# Virgin Atlantic Airways Limited and subsidiary companies

# Directors' report and consolidated financial statements

28 February 2010

Registered number 1600117

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## President's statement

As predicted the year ended 28 February 2010 (2009/10) certainly was a tough year for the entire aviation industry The global financial crisis spilled over into the wider economy and the resulting reduction in airline demand was the most severe I have ever seen, with IATA forecasting US$9 4 billion of net losses for the global airline industry for the calendar year 2009

Against this extremely challenging backdrop, Virgin Atlantic Airways recorded a loss before tax of £158 5m *(2009 profit of £49 8m)* Turnover declined by 11% in the year driven by large reductions in demand and yield for airline services especially in the first half of the year

One of our strengths is our ability to respond quickly and decisively, which we did on this occasion, to the changes in economic cycles The cost base has been reduced through capacity reductions of 9%, negotiations with suppliers to drive savings and a programme to reduce our people numbers in accordance with the capacity reductions

The success of Virgin Atlantic Airways has always been underpinned by the contribution of its people They are all positive, friendly, innovative and hardworking and I would like to acknowledge the hard work and dedication of all our employees This made last year's restructuring very difficult Bidding farewell to many colleagues was a very tough but necessary action to ensure we remain strong for the future

The impact of cost savings, focussed cash management, a restricted capital investment programme and some recovery in demand in the latter part of the year have ensured that liquidity remains strong with an increase in cash of £136 9m within the year

The management team has shown great resolve and ensured that the Group has taken decisive action to manage the short term, focus on continuing operational excellence and identifying opportunities to ensure that the Virgin Atlantic Airways continues to be innovative

The Group has won several key awards, winning the OAG transatlantic airline of the year and being Tripadvisor's favourite airline once again demonstrates our continued high standards Virgin Atlantic was recently voted the top of the Customer Service Index in the Transport Category, 26,000 members of the public are surveyed for these awards

During difficult economic conditions Governments and Regulators need to ensure that they don't take decisions with long-term ramifications that are driven by short-term conditions I reacted with dismay to the regulators' response to the proposed alliance between British Airways and American Airlines The proposed remedies are woefully inadequate in counter-acting the anti-competitive harm of a combined BA/AA I continue to question why regulators even considered these proposals when neither regulator has been able to identify any concrete consumer benefits that could justify approval for the deal

The UK Government and regulators in both Europe and the US should recognise the importance to the UK of a strong competitive airline industry Policy that ensures the right infrastructure in the UK will allow its airlines to compete effectively alongside their European and international counterparts Regulators must ensure a level playing field, enabling a few dominant players on each side of the Atlantic is not in the long-term interest of consumers, industry or government

Whilst there have been very positive signs of increased demand in the last six months the outlook remains uncertain However, whatever 2010 may hold, I am confident that the Virgin Atlantic Airways is well positioned to face any unexpected situations It has a strong management team, significant cash reserves and excellent products and services The announcement of new services to Ghana and Las Vegas via Manchester illustrate our willingness to seek out new profitable opportunities and the recent major order for new Airbus A330 aircraft will ensure that we have the greater flexibility in the mix of aircraft within our fleet and will allow a more rapid response to future movements in the global economy

## President's statement *(continued)*

It is with great sadness that I note the passing on 11 March 2010 of Sir Brian Pitman who was a dear friend and Board colleague Sir Brian served as a member of the Board of Virgin Atlantic Airways from 2004 and made an immense contribution to the Airline His vast experience and advice, particularly during the financial markets crisis in 2008, was invaluable and he will be sorely missed by all of us at Virgin Atlantic Airways

Last year Virgin Atlantic Airways celebrated 25 years of in business These 25 years have been characterised by launching new routes, expanding into markets, offering great customer service and innovative class leading products The last year has been very challenging but Virgin Atlantic Airways has successfully managed through the turbulent times I look forward to the next 25 years with my desire to drive Virgin Atlantic Airways forward undiminished

**Sir Richard Branson,**

*President*

# Directors' report

The directors present their annual report and the audited financial statements for the year ended 28 February 2010

**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 | |
| Stephen Griffiths | |
| Bey Soo Khiang | |
| Sir Brian Pitman | (deceased 11 March 2010) |
| Mark Poole | |
| Stephen Ridgway | |
| Julie Southern | |
| Teoh Tee Hooi | (resigned 1 March 2010) |
| Chan Hon Chew | (alternate for Teoh Tee Hooi, resigned 1 March 2010) |
| Jonathan Peachey | (alternate for Sir Richard Branson) |
| Paul Tan Wah Liang | (alternate for Bey Soo Khiang) |

**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 experiencing the toughest trading conditions in our history the Directors announce that Virgin Atlantic Airways made a loss before tax of £158 5m *(2009 profit before tax £49 8m)* Turnover declined by 11% as the banking crises of 2008 spread to the global economy The impact of the decline was felt principally in the first half of the year in both passenger and cargo traffic However, operating costs benefited from lower jet fuel prices, although this was partially offset by a stronger US Dollar Management response was quick and decisive Capacity was reduced with the grounding of 2 aircraft and the redeployment of a further aircraft, and regrettably staff numbers were reduced by 1,046 through a redundancy programme that reflected the lower capacity and a restructure of head office positions In addition major supplier contracts were reviewed and cost savings achieved

During the year Virgin Atlantic Airways recognised £57 9m in respect of the settlement of a claim for compensation from a supplier that has not fulfilled its contractual obligations

The Group incurred exceptional costs of £57 1m *(2009 £nil)* in respect of severance costs for staff leaving the business, a provision to cover the cost of grounded aircraft and a provision in respect of the ongoing competition investigations into various aspects of pricing in the airline industry

Management focus for the financial year was directed towards operating efficiency, cash management and the identification of the key projects that will drive Virgin Atlantic Airways forward once the economic environment improves In particular capital investment was directed towards improving sales and operational systems

A modest recovery in consumer demand has been seen since November 2009 and this is expected to continue at least in the short term In 2010 management will continue to focus on driving revenue and maintaining an efficient operation that will preserve cash balances at their current levels after allowing for investment in key projects and preparation for the introduction of the Airbus A330 aircraft in February 2011

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

| | **2009/10** | 2008/9 |
|---|---|---|
| **Group Turnover** [1] | **£1,984.1m** | £2,238 8m |
| **Return on Sales** [2] | **(8 0%)** | 2 2% |
| **Total Passengers Flown** [3] | **5.4m** | 5 7m |
| **Available Seat Kilometres (ASK's)** [4] | **48.7bn** | 53 3bn |
| **Customer Satisfaction** [5] | **90%** | 88% |
| **Customer Loyalty** [6] | **91%** | 91% |
| **Customer Advocacy** [7] | **91%** | 92% |

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

(2) **Return on Sales** - Profit 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**

Following the volcanic eruption in Iceland the UK's main air traffic control service provider ('NATS') closed UK airspace for 6 days from 15 April 2010 This event had a very significant short-term impact on the Group's operations

The Group will incur costs as a result of this event The reduction in operating contribution is likely to be £13m for the 6 days of air space closure In addition the Group will incur expense relating to care costs for passengers awaiting repatriation to their home base It is too early to reliably estimate these costs, however, utilising very conservative assumptions the cost is not sufficient to materially impact the Group's financial position

As the closure of UK airspace is unprecedented the Group has been consulting with the European Commission and the UK Government for compensation to cover lost contribution and the costs associated with supporting our passengers during this period

Forward bookings remain buoyant and the Group expects future revenues to remain in line with expectations

**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

The Group has continued to circulate quarterly "Sustainability Dashboards" to the Group's Senior Executives, setting out performance against sustainability targets including waste, energy, fuel efficiency, and on monies raised through the onboard Change for Children fundraising appeal

Energy efficiency measures continued to be implemented, and staff engagement remains a priority going forwards The Group exceeded its target of diverting 50% of its ground operations waste away from landfill, and so set a more ambitious target which includes an absolute reduction The Group also identified a roadmap for how it would achieve its target of diverting onboard waste away from landfill, focussing on flights inbound to the UK in the initial phases

During 2009 the Group also agreed, and issued to key suppliers, a sustainable procurement policy that sets out a range of environmental and social standards with which they would be expected to comply

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 2009, 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

In January 2010, a charity linked to the Group, Virgin Atlantic Foundation, launched its "Change is in the Air" programme, linking the social and environmental elements of sustainability and committing to a three year partnerships with Free the Children and The Travel Foundation, charities which share the Group's objectives of supporting sustainable communities in its destinations

# Directors' report *(continued)*

**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

*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 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

# Directors' report *(continued)*

**Financial risk management** *(continued)*

*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 £22 1m *(2009 gain of 68 0m)* Where there is a predicted exposure in foreign currency holdings, the Group uses a limited range of hedging instruments as approved by the Treasury Risk Committee

*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, whilst 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

*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 *(2009 £nil)* or final *(2009 £nil)* dividend be paid in respect of the year ended 28 February 2010

**Charitable donations**

The Group made charitable donations of £nil *(2009 £125,177)* 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

11 May 2010

# 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

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# Independent auditors' 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 2010 set out on pages 10 to 31 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 auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed

**Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of

- whether the accounting policies are appropriate to the 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 the Parent Company's affairs as at 28 February 2010 and of the Group's loss 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

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

**KPMG LLP**
*Chartered Accountants*
*Registered Auditor*

12 May 2010

# Consolidated profit and loss account

*for the year ended 28 February 2010*

| | Note | 2010 Before exceptional items £m | 2010 Exceptional items (note 6) £m | 2010 Total £m | 2009 Total £m |
|---|---|---|---|---|---|
| **Turnover** | *2* | 1,984 1 | - | 1,984 1 | 2,238 8 |
| Cost of sales | | (1,835 1) | (15 8) | (1,850 9) | (2,004 6) |
| **Gross profit** | | 149 0 | (15 8) | 133 2 | 234 2 |
| Administrative expenses | | (275 2) | (41 3) | (316 5) | (295 8) |
| Other operating (expense)/income[1] | | (22 1) | 57 9 | 35 8 | 68 0 |
| **Operating (loss)/profit** | | (148 3) | 0 8 | (147 5) | 6 4 |
| (Loss)/profit on disposal of fixed assets | | | | (0 1) | 15 0 |
| Interest receivable and similar income | *4* | | | 2 7 | 43 0 |
| Interest payable and similar charges | *5* | | | (13.6) | (14 6) |
| **(Loss)/profit on ordinary activities before taxation** | *6* | | | (158 5) | 49 8 |
| Tax on (loss)/profit on ordinary activities | *8* | | | 33 3 | (13 8) |
| **(Loss)/profit for the financial year** | *18* | | | (125 2) | 36 0 |

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 31 form part of these financial statements

[1] Other operating (expense)/income includes the exceptional income relating to compensation payments from suppliers that have not fulfilled their contractual obligations and 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

# Consolidated balance sheet

*at 28 February 2010*

| | *Note* | 2010 £m | 2010 £m | 2010 £m | 2009 £m | 2009 £m | 2009 £m |
|---|---|---|---|---|---|---|---|
| **Fixed assets** | | | | | | | |
| Intangible assets | *9* | | | **38 3** | | | 38 3 |
| Tangible assets | *10* | | | **303 4** | | | 335 5 |
| Investments | *11* | | | **15 3** | | | 16 7 |
| | | | | **357 0** | | | 390 5 |
| **Current assets** | | | | | | | |
| Stocks | *12* | | **28 5** | | | 28 7 | |
| Debtors due within one year | *13* | **385 0** | | | 636 4 | | |
| Debtors due after one year | *13* | **173 5** | | | 120 3 | | |
| | | | **558 5** | | | 756 7 | |
| Cash at bank and in hand | | | **444 1** | | | 311 7 | |
| | | | **1,031 1** | | | 1,097 1 | |
| **Creditors** amounts falling due within one year | *14* | | **(816 8)** | | | (802 0) | |
| **Net current assets** | | | | **214 3** | | | 295 1 |
| **Total assets less current liabilities** | | | | **571 3** | | | 685 6 |
| **Creditors** amounts falling due after more than one year | *15* | | | **(101 5)** | | | (106 3) |
| **Provisions for liabilities and charges** | *16* | | | **(306 1)** | | | (290 4) |
| **Net assets** | | | | **163 7** | | | 288 9 |
| **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* | | | **129 2** | | | 254 4 |
| **Shareholders' funds** | *19* | | | **163 7** | | | 288 9 |

These financial statements were approved by the Board of Directors on 11 May 2010 and were signed on its behalf by

**Stephen Ridgway**
*Director*

The notes on pages 13 to 31 form part of these financial statements

# Company balance sheet
*at 28 February 2010*

| | *Note* | | 2010 | | | 2009 | |
|---|---|---|---|---|---|---|---|
| | | £m | £m | £m | £m | £m | £m |
| **Fixed assets** | | | | | | | |
| Intangible assets | 9 | | | 38 3 | | | 38 3 |
| Tangible assets | 10 | | | 309 8 | | | 343 3 |
| Investments | 11 | | | 15.3 | | | 16 7 |
| | | | | 363 4 | | | 398 3 |
| **Current assets** | | | | | | | |
| Stocks | 12 | | 28 5 | | | 28 7 | |
| Debtors due within one year | 13 | 404 7 | | | 659 5 | | |
| Debtors due after one year | 13 | 169 9 | | | 116 5 | | |
| | | | 574 6 | | | 776 0 | |
| Cash at bank and in hand | | | 437 0 | | | 300 6 | |
| | | | 1,040 1 | | | 1,105 3 | |
| **Creditors** amounts falling due within one year | 14 | | (818 2) | | | (824 9) | |
| **Net current assets** | | | | 221 9 | | | 280 4 |
| **Total assets less current liabilities** | | | | 585 3 | | | 678 7 |
| **Creditors** amounts falling due after more than one year | 15 | | | (101 5) | | | (106 3) |
| **Provisions for liabilities and charges** | 16 | | | (316 7) | | | (280 6) |
| **Net assets** | | | | 167 1 | | | 291 8 |
| **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 | | | 132 6 | | | 257 3 |
| **Shareholders' funds** | 19 | | | 167 1 | | | 291 8 |

These financial statements were approved by the Board of Directors on 11 May 2010 and were signed on its behalf by

S. Ridgway

**Stephen Ridgway**
*Director*

The notes on pages 13 to 31 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 During the year ended 28 February 2009 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 primarily 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

| | 2010 £m | 2009 £m |
|---|---|---|
| Scheduled airline services | **1,970 0** | 2,225 7 |
| Other | **14 1** | 13 1 |
| | **1,984 1** | 2,238 8 |
| **Scheduled airline services by source** | | |
| United Kingdom | **1,186 5** | 1,439 7 |
| North America and the Caribbean | **331 1** | 366 2 |
| Far East | **146 4** | 133 7 |
| Africa | **125 7** | 124 0 |
| Other | **180 3** | 162 1 |
| | **1,970 0** | 2 225 7 |
| **Scheduled airline services by destination** | | |
| North America | **1,011 9** | 1 157 7 |
| Caribbean | **216 7** | 239 2 |
| Far East | **270 5** | 286 3 |
| Africa | **262 6** | 274 7 |
| Other | **208 3** | 267 8 |
| | **1,970 0** | 2 225 7 |

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

| | 2010 | 2009 |
|---|---|---|
| Management and administration | 641 | 725 |
| Flight crew | 740 | 770 |
| Cabin crew | 3,602 | 4,248 |
| Reservations and sales | 1,879 | 2,087 |
| Engineering, cargo and production | 1,085 | 1,163 |
| | 7,947 | 8,993 |

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

| | 2010 £m | 2009 £m |
|---|---|---|
| Wages and salaries | 239 6 | 263 7 |
| Social security costs | 23.7 | 25 4 |
| Other pension costs (note 25) | 18 3 | 18 7 |
| | 281 6 | 307 8 |

## 4 Interest receivable and similar income

| | 2010 £m | 2009 £m |
|---|---|---|
| Interest on bank deposits | 1 1 | 37 9 |
| Finance income from fixed asset investments (note 11) | 1 2 | 1 4 |
| Exchange gains on foreign currency deposits less borrowings | - | 3 7 |
| Unwinding of discount on accrued income | 0 4 | - |
| | 2.7 | 43 0 |

## 5 Interest payable and similar charges

| | 2010 £m | 2009 £m |
|---|---|---|
| Interest on bank loans, overdrafts and similar charges | 8 9 | 7 2 |
| Interest payable to group undertakings | 2 1 | 7 1 |
| Finance charges in respect of finance leases and hire purchase contracts | 0 1 | 0 1 |
| Exchange loss on foreign currency borrowings less deposits | 2 2 | - |
| Unwinding of discount on provisions (note 16) | 0 3 | 0 2 |
| | 13 6 | 14 6 |

# Notes *(continued)*

## 6 (Loss)/profit on ordinary activities before taxation

| | 2010 £m | 2009 £m |
|---|---|---|
| ***(Loss)/profit on ordinary activities before taxation is stated after (crediting)/ charging.*** | | |
| Depreciation of tangible fixed assets (note 10) | **61 1** | 56 8 |
| Rentals under operating leases | | |
| Aircraft and related equipment | **222 2** | 198 7 |
| Hire of plant and machinery | **1 2** | 1 4 |
| Land and buildings | **24 2** | 26 1 |
| Loss/(Profit) on disposal of fixed assets | **0 1** | (15 0) |
| Exceptional items | | |
| Cost of sales (see below) | **15 8** | - |
| Administrative expenses (see below) | **41 3** | - |
| Other operating (income) | **(57.9)** | - |
| Administrative expenses (see below) | **-** | 3 5 |
| Other operating expense/(income) (see below) | **22 1** | (68 0) |

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 £151,000 *(2009 £173,000)* Fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation are £9,000 *(2009 £15,000)*

Exceptional cost of sales in the current 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 comprises 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 current 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 relates to entitlement to compensation payments from suppliers that have not fulfilled their contractual obligations

Administrative expenses in the prior year relate to a release in respect of the estimated total cost arising from both the settlement of certain civil actions arising from the investigations by the competition authorities in a number of jurisdictions in which Virgin Atlantic Airways Limited operates into various aspects of pricing in the airline industry and ongoing co-operation and contact with regulatory bodies The civil settlements have been agreed by the courts in the USA The court appointed independent claims administrator has assessed claims received to date and has been processing appropriate refunds independently from Virgin Atlantic Airways Limited

Other operating (expense)/income is the (loss)/gain 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

| | 2010 £m | 2009 £m |
|---|---|---|
| Aggregate emoluments | 1 2 | 1 8 |
| Company contributions to money purchase pension schemes | 0 1 | 0 1 |
| Aggregate amounts receivable under Long Term Incentive Schemes | 0 3 | 0 1 |
| | 1 6 | 2 0 |

Retirement benefits are accruing to 3 (*2009 3*) directors under money purchase pension schemes

No directors exercised any share options in the year

| | 2010 £m | 2009 £m |
|---|---|---|
| *Highest paid director* | | |
| Aggregate emoluments | 0 5 | 0 7 |
| Company contributions to money purchase pension schemes | - | - |
| Aggregate amounts receivable under Long Term Incentive Schemes | 0 2 | - |
| | 0 7 | 0 7 |

# Notes *(continued)*

## 8 Tax on (loss)/profit on ordinary activities

| *Analysis of (credit)/charge in period* | **2010** **£m** | 2009 £m |
|---|---|---|
| ***Current tax*** | | |
| Amounts (receivable)/payable in respect of group relief | - | 14 8 |
| ***Total current tax*** | - | 14 8 |
| ***Deferred tax*** | | |
| Origination and reversal of timing differences | **(33 2)** | (0 2) |
| Adjustments in respect of prior years | **(0 1)** | (0 8) |
| ***Total deferred tax*** | **(33 3)** | (1 0) |
| Tax (credit)/charge on (loss)/profit on ordinary activities | **(33 3)** | 13 8 |

The standard rate of UK corporation tax for the year is 28% (*2009 28%*) The actual current tax charge for the year differs from that computed by applying the standard tax rate to the (loss)/profit on ordinary activities before tax as reconciled below

| | **2010** **£m** | 2009 £m |
|---|---|---|
| (Loss)/profit on ordinary activities before taxation | **(158 5)** | 49 8 |
| Tax at the standard rate at 28% *(2009 28%)* | **(44 4)** | 13 9 |
| ***Factors affecting the charge for the year*** | | |
| Income not subject to corporation tax | **(0 4)** | - |
| Depreciation for the year in excess of capital allowances | **5 5** | 1 3 |
| UK tax losses not utilised or recognised | **22 8** | - |
| Other timing differences | **5 0** | (1 1) |
| Expenses not deductible for tax purposes | **11 5** | 0 7 |
| Total current tax | - | 14 8 |

# Notes *(continued)*

## 9 Intangible assets

| Group and Company | Landing slots £m |
|---|---|
| *Cost* | |
| **At 1 March 2009 and 28 February 2010** | **49 0** |
| *Amortisation* | |
| **At 1 March 2009 and 28 February 2010** | **10 7** |
| *Net book value* | |
| **At 28 February 2009 and 28 February 2010** | **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 2010 and are comfortable that no impairment adjustment need be recognised

## 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 2009 | 29 7 | 20 7 | 369 8 | 189 3 | 232 5 | 842 0 |
| Additions | - | 18 5 | 9 8 | 1 3 | 1 9 | 31 5 |
| Disposals | - | (0 1) | (4 3) | (1 2) | (0 4) | (6 0) |
| Reclassifications | 0 3 | (21 4) | - | 0 7 | 20 4 | - |
| **At 28 February 2010** | **30 0** | **17 7** | **375 3** | **190 1** | **254 4** | **867 5** |
| *Depreciation* | | | | | | |
| At 1 March 2009 | 1 5 | - | 191 1 | 136 5 | 177 4 | 506 5 |
| Charge for the year | 0 5 | - | 16 8 | 23 4 | 20 4 | 61 1 |
| Disposals | - | - | (1 9) | (1 2) | (0 4) | (3 5) |
| **At 28 February 2010** | **2 0** | **-** | **206 0** | **158 7** | **197 4** | **564 1** |
| *Net book value* | | | | | | |
| **At 28 February 2010** | **28 0** | **17 7** | **169 3** | **31 4** | **57 0** | **303 4** |
| At 28 February 2009 | 28 2 | 20 7 | 178 7 | 52 8 | 55 1 | 335 5 |

Included in aircraft, rotable spares and ancillary equipment are progress payments of £19 9m (*2009 £18 5m*)

# 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 2009 | 29 7 | 20 7 | 369 9 | 189 3 | 232 6 | 842 2 |
| Additions | - | 18 5 | 9 7 | 1 3 | 1 1 | 30 6 |
| Disposals | - | (0 1) | (4 3) | (1 2) | (0 4) | (6 0) |
| Reclassifications | 0 3 | (21 4) | - | 0 7 | 20 4 | - |
| **At 28 February 2010** | **30 0** | **17 7** | **375 3** | **190 1** | **253 7** | **866 8** |
| *Depreciation* | | | | | | |
| At 1 March 2009 | 1 5 | - | 183 4 | 136 5 | 177 5 | 498 9 |
| Charge for the year | 0 5 | - | 17 4 | 23 4 | 20 3 | 61 6 |
| Disposals | - | - | (1 9) | (1 2) | (0 4) | (3 5) |
| **At 28 February 2010** | **2 0** | **-** | **198 9** | **158 7** | **197 4** | **557 0** |
| *Net book value* | | | | | | |
| **At 28 February 2010** | **28 0** | **17 7** | **176 4** | **31 4** | **56 3** | **309 8** |
| At 28 February 2009 | 28 2 | 20 7 | 186 5 | 52 8 | 55 1 | 343 3 |

Included in aircraft, rotable spares and ancillary equipment are progress payments of £19 9m (*2009 £18 5m*)

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

| Group and Company | 2010 | 2009 |
|---|---|---|
| | £m | £m |
| **Net book value** | | |
| Aircraft, rotable spares and ancillary equipment | **60 4** | 17 5 |
| Plant and machinery | **2 0** | 0 6 |
| **Depreciation charged for the year** | | |
| Aircraft, rotable spares and ancillary equipment | **2 5** | 0 9 |
| Plant and machinery | **0 2** | - |

During the year, the Group entered into new finance lease and hire purchase contract arrangements in respect of tangible fixed assets for £19 8m (*2009 £16 9m*) These new finance leases are shown notes 14 and 15

# Notes *(continued)*

## 11 Fixed asset investments

| **Group and Company** | **Investments £m** |
|---|---|
| *Cost* | |
| At 1 March 2009 | 16 7 |
| Additions | 1 2 |
| Repayment of unsecured loan notes | (2 6) |
| **At 28 February 2010** | **15 3** |
| *Net book value* | |
| **At 28 February 2010** | **15 3** |
| At 28 February 2009 | 16 7 |

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

## 12 Stocks

**Group and Company**

| | **2010 £m** | 2009 £m |
|---|---|---|
| Aircraft consumable spares | **25 8** | 24 9 |
| Finished goods and goods for resale | **0 8** | 1 2 |
| Fuel stocks | **1 9** | 2 6 |
| | **28 5** | 28 7 |

## 13 Debtors

| **Amounts falling due within one year** | Group | | Company | |
|---|---|---|---|---|
| | **2010 £m** | 2009 £m | **2010 £m** | 2009 £m |
| Trade debtors | **179 3** | 120 4 | **179 3** | 120 4 |
| Amounts owed by group undertakings | **16 1** | 22 0 | **36 0** | 45 1 |
| Other debtors | **147 4** | 451 5 | **147 2** | 451 5 |
| Prepayments and accrued income | **42 2** | 42 5 | **42 2** | 42 5 |
| | **385 0** | 636 4 | **404 7** | 659 5 |

# Notes *(continued)*

## 13 Debtors *(continued)*

| **Amounts falling due after more than one year** | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **£m** | £m | **£m** | £m |
| Amounts owed by group undertakings | **16 4** | 18 8 | **16.4** | 18 8 |
| Other debtors | **110.2** | 48 5 | **106 6** | 44 7 |
| Prepayments and accrued income | **46.9** | 53 0 | **46 9** | 53 0 |
| | **173 5** | 120 3 | **169 9** | 116 5 |

Included within other debtors due within one year is an amount of £94 8m *(2009 £403 0m)* relating to margin calls on open derivative positions

## 14 Creditors· amounts falling due within one year

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **£m** | £m | **£m** | £m |
| Bank loans and overdraft | **16 2** | 20 7 | **16 2** | 20 7 |
| Secured bank loans (note 15) | **10 2** | 23 7 | **10 2** | 23 7 |
| Unsecured bank loans | **1 3** | 1 3 | **1 3** | 1 3 |
| Obligations under finance leases and hire purchase contracts (note 20) | **3 5** | 0 5 | **3 5** | 0 5 |
| Trade creditors | **53 4** | 46 5 | **53 4** | 46 5 |
| Amounts owed to group undertakings | **118 0** | 86 3 | **120 0** | 87 8 |
| Group relief payable | **0 8** | 0 7 | **0 5** | 22 1 |
| Other taxes and social security | **8 6** | 9 9 | **8 6** | 9 9 |
| Other creditors | **13 9** | 61 8 | **13 9** | 61 8 |
| Accruals and deferred income | **590 9** | 550 6 | **590 6** | 550 6 |
| | **816 8** | 802 0 | **818 2** | 824 9 |

Included within other creditors due within one year is an amount of £12 2m *(2009 £60 6m)* relating to margin calls on open derivative positions

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

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **£m** | £m | **£m** | £m |
| Secured bank loans | **34 2** | 44 5 | **34 2** | 44 5 |
| Unsecured bank loans | **-** | 1 3 | **-** | 1 3 |
| Obligations under finance leases and hire purchase contracts (note 20) | **17 8** | 1 6 | **17 8** | 1 6 |
| Amounts owed to group undertakings | **16 7** | 19 1 | **16 7** | 19 1 |
| Accruals and deferred income | **32 8** | 39 8 | **32 8** | 39 8 |
| | **101 5** | 106 3 | **101 5** | 106 3 |

The secured bank loans totalling £44 4m (*2009 £68 2m*) are secured by mortgages over certain aircraft None (*2009 £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 2010 were £306 1m for the Group *(2009 £290 4m)* and £316 7m for the Company *(2009 £280 6m)*

Total provisions comprise amounts in respect of

i Deferred taxation balance at 28 February 2010 was £114 1m for the Group *(2009 £147 4)* and £132 0m for the Company *(2009 £143 5m)* The movement in the year relates to amounts released of £33 3m for the Group and £11 5m for the Company

The amounts provided for deferred taxation at the current rates are as follows

| *The elements of the deferred tax provision are as follows.* | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **£m** | £m | **£m** | £m |
| Accelerated capital allowances | **142 8** | 149 8 | **137 1** | 143 5 |
| Other timing differences | **(7 4)** | (2 4) | **(5 1)** | - |
| UK tax losses | **(21 3)** | - | - | - |
| | **114 1** | 147 4 | **132 0** | 143 5 |

ii Maintenance balance at 28 February 2010 was £129 5m for the Group *(2009 £115 9m)* and was £122 2m for the Company *(2009 £110 0m)* The movement in the year is made up of a gain due to foreign exchange translation of £3 0m for the Group and £2 9m for the Company, amounts provided in the year of £34 3m for the Group and £30 9m for the Company and amounts utilised in the year of £17 7m for the Group and £15 8m for the Company

iii Onerous contracts balance at 28 February 2010 of £12 8m for the Group and Company *(2009 £2 6m Group and Company)* The movement in the year is made up of a loss due to foreign exchange translation of £0 7m, amounts provided in the year of £10 1m, amounts utilised in the year of £0 7m, and unwinding of the discount of £0 1m

iv Leasehold dilapidations balance at 28 February 2010 of £2 1m for the Group and Company *(2009 £2 0m Group and Company)* The movement in the year is made up of amounts released in the year of £0 1m and unwinding of the discount of £0 2m

v Litigation at 28 February 2010 of £47 6m for the Group and Company *(2009 £22 4m Group and Company)* These provisions represent the estimated outstanding cost (refund claims and associated legal and administrative fees) 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

| | 2010 £ | 2009 £ |
|---|---|---|
| *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 2009 | 5 0 | 25 0 | 254 4 |
| Loss for the financial year | - | - | (125 2) |
| **Balance at 28 February 2010** | **5 0** | **25 0** | **129 2** |

| Company | Share premium account £m | Capital contribution reserve £m | Profit and loss account £m |
|---|---|---|---|
| Balance at 1 March 2009 | 5 0 | 25 0 | 257 3 |
| Loss for the financial year | - | - | (124 7) |
| **Balance at 28 February 2010** | **5 0** | **25 0** | **132 6** |

# Notes *(continued)*

## 19 Reconciliation of movements in shareholders' funds

| **Group** | **2010 £m** | 2009 £m |
|---|---|---|
| (Loss)/profit for the financial year | **(125 2)** | 36 0 |
| Opening shareholders' funds | **288 9** | 252 9 |
| Closing shareholders' funds | **163 7** | 288 9 |

| **Company** | **2010 £m** | 2009 £m |
|---|---|---|
| (Loss)/profit for the financial year | **(124 7)** | 115 1 |
| Opening shareholders funds | **291 8** | 176 7 |
| Closing shareholders' funds | **167 1** | 291 8 |

## 20 Leasing commitments

### Group and Company

The capital element of the future minimum lease payments to which the Group is committed at 28 February 2010 under finance lease and hire purchase contract obligations incurred in the acquisition of aircraft, engines, spares and other equipment are as follows

| | **2010 £m** | 2009 £m |
|---|---|---|
| *Amounts due within* | | |
| One year | **3 5** | 0 5 |
| Second to fifth year inclusive | **13 4** | 1 0 |
| Over five years | **4 4** | 0 6 |
| | **21 3** | 2 1 |

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 2010, the Group and Company had annual commitments under non-cancellable operating leases as set out below

| Group | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Land and buildings £m** | **Aircraft and other £m** | Land and buildings £m | Aircraft and other £m |
| ***Operating leases which expire*** | | | | |
| Within one year | **3 4** | **0 3** | 2 3 | - |
| In the second to fifth year inclusive | **15 6** | **96 4** | 12 2 | 130 8 |
| Over five years | **8.1** | **121 1** | 14 3 | 131 9 |
| | **27 1** | **217 8** | 28 8 | 262 7 |

| Company | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Land and buildings £m** | **Aircraft and other £m** | Land and buildings £m | Aircraft and other £m |
| ***Operating leases which expire*** | | | | |
| Within one year | **3 4** | **0 3** | 2 3 | - |
| In the second to fifth year inclusive | **15 6** | **96 8** | 12 2 | 131 4 |
| Over five years | **8 1** | **121 7** | 14 3 | 132 3 |
| | **27 1** | **218 8** | 28 8 | 263 7 |

## 21 Capital commitments

| Group and Company | 2010 £m | 2009 £m |
|---|---|---|
| Capital commitments at the balance sheet date for which no provision has been made | **3,358 5** | 2,397 2 |

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

## 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$420 9m (*2009 US$997 5m*) outstanding at 28 February 2010, have been taken out to cover part of the exposure risk In addition, the Group has entered into a number of other derivative financial instruments the maximum potential commitment of which at 28 February 2010 is US$2,317 1m (*2009 US$3,048 8m*)

The fair value at 28 February 2010 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 £151 4m (*2009 negative fair value £444 9m*) This is comprised of a negative fair value of £152 7m (*2009 negative fair value £726 2m*) in respect of fuel hedging derivatives, a negative fair value of £13 8m (*2009 negative fair value £9 9m*) in respect of interest rate swaps and a positive fair value of £15 1m (*2009 positive fair value £291 2m*) in respect of foreign currency derivatives

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)

# Notes *(continued)*

## 23 Subsidiary undertakings

The subsidiaries of the Company as at 28 February 2010 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

## 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 2010 in respect of indemnities under certain financing and other arrangements which are partly secured by charges over designated short term deposits of £7 1m (*2009 £11 1m*), of which £5 6m (*2009 £9 5m*) 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 2010 (*2009 £nil*)

## 26 Related party transactions

As at 28 February 2010 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 2010 | 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 Management Limited | 0 2 | 0 4 | - | - |
| Virgin Money Limited | 7 8 | - | 1 1 | - |
| Virgin Money (Australia) Pty Limited | - | 0 1 | - | - |
| Virgin Enterprises Limited | - | 0 1 | - | 0 1 |
| Virgin Galactic Limited | - | - | 0 1 | - |
| Virgin America Inc | 0 1 | - | - | - |
| Virgin Blue Airlines Pty Limited | 0 1 | - | - | - |
| V Australia Pty Limited | - | 4 4 | - | 1 6 |
| *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 2010, 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 2010, 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

Following the volcanic eruption in Iceland the UK's main air traffic control service provider ('NATS') closed UK airspace for 6 days from 15 April 2010 This event had a very significant short-term impact on the Group's operations

The Group will incur costs as a result of this event The reduction in operating contribution is likely to be £13m for the 6 days of air space closure In addition the Group will incur expense relating to care costs for passengers awaiting repatriation to their home base It is too early to reliably estimate these costs, however, utilising very conservative assumptions the cost is not sufficient to materially impact the Group s financial position

As the closure of UK airspace is unprecedented the Group has been consulting with the European Commission and the UK Government for compensation to cover lost contribution and the costs associated with supporting our passengers during this period

Forward bookings remain buoyant and the Group expects future revenues to remain in line with expectations