profit and loss account £m**
Balance at 1 March 2010	5 0	25 0	129 2
Profit for the financial year	-	-	11 2
Balance at 28 February 2011	**5 0**	**25 0**	**140 4**

Company	**Share premium account £m**	**Capital contribution reserve £m**	**Profit and loss account £m**
Balance at 1 March 2010	5 0	25 0	132 6
Profit for the financial year	-	-	11 8
Balance at 28 February 2011	**5 0**	**25 0**	**144 4**

Notes *(continued)*

19 Reconciliation of movements in shareholders' funds

Group	2011 £m	2010 £m
Profit/(loss) for the financial year	**11 2**	(125 2)
Opening shareholders' funds	**163 7**	288 9
Closing shareholders' funds	**174 9**	163 7

Company	2011 £m	2010 £m
Profit/(loss) for the financial year	**11 8**	(124 7)
Opening shareholders' funds	**167 1**	291 8
Closing shareholders' funds	**178 9**	167 1

20 Leasing commitments

Group and Company

The capital element of the future minimum lease payments to which the Group is committed at 28 February 2011 under finance lease and hire purchase contract obligations incurred in the acquisition of aircraft, engines, spares and other equipment are as follows

	2011 £m	2010 £m
Amounts due within		
One year	**3 1**	3 5
Second to fifth year inclusive	**13.3**	13 4
Over five years	**0 2**	4 4
	16 6	21 3

Rentals, net of finance charges, are included in obligations under finance leases and hire purchase contracts in notes 14 and 15 above

Notes *(continued)*

20 Leasing commitments *(continued)*

As at 28 February 2011, the Group and Company had annual commitments under non-cancellable operating leases as set out below

Group	**2011**		2010	
	Land and buildings £m	**Aircraft and other £m**	Land and buildings £m	Aircraft and other £m
Operating leases which expire				
Within one year	**2 8**	**12 0**	3 4	0 3
In the second to fifth year inclusive	**12.3**	**98 5**	15 6	96 4
Over five years	**9 4**	**115 4**	8 1	121 1
	24 5	**225 9**	27 1	217 8

Company	**2011**		2010	
	Land and buildings £m	**Aircraft and other £m**	Land and buildings £m	Aircraft and other £m
Operating leases which expire				
Within one year	**2 8**	**12 0**	3 4	0 3
In the second to fifth year inclusive	**12 3**	**98 5**	15 6	96 8
Over five years	**9 4**	**115 4**	8 1	121 7
	24 5	**225 9**	27 1	218 8

21 Capital commitments

Group and Company	**2011 £m**	2010 £m
Capital commitments at the balance sheet date for which no provision has been made	**3,114 2**	3 358 5

Capital commitments relating to aircraft and engine purchases are stated at escalated list price less progress payments made

Notes *(continued)*

22 Commitments

A substantial proportion of capital expenditure, leasing commitments, fuel and other operating costs are denominated in US Dollars Forward purchase contracts amounting to US$644 3m (*2010 US$420 9m*) outstanding at 28 February 2011, have been taken out to cover part of the exposure risk Of the total forward purchase contracts, $473 6m relate to deals executed on behalf of Virgin Holidays for which VAA hold corresponding deals with Virgin Holidays, $64 8m relate to deals executed with Virgin Holidays for which VAA do not hold external corresponding contracts, and $105 9m relate to external deals which VAA have executed on its own account In addition, the Group has entered into a number of other derivative financial instruments the maximum potential commitment of which at 28 February 2011 is US$2,665 9m (*2010 US$2,317 1m*)

The fair value at 28 February 2011 of all the derivative contracts held by the Group to meet future obligations in respect of foreign exchange, fuel hedging and interest rate swap contracts is a negative fair value of £13 4m (*2010 negative fair value £151 4m*) This is comprised of a positive fair value of £78 3m (*2010 negative fair value £152 7m*) in respect of fuel hedging derivatives, a negative fair value of £16 9m (*2010 negative fair value £13 8m*) in respect of interest rate swaps and a negative fair value of £74 8m (*2010 positive fair value £15 1m)* in respect of foreign currency derivatives

Certain forward purchase contracts are entered into by Virgin Atlantic Airways Limited on behalf of Virgin Holidays Limited The fair value of these forward purchase contracts at 28 February 2011 is a negative fair value of £5 7m These fair values have been reflected in the disclosures shown above

The timing difference between derivative maturity date and current mark-to-market value can give rise to cash margin exposure, this risk is managed through choice of instrument, appropriate counterparty agreements and, where required, cash deposits with counterparties (notes 13 and 14)

23 Subsidiary undertakings

The subsidiaries of the Company as at 28 February 2011 were

Principal subsidiaries	**Country of incorporation or registration**	**% Ordinary issued shares**	**Principal activity**
Virgair Limited	England and Wales	100	Leasing of aircraft
VA Cargo Limited	England and Wales	100	Cargo management
Virgin Airways Limited	England and Wales	100	Online marketing
Greenart Limited	England and Wales	100	Non-trading
Virgin Atlantic Engineering Limited	England and Wales	100	Non-trading
Virgin Atlantic Consolidated Limited	England and Wales	100	Dormant

The proportion of voting rights held by the Group in each of its subsidiaries is the same as the proportion of ordinary shares held

All subsidiaries have been included in the consolidation All entities in the consolidation have the same accounting reference date

Notes *(continued)*

24 Contingent liabilities

The competition authorities in a number of jurisdictions are in the process of investigating various aspects of pricing and commercial issues in the airline industry The Company is co-operating in full with such investigations and has carried out certain internal investigations into its compliance with competition laws No further disclosures regarding contingent liabilities arising from these investigations are being made by the Company at this time since the directors of the Company believe that such disclosures might be expected to be seriously prejudicial to the position of Virgin Atlantic Airways Limited

The Company and certain subsidiary companies had contingent liabilities at 28 February 2011 in respect of indemnities under certain financing and other arrangements which are partly secured by charges over designated short term deposits of £8 9m (*2010 £7 1m*), of which £7 5m (*2010 £5 6m*) is matched by a liability under the maintenance provision

The Company and certain subsidiaries are parties to a Group set-off agreement in respect of certain bank accounts as a result of which any overdrawn balances of the Company or subsidiaries covered by this agreement are set-off against the cash at bank and in hand of the Group

The Company is a guarantor under certain financing arrangements of other group companies

25 Pension schemes

The Group operates defined contribution pension schemes The assets of the schemes are held separately from those of the Group in independently administered funds There were no outstanding or prepaid contributions at 28 February 2011 (*2010 £nil*)

26 Related party transactions

As at 28 February 2011, the Company's ultimate parent company was Virgin Group Holdings Limited, whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Holdings Limited The principal beneficiaries of those trusts are Sir Richard Branson and his immediate family The shareholders of Virgin Group Holdings Limited have interests directly or indirectly in certain other companies, which are considered to give rise to related party disclosures under Financial Reporting Standard 8

Notes *(continued)*

26 Related party transactions *(continued)*

The Company, being a wholly owned subsidiary undertaking of Virgin Atlantic Limited, has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions with entities which form part of the group or investees of the group qualifying as related entities

The following is a summary of material transactions and balances by the Group and Company with related entities which are required to be disclosed by Financial Reporting Standard 8

Year Ended 28 February 2011	**Revenue £m**	**Purchases £m**	**Balances due to the Group £m**	**Balances due from the Group £m**
Companies related by virtue of common control or ownership				
Virgin America Inc	0 1	-	-	-
V Australia Pty Limited	-	11 7	-	1 2
Virgin Insight Limited	-	0 2	-	-
Virgin Management Limited	0 1	0 5	-	-
Virgin Money Limited	8 4	-	1 3	-
Virgin Trains	0 5	-	0 1	-
Companies related by virtue of being an investor in the Group				
Singapore Airlines Limited	-	-	0 1	-

Revenue from related parties primarily relates to airline ticket sales Other purchases from related parties represent goods and services purchased for use within the business All of the above transactions are on an arm's length basis

27 Ultimate holding company

As at 28 February 2011, the directors consider the ultimate holding company to be Virgin Group Holdings Limited, a company registered in the British Virgin Islands

As at 28 February 2011, the largest group in which the results of the Company are consolidated is that headed by Virgin Wings Limited, a company registered in England and Wales, and the smallest group in which the results of the Company are consolidated is that headed by Virgin Atlantic Limited, a company registered in England and Wales

Copies of the financial statements for both Virgin Wings Limited and Virgin Atlantic Limited may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff CF14 3UZ

28 Post balance sheet events

Prior to 1 March 2011, companies within the Group had trademark licenses from Virgin Travel Group Limited for the use of the Virgin name and logo, which were royalty free Since 1 March 2011, the terms of these trade mark licences have been renegotiated such that from 1 March 2011 the Company will pay royalties to a fellow subsidiary of the Company's holding company, Virgin Atlantic Limited, based on the relevant turnover for the Group