

# **Virgin Atlantic Airways Limited and subsidiary companies**

## **Directors' report and consolidated financial statements**

for the year ended 31 December 2015

Registered number 1600117

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***Virgin Atlantic Airways Limited and subsidiary companies***

**Directors' report and consolidated financial statements  
for the year ended 31 December 2015**

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## Strategic report

Virgin Atlantic Airways ("VAA", "Airline" or "Group") is a significant UK international scheduled airline, with a focus on inter-continental routes. VAA operates principally from London, with a presence at Heathrow and Gatwick, together with a smaller operation in the UK regions. VAA also operates a worldwide air cargo business, largely in conjunction with its scheduled passenger services. VAA provides a high quality passenger service to the key international cities served by Heathrow, together with a leisure-focussed operation from Gatwick serving destinations in the US and Caribbean.

The Airline now prepares its financial statements under full IFRS to allow better comparability with its peer group. The Airline has historically prepared its financial statements under UK GAAP. Comparatives with 2014 are with the amounts restated under IFRS (see note 31 for further details).

For the year ended 31 December 2015, the Airline returned a profit of £12.0m before tax and exceptional items. The result is significant given the considerable changes made to network configuration and operations during the year.

### Result highlights

- Profit before tax and exceptional items improves by £7.2m to £12.0m (statutory profit before tax of £89.5m, 2014: restated loss before tax of £194.2m);
- Airline passenger unit revenue down 2.9%;
- Airline operating costs have fallen year on year by £196m, driven by fuel cost reduction of £191m;
- Non-fuel unit costs remained flat year on year, despite regulated cost increases;
- The completion of a landmark senior secured note bond financing transaction raising £220m; and
- Total cash (including restricted cash) increased by £300.7m to £584.4m

### Airline passenger revenue

2015 was a year of significant network change for the Airline, aligning the network to take full advantage of the transatlantic joint venture with Delta and focusing on its long haul operation. The Airline stopped flying to Tokyo, Mumbai, Cape Town and Vancouver, and also closed its short haul service, Little Red, replacing services with additional transatlantic flying.

Load factor was down 2.5pts to 76.8%, driven by the redeployment of capacity from the rest of the world to transatlantic services to reorient the network towards approximately 70% transatlantic flying. This will benefit the Airline in the long-term. Yield performance was strong in the first part of the year, driven by improvements to market fares and performance in the business and premium economy cabins. This partially offset some of the decline in load factor. In the latter half of the year the fuel environment, while reducing fuel costs, led to downward pressure on fares. These factors led to an overall reduction in airline passenger revenue of £72.8m year on year, and a reduction in unit passenger revenue of 2.9%.

In the transatlantic market, the Airline increased capacity by 14.8%. This is aligned with Group's strategy to offer a better and more frequent service to its customers, as well as opening up new US markets with Delta. The Airline successfully added additional services into several existing Virgin Atlantic markets; New York, Los Angeles and San Francisco while also starting services into the key Delta hubs of Atlanta and Detroit, significantly enhancing Virgin Atlantic's presence in the transatlantic market. We generated strong growth in passenger numbers, up 9.1% versus 2014 but these increases did not keep pace with our capacity growth. This led to a decline in our transatlantic load factor of 4.3pts. We launched Boeing 787-9 aircraft into existing markets to Shanghai, Hong Kong, Johannesburg and Delhi. These aircraft are delivering a superior experience to our customers as well as reducing our capacity in each market and driving down our unit costs.

### Cargo revenue

Cargo revenue declined 13.0% primarily due to aggressive competitor activity and the low fuel cost environment, which put pressure on price and meant our yields were down 8% year on year. The change to our network was the right decision for the airline, but the loss of key routes, including Tokyo, Mumbai and Cape Town, resulted in declining volumes for our cargo business. We also introduced the Boeing 787-9 to Hong Kong and Shanghai, which reduced cargo capacity from the Far East. On the rest of the network, market capacity increases outstripped demand growth. Overall, cargo tonnage was down 4.3% year on year.

## **Strategic report** *(continued)*

### **Flying Club**

We have changed our frequent flyer programme (Flying Club) by making more seats available on more flights for our members, to drive higher customer satisfaction scores using our reward proposition. This change was reflected by a 17% increase in the number of standard redemption seats booked by our members in 2015, and a £3.4m increase in Flying Club revenue year on year to £72.3m for 2015.

### **Operating costs**

Airline operating costs before exceptional items have fallen year on year by £196m, driven by falling fuel prices (including the cost of hedging) and improved operating efficiency. Airline unit operating cost of 4.69p improved by 7.3% year on year.

### **Fuel cost**

On a unit basis, fuel costs fell by 20.4%, mainly driven by fuel prices. The introduction of new fuel-efficient aircraft has supported our efforts to reduce our physical fuel cost, which is reflected in a 4.6% reduction in fuel burn year on year with flat capacity growth. However, this was largely offset by hedging losses of £198m, which will continue to unwind over the next 12 months.

VAA operates a hedging policy that protects the business from exposure to volatility in oil prices and foreign currency rates. The policy allows VAA to hedge within bands, up to 24 months out with declining percentages. While Brent Crude prices have fallen by 34% (from \$56 on the 1 January to \$37 on the 31 December 2015), we did not benefit fully from the decline in price because of our hedging policy. We made realised hedging losses of £198m in 2015, but still benefited from a fall in our effective hedged fuel price by 17% year on year, and in 2016 we will see this reduce further.

### **Non-fuel cost**

Non-fuel unit cost remained flat year on year. Improved cost efficiency through our change programme, fit.nimble, has successfully covered the costs associated with our increased investment in customer product and services. Improved cost efficiency has also offset the on-going negative impact of above inflation cost increases we saw endorsed by regulators in the last review period, for certain regulated costs in our supply chain.

### **Aircraft ownership costs**

We took delivery of seven new Boeing 787-9 aircraft during 2015, taking our total Boeing 787-9 fleet to nine overall. The replacement of Airbus A340 aircraft with the state-of-the-art Boeing 787-9 continued, reducing the average age of our aircraft from ten years to eight. This makes our fleet one of the youngest and most fuel-efficient in the skies. Aircraft ownership costs have reduced by £7.4m, driven by the cessation of our short haul operation (Little Red) and reduced interest costs due to an improved mix of leased and owned aircraft. In the long-term, as we move towards our target for ownership of approximately 50% of our aircraft fleet, we will increasingly benefit from lower ownership costs.

### **Cash flow**

We continue to improve our capital structure through stronger operating performance, a better mix of leased and owned aircraft, and through the successful completion of a landmark senior secured note bond transaction. This was our maiden capital markets transaction, and the first financing transaction of its kind in Europe to utilise UK airport slots to raise debt finance.

The £220m inflow from the senior secured note financing transaction allowed us to purchase a Boeing 787-9 outright, which is our first unencumbered new aircraft to be owned by the airline.

## **Strategic report** *(continued)*

### **Market overview**

2015 saw downward pricing pressure on transatlantic routes, due to the increased capacity in the market. UK transatlantic capacity grew 5.8% year on year, partly impacted by the changes that we made to our network. In 2016, we expect to see seat capacity growth stabilise now that we have rebalanced our network. The price of fuel continued to decline, as reflected by the 68% fall in the price of Brent Crude per barrel (from a high point in 2014 of \$116, \$56 on the 1 January 2015 to \$37 on the 31 December 2015). As hedges unwind, the benefit of a lower fuel price environment will be increasingly felt by airlines and other energy intensive industries. Overall, 2015 has been a relatively good year for airlines, which resulted in a 7.5% average airline Return on Invested Capital (ROIC), above the cost of capital for the first time.

### **Regulatory landscape**

VAA continues to advocate the importance of promoting competition in the travel industry, which ultimately benefits consumers. In particular, it remains critical that any new runway capacity, as endorsed by the Government, should be allocated to enhance competition and correct legacy carriers' inherited dominance, rather than exacerbate it.

As we enter the initial process of discussions over regulated charges for Heathrow and Gatwick, we support the Davies Commission's recommendation that the economic benefits for the UK are greatest from expanding hub capacity at Heathrow. That said, a new runway must deliver a good outcome for local communities and boost competition – which ultimately will benefit customers. We continue to work constructively with the Government, the CAA and other stakeholders on how new capacity should be delivered and paid for, and will continue to encourage the Government to ensure decisions are made with customers' interests front of mind, in terms of funding models, slot allocation and capacity.

Air Passenger Duty (APD) abolition for band C and D and children's travel was implemented in 2015. Despite these positive steps, APD is still the highest passenger tax in the world, double the next highest in Europe, which is in Germany. A passenger travelling with VAA will be taxed £73 in Economy or £146 in Premium Economy or Upper Class from April 2016 for an outbound journey. Achieving an internationally competitive rate of APD remains a priority. We will continue to engage with regulators and policymakers in the UK and Brussels to progress amendments to EU Regulation EC261/2014, by encouraging the development of a new passenger rights regulation on denied boarding and delay compensation. Finally, we will continue to support the need for an agreement on a global climate change framework for our industry which is both economically efficient and environmentally effective.

### **Outlook**

We will improve our financial performance as we leverage our strengthened network and grow into the capacity added last year. The continuing unwinding of higher priced hedging contracts and the further reduction in fuel prices is expected to lead to greater financial benefits in 2016. Through our change programme, fit.nimble, we have identified and are implementing more than 50 projects across eight work streams and we are well on the way to delivering £30m of benefit in 2016, with a run-rate of approximately £60m by 2018.

Virgin Atlantic and its people are committed to delighting our customers, as we have done for over 30 years. Through exploiting our network and partnership with Delta, and investing in our people, customers and technology, we have the building blocks in place underpinning our strategy and to deliver sustainable profits.

## Strategic report *(continued)*

### Key performance indicators

The directors have outlined below the key performance indicators that they rely on to manage the company. The financial indicators are stated at constant currency and on a 12 month basis to December for comparability; all amounts shown in the tables below have been rounded to two decimal places.

#### Safety

*The safety and security of our customers is our primary concern*

	2013	2014	2015	YoY
Number of incidents <sup>1</sup>	3	1	0	(100%)

#### Customers

*Always for the customer, with flair*

	2013	2014	2015	YoY
On-time performance (D15)	85.5%	85.5%	84.6%	1.1pt

#### Capacity

*Disciplined approach to managing our capacity*

	2013	2014	2015	YoY
Aircraft	40	39	40	(2.6%)
Available Seat Kilometres (ASK) (m)	50,330	48,710	48,385	(0.7%)

#### Passengers

*Passenger growth remains a key part of our Plan to Win*

	2013	2014	2015	YoY
Revenue Passenger Kilometres (RPK) (m)	39,549	38,643	37,157	(3.8%)
Passenger load factor	77.4%	79.3%	76.8%	(2.5)pt

#### Airline financials

	2013	2014	2015	YoY
Airline Passenger Revenue per ASK (p)	4.08	4.22	4.10	(2.9%)
Airline Passenger Revenue per RPK (p)	5.00	5.32	5.34	0.3%
Airline Cost per ASK (p)	5.07	5.06	4.69	(7.3%)
Fuel uplift (USG) (m)	498	482	460	(4.6%)
Cargo tonnage (kg) (m)	225	224	214	(4.3%)

<sup>1</sup> Incidents subject to review by external regulatory bodies (e.g. AAIB, NTSB)

## **Strategic report** *(continued)*

### **Risk review**

#### **Principal risks and uncertainties**

The highly regulated and commercially competitive environment, together with operational complexity, leaves us exposed to a number of significant risks. Our focus remains on mitigating these risks at all levels of the business, although many remain outside of our control such as government regulation, taxes, terrorism, adverse weather, pandemics and the economic conditions in the markets in which we operate.

The directors believe that the risks and uncertainties described below are the ones which may have the most significant impact on our long-term performance

#### **Business and operational**

##### **Brand reputation**

The strong reputation and loyalty engendered by the Virgin Atlantic brands is a core part of the value of our business. Any damage to the brands caused by any single event, or series of events, could materially impact customer loyalty and propensity of customers to travel and so adversely affect our business. We regularly monitor customer satisfaction through monthly customer surveys, alongside on-going research and development of our product and services, in order to mitigate this risk. We allocate substantial resources to safety, operational integrity, on-board product and new aircraft to maintain our strong brand position.

##### **Economic conditions**

Our operations are particularly sensitive to economic conditions in the markets in which we operate. 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 our financial performance. We produce a regular revenue forecast, which is reviewed by the Executive Management Team and appropriate action is taken.

##### **Government intervention**

Regulation of the aviation and tour operator industries is increasing and covers many of our activities, including safety, security, route flying rights, airport slot access, environmental controls and government taxes and levies. The ability both to comply with and influence any changes in these regulations is critical to maintaining our operational and financial performance.

##### **Safety, terrorism and security incidents**

The threat of terrorism to the aviation and tour operating industries has an impact on us. As a result, we ensure that the safety of customers, crew and staff is at the heart of our business. Failure to respond to terrorism or security incidents may adversely impact our operations and financial performance. We adopt a holistic approach to security, with the Corporate Security team having overall responsibility for security matters linked to aviation, border security, cargo, facilities, IT, personnel and asset protection. To ensure the robustness of our security regime, we operate a self-inspection and test programme. Joint audits and inspections are also conducted with regulators. Regulated compliance performance is monitored by way of a dedicated scorecard which is reviewed at the Safety and Security Review Board. In view of the on-going terrorist targeting of civil aviation and the potential impacts of global geopolitical events, much focus is placed on threat monitoring and assessment to ensure that we have the most current and accurate data to make informed judgements about the security of our human and physical assets.

##### **Failure of a critical IT system**

We are dependent on IT systems for most of our principal business processes. The failure of a key system through an internal or external threat or event may cause significant disruption to operations or result in lost revenue. System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure. During 2016, we will introduce a new passenger service system (AIR4) which increases our critical IT systems risk; should the transition from old to new system prove to be problematic. We are mitigating this increased level of risk through a comprehensive implementation plan and by drawing on the extensive systems implementation experience of Delta, who is providing us with AIR4.

## **Strategic report** *(continued)*

### **Risk review** *(continued)*

#### **Key supplier risk**

We are dependent on suppliers for some principal business processes. The failure of a key supplier to deliver contractual obligations may cause significant disruption to our operations. To mitigate this risk, a close relationship is maintained with key suppliers in order to ensure we are aware of any potential supply chain disruption.

#### **Financial risk management**

The directors are responsible for setting financial risk management policies and objectives, and for approving the parameters within which the various aspects of financial risk management are operated. Our Fuel and Foreign Currency Risk Management policy, which has been approved by the directors, outlines our approach to corporate and asset financing, interest rate risk, fuel price risk, foreign exchange risk and cash and liquidity management. The directors have delegated powers for treasury risk management to the Financial Risk Committee. This Committee ensures that the treasury policies and objectives approved by the directors are fully implemented.

#### **Liquidity, financing and interest rate risk**

Our working capital 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 our derivative financial instruments. 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. The latter is managed through our derivative financial instruments policy. All of our 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 our loans and operating leases. Our interest rate management policy aims to provide a degree of certainty for future financing costs, which is achieved by funding the majority of loans and operating leases on a fixed interest rate basis. Our loans and operating leases are principally denominated in US Dollars.

#### **Foreign currency risk**

We have a significant US Dollar exposure including aviation fuel, finance and operating leases. In addition, we are exposed to a number of other currencies. We seek to reduce our foreign exchange exposure in various currencies through matching receipts and payments in individual currencies, and holding foreign currency balances to meet our future trading obligations. Where there is a predicted exposure in foreign currency holdings, we use a limited range of hedging instruments through our Fuel and Foreign Currency Risk Management policy.

Some of the overseas countries in which we trade impose exchange controls to regulate the flow of money. This creates the risk that it may be impossible to bring the income earned in one or more of these overseas countries into the UK, either because it is not permitted by the authorities in the overseas country or because it is difficult to obtain foreign currency there. We seek to mitigate this risk by closely monitoring the value of our funds denominated in overseas currencies which are subject to exchange controls, to identify issues at an early stage and to take remedial action to minimise the value of these funds.

#### **Fuel price risk**

Our Fuel and Foreign Currency Risk Management policy aims to provide protection against sudden and significant changes in the price of jet fuel. In order to provide protection we use a limited range of hedging instruments, principally vanilla put-and-call options, collars and forwards, with approved counterparties and within approved limits.

#### **Derivative financial instruments**

We use derivative financial instruments selectively for foreign currency and aviation fuel price risk management purposes. Our policy is not to trade in derivatives but to use these instruments to hedge anticipated future cash flows. We are not permitted to sell currency or jet fuel options, except as part of hedging structures authorised in our Fuel and Foreign Currency Risk Management policy. All derivatives are used for the purpose of risk management and accordingly they do not expose Virgin Atlantic to market risk as they are matched to identified physical exposures within Virgin Atlantic. 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.



## **Strategic report** *(continued)*

### **Risk review** *(continued)*

#### **Compliance and regulatory**

##### **Compliance with competition, anti-bribery and corruption law**

We are exposed to the risk of unethical behaviour by individual employees or groups of employees resulting in fines or losses to VAA. To mitigate this risk we have comprehensive training schemes and compliance protocols in place to educate all appropriate staff.

##### **Compliance with regulatory authorities**

We are exposed to regulation across its network, including the Civil Aviation Authority (CAA). The CAA authorises VAA to continue its activities following assessments of safety, ownership and control, and financial fitness criteria, the broad framework of which is available via the CAA website ([www.caa.co.uk](http://www.caa.co.uk)).

The strategic report was approved by the Board of Directors on 17 March 2016 and signed on its behalf by



**Ian de Sousa**  
*Company Secretary*

## **Directors' report**

**Registered number: 01600117**

The directors present their annual report and the audited financial statements for Virgin Atlantic Airways Limited and subsidiary companies for the year ended 31 December 2015.

This is the first year to be prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'). The comparative amounts were previously prepared under applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice ('UK GAAP')) and have been restated to be prepared on a consistent basis under IFRS. The reconciliations to IFRS from the previously published UK GAAP financial statements are summarised in note 31.

### **Directors and directors' interests**

The directors who held office during the year and to date of this report were as follows:

Sir Richard Branson	(President)
Peter Norris	(Chairman)
Gordon McCallum	
Ian Woods	
Craig Kreeger	
Shai Weiss	
Edward Bastian	
Glen Hauenstein	
Perry Cantarutti	(resigned 15 August 2015)
Nathaniel Pieper	(appointed 15 August 2015)
Wayne Aaron	(resigned 1 January 2016 as alternate for E H Bastian, G W Hauenstein and N J W Pieper)

### **Results**

The results of the Group are set out on page 12 and are commented on within the Strategic Report.

### **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.

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

### **Environmental impacts**

The Group is committed to addressing and promoting sustainable solutions for its business and the wider airline industry.

Change is in the Air ("CIITA") is Virgin Atlantic Airways' sustainability programme and focuses on the Group's environmental and community investment activities. The Group reports fully on these activities each year through CIITA reports which are available on its website.

Sustainability is aligned with the Group's brand values, and is in the process of being embedded into the way the Group does business. The Group is committed to including sustainability objectives into business plans, and regularly monitors progress against sustainability targets to ensure that commitments are being delivered.

## **Directors' report** *(continued)*

### **Dividends**

The directors recommend that no ordinary interim (2014: £nil) or final (2014: £nil) dividend be paid in respect of the period ended 31 December 2015.

### **Political contributions**

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year (2014: £nil).

### **Share based payments: Long Term Incentive Scheme**

During the year Virgin Atlantic started a Long Term Incentive Scheme for Executive Directors and other invited participants to incentivise and recognise execution of our strategy. The details of this share appreciation rights (cash settled) scheme can be found in note 9.

### **Going concern**

The directors have satisfied themselves that it is reasonable for them to conclude it is appropriate to adopt the going concern basis for preparing these financial statements. The business activities, performance, strategy, risks and financial position of the Group are set out elsewhere in these reports and financial statements. The directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future.

### **Auditors**

Pursuant to Section 487 of the Companies Act 2006, KPMG LLP will be deemed to be reappointed.

### **Disclosure of information to auditor**

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 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.

The directors report was approved by the Board of Directors on 17 March 2016 and signed on its behalf by



**Ian de Sousa**  
Company Secretary

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

## **Directors' responsibilities statement in respect of the strategic report and directors' report and the financial statements**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare both the Group and the Parent Company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the 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 to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## **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 31 December 2015 set out on pages 12 to 62. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Strategic report and the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2015 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic report and 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.

**Jonathan Downer** (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants

17 March 2016

**Virgin Atlantic Airways Limited and subsidiary companies**

Directors' report and consolidated financial statements  
for the year ended 31 December 2015

**Consolidated statement of comprehensive income**

for the year ended 31 December 2015

		2015			2014		
		Ordinary activities before exceptional items	Exceptional items and fair value movements (note 8)	Total	Ordinary activities before exceptional items	Exceptional items and fair value movements (note 8)	Total
	Note	£m	£m	£m	£m	£m	£m
Airline traffic and cargo operations	6	2,352.7	-	2,352.7	2,429.3	-	2,429.3
Other revenue	6	15.7	-	15.7	17.0	-	17.0
<b>Total revenue</b>		<b>2,368.4</b>	<b>-</b>	<b>2,368.4</b>	<b>2,446.3</b>	<b>-</b>	<b>2,446.3</b>
Aircraft costs		(246.2)	(6.7)	(252.9)	(240.4)	-	(240.4)
Other depreciation and amortisation		(44.1)	-	(44.1)	(23.8)	-	(23.8)
Physical fuel		(525.5)	-	(525.5)	(854.7)	-	(854.7)
Fuel hedging		(198.0)	198.0	-	(1.9)	1.9	-
Airline traffic direct operating costs		(511.2)	-	(511.2)	(518.1)	-	(518.1)
Engineering and maintenance costs		(138.9)	-	(138.9)	(145.6)	-	(145.6)
Employee remuneration	9	(331.1)	-	(331.1)	(328.1)	-	(328.1)
Other income		15.4	(6.2)	9.2	6.0	6.9	12.9
Distribution, marketing and selling costs		(109.2)	-	(109.2)	(110.7)	-	(110.7)
Other operating and overhead costs		(267.5)	-	(267.5)	(233.7)	11.9	(221.8)
<b>Operating profit/(loss)</b>		<b>12.1</b>	<b>185.1</b>	<b>197.2</b>	<b>(4.7)</b>	<b>20.7</b>	<b>16.0</b>
Profit on disposal of property, plant and equipment		4.9	57.7	62.6	10.9	-	10.9
Profit on disposal of unlisted investment		-	-	-	-	30.9	30.9
Restructuring		-	(19.8)	(19.8)	-	(7.7)	(7.7)
		<b>4.9</b>	<b>37.9</b>	<b>42.8</b>	<b>10.9</b>	<b>23.2</b>	<b>34.1</b>
Finance income		1.8	-	1.8	1.7	-	1.7
Finance expense		(6.7)	-	(6.7)	(3.1)	(25.5)	(28.6)
Net finance costs	10	(4.9)	-	(4.9)	(1.4)	(25.5)	(26.9)
Fair value gains/(losses) on derivatives		-	(145.6)	(145.6)	-	(217.4)	(217.4)
<b>Profit/(loss) before tax</b>	7	<b>12.0</b>	<b>77.5</b>	<b>89.5</b>	<b>4.8</b>	<b>(199.0)</b>	<b>(194.2)</b>
Tax (charge)/credit	11			(6.1)			40.2
<b>Profit/(loss) for the year</b>				<b>83.4</b>			<b>(154.0)</b>

The profit/(loss) for the year for the Company is £76.7m (2014: £160.9m loss).

All amounts relate to continuing operations. The notes on pages 17 to 62 form part of these financial statements.

**Virgin Atlantic Airways Limited and subsidiary companies**

Directors' report and consolidated financial statements  
for the year ended 31 December 2015

**Consolidated statement of changes in equity**

for the year ended 31 December 2015

	IFRS transition reserve £m	Share capital £m	Share premium £m	Capital contribution reserve £m	Retained earnings £m	Total £m
Balance at 1 January 2014	(82.6)	4.5	5.0	25.0	4.1	(44.0)
Loss for the year	-	-	-	-	(154.0)	(154.0)
Transfer to retained earnings	82.6	-	-	-	(82.6)	-
Balance at 31 December 2014	-	4.5	5.0	25.0	(232.5)	(198.0)
Balance at 1 January 2015	-	4.5	5.0	25.0	(232.5)	(198.0)
Profit for the year	-	-	-	-	83.4	83.4
Balance at 31 December 2015	-	4.5	5.0	25.0	(149.1)	(114.6)

Share capital includes 4,497,607 (2014: 4,497,607) ordinary shares of £1 each.

**Company statement of changes in equity**

for the year ended 31 December 2015

	IFRS transition reserve £m	Share capital £m	Share premium £m	Capital contribution reserve £m	Retained earnings £m	Total £m
Balance at 1 January 2014	(82.6)	4.5	5.0	25.0	16.6	(31.5)
Loss for the year	-	-	-	-	(160.9)	(160.9)
Transfer to retained earnings	82.6	-	-	-	(82.6)	-
Balance at 31 December 2014	-	4.5	5.0	25.0	(226.9)	(192.4)
Balance at 1 January 2015	-	4.5	5.0	25.0	(226.9)	(192.4)
Profit for the year	-	-	-	-	76.7	76.7
Balance at 31 December 2015	-	4.5	5.0	25.0	(150.3)	(115.8)

Share capital includes 4,497,607 (2014: 4,497,607) ordinary shares of £1 each.

The notes on pages 17 to 62 form part of these financial statements.

**Virgin Atlantic Airways Limited and subsidiary companies**

Directors' report and consolidated financial statements  
for the year ended 31 December 2015

**Consolidated statement of financial position**

as at 31 December 2015

Registered number 01600117

	Note	2015 £m	2014 £m	2013 £m
<b>Non-current assets</b>				
Intangible assets	12	104.1	114.6	107.2
Property, plant and equipment	13	536.4	410.2	307.1
Deferred tax	14	34.9	45.3	1.1
Investments	15	0.0	0.4	7.4
Derivative financial instruments	16	4.9	6.7	11.3
Trade and other receivables	17	33.0	37.0	49.0
		<u>713.3</u>	<u>614.2</u>	<u>483.1</u>
<b>Current assets</b>				
Inventory	18	38.8	43.1	43.5
Trade and other receivables	17	311.5	336.5	346.6
Derivative financial instruments	16	11.9	26.0	45.1
Cash and cash equivalents	19	521.7	274.7	290.1
Restricted cash	19	62.7	9.0	-
		<u>946.6</u>	<u>689.3</u>	<u>725.3</u>
<b>TOTAL ASSETS</b>		<u><u>1,659.9</u></u>	<u><u>1,303.5</u></u>	<u><u>1,208.4</u></u>
<b>Current liabilities</b>				
Borrowings	20	(34.4)	(22.0)	(17.8)
Trade and other payables	21	(419.8)	(447.3)	(423.7)
Provisions	22	(55.5)	(55.0)	(53.6)
Derivative financial instruments	16	(183.6)	(173.8)	(50.8)
Deferred income	23	(591.2)	(592.2)	(547.4)
		<u>(1,284.5)</u>	<u>(1,290.3)</u>	<u>(1,093.3)</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u><u>(337.9)</u></u>	<u><u>(601.0)</u></u>	<u><u>(368.0)</u></u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><u>375.4</u></u>	<u><u>13.2</u></u>	<u><u>115.1</u></u>
<b>Non-current liabilities</b>				
Borrowings	20	(363.5)	(10.8)	(14.6)
Deferred income	23	(52.8)	(11.1)	(14.0)
Trade and other payables	21	(5.1)	(2.5)	(1.8)
Provisions	22	(58.7)	(107.4)	(109.9)
Derivative financial instruments	16	(9.9)	(79.4)	(18.8)
		<u>(490.0)</u>	<u>(211.2)</u>	<u>(159.1)</u>
<b>NET ASSETS/(LIABILITIES)</b>		<u><u>(114.6)</u></u>	<u><u>(198.0)</u></u>	<u><u>(44.0)</u></u>
<b>Equity</b>				
Share capital		4.5	4.5	4.5
Share premium		5.0	5.0	5.0
Capital contribution reserve		25.0	25.0	25.0
IFRS conversion reserve		-	-	(82.6)
Retained earnings		(149.1)	(232.5)	4.1
		<u>(114.6)</u>	<u>(198.0)</u>	<u>(44.0)</u>

These financial statements were approved by the Board of Directors on 17 March 2016 and were signed on its behalf by:

**Shai Weiss**  
Director

The notes on pages 17 to 62 form part of these financial statements.



**Virgin Atlantic Airways Limited and subsidiary companies**

Directors' report and consolidated financial statements  
for the year ended 31 December 2015

**Company statement of financial position**

as at 31 December 2015

Registered number 01600117

	Note	2015 £m	2014 £m	2013 £m
<b>Non-current assets</b>				
Intangible assets	12	104.1	114.6	107.2
Property, plant and equipment	13	541.7	419.7	322.6
Deferred tax	14	9.5	18.7	-
Investments	15	231.0	7.2	14.1
Derivative financial instruments	16	4.9	6.7	11.3
Trade and other receivables	17	32.1	35.5	47.5
		<u>923.3</u>	<u>602.4</u>	<u>502.7</u>
<b>Current assets</b>				
Inventory	18	38.9	42.9	43.6
Trade and other receivables	17	328.1	334.9	344.0
Investments	15	0.6	-	-
Derivative financial instruments	16	11.9	26.0	45.1
Cash and cash equivalents	19	508.9	264.1	291.6
Restricted cash	19	56.6	19.1	-
		<u>945.0</u>	<u>687.0</u>	<u>724.3</u>
<b>TOTAL ASSETS</b>		<u><u>1,868.3</u></u>	<u><u>1,289.4</u></u>	<u><u>1,227.0</u></u>
<b>Current liabilities</b>				
Borrowings	20	(33.8)	(22.0)	(17.8)
Trade and other payables	21	(416.6)	(431.9)	(407.1)
Provisions	22	(55.5)	(55.0)	(53.6)
Derivative financial instruments	16	(183.6)	(173.8)	(50.8)
Deferred income	23	(591.2)	(587.9)	(543.1)
		<u>(1,280.7)</u>	<u>(1,270.6)</u>	<u>(1,072.4)</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u><u>(335.7)</u></u>	<u><u>(583.6)</u></u>	<u><u>(348.1)</u></u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><u>587.6</u></u>	<u><u>18.8</u></u>	<u><u>154.6</u></u>
<b>Non-current liabilities</b>				
Borrowings	20	(576.9)	(10.8)	(14.6)
Deferred income	23	(52.8)	(11.1)	(14.0)
Deferred tax	14	-	-	(27.1)
Trade and other payables	21	(5.1)	(2.5)	(1.8)
Provisions	22	(58.7)	(107.4)	(109.8)
Derivative financial instruments	16	(9.9)	(79.4)	(18.8)
		<u>(703.4)</u>	<u>(211.2)</u>	<u>(186.1)</u>
<b>NET ASSETS/(LIABILITIES)</b>		<u><u>(115.8)</u></u>	<u><u>(192.4)</u></u>	<u><u>(31.5)</u></u>
<b>Equity</b>				
Share capital		4.5	4.5	4.5
Share premium		5.0	5.0	5.0
Capital contribution reserve		25.0	25.0	25.0
IFRS conversion reserve		-	-	(82.6)
Retained earnings		(150.3)	(226.9)	16.6
		<u>(115.8)</u>	<u>(192.4)</u>	<u>(31.5)</u>

These financial statements were approved by the Board of Directors on 17 March 2016 and were signed on its behalf by:

**Shai Weiss**  
Director

The notes on pages 17 to 62 form part of these financial statements.

**Virgin Atlantic Airways Limited and subsidiary companies**

Directors' report and consolidated financial statements  
for the year ended 31 December 2015

**Consolidated statement of cash flows**

for the year ended 31 December 2015

	Note	2015 £m	2014 £m
<b>Net cash from operating activities</b>	<b>32</b>	<b>259.8</b>	<b>120.1</b>
Purchase of property, plant and equipment		(381.0)	(244.1)
Purchase of intangible assets		(0.6)	(0.4)
Sale of investments		0.4	37.8
Proceeds from sale of property, plant and equipment and intangible assets		415.1	88.3
Realised (losses) on derivative financial instruments		(189.4)	(10.2)
Interest received		1.8	1.7
<b>Net cash (used in) investing activities</b>		<b>(153.7)</b>	<b>(126.9)</b>
Payment of long term borrowings		(18.8)	-
Proceeds from issue of new bonds		236.2	0.4
Payment of finance leases		(22.8)	-
<b>Net cash from financing activities</b>		<b>194.6</b>	<b>0.4</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>300.7</b>	<b>(6.4)</b>
Cash and cash equivalents at beginning of year (incl. restricted cash)	<b>19</b>	<b>283.7</b>	<b>290.1</b>
Effect of foreign exchange rate changes		-	-
<b>Cash and cash equivalents at end of year (incl. restricted cash)</b>	<b>19</b>	<b>584.4</b>	<b>283.7</b>

The notes on pages 17 to 62 form part of these financial statements.

## Notes

### 1 General information

Virgin Atlantic Airways Limited (the 'Company') and its subsidiaries ('VAA' or the 'Group' as applicable) is a long-haul scheduled passenger airline, operating primarily from the United Kingdom. Further details on the nature of the Group's operations and its principal activities can be found within the Strategic Report on pages 1 to 7.

The Company is a private limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The address of its registered office is given on page 9.

### 2 Statement of compliance with IFRS

The Group and Company has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, taking into account IFRS Interpretations Committee (IFRSIC) interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The principal accounting policies adopted by the Group and Company are set out in note 4.

### 3 Statement of compliance for first time adopters of IFRSs

Virgin Atlantic Airways Limited has historically prepared its audited annual financial statements under, UK Generally Accepted Accounting Practice ("UK GAAP"), this is the first year that the Group has prepared financial statements that comply with IFRS. As such, the accounting policies and basis of preparation differ from those set out in the report and financial statements for the year ended 31 December 2014. The disclosures required by IFRS 1, First-time Adoption of International Financial Reporting Standards for the transition from UK GAAP to IFRS are included in the notes to the financial statements.

### 4 Accounting policies

#### Basis of preparation

The directors have, at the time of approving the financial statements, having regard for the principle risks and uncertainties, as set out in the Strategic and Directors' report, including the net liability position, which could impact the business, consider that the preparation of the financial statements on a going concern basis remains appropriate. The Group has adequate resources to be able to meet its current obligations for the foreseeable future.

The Company has taken advantage of section 408 of the Companies Act 2006 and has not published a separate income statement and related notes for the Company. The result for the year attributable to the Company is disclosed in the company statement of changes in equity.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are recorded at fair value. These financial statements are presented in pounds sterling as that is the currency of the primary economic environment in which the Group operates. All values are rounded to the nearest million pounds (£ million), except where indicated otherwise.

The principal accounting policies adopted, which have been applied consistently in the current and the restated prior financial year, are outlined below.

#### Basis of consolidation

The financial statements consolidate Virgin Atlantic Airways Limited ("the Company") and its subsidiaries (together "the Group"). The Group's consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company ("its subsidiaries") made up to 31 December each year. Control is achieved where the Company has the power (directly or indirectly) to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are deconsolidated from the date that control ceases. All intra-group transactions, balances, income and expenses are eliminated on consolidation. All subsidiaries of the Group have been accounted for using the principles of acquisition accounting.

## **Notes** *(continued)*

### **4 Accounting policies** *(continued)*

#### **Revenue and revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business during the accounting period. Revenue is recognised net of discounts, air passenger duty, VAT and other sales-related taxes and comprises:

##### **Passenger revenue**

Passenger ticket sales, net of passenger taxes and discounts, are recorded within deferred income, until recognised as revenue when transportation occurs. This also includes revenue derived from flights operated by the Group's codeshare partners. Unused tickets are recognised as revenue when the right to travel has expired, which is determined by the terms and conditions of the associated ticket.

Ancillary revenue, comprising principally of baggage carriage, advanced seat assignment, commissions, change fees and credit and debit card fees due to the Group, are recognised as revenue on the date the right to receive consideration occurs, typically the date of transportation. In respect of credit and debit card fees, revenue is recognised when each flight is booked and paid for.

##### **Frequent flyer programme revenue**

For miles earned by members of the Group's Frequent Flyer Programme 'Flying Club', an element of revenue representing the fair value of a flight which members may take in future at no cost is deferred and recognised when the related flight is redeemed. The amount of deferral is based on the fair value of a mile.

The Group's frequent flyer programme 'Flying Club' allows customers to earn mileage credits by flying on Virgin Atlantic (and selected partner airlines) as well as through participating companies such as credit card issuers. Flying Club members can redeem miles for various rewards; primarily, for the redemption on Virgin Atlantic flights or selected partner airlines and other partners such as hotels and car rental companies.

In accordance with IFRIC 13 'Customer loyalty programmes', the fair value attributed to the awarded Flying Club mile is deferred as a liability and recognised as revenue on redemption of the miles and provision of service to the participants to whom the mile is issued.

Revenue on redemption is measured based on Management's estimate of the fair value of the account the proportion of miles that are expected to expire (breakage) based on the results of actuarial valuation.

Marketing revenue received by participating companies with the issuance of miles is recognised when the service is performed (typically on the issuance of the mile).

#### **Compensation payments**

Income resulting from claims for compensation payments / liquidated damages is recognised as income in the income statement when all performance obligations are met, including when a contractual entitlement exists, it can be reliably measured and it is probable that economic benefits will accrue to the Group. Where claims related to the acquisition of an asset (such as aircraft) do not relate to compensation for loss of income or towards incremental operating costs, the amounts are recorded as a reduction in the cost of the related asset.

## **Notes** *(continued)*

### **4 Accounting policies** *(continued)*

#### **Translation of foreign currencies**

The consolidated accounts of the Group are presented in pound sterling, which is the Company's functional currency and the Group's presentation currency. Certain subsidiaries have operations that are primarily influenced by a currency other than sterling.

For the purposes of presenting consolidated financial statements, the assets and liabilities associated with the Group's foreign subsidiary undertakings are translated at exchange rates prevailing on the balance sheet date. Income and expense items associated with the Group's foreign subsidiary undertakings are translated at the average exchange rate for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in shareholders' equity. On disposal of a foreign operation, all of the accumulated exchange differences in respect of that subsidiary, attributable to the Group are reclassified to the consolidated income statement.

Transactions arising, other than in the functional currency, are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated using the rate of exchange ruling at the balance sheet date.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

All other profits or losses arising on translation are dealt with through the income statement. Any gains or losses arising on the re-translation of foreign currency cash balances held in the short-term to meet future trading obligations are reported in the income statement.

#### **Employee benefits**

##### **Pension**

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in independently administered funds. The amount charged to the income statement represents the contributions payable to the scheme by the Group in respect of the accounting period.

##### **Termination benefits**

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Other employee benefits are recognised when there is deemed to be a present obligation.

##### **Share based payments: 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.

The Group operates a cash-settled share-based payments scheme, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in profit or loss for the year.

## **Notes** *(continued)*

### **4 Accounting policies** *(continued)*

#### **Taxation**

Tax on the profit or loss for the year comprises current and deferred tax.

##### **Current tax**

The Group's liability for 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. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it excludes items that are never taxable or deductible.

##### **Deferred tax**

Deferred tax is provided in full on all temporary differences relating to the carrying amount of assets and liabilities, where it is probable that the recovery or settlement will result in an obligation to pay more, or a right to pay less, tax in the future, with the following exceptions:

- In respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred income tax assets are recognised only to the extent that it is probable (more likely than not) that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and it is the intention to settle these on a net basis.

#### **Intangible assets**

Intangible assets are held at cost and amortised on a straight-line basis over their economic life, or where deemed to have an indefinite economic life and are not amortised, but tested annually for impairment. The carrying value of intangibles is reviewed for impairment if and when events or changes in circumstances indicate the carrying value may not be recoverable.

##### **Landing rights**

Landing rights acquired from other airlines are capitalised at fair value on acquisition. Subsequently they are accounted for at cost less any accumulated impairment losses. Capitalised landing rights based outside the EU are amortised on a straight-line basis over a period not exceeding 20 years. Capitalised landing rights based within the EU are not amortised, as regulations provide that these landing rights are perpetual.

The Group had previously amortised EU 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.

## **Notes** *(continued)*

### **4 Accounting policies** *(continued)*

#### **Intangible assets** *(continued)*

##### **Software**

The cost of purchase or development of computer software that is separable from an item of related hardware is capitalised separately and amortised over a period not exceeding four years on a straight-line basis. Computer software is carried at cost less accumulated amortisation.

Development expenditure on activities is capitalised if the product or process is technically and commercially feasible and the Group intends to, and has the technical ability and sufficient resources to, complete development and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials and direct labour. Other development expenditure is recognised in the income statement as an expense as incurred.

Expenditure, relating to the setting up of new routes and introducing new aircraft to the fleet, is charged to the income statement as incurred.

#### **Property plant and equipment ("PPE")**

Property, plant and equipment is held at cost. The Group has a policy of not revaluing property, plant and equipment. Depreciation is calculated to write off the cost less estimated residual value on a straight-line basis, over the economic life of the asset or the period of the underlying finance lease if shorter. Residual values and useful economic lives of assets are reviewed annually against prevailing market values for equivalently aged assets and depreciation rates are adjusted accordingly on a prospective basis.

The carrying value is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and the cumulative impairment losses are shown as a reduction in the carrying value of property, plant and equipment.

The gain or loss on disposal of property, plant, equipment and intangible assets after deducting any costs associated with selling, disposing of or retiring the relevant asset is recognised in the income statement.

##### **Fleet**

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits or discounts. An element of the cost of a new aircraft is attributed on acquisition to prepaid maintenance of its engines, landing gear and airframe and is depreciated over a period from one to ten years from the date of purchase to the date of the next scheduled maintenance event for the component.

Aircraft and engine maintenance costs in respect of major overhauls of owned aircraft 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 current cost of the maintenance events.

The balance of aircraft and engine cost is depreciated on a straight-line basis over periods of up to twenty 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 5%.

For installed engines maintained under 'pay-as-you-go' contracts, the depreciation lives and residual values are the same as the aircraft to which the engines relate.

## Notes (continued)

### 4 Accounting policies (continued)

#### Property plant and equipment ("PPE") (continued)

##### Fleet (continued)

Aircraft and engine spares acquired on the introduction or expansion of the fleet as well as rotatable spares purchased separately are carried as PPE and are generally depreciated in line with the fleet to which they relate. The Group depreciates such spares 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 rotatable spares is 7.25% or 12.5% dependent on type. Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over the lower of six years and the remaining life of the aircraft.

Subsequent costs, such as long-term scheduled maintenance and major overhaul of aircraft, are capitalised and amortised over the length of period benefiting from these costs. All other replacement spares and other costs relating to maintenance of fleet assets (including maintenance provided under 'pay-as-you-go' contracts) are charged to the income statement on consumption or as incurred respectively.

Financing costs incurred on borrowings that specifically fund progress payments on assets under construction, principally aircraft, are capitalised as incurred, up to the date of the aircraft entering service and is then included as part of the asset.

Advance payments and option payments made in respect of aircraft and engine purchase commitments and options to acquire aircraft where the balance is expected to be funded by lease financing or outright purchase are recorded at cost in current or non-current aircraft deposits. On acquisition of the related aircraft, these payments are included as part of the cost of aircraft and are depreciated from that date.

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.

##### Land/buildings, assets in the course of construction, fixtures and fittings

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 or freehold land.

Plant and machinery, fixtures and fittings are depreciated at the following rates:

Fixtures and fittings	20% - 25% on cost
Plant and equipment	25% - 33% on cost
Computer equipment and software	10% - 33% on cost
Motor vehicles	25% on cost
Leasehold improvements	lower of useful economic life or period of lease

##### Non-current assets held for sale

Non-current assets are classified as held for sale when it is highly probable to be disposed of within 12 months and the current carrying value is to be recovered principally through sale as opposed to continuing use. Held for sale assets are carried at the lower of carrying value and fair value less costs to sell. Assets are not depreciated or amortised once classified as held for sale.

##### Impairment of non-current assets

At each balance sheet date, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use.



## **Notes** *(continued)*

### **4 Accounting policies** *(continued)*

#### **Aircraft deposits**

Aircraft deposits are capitalised and represent deposits made with aircraft manufacturers for future delivery of aircraft or deposits made with aircraft financiers or operating lessors to provide security for future maintenance work or lease payments.

#### **Leases**

##### **Operating leases**

Rental charges on operating leases are charged to the income statement on a straight-line basis over the life of the lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the life of the respective asset. Some operating leases require the Group to make contingent rental payments based on variable interest rates; which are expensed as incurred.

##### **Sale and leaseback**

The Group enters into sale and leaseback transactions whereby it sells aircraft, or rights to acquire aircraft, to a third party. The Group subsequently leases the aircraft back, by way of operating lease. Any profit or loss on the disposal, where the price that the aircraft is sold for is not considered to be fair value, is deferred and amortised over the lease term of the asset. Any gains or losses associated with the disposal are recognised in the income statement.

##### **Finance lease**

Where the Group enters into a lease which entails taking substantially all the risk and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded within Non-current assets as Aircraft, and is depreciated over the estimated useful life to the Group. The asset is recorded at the lower of its fair value, and the present value of the minimum lease payments at the inception of the finance lease. Future instalments under such leases, net of finance charges, are included as obligations under finance leases. Rental payments are apportioned between the finance element, which is charged to the income statement, and the capital element, which reduces the outstanding obligation for future instalments. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

##### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Provision is made for obsolete, slow-moving or defective items where appropriate. Aircraft consumables, includes aircraft parts which are non-repairable and non-renewable.

## **Notes** *(continued)*

### **4 Accounting policies** *(continued)*

#### **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

#### **Leased aircraft maintenance provisions**

The Group incurs liabilities for maintenance costs in respect of aircraft leased under operating leases during the term of the lease. These arise from legal and constructive contractual obligations relating to the condition of the aircraft when it is returned to the lessor.

To discharge these obligations, the Group will either need to compensate the lessor for the element of the life of the component or maintenance interval used, or carry out the maintenance check before return of the aircraft to the lessor.

The provisions recorded and charged to the income statement are dependent on the life of the component or maintenance interval used and the individual terms of the lease:

- No charge is recorded during the initial period of lease agreements where no compensation or maintenance is required prior to hand-back.
- After a component or maintenance interval has passed the trigger point such that the Group is contractually obliged to carry out the specified work (in order to meet the return conditions), a full provision for the cost of work is recorded. To the extent that this provision represents an increase to the half-life compensation provision already recorded a maintenance asset is recorded within property, plant and equipment. The asset is depreciated over the expected period to the next half-life compensation point, or the end of the lease, whichever is sooner.

Where maintenance is provided under 'power by the hour' contracts and maintenance is paid to maintenance providers to cover the cost of the work, these payments are expensed as incurred.

Maintenance deposits (supplemental rents) which are refundable are recorded as other receivables. Estimates are required to establish the likely utilisation of the aircraft, the expected cost of a maintenance check at the time it is expected to occur, the condition of an aircraft and the lifespan of life-limited parts. Where such maintenance deposits are non-refundable and the likely utilisation of the aircraft is not expected to trigger a maintenance event; the balance is deemed irrecoverable and expensed as incurred with any associated maintenance provisions reduced to reflect the fact that the Group has already paid for the related maintenance work.

The bases of all estimates are reviewed once each year and also when information becomes available that is capable of causing a material change to an estimate, such as renegotiation of end of lease return conditions, increased or decreased utilisation, or unanticipated changes in the cost of heavy maintenance services. 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.

#### **Restructuring provisions**

Restructuring provisions are recognised when the Group has developed a detailed formal plan for the restructuring and has raised valid expectations in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

## **Notes** *(continued)*

### **4 Accounting policies** *(continued)*

#### **Provisions** *(continued)*

##### **Property provisions**

Leasehold dilapidations and onerous lease provisions are discounted with the unwinding of the discount being taken to the income statement.

##### **Passenger delay compensation**

A provision is made for passenger compensation claims when the group has an obligation to recompense customers under regulations. Provisions are measured based on known eligible flights delays and historic claim rates and are expected to unwind across the claim window, which is deemed to be 6 years.

#### **Financial instruments**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument. In accordance with IAS 39 'Financial Instruments - Recognition and Measurement', financial instruments are recorded initially at fair value. Subsequent measurement of those instruments at the balance sheet date reflects the designation of the financial instrument. The Group determines the classification at initial recognition and re-evaluates this designation at each period-end except for those financial instruments measured at fair value through the income statement.

##### **Derivative financial instruments and hedging**

The Group uses various derivative financial instruments to manage its exposure to foreign exchange, jet fuel price and interest rate risks. Derivative financial instruments are initially recognised and subsequently re-measured at fair value through profit or loss ("FVTPL"). The treatment of gains and losses arising from the revaluation of such instruments is accounted for through the income statement.

Hedge accounting is not applied to these instruments. The Group does not use derivative financial instruments for trading purposes.

##### **Non-derivative financial assets**

Non-derivative financial assets are deemed to be assets which have no fixed or determinable payments that are not quoted in an active market and would therefore be classified as 'loans and receivables'. Such non-derivative financial assets are measured at amortised cost using the effective interest method, less any impairment and include trade and other receivables.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Investments in equity instruments are carried at cost where fair value cannot be reliably measured due to significant variability in the range of reasonable fair value estimates.

##### **Cash and cash equivalents**

Cash, for the purposes of the cash flow statement, comprises cash held in bank accounts and money market deposits repayable on demand with no access restrictions, less overdrafts payable on demand. Cash equivalents are current asset investments which are readily convertible into known amounts of cash at, or close to, their carrying values or traded in an active market, without curtailing or disrupting the business.

##### **Restricted cash**

Restricted cash represents funds held by the Group in bank accounts which cannot be withdrawn until certain conditions have been fulfilled. The aggregate restricted funds balance is disclosed by way of a note to these financial statements and is classified as a current or non-current asset based on the estimated remaining length of the restriction.

## **Notes** *(continued)*

### **4 Accounting policies** *(continued)*

#### **Financial instruments** *(continued)*

##### **Impairment of non-derivative financial assets**

The Group assesses at each balance sheet date whether a non-derivative financial asset or group of financial assets is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events that have occurred since the initial recognition of the asset have had a negative impact on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset carried at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

##### **De-recognition of non-derivative financial assets**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

##### **Non-derivative financial liabilities**

Non-derivative financial liabilities are initially recorded at fair value less directly attributable transaction costs, and subsequently at amortised cost, and include trade and other payables, borrowings and provisions. Interest expense on borrowings is recognised using the effective interest method.

Borrowings are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Certain leases contain interest rate swaps that are closely related to the underlying financing and, as such, are not accounted for as an embedded derivative.

##### **De-recognition of non-derivative financial liabilities**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts are recognised in the income statement.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the costs of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

## Notes (continued)

### 4 Accounting policies (continued)

#### Impact of new International Financial Reporting Standards and interpretations

The following standards and interpretations issued by the International Accounting Standards Board have been implemented for the year ended 31 December 2015; however the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

New or amended standards	Summary of requirements	Adoption and EU endorsement status	Possible impact on consolidated financial statements
<b>IFRS 9</b> <i>Financial Instruments</i>	IFRS 9 published in July 2014, replaces the existing guidance in IAS39 <i>Financial Instruments: Recognition and Measurement</i> . IFRS9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment of financial assets, and new hedge accounting requirements.	IFRS9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.  The new standard is not yet endorsed by the EU.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.
<b>IFRS 15</b> <i>Revenue from contracts with customers</i>	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS18 Revenue, IAS11 Construction Contracts and IFRC13 Customer Loyalty Programmes.	IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.  The new standard is not yet endorsed by the EU.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.
<b>IFRS 16</b> <i>Leases</i>	IFRS 16 changes fundamentally the accounting for leases by lessees. It eliminates the current IAS 17 dual accounting model, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases and, instead, introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting.  Sale-and-leaseback is effectively eliminated as an off-balance sheet financing structure.	IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted providing IFRS15 is also adopted.  The new standard is not yet endorsed by the EU.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- IFRS14 Regulatory Deferral Accounts;
- Accounting for Acquisitions of Interests in Joint Operations (amendments to IFRS11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (IAS16 and IAS38)
- Equity Method in Separate Financial Statements (amendments to IAS27)
- Sale or Contribution of Assets between an Investor and its Associate or JV (amendments to IFRS10 and IAS28)
- Annual improvements to IFRSs 2012-14 cycle – various standards
- Investment Entities: Applying the Consolidation Exception (amendments to IFRS10, IFRS12 and IAS28)
- Disclosure initiative (amendments to IAS1)
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS12
- Disclosure Initiative – Amendments to IAS7

## **Notes** *(continued)*

### **5 Significant judgements, estimates and critical accounting policies**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results could differ from these estimates and the underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following accounting policies are considered critical accounting policies as they require a significant amount of management judgement and the results are material to the Group's financial statements:

#### **Leased aircraft maintenance provisions**

For aircraft held under operating leases, the Group has a commitment to return the aircraft in a specific maintenance condition at the end of the lease term. Estimating the provision for maintenance costs requires judgement as to the cost and timing of future maintenance events. This estimate is based on planned usage of the aircraft, contractual obligations under lease agreements, industry experience, manufacturers' guidance and regulations. Any change in these assumptions could potentially result in a significant change to the maintenance provisions and costs in future periods.

#### **Revenue recognition – frequent flyer programme**

For the Group's frequently flyer loyalty programme, the fair value attributed to awarded miles is deferred as a liability and is recognised as revenue on redemption of the miles and provision of service to the participants to whom the miles are issued.

The fair value of the awarded mile is estimated by reference to the fair value of the award for which the miles could be redeemed and is reduced to take into account the proportion of awarded miles that are not expected to be redeemed by customers. The Group exercises its judgement in determining the assumptions to be adopted in respect of the number of miles not expected to be redeemed through the use of statistical modelling and historical trends and in determining the mix and fair value of the award miles.

#### **Residual value and useful economic lives of assets**

The Group exercises judgement to determine useful lives and residual values of property, plant and equipment. The assets are depreciated to their residual values over their estimated useful lives.

#### **Lease classification**

A lease is classified as a finance lease when substantially all the risk and rewards of ownership are transferred to the Group. In determining the appropriate classification, the substance of the transaction rather than the form is considered. Factors considered include but are not limited to the following: whether the lease transfers ownership of the asset to the lessee by the end of the lease term; the lessee has the option to purchase the asset at the price that is sufficiently lower than the fair value on exercise date; the lease term is for the major part of the economic life of the asset and the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

**Notes** (continued)

**6 Revenue analysis**

Revenue	Group	
	2015 £m	2014 £m
Airline traffic and cargo operations	2,352.7	2,429.3
Other	15.7	17.0
	<b>2,368.4</b>	<b>2,446.3</b>

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

	Group	
	2015 £m	2014 £m
<b>Revenue by source:</b>		
United Kingdom	1,417.0	1,418.2
North America and the Caribbean	584.0	488.8
Far East	93.2	160.3
Africa	96.6	115.1
Other	177.6	263.9
	<b>2,368.4</b>	<b>2,446.3</b>
<b>Revenue by destination:</b>		
North America	1,558.5	1,364.8
Caribbean	243.0	251.3
Far East	178.6	306.0
Africa	191.1	233.8
Other	197.2	290.4
	<b>2,368.4</b>	<b>2,446.3</b>

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)*

**7 Profit/(loss) before tax**

Profit/(loss) for the year has been arrived at after (charging)/crediting the following; including items presented as exceptional:

	<b>Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
Depreciation of property, plant and equipment (note 13)	(65.6)	(47.2)
Amortisation of intangible assets (note 12)	(16.2)	(9.0)
Rentals under operating leases:		
Aircraft and related equipment	(212.0)	(204.1)
Plant and machinery	(10.4)	(11.3)
Land and buildings	(22.1)	(22.2)
Contribution to pension schemes	(26.4)	(26.0)

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 £0.2m (2014: £0.2m). Fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation are £nil (2014: £nil).

**8 Exceptional items**

Exceptional items included in profit/(loss) before tax include the following:

	<b>Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
Accelerated depreciation on aircraft equipment (i)	(6.6)	-
Fuel hedging reclassified to fair value gains/(losses) on derivatives (ii)	198.0	1.9
Forex derivative gains/(losses) reclassified to fair value gains/(losses) on derivatives (ii)	(6.2)	11.9
Settlement of legal claim against supplier (iii)		6.9
Profit on disposal of aircraft equipment (iv)	57.7	
Profit on disposal of unlisted investment (v)		30.9
Restructuring costs (vi)	(19.8)	(7.7)
Loss on settlement of interest rate swap (vii)		(25.5)
Fair value gains/(losses) on derivatives (viii)	(145.6)	(217.4)
	<b>77.5</b>	<b>(199.0)</b>

**The fair value (losses) on derivatives can be analysed as follows:**

Gain/(loss) on fair value movements	46.2	(203.6)
Loss on fuel derivatives settled during the year (reclassified - see above)	(198.0)	(1.9)
Gains/(losses) on forex derivatives settled during the year (reclassified - see above)	6.2	(11.9)
	<b>(145.6)</b>	<b>(217.4)</b>

The Group separately presents certain items as exceptional. These are items which in the judgment of the Directors, need to be disclosed separately by virtue of their size or incidence in order for the reader to obtain a proper understanding of the financial information. In addition, in order to assist the reader to understand the underlying business performance, the Group separately discloses within the income statement specific IAS 39 mark-to-market movements:



## **Notes** *(continued)*

### **8 Exceptional items** *(continued)*

- (i) During the year the Group incurred accelerated depreciation of £6.7m, on its A-330 fleet. The acceleration relates to cabin components which are scheduled to exit the fleet earlier than anticipated.
- (ii) Fuel costs include £198m (2014: £1.9m) relating to losses recognised on maturity of fuel derivative contracts. Other income/expenses include gains of £6.2m (2014: losses of £11.9m) relating to movements on maturity of foreign currency derivative contracts. Fair value movements in relation to the Group's fuel and foreign currency derivatives are reclassified as an exceptional item to fair value (losses) on derivative contracts, to ensure that the operating costs of the Group can be reflected at an unhedged rate as the Group does not apply hedge accounting.
- (iii) In the prior year, included within other income was a £6.9m gain recognised in relation to the successful settlement of a legal claim that the Group had pursued in relation to a supplier.
- (iv) During the year ended 31 December 2015, the Group purchased and subsequently, entered into sale and operating leasebacks of four Boeing 787 aircraft. Profits sale and leaseback amounted to £57.7m. The profits arising from the sale and operating leaseback of the aircraft have been reclassified and are shown net of any supplier compensation received. See note 13 for further details.
- (v) In 2014, the Group disposed the majority of its shares within the Airline Group Limited, recognising a profit on disposal of £30.9m. As the investment was held at historic cost the profit on disposal was considered exceptional. See Note 15 for further details.
- (vi) Restructuring costs of £19.8m have been recognised in year and relate to the Group's change programme - fit.nimble. Costs incurred in the current year relate to employee restructuring costs (£13.9m), and onerous lease obligations (£5.8m) that have been recognised following the decision to co-locate more of the Group's functions. The programme involves fundamental appraisal of how the business operates in both front and back office functions and will continue to transform the business over a number of years, see the Strategic Report for further details.

In the prior year £7.7m was recognised as exceptional relating to the Group's strategy to restructure the route network.
- (vii) Included within finance expense for 2014, an amount of £25.5m was incurred to settle historic interest rate swaps where the hedging relationship was no longer effective in relation to the underlying hedged item.
- (viii) The Group discloses specific IAS 39 mark-to-market movements separately within the statement of comprehensive income as an exceptional item.

## Notes (continued)

### 9 Employee remuneration

#### (i) Headcount and total remuneration

The average monthly number of employees (including executive directors) was:

	Group	
	2015	2014
	Number	Number
Management and administration	1,045	1,033
Flight crew	777	777
Cabin crew	3,507	3,551
Reservations and sales	1,672	1,776
Cargo and handling	203	221
Engineering, cargo and production	729	714
	<b>7,933</b>	<b>8,072</b>

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

	Group	
	2015	2014
	£m	£m
Wages and salaries	277.0	275.1
Social security costs	27.7	27.0
Other pension costs (note 25)	26.4	26.0
	<b>331.1</b>	<b>328.1</b>

#### (ii) Aggregate directors' remuneration

During the year/period of their service, the emoluments of the directors of the Group were:

	Group	
	2015	2014
	£m	£m
<b>Total emoluments</b>		
Aggregate emoluments	1.2	1.3
Contributions to money purchase pension schemes	0.1	0.1
Aggregate amounts receivable under long term incentive schemes	-	1.1
	<b>1.3</b>	<b>2.5</b>
<b>Highest paid director</b>		
Aggregate emoluments and other benefits	0.7	0.6
Contributions to money purchase pension schemes	0.1	0.1
Aggregate amounts receivable under long term incentive schemes	-	0.8
	<b>0.8</b>	<b>1.5</b>

Retirement benefits are accruing to 2 (2014: 2) directors under money purchase pension schemes. During the year an amount of £0.2m (2014: £0.5m) was paid to shareholders in respect of the services of certain shareholder-appointed non-executive directors of the Group.

During the year an amount of £nil (2014: £0.5m) was receivable by a former director of the Group in relation to long term incentive schemes, this scheme was terminated during 2014 and a new scheme has been created for 2015 (see iii below). During the year, the directors received shares under the long term incentive plan scheme. No options were exercised during the year. The aggregate compensation for loss of office paid in the year, not included in the above table, was £nil (2014: £0.3m). The directors are considered to be the key management personnel of the Group.

**Notes** *(continued)*

**9 Employee remuneration** *(continued)*

**(iii) Share based payments: Long-term incentive scheme**

In May 2015, the Group granted 108,561 (38,420 A1 shares of £1 each and 70,141 A2 shares of £0.01 each) Share Appreciation Rights ("SARs") within Virgin Atlantic Two Limited, to employees that entitle them to a cash payment after 4 years of service. The SARs expire at the end of the four-year period after grant date. The amount of the cash payment is determined based on the increase in the earnings valuation of the Group between the grant date and the time of exercise. The valuation of the SARs is made on an annual basis using external third parties. The fair value of the SARs are nil as at 31 December 2015.

**10 Net finance costs**

	<b>Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
<b>Finance income</b>		
Bank deposits	1.5	1.5
Unlisted investments (note 15)	0.3	0.2
	<u>1.8</u>	<u>1.7</u>
<b>Finance expense</b>		
Bank loans and overdrafts (note 20)	(1.0)	(1.1)
Other loans	(5.0)	(1.0)
Amounts due to the group	(0.4)	(0.6)
Exchange loss on foreign currency borrowings less deposits	(0.7)	(0.9)
In respect of finance leases and hire purchase contracts (note 20)	(3.5)	(0.3)
Settlement of interest rate swap (note 8)		(25.5)
Unwinding of discount on provisions (note 22)	(0.5)	(0.2)
	<u>(11.1)</u>	<u>(29.6)</u>
Interest capitalised on aircraft progress payments (note 13)	4.4	1.0
	<u>(6.7)</u>	<u>(28.6)</u>
<b>Net finance costs</b>	<u>(4.9)</u>	<u>(26.9)</u>

## Notes (continued)

### 11 Tax

Analysis of the tax expense during the year:

	Group	
	2015	2014
	£m	£m
<b>Current tax</b>		
UK corporation tax	1.6	(4.6)
UK group relief receivable	-	1.2
Adjustments in respect of prior periods	2.7	(0.5)
Non – UK current tax	-	(0.1)
Total current tax (charge)/credit	4.3	(4.0)
<b>Deferred tax</b>		
Origination and reversal of timing differences	(5.6)	43.9
Adjustments in respect of prior years	(4.9)	0.3
Effect of changes in tax rate	0.1	-
Total deferred tax (charge)/credit	(10.4)	44.2
Tax (charge)/credit	(6.1)	40.2

The standard rate of UK corporation tax for the year is 20.25% (2014: 21.5%). The total tax charge of 6.9% for the period is lower than the standard rate of corporation tax. This is driven by UK government reliefs and other permanent differences. The actual current tax charge for the period differs from that computed by applying the standard tax rate to the profit on ordinary activities before tax as reconciled below:

	Group	
	2015	2014
	£m	£m
Profit/(loss) for the year before taxation	89.5	(194.2)
Tax at the standard rate of 20.25% (2014: 21.5%)	(18.1)	41.8
<b>Factors affecting the (charge)/credit for the year:</b>		
Income not subject to corporation tax	-	9.1
Expenses not deductible for tax purposes	(0.3)	(4.6)
Effects of changes in tax rates	0.1	-
Depreciation for the year in excess of capital allowances	-	(7.4)
Adjustments in respect of prior periods	(2.4)	(0.5)
Utilisation of UK tax losses brought forward	-	2.0
Other timing differences	-	2.3
UK government reliefs	4.4	-
Foreign tax	-	(0.1)
Permanent differences	10.2	-
Rollover relief	-	(2.4)
Total current tax (charge)/credit	(6.1)	40.2

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Group's future current tax charge accordingly. The deferred tax asset at 31 December 2015 has been calculated at 20%.

Notes (continued)

12 Intangible assets

	Group and Company			
	Software £m	Landing slots £m	Carbon allowances £m	Total £m
<b>Cost</b>				
At 1 January 2014	87.9	91.1	0.9	179.9
Additions	-	-	-	-
Transfers from property, plant and equipment	16.4	-	-	16.4
Disposals	-	-	-	-
At 31 December 2014	104.3	91.1	0.9	196.3
<b>Accumulated amortisation</b>				
At 1 January 2014	62.1	10.6	-	72.7
Amortisation for the year	9.0	-	-	9.0
Disposals	-	-	-	-
At 31 December 2014	71.1	10.6	-	81.7
<b>Carrying amount</b>				
At 31 December 2014	33.2	80.5	0.9	114.6
<b>Cost</b>				
At 1 January 2015	104.3	91.1	0.9	196.3
Additions	0.4	-	0.2	0.6
Transfers from property, plant and equipment	6.4	-	-	6.4
Disposals	(14.3)	-	(1.0)	(15.3)
At 31 December 2015	96.8	91.1	0.1	188.0
<b>Accumulated amortisation</b>				
At 1 January 2015	71.1	10.6	-	81.7
Amortisation for the year	16.2	-	-	16.2
Disposals	(14.0)	-	-	(14.0)
At 31 December 2015	73.3	10.6	-	83.9
<b>Carrying amount</b>				
At 31 December 2015	23.5	80.5	0.1	104.1

An annual impairment review is conducted on all intangible assets that have an indefinite economic life. Landing rights based within the EU are considered to have an indefinite economic life. The impairment review is carried out at the level of a 'cash-generating unit' (CGU), defined as the smallest identifiable group of assets, liabilities and associated intangible assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. On this basis, management have determined that the Group and Company has one CGU, namely its route network. An impairment review has been conducted on the operations of the route network as it contains landing rights within the EU.

The recoverable amount of this CGU has been measured on its value in use, using a discounted cash flow model. Cash flow projections are based on the forecast approved by the Board covering a one-year period, and projections in line with the Group's and Company's strategic plans.

A sensitivity analysis has not been disclosed as management believe that any reasonable change in assumptions would not cause the carrying value of the CGU to exceed their recoverable amount. The impairment review of the route network CGU resulted in no impairment during the year (2014: no impairment).

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**Notes (continued)**

**13 Property plant and equipment**

	<b>Group</b>					
	<b>Land and buildings</b>	<b>Aircraft, rotatable spares and ancillary equipment</b>	<b>Modifications to aircraft on operating leases</b>	<b>Plant and machinery, fixtures and fittings</b>	<b>Assets under construction</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Cost</b>						
At 1 January 2014	30.0	414.3	250.9	119.1	23.4	837.7
Additions	-	189.8	13.1	11.6	29.6	244.1
Disposals	-	(140.9)	(19.3)	(1.3)	(1.5)	(163.0)
Reclassifications	-	(1.4)	0.8	4.9	(20.5)	(16.2)
At 31 December 2014	30.0	461.8	245.5	134.3	31.0	902.6
<b>Accumulated depreciation</b>						
At 1 January 2014	4.0	268.0	169.0	89.6	-	530.6
Depreciation for the year	0.5	24.8	12.3	9.6	-	47.2
Disposals	-	(76.1)	(8.0)	(1.3)	-	(85.4)
At 31 December 2014	4.5	216.7	173.3	97.9	-	492.4
<b>Carrying amount</b>						
At 31 December 2014	25.5	245.1	72.2	36.4	31.0	410.2
<b>Cost</b>						
At 1 January 2015	30.0	461.8	245.5	134.3	31.0	902.6
Additions	-	478.7	7.2	1.0	62.6	549.5
Disposals	-	(353.5)	(60.3)	(18.2)	(6.5)	(438.5)
Reclassifications	-	2.7	6.4	12.5	(28.1)	(6.5)
At 31 December 2015	30.0	589.7	198.8	129.6	59.0	1,007.1
<b>Accumulated depreciation</b>						
At 1 January 2015	4.5	216.7	173.3	97.9	-	492.4
Depreciation for the year	0.5	23.1	29.7	12.3	-	65.6
Disposals	-	(10.0)	(59.4)	(17.9)	-	(87.3)
At 31 December 2015	5.0	229.8	143.6	92.3	-	470.7
<b>Carrying amount</b>						
At 31 December 2015	25.0	359.9	55.2	37.3	59.0	536.4

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**Notes** *(continued)*

**13 Property plant and equipment** *(continued)*

	<b>Company</b>					
	<b>Land and buildings</b>	<b>Aircraft, rotatable spares and ancillary equipment</b>	<b>Modifications to aircraft on operating leases</b>	<b>Plant and machinery, fixtures and fittings</b>	<b>Assets under construction</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Cost</b>						
At 1 January 2014	30.0	416.6	254.6	118.3	26.2	845.7
Additions	-	189.8	13.1	11.6	29.6	244.1
Disposals	-	(151.6)	(19.3)	(1.3)	(1.5)	(173.7)
Reclassifications	-	(1.4)	3.1	4.9	(22.8)	(16.2)
At 31 December 2014	30.0	453.4	251.5	133.5	31.5	899.9
<b>Accumulated depreciation</b>						
At 1 January 2014	4.0	260.2	169.7	89.2	-	523.1
Depreciation for the year	0.5	25.2	12.9	9.6	-	48.2
Disposals	-	(81.8)	(8.0)	(1.3)	-	(91.1)
At 31 December 2014	4.5	203.6	174.6	97.5	-	480.2
<b>Carrying amount</b>						
At 31 December 2014	25.5	249.8	76.9	36.0	31.5	419.7
<b>Cost</b>						
At 1 January 2015	30.0	453.4	251.5	133.5	31.5	899.9
Additions	-	478.7	7.2	1.0	56.0	542.9
Disposals	-	(353.5)	(60.2)	(18.2)	-	(431.9)
Reclassifications	-	2.7	6.6	12.5	(28.3)	(6.5)
At 31 December 2015	30.0	581.3	205.1	128.8	59.2	1,004.4
<b>Accumulated depreciation</b>						
At 1 January 2015	4.5	203.6	174.6	97.5	-	480.2
Depreciation for the year	0.5	26.7	30.5	12.1	-	69.8
Disposals	-	(10.0)	(59.4)	(17.9)	-	(87.3)
At 31 December 2015	5.0	220.3	145.7	91.7	-	462.7
<b>Carrying amount</b>						
At 31 December 2015	25.0	361.0	59.4	37.1	59.2	541.7

Freehold land with a cost of £30.1m (2014: £30.1m) has not been depreciated. Included in aircraft, rotatable spares and ancillary equipment are progress payments of £46.8m (2014: £64.8m), these amounts are not depreciated.

## Notes (continued)

### 13 Property plant and equipment (continued)

During the year, the Group and Company purchased, and subsequently, entered into sale and operating leasebacks of four Boeing 787-9 aircraft. During the year the Group and Company returned two Airbus A340-600 and two Boeing 747 aircraft held on operating leases back to lessors at the end of the lease term. Furthermore, the Group and Company returned two Airbus A340-300s and a Boeing 747 aircraft held under operating leases to the lessor at the end of the lease term, but immediately purchased all three aircraft from the same lessor. The two A340-300s were subsequently sold.

No impairments arose on the disposal of any aircraft. The total profit on the disposal of aircraft above was £4.74m (excluding supplier settlements - see note 8 for further details).

The following property, plant and equipment categories include assets held under finance leases and hire purchase contracts:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
<b>Carrying amount</b>				
Aircraft, rotatable spares and ancillary equipment	124.4	28.2	133.7	38.5
<b>Depreciation charged for the year</b>				
Aircraft, rotatable spares and ancillary equipment	5.3	5.4	6.3	6.5

During the year the Group entered into two new finance leases for Boeing 787-9 aircraft with a book value of £129.2m (2014: £nil). The carrying amount of assets held under finance leases includes maintenance events and modifications to the asset which have been incurred in periods following the lease inception. Finance leases obligations are shown notes 20 and 28.

Interest capitalised by the Group and Company on aircraft progress payments included in additions during the year amounted to £4.4m (2014: £1.0m). The cumulative amount of interest capitalised in the total cost above for the Group and Company amounts to £1.3m (2014: £2.3m).

At 31 December 2015, fleet assets with a carrying amount of £30.3m (2014: £32.8m) have been pledged as security for bank and other loans.



## Notes (continued)

### 14 Deferred tax

The following are the material deferred tax assets and liabilities recognised by the Group and Company, and movements thereon during the current and prior reporting period. Deferred taxation is provided for at 20% (2014 20%):

	Group			Company		
	2015	2014	2013	2015	2014	2013
	£m	£m	£m	£m	£m	£m
Accelerated capital allowances	(18.6)	(34.9)	(42.2)	(38.5)	(56.0)	(63.5)
Other timing differences	36.7	61.7	22.8	34.8	59.9	19.6
UK tax losses	29.1	18.5	20.5	25.5	14.8	16.8
Holdover relief	(12.3)	-	-	(12.3)	-	-
	34.9	45.3	1.1	9.5	18.7	(27.1)

There are no significant losses in the Group and Company for which a deferred tax asset has not been recognised.

The net deferred tax movement in the statement of financial position is as follows:

	Group	Company
	£m	£m
<b>Movement in deferred tax asset/(liability)</b>		
Balance as at 1 January 2014	1.1	(27.1)
Charged to statement of comprehensive income	44.2	45.8
Balance as at 31 December 2014 / 1 January 2015	45.3	18.7
Charged to statement of comprehensive income	(10.4)	(9.2)
Balance as at 31 December 2015	34.9	9.5

### 15 Investments

	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
<b>Non-current</b>				
Unlisted investment	-	0.4	-	0.4
Interest in subsidiaries	-	-	6.8	6.8
Equity loan stock	-	-	224.2	-
	-	0.4	231.0	7.2
<b>Current</b>				
Equity loan stock	-	-	0.6	-

The unlisted investment represents the Group's and Company's interest in the Airline Group Limited, which consists of both equity and unsecured loan notes. In 2014, the Group and Company disposed of the majority shares within the Airline Group Limited, recognising a profit on sale of £30.9m (see note 8). The Group continues to hold a minority position within the revised capital structure of the Airline Group Limited. The investment is carried at cost.

In December 2015, the Company purchased £224.8m of Equity Loan Stock ("ELS") in Barbados Enterprises plc (a special purpose vehicle created for the purposes of capital raising). The ELS has a term of 15 years, during this period, the Company will continue to purchase further tranches of ELS in order to fund the interest payments on the senior bond debt owed by the Group. The principal will be paid back on maturity of the ELS. The ELS was recognised initially at fair value less transaction costs and is subsequently measured using the amortised cost model.

Investments in subsidiaries are carried at cost. For further information on the subsidiaries of the Group and Company, see note 24.

Notes (continued)

16 Derivative financial instruments

The following table discloses the carrying amounts and fair values of the Group's and Company's derivative financial instruments. All derivatives are designated as held for trading and are not in a designated hedge accounting relationship.

	Group and Company		
	2015 £m	2014 £m	2013 £m
<b>Non-current assets</b>			
Foreign currency	2.1	3.5	4.4
Fuel	2.8	3.2	6.9
	<b>4.9</b>	<b>6.7</b>	<b>11.3</b>
<b>Current assets</b>			
Foreign currency	11.9	10.4	15.3
Fuel	-	15.6	29.8
	<b>11.9</b>	<b>26.0</b>	<b>45.1</b>
<b>Current liabilities</b>			
Foreign currency	(0.6)	(4.8)	(29.7)
Fuel	(183.0)	(169.0)	(2.2)
Interest rate swap	-	-	(18.9)
	<b>(183.6)</b>	<b>(173.8)</b>	<b>(50.8)</b>
<b>Non-current liabilities</b>			
Foreign currency	-	(0.1)	(16.3)
Fuel	(9.9)	(79.3)	(2.5)
	<b>(9.9)</b>	<b>(79.4)</b>	<b>(18.8)</b>
	Group and Company		
	2015 Quantity (million)	2014 Quantity (million)	2013 Quantity (million)
<b>Nominal amounts</b>			
Foreign currency (USD)	493.9	755.8	1,558.0
Foreign currency (Other, represented in GBP)	-	3.7	88.5
Fuel (Barrels)	7.5	11.6	13.0
Interest rate swap (USD)	-	-	500.0

The Group and Company enters into derivative transactions under master netting agreements. Under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding are aggregated into a single net amount that is payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated. The termination value is assessed and only a single amount is payable in settlement of all transactions.

All derivatives are presented gross as the offsetting criteria have not been met. This is due to the Group and Company not having any legally enforceable right to offset recognised amounts, as the right to offset is contingent on future events. For example default or other credit events.

The following table discloses the carrying amounts of derivatives recognised in the Group and Company statement of financial position that are subject to master netting arrangements but are not set off due to offsetting criteria not being met.

Notes (continued)

16 Derivative financial instruments (continued)

Group and Company			
	Gross amount £m	Amount not set off £m	Net amount £m
<b>As at 31 December 2015:</b>			
Derivative financial instruments			
Assets	16.8	(2.9)	13.9
Liabilities	(193.5)	2.9	(190.6)
	<b>(176.7)</b>	<b>-</b>	<b>(176.7)</b>
<b>As at 31 December 2014:</b>			
Derivative financial instruments			
Assets	32.7	(23.7)	9.0
Liabilities	(253.2)	23.7	(229.5)
	<b>(220.5)</b>	<b>-</b>	<b>(220.5)</b>
<b>As at 31 December 2013:</b>			
Derivative financial instruments			
Assets	56.3	(41.4)	14.9
Liabilities	(69.6)	41.4	(28.2)
	<b>(13.3)</b>	<b>-</b>	<b>(13.3)</b>

17 Trade and other receivables

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
<b>Non-current</b>				
Other receivables	32.8	32.5	31.9	31.0
Prepayments and accrued income	0.2	4.5	0.2	4.5
	<b>33.0</b>	<b>37.0</b>	<b>32.1</b>	<b>35.5</b>
<b>Current</b>				
Trade receivables	134.5	152.5	134.5	152.5
Provision for doubtful receivables	(4.8)	(5.4)	(4.8)	(5.4)
Net trade receivables	129.7	147.1	129.7	147.1
Other receivables	107.0	107.1	106.9	107.0
Corporate tax recoverable	5.7	-	5.8	-
Group relief receivables	4.0	-	-	-
Prepayments and accrued income	41.7	44.4	40.4	42.5
Amounts owed by group companies	23.4	37.8	45.3	38.3
	<b>311.5</b>	<b>336.5</b>	<b>328.1</b>	<b>334.9</b>

**Notes** (continued)

**17 Trade and other receivables** (continued)

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. Included within current other receivables is an amount of £69.5m (2014: £67m) relating to margin calls on fuel and foreign currency derivative positions.

During the year the Group and Company wrote £0.4 million (2014: £0.7 million) of receivables off against the provision.

	<b>Group and Company</b>	
	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
<b>Ageing of past due but not impaired receivables</b>		
1-30 days	43.9	22.7
31-60 days	1.0	15.8
61-90 days	-	1.1
91-120 days	-	0.2
120+ days	1.2	4.2
<b>Total</b>	<b>46.1</b>	<b>44.0</b>

In determining the recoverability of a trade receivable the Group and Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

The carrying amounts of trade and other receivables is approximately equal to their fair values.

	<b>Group and Company</b>	
	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
<b>Analysis of trade receivables by currency</b>		
Sterling	103.0	128.8
US dollars	21.0	10.0
Other	10.5	13.7
	<b>134.5</b>	<b>152.5</b>

**18 Inventories**

	<b>Group and Company</b>	
	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
Aircraft consumable spares	32.3	34.6
Finished goods and goods for resale	5.4	7.1
Fuel	0.1	0.1
Uniforms	1.1	1.3
	<b>38.9</b>	<b>43.1</b>

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**Notes** (continued)

**19 Cash, cash equivalents and restricted cash**

	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
Cash at bank and in hand	525.4	276.1	512.6	265.5
Bank overdrafts	(3.7)	(1.4)	(3.7)	(1.4)
Cash and cash equivalents	521.7	274.7	508.9	264.1
Restricted cash	62.7	9.0	56.6	19.1

Cash and cash equivalents comprise of cash and short-term bank deposits with maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is equal to their fair value. Restricted cash includes liquidity reserves relating to collateralised borrowings and cash collateral relating to trade finance and merchant banking facilities.

**20 Borrowings**

	Group		Company	
	2015	2014	2015	2014
	£m	£m	£m	£m
<b>Non-current</b>				
Secured bank loans (i)	(10.5)	(10.6)	(10.5)	(10.6)
Obligations under finance leases (ii)	(143.0)	(0.2)	(143.0)	(0.2)
Loan from VAIL (iii)	-	-	(423.4)	-
Senior bonds - A1 (iv)	(182.1)	-	-	-
Senior bonds - A2 (iv)	(27.9)	-	-	-
	(363.5)	(10.8)	(576.9)	(10.8)
<b>Current</b>				
Secured bank loans (i)	(26.2)	(17.9)	(26.2)	(17.9)
Obligations under finance leases (ii)	(5.7)	(4.1)	(5.7)	(4.1)
Loan from VAIL (iii)	-	-	(1.8)	-
Senior bonds - A1 (iv)	(1.4)	-	-	-
Senior bonds - A2 (iv)	(1.1)	-	-	-
	(34.4)	(22.0)	(33.8)	(22.0)

- (i) The secured bank loans are secured by mortgages over certain fleet assets (see note 13). The interest rates charged in the year in respect of these loans are in the range from 3.00% to 3.35% above US\$ LIBOR.
- (ii) See note 28 for a full breakdown of all commitments under finance leasing and hire purchase agreements. Two additional aircraft were obtained under finance leases that were entered into during the year.
- (iii) In December 2015, the Company received £425.2m from a subsidiary of the Group - Virgin Atlantic International Limited ("VAIL"). As part of these arrangements, VAIL obtained beneficial rights over certain of the Company's landing slots, the right to receive a semi-annual payment in relation to the landing slots and the right to receive support payments from the Company in order to enable it to service its borrowings from Barbados Enterprises Plc. VAIL also entered into a joint business agreement with the Company to operate some of its landing slot portfolio. The substance of the £425.2m transfer to VAA is a loan, with the "sale" and "repurchase" of the slots representing the issuance and settlement of the loan. The loan has been treated as a financial liability at amortised cost in the Company's accounting records with the semi-annual payments representing the interest charge. The loan will be repaid in 15 years' time.
- (iv) In December 2015, the Group issued £220m of Senior Bonds to bond investors (£190m Class A1 bonds and £30m of Class A2 bonds). The terms are such that repayment of the principal will occur in part over the life of the bonds such that £112m (£100m Class A1 bonds and £12m of Class A2 bonds) is payable on the maturity of the bonds after 15 years. The value of the bonds is stated after transaction costs.

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**Notes (continued)**

**20 Borrowings (continued)**

	Group		
	Sterling £m	US dollars £m	Total £m
<b>Analysis of borrowings by currency as at 31 December 2015:</b>			
Secured bank loans (i)	-	(36.7)	(36.7)
Obligations under finance leases and hire purchase agreements (ii)	-	(148.7)	(148.7)
Senior bonds - A1 (iv)	(183.5)	-	(183.5)
Senior bonds - A2 (iv)	(29.0)	-	(29.0)
	<b>(212.5)</b>	<b>(185.4)</b>	<b>(397.9)</b>
<b>Analysis of borrowings by currency as at 31 December 2014:</b>			
Secured bank loans (i)	-	(28.5)	(28.5)
Obligations under finance leases and hire purchase agreements (ii)	-	(4.3)	(4.3)
Senior bonds - A1 (iv)	-	-	-
Senior bonds - A2 (iv)	-	-	-
	-	(32.8)	(32.8)
	Company		
	Sterling £m	US dollars £m	Total £m
<b>Analysis of borrowings by currency as at 31 December 2015:</b>			
Secured bank loans (i)	-	(36.7)	(36.7)
Obligations under finance leases and hire purchase agreements (ii)	-	(148.7)	(148.7)
Loan from VAIL (iii)	(425.3)	-	(425.3)
	<b>(425.3)</b>	<b>(185.4)</b>	<b>(610.7)</b>
<b>Analysis of borrowings by currency as at 31 December 2014:</b>			
Secured bank loans (i)	-	(28.5)	(28.5)
Obligations under finance leases and hire purchase agreements (ii)	-	(4.3)	(4.3)
	-	(32.8)	(32.8)

The maturity profile of borrowings is disclosed in note 30.

**21 Trade and other payables**

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
<b>Non-current</b>				
Accruals	(5.1)	(2.5)	(5.1)	(2.5)
	<b>(5.1)</b>	<b>(2.5)</b>	<b>(5.1)</b>	<b>(2.5)</b>
<b>Current</b>				
Trade payables	(41.1)	(81.3)	(41.1)	(81.3)
Amounts owed to other group companies	(102.0)	(101.9)	(98.7)	(80.5)
Corporate tax payable	-	(4.4)	-	(4.3)
Group relief payable	(8.8)	(7.9)	(10.4)	(13.7)
Other taxes and social security	(11.3)	(11.3)	(11.3)	(11.3)
Other payables	(1.4)	(1.5)	(1.4)	(1.7)
Accruals	(255.2)	(239.0)	(253.6)	(239.1)
	<b>(419.9)</b>	<b>(447.3)</b>	<b>(416.6)</b>	<b>(431.9)</b>

The carrying amounts of trade and other payables is approximately equal to their fair values.

## Notes (continued)

### 22 Provisions

	Group and Company		
	2015 £m	2014 £m	2013 £m
<b>Non-current</b>			
Maintenance	(49.6)	(100.4)	(107.5)
Onerous leases	(3.0)	(0.4)	(0.4)
Leasehold dilapidation	(6.1)	(6.6)	(1.9)
Legal claims	-	-	-
	<u>(58.7)</u>	<u>(107.4)</u>	<u>(109.8)</u>
<b>Current</b>			
Maintenance	(42.6)	(44.9)	(42.1)
Onerous leases	(3.2)	-	(0.5)
Leasehold dilapidation	(1.1)	(1.3)	(0.4)
Legal claims	(8.6)	(8.8)	(10.6)
	<u>(55.5)</u>	<u>(55.0)</u>	<u>(53.6)</u>

	Group and Company				
	Maintenance £m	Onerous leases £m	Leasehold dilapidations £m	Legal claims £m	Total £m
At 1 January 2014	(149.6)	(0.9)	(2.3)	(10.6)	(163.4)
Amounts (provided)/released in the year	(38.6)	-	(5.5)	(6.7)	(50.8)
Amounts utilised in the year	47.4	0.5	-	8.5	56.4
Other movements	(4.5)	-	-	-	(4.5)
Unwinding of discount	-	-	(0.2)	-	(0.2)
At 31 December 2014	<u>(145.2)</u>	<u>(0.4)</u>	<u>(8.0)</u>	<u>(8.8)</u>	<u>(162.4)</u>
As at 1 January 2015	(145.2)	(0.4)	(8.0)	(8.8)	(162.4)
Amounts (provided)/released in the year	(26.9)	(5.8)	(0.5)	(11.4)	(44.6)
Amounts utilised in the year	84.1	-	0.6	8.9	93.7
Other movements	(4.3)	-	1.2	2.7	(0.4)
Unwinding of discount	-	-	(0.5)	-	(0.5)
At 31 December 2015	<u>(92.3)</u>	<u>(6.2)</u>	<u>(7.2)</u>	<u>(8.6)</u>	<u>(114.2)</u>

Maintenance included in provisions, relates to the costs to meet the contractual return conditions on aircraft held under operating leases. Cash outflows on aircraft and engine maintenance occur when the maintenance events take place on future dates not exceeding October 2026.

The Group and Company operate a number of properties where the costs involved with fulfilling the terms and conditions of the lease are higher than the amount of economic benefit received. Such provisions represent the rent and occupancy related expenses which will be incurred after these properties have been vacated until the end of the lease term.

Leasehold dilapidations represent provisions held relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Where such costs arise as a result of capital expenditure on the leased asset, the restoration costs are also capitalised.

Legal claims represent the estimated outstanding cost arising from the settlement of civil actions. Included within legal claims are compensation amounts due to customers whose flights were significantly delayed, unless the airline can prove that the delay was caused by circumstances beyond its control.

**Virgin Atlantic Airways Limited and subsidiary companies**

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**Notes (continued)**

**23 Deferred income**

	Group			Company		
	2015 £m	2014 £m	2013 £m	2015 £m	2014 £m	2013 £m
<b>Current</b>						
Forward sales of passenger carriage	(415.6)	(409.6)	(429.1)	(415.6)	(405.4)	(424.7)
Unredeemed revenue: Customer loyalty programme	(131.6)	(107.3)	(98.6)	(131.6)	(107.2)	(98.6)
Other revenue received in advance	(44.0)	(75.3)	(19.7)	(44.0)	(75.3)	(19.8)
	<u>(591.2)</u>	<u>(592.2)</u>	<u>(547.4)</u>	<u>(591.2)</u>	<u>(587.9)</u>	<u>(543.1)</u>
<b>Non-current</b>						
Other revenue received in advance	(52.8)	(11.1)	(14.0)	(52.8)	(11.1)	(14.0)
	<u>(52.8)</u>	<u>(11.1)</u>	<u>(14.0)</u>	<u>(52.8)</u>	<u>(11.1)</u>	<u>(14.0)</u>

The unredeemed revenue arises due to the Group's and Company's obligations in respect of its customer loyalty programme - Flying Club. Revenue is recognised in accordance with IFRIC 13 Customer Loyalty Programmes. Flying club miles are stated at fair value, see accounting policies for further details.

**24 Interest in subsidiaries**

The Group consists of a parent company, Virgin Atlantic Airways, incorporated in the UK and a number of subsidiaries. The subsidiaries of the Company as at 31 December 2015 are:

Subsidiaries	Country of incorporation or registration	% Ordinary issued shares	Principal activity
Virgair Limited	England and Wales	100	Non-trading
VA Cargo Limited	England and Wales	100	Cargo management
Virgin Airways Limited	England and Wales	100	Non-trading
Greenart Limited	England and Wales	100	In liquidation
Virgin Atlantic Engineering Limited	England and Wales	100	Dormant
Virgin Atlantic Consol Limited	England and Wales	100	Dormant
Virglease Limited	England and Wales	100	Asset leasing
Virglease (2) Limited	England and Wales	100	Dormant
Virglease (3) Limited	England and Wales	100	Asset leasing
Fordbar Services Limited	England and Wales	100	In liquidation
Voyager Nominees Limited	England and Wales	100	In liquidation
Public Eye Promotions Limited	England and Wales	100	Dormant
Virgin Aviation Services Limited	England and Wales	100	Dormant
Virgin Freeway Limited	England and Wales	100	Dormant
Speed 5024 Limited	England and Wales	100	Dormant
Campden Securities Limited	England and Wales	100	Investment company
Fit Leasing Limited	Jersey	100	Asset leasing
Bug Leasing Limited	Jersey	100	Asset leasing
Threesixty Aerospace Limited	England and Wales	100	Non-trading
Worldwide Travel of East Anglia Limited	England and Wales	100	Travel agent
Junopart Limited	England and Wales	100	Asset leasing
VAA Holdings UK Limited	England and Wales	100	Holding company
VAA Holdings Jersey Limited	Jersey	100	Holding company
Virgin Atlantic International Limited	England and Wales	100	Airline operations



## **Notes** *(continued)*

### **24 Interests in subsidiaries** *(continued)*

During the year ended December 2015, Virgin Atlantic International Limited became a newly incorporated subsidiary of the Group. Virgin Atlantic International Limited is a 100% owned subsidiary.

Barbados Enterprises plc, which is owned by trustees who are independent of the Group, is a special purpose vehicle set up to facilitate the external capital raising activities of the Group. In accordance with IFRS 10, the Group is exposed, or has rights, to variable returns from its involvement and has the ability to affect those returns through its power over Barbados Enterprises plc. The results of Barbados Enterprises Plc. have been consolidated into the results of the Group.

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.

Campden Securities Limited, Junopart Limited, Virgin Airways Limited, Speed 5024 Limited and Threesixty Aerospace Limited, whose results are included in these consolidated financial statements, have taken advantage of the audit exemption under section 479A of the Companies Act 2006 for their financial statements.

The directors of Fordbar Services Limited, Greenart Limited, Public Eye Promotions Limited, Virgin Atlantic Consol Limited, Virgin Atlantic Engineering Limited, Virgin Aviation Services Limited, Virgin Freeway Limited, Virglease (2) Limited and Voyager Nominees Limited, whose results are included in these consolidated financial statements, have taken advantage of the exemption to prepare and file financial statements under sections 394A and 448A of the Companies Act 2006.

### **25 Pension scheme**

The Group offers its employees a contract based defined contribution pension in the form of a Group Personal Pension Plan. The assets of the scheme are held separately from those of the Group in independently administered funds. There were no outstanding or prepaid contributions at 31 December 2015 (2014: £nil).

**Notes** (continued)

**26 Related party transactions**

The Group and Company had transactions in the ordinary course of business during the year ended 31 December 2015 and 31 December 2014 with related parties.

	<b>Group</b>		<b>Company</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Parent</b>				
Sales to/purchases on behalf of parent	-	-	-	-
Purchases from parent	(0.1)	(0.1)	(0.1)	(0.1)
Amounts owed by parent	-	-	-	-
Amounts owed to parent	-	(0.1)	-	(0.1)
<b>Subsidiary undertakings of the parent</b>				
Sales to subsidiary undertakings of the parent	6.5	1.5	6.5	1.5
Purchases from subsidiary undertakings of the parent	(19.9)	(14.0)	(19.9)	(14.0)
Amounts owed by the subsidiary undertakings of the parent	24.3	39.2	24.3	39.2
Amounts owed to the subsidiary undertakings of the parent	(103.4)	(103.5)	(103.4)	(103.5)
<b>Subsidiaries</b>				
Sales to subsidiaries			0.1	-
Purchase from subsidiaries			(0.3)	-
Amounts owed by subsidiaries			-	-
Amounts owed to subsidiaries			(1.8)	(1.9)

Revenue from related parties primarily relates to airline ticket sales and sales of frequent flyer miles. 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.

In 2013, Delta Air Lines Inc. acquired a 49% equity stake in Virgin Atlantic Limited from Singapore Airlines. From 1 January 2014 the Group entered into a joint arrangement with Delta Airlines Inc.

The joint arrangement, for which the Group and Company has received anti-trust immunity, provides for the sharing of revenues and costs, as well as joint marketing and sales, coordinated pricing and revenue management, network planning and scheduling and other coordinated activities with respect to the parties' operations on joint arrangement routes.

On 31 December 2015 the Group owed Delta Air Lines Inc. £84.8m (2014: £55.7m) with respect to the joint operation agreement. Costs incurred in relation to the joint arrangement are presented within airline traffic direct operating costs. Total sales to Delta Air Lines Inc. during the year amounted to £16.7m (2014: £10.2m); total purchases were £7.6m (2014: £57.6m). Outstanding receivable balances amounted to £3.2m (2014: £1.1m) and outstanding payables were £85.7m (2014: £55.7m).

As at 31 December 2015, the directors consider the ultimate holding company to be Virgin Group Holdings Limited, a company registered in the British Virgin Islands. The sole shareholder of Virgin Group Holdings is Sir Richard Branson. Sir Richard Branson has interests directly or indirectly in certain other companies, which are considered to give rise to related party disclosures under IAS 24.

## Notes (continued)

### 27 Ultimate holding company

As at 31 December 2015, the directors consider the ultimate holding company to be Virgin Group Holdings Limited, a company registered in the British Virgin Islands.

As at 31 December 2015, the largest group in which the results of the Group are consolidated and are publicly available is that headed by Virgin Atlantic Limited, a company registered in England and Wales, and the smallest group in which the results of the Group are consolidated is that headed by Virgin Atlantic Two Limited, a company registered in England and Wales.

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

### 28 Commitments

#### (i) Commitments under finance leases

The capital element of the future minimum lease payments to which the Group and Company is committed at 31 December 2015 under finance lease and hire purchase contract obligations incurred in the acquisition of aircraft, engines, spares and other equipment are as follows:

	Group and Company	
	2015 £m	2014 £m
Not later than one year	5.7	4.1
Later than one year and not later than five years	26.1	0.2
Later than 5 years	116.9	-
	<b>148.7</b>	<b>4.3</b>

The present value of future minimum lease payments are included in note 20.

#### (ii) Commitments under operating leases

As at 31 December 2015, the Group and Company had annual commitments under non-cancellable operating leases as set out below:

	Group and Company			
	2015		2014	
	Land and buildings £m	Aircraft and other £m	Land and buildings £m	Aircraft and other £m
Not later than one year	24.4	8.9	22.3	11.8
Later than one year and not later than five years	58.9	197.5	52.0	297.2
Later than 5 years	82.3	996.5	52.9	703.6
	<b>165.6</b>	<b>1,202.9</b>	<b>127.2</b>	<b>1,012.6</b>

#### (iii) Capital commitments

Capital commitments at the balance sheet date for which no provision has been made:

Group and Company	
2015 £m	2014 £m
<b>1,313.0</b>	<b>2,246.4</b>

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

**Virgin Atlantic Airways Limited and subsidiary companies**

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**Notes** (continued)

**29 Financial instruments**

**(i) Financial instruments by category**

	Group			Company		
	2015	2014	2013	2015	2014	2013
	£m	£m	£m	£m	£m	£m
<b>Financial assets</b>						
Cash and cash equivalents	521.7	274.7	290.1	508.9	264.1	291.6
Restricted cash	62.7	9.0	-	56.6	19.1	-
Fair value through profit and loss:						
Derivative financial instruments	16.8	32.7	56.3	16.8	32.7	56.3
Loans and receivables at amortised cost:						
Investments	-	0.4	7.4	231.6	7.2	14.1
Trade and other receivables (excl. prepayments and accrued income)	298.6	324.6	347.3	319.7	323.4	345.1
	<b>899.8</b>	<b>641.4</b>	<b>701.1</b>	<b>1,133.6</b>	<b>646.5</b>	<b>707.1</b>
<b>Financial liabilities</b>						
Fair value through profit and loss:						
Derivative financial instruments	(193.5)	(253.2)	(69.6)	(193.5)	(253.2)	(69.6)
Financial liabilities at amortised cost:						
Borrowings	(397.9)	(32.7)	(32.4)	(610.7)	(32.7)	(32.4)
Trade and other payables (excl. accruals)	(164.7)	(208.5)	(275.9)	(163.0)	(192.8)	(258.7)
	<b>(756.1)</b>	<b>(494.4)</b>	<b>(377.9)</b>	<b>(967.2)</b>	<b>(478.7)</b>	<b>(360.7)</b>

The carrying values of financial assets and liabilities are deemed to approximate their fair values.

**(ii) Fair values of financial assets and liabilities**

The fair values of the Group and Company financial instruments are disclosed in hierarchy levels depending on the nature of the inputs used in determining the fair values as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs for the asset or liability that are not based on observable market data.

The only instruments carried at fair value by the Group and Company are the derivative financial instruments that consist of fuel, foreign exchange and interest rate swap derivatives. These are listed at level 2 on the fair value hierarchy. Discounted cash flow is the valuation technique used to arrive at fair value. Future cash flows are estimated based on forward exchange rates and forward fuel price rates (from observable rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

For all other financial instruments that are not measured at fair value on a recurring basis, the directors consider that the carrying amounts of financial assets and financial liabilities (as disclosed in (i) above) approximate their fair values.

There were no transfers between levels during the year.

## Notes (continued)

### 30 Financial risk management

The Group and Company are exposed to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and fuel price risk), credit risk, capital risk and liquidity risk. The Group's board of directors has the overall responsibility for the establishment and oversight of the Group's risk management framework, which focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

The Group and Company risk management policies are established to identify and analyse the risks faced by the entities, and to set appropriate limits and controls and monitor risks and adherence to limits. The Treasury function implements the financial risk management policies under governance approved by the Board and overseen by the Financial Risk Committee. The Treasury function identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investment of excess liquidity.

#### (i) Fuel price risk

The Group and Company are exposed to fuel price risk. The fuel hedging policy aims to provide protection against sudden and significant changes in the jet fuel price. The policy allows the Group and Company to hedge within bands up to 24 months out with declining percentages. In implementing the strategy, the fuel hedging policy allows for the use of a number of derivatives available on the over-the-counter (OTC) markets with approved counterparties and within approved limits.

The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in fuel prices, with all other variables held constant, on profit before tax and equity:

	Group and Company		
	2015	2014	2013
	£m	£m	£m
Increase in fuel price by a fixed percentage	30%	30%	30%
Increase in profit before tax	50.4	148.4	111.1
Decrease in fuel price by a fixed percentage	-30%	-30%	-30%
Decrease in profit before tax	(64.3)	(139.5)	(109.9)

#### (ii) Foreign currency risk

The Group and Company is primarily exposed to currency risk on fuel, finance and operating lease costs which results in a shortfall of US dollars, this is partially offset by US dollar revenues. The Group and Company is also exposed to currency risk on costs and revenues in other currencies. Currency risk is reduced through matching receipts and payments in individual currencies and holding foreign currency balances to meet future obligations. Any exposure that cannot be naturally hedged is managed through application of the foreign exchange hedging policy.

The foreign exchange hedging policy aims to provide protection against sudden and significant movements in exchange rates. The policy allows the Group and Company to hedge within bands up to 24 months out with declining percentages. In implementing the strategy, the FX hedging policy allows for the use of a number of derivatives available on the over-the-counter (OTC) markets with approved counterparties and within approved limits.

## Notes (continued)

### 30 Financial risk management (continued)

The Group and Company has substantial liabilities denominated in US dollar. The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in the US dollar exchange rates, with all other variables held constant, on profit before tax and equity.

	Group and Company		
	2015	2014	2013
	£m	£m	£m
Strengthening in US Dollar exchange rate by a fixed percentage	10%	10%	10%
Decrease in profit before tax	(32.9)	(46.2)	(110.9)
Weakening in US Dollar exchange rate by a fixed percentage	(10%)	(10%)	(10%)
Increase in profit before tax	40.5	51.6	123.5

#### (iii) Interest rate risk

The interest rate risk management programme is designed to protect the business from significant adverse movement in interest rates in a manner which is broadly in line with major competitors. The objective is to lower the cost of capital by maintaining a targeted optimal range of net floating rate debt instruments while at the same time, not over-exposing the company to interest rate fluctuations. Interest rate exposure is managed on net basis i.e. after taking into consideration the natural hedge available due to cash invested in the short term at floating interest rates.

#### (iv) Credit risk

The Group and Company is exposed to credit risk to the extent of non-performance by its counterparties in respect of financial assets receivable and /or in the money positions for derivatives transactions. In respect of cash investments transactions, counterparty as well as instrument type limits are in place based on credit rating criteria. Each issuer must be rated by one rating agency (Fitch, Moody's or S&P). Credit default swaps are also considered wherever relevant and available. Similarly for foreign exchange, fuel and interest rate swap counterparties, adequate processes are in place whereby credit ratings and credit default swaps are reviewed where available, ISDA (International Swaps and Derivatives Association) master agreements are executed and Credit Support Annexures (CSA) and Parent Guarantees are put in place wherever necessary to mitigate and minimize credit risk. The overall Group exposure in respect of all the counterparties is reported to the Financial Risk Committee (FRC) on monthly basis. Due diligence is carried out for new foreign exchange, fuel and interest rate swap counterparties which are then presented to the FRC for approval with the information mentioned above as well as share price performance and financial statements technical analysis wherever applicable.

The maximum exposure to credit risk is limited to the carrying value of each class of asset as summarised in note 29. The Group and Company does not hold any collateral to mitigate this exposure.

#### (v) Liquidity risk

The Group and Company maintains a high proportion of cash in overnight money market deposits with same day access, to minimize the impact of margin calls relating to derivative activities, a combination of CSA and non-CSA counterparties are used. There are also margin call limits within the foreign exchange and fuel hedging policies in order to cap the margin call cash impact. In December 2015, the Group secured £220m of collateralised financing utilising its slot portfolio to enhance the liquidity position of the Group. The Group and Company continues to maintain committed revolving credit facilities of £25m

The maturity profile of financial liabilities based on undiscounted gross cash flows and contractual maturities is as follows:

Notes (continued)

30 Financial risk management (continued)

Group	2015			
	Within 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
Trade and other payables (excl. accruals)	(164.7)	-	-	-
Derivative financial instruments	(183.6)	(9.9)	-	-
Borrowings				
Secured bank loans	(26.6)	(1.1)	(10.0)	-
Obligations under finance leases and hire purchase agreements	(15.1)	(17.2)	(47.7)	(162.1)
Senior bonds - A1	(6.6)	(7.7)	(23.3)	(155.5)
Senior bonds - A2	(1.5)	(1.7)	(5.1)	(19.5)
	<b>(398.1)</b>	<b>(37.6)</b>	<b>(86.1)</b>	<b>(337.1)</b>

  

Group	2014			
	Within 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
Trade and other payables (excl. accruals)	(208.5)	-	-	-
Derivative financial instruments	(173.8)	(79.4)	-	-
Borrowings				
Secured bank loans	(18.3)	(2.1)	(12.5)	-
Obligations under finance leases and hire purchase agreements	(4.1)	(0.2)	-	-
	<b>(404.7)</b>	<b>(81.7)</b>	<b>(12.5)</b>	<b>-</b>

  

Group	2013			
	Within 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
Trade and other payables (excl. accruals)	(275.9)	-	-	-
Derivative financial instruments	(50.8)	(18.8)	-	-
Borrowings				
Secured bank loans	(15.1)	(1.0)	(10.8)	-
Obligations under finance leases and hire purchase agreements	(10.0)	(3.9)	(0.2)	-
	<b>(351.8)</b>	<b>(23.7)</b>	<b>(11.0)</b>	<b>-</b>

**Virgin Atlantic Airways Limited and subsidiary companies**

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**Notes** (continued)

**30 Financial risk management** (continued)

Company	2015			
	Within 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
Trade and other payables (excl. accruals)	(163.0)	-	-	-
Derivative financial instruments	(183.6)	(9.9)	-	-
Loans and receivables at amortised cost				
Secured bank loans	(26.6)	(1.1)	(10.0)	-
Obligations under finance leases and hire purchase agreements	(15.1)	(17.2)	(47.7)	(162.1)
Loan from VAIL	(16.0)	(12.5)	(37.4)	(408.6)
	<b>(404.3)</b>	<b>(40.7)</b>	<b>(95.1)</b>	<b>(570.7)</b>

  

Company	2014			
	Within 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
Trade and other payables (excl. accruals)	(192.8)	-	-	-
Derivative financial instruments	(173.8)	(79.4)	-	-
Loans and receivables at amortised cost				
Secured bank loans	(18.3)	(2.1)	(12.5)	-
Obligations under finance leases and hire purchase agreements	(4.1)	(0.2)	-	-
	<b>(389.0)</b>	<b>(81.7)</b>	<b>(12.5)</b>	<b>-</b>

  

Company	2013			
	Within 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
Trade and other payables (excl. accruals)	(258.7)	-	-	-
Derivative financial instruments	(50.8)	(18.8)	-	-
Loans and receivables at amortised cost				
Secured bank loans	(15.1)	(1.0)	(10.8)	-
Obligations under finance leases and hire purchase agreements	(10.0)	(3.9)	(0.2)	-
	<b>(334.6)</b>	<b>(23.7)</b>	<b>(11.0)</b>	<b>-</b>

**(vi) Capital risk**

The Group and Company objective when managing capital is to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group and Company monitors its leverage ratio i.e. net debt to EBITDAR. Net debt is defined as the total loans and borrowings, finance leases, capitalized operating leases (for calculation purposes) net of cash and cash equivalents.



**Notes** (continued)

**31 Reconciliation of Group and Company IFRS comparatives from previously reported UK GAAP financial statements**

These financial statements, for the year ended 31 December 2015, are the first the Group has prepared in accordance with International Financial Reporting Standards (IFRS). For periods up to and including the year ended 31 December 2014, the Group prepared its financial statements in accordance with UK GAAP.

Accordingly, the Group has prepared financial statements which comply with IFRS (as adopted by the EU) applicable for periods ending on or after 31 December 2015, together with the comparative period data as at and for the year ended 31 December 2014, as described in the accounting policies.

In preparing these financial statements, the Group's opening statement of financial position was prepared as at 1 January 2014, the Group's date of transition to IFRS.

This note explains the principal adjustments made by the Group in restating its UK GAAP statement of financial position as at 31 December 2013 and its previously published UK GAAP financial statements as at and for the year ended 31 December 2014.

**Consolidated statement of financial position**

As at 31 December 2013

	As per UK GAAP £m	(A) Reclass- ifications £m	UK GAAP after reclassification £m	(B) Remeas- urements £m	As per IFRS £m
Non-current assets	463.7	(12.7)	451.0	32.1	483.1
Current assets	686.5	(2.2)	684.3	41.0	725.3
Current liabilities	(916.0)	(51.5)	(967.5)	(125.8)	(1,093.3)
Non-current liabilities	(195.6)	66.4	(129.2)	(29.9)	(159.1)
Equity	38.6	-	38.6	(82.6)	(44.0)

As at 31 December 2014

Non-current assets	550.9	(9.9)	541.0	73.2	614.2
Current assets	668.1	(1.4)	666.7	22.6	689.3
Current liabilities	(985.7)	(53.6)	(1,039.3)	(251.0)	(1,290.3)
Non-current liabilities	(184.1)	64.9	(119.2)	(91.9)	(211.2)
Equity	49.2	-	49.2	(247.1)	(198.0)

**Notes** *(continued)*

**31 Reconciliation of Group and Company IFRS comparatives from previously reported UK GAAP financial statements** *(continued)*

**Consolidated statement of comprehensive income**

For the year ended 31 December 2014 (after exceptional items)

	As per UK GAAP £m	(B) Remeas- urements £m	As per IFRS £m
Total Revenue	2,546.8	(100.5)	2,446.3
Fuel hedging		1.9	
Airline traffic direct operating cost		97.5	
Engineering and maintenance		0.6	
Other operating costs and overheads		12.2	
Operating profit	4.3	11.7	16.0
Fair value (losses) on derivatives		(217.4)	
Profit/(loss) before tax	11.5	(205.7)	(194.2)
Tax (charge)/credit	(0.9)	41.1	40.2
Profit/(loss) for the year	10.6	(164.6)	(154.0)

In previous years, expenses were presented by function. During the current year the Group has elected to disclose expenses by nature.

Notes (continued)

31 Reconciliation of Group and Company IFRS comparatives from previously reported UK GAAP financial statements (continued)

(A) Reclassifications

A summary of all reclassifications made on adoption of IFRS is presented below:

Statement of financial position	Notes	31 December 2014	31 December 2013
		£m	£m
Non-current assets			
Property, plant and equipment	(i)	(33.2)	(25.8)
Intangible assets	(i)	33.2	25.8
Deferred tax	(iv)	(9.7)	(12.8)
		(9.7)	(12.8)
Current assets			
Cash and cash equivalents	(ii)	(9.0)	-
Restricted cash	(ii)	9.0	-
Cash and cash equivalents	(vi)	(1.4)	(2.2)
		(1.4)	(2.2)
Current liabilities			
Trade and other payables	(iii)	536.6	490.6
Deferred income	(iii)	(514.6)	(472.9)
Borrowings	(iii)	(22.0)	(17.8)
Trade and other payables	(vi)	1.4	2.2
Provisions	(v)	(55.0)	(53.6)
		(53.6)	(51.5)
Non-current liabilities			
Trade and other payables	(iii)	21.9	28.6
Deferred income	(iii)	(11.1)	(14.0)
Borrowings	(iii)	(10.8)	(14.6)
Provisions	(iv)	9.7	12.8
Provisions	(v)	55.0	53.6
		64.7	66.4

Notes

- (i) Computer software previously included as part of property, plant and equipment under UK GAAP, has been reclassified as an intangible asset in accordance with IFRS.
- (ii) Cash not freely available for use by the Group was previously included within cash and cash equivalents under UK GAAP. In accordance with IFRS such balances have been reclassified as restricted cash.
- (iii) Under UK GAAP the Group disclosed its borrowings and deferred income within trade and other payables. In accordance with IFRS both items are now separately presented on the face of the statement of financial Position.
- (iv) Deferred tax liabilities had previously been disclosed within provisions. In accordance with IFRS the Group now presents deferred tax as a separate item on the face of the statement of financial position.
- (v) Presentational conventions under UK GAAP did not require provisions to be disaggregated between current and non-current elements. In accordance with IFRS provisions are classified between current and non-current elements.
- (vi) Bank overdrafts were previously disclosed within trade and other payables, under IFRS, they are now disclosed within cash and cash equivalents.

**Notes** *(continued)*

**31 Reconciliation of Group and Company IFRS comparatives from previously reported UK GAAP financial statements** *(continued)*

**(B) Remeasurements**

A summary of all remeasurements on adoption of IFRS is presented below:

Statement of financial position	Note	31 December 2014 £m	31 December 2013 £m	Total £m
Non-current assets				
Property, plant and equipment	(iv)	1.5	11.0	12.5
Derivative financial instruments	(i)	(4.6)	11.3	6.7
Deferred tax	(vi)	41.1	19.3	60.4
Deferred tax	(vii)	-	(5.4)	(5.4)
Trade and other receivables	(i)	(0.2)	(1.0)	(1.2)
Trade and other receivables	(ii)	3.2	(3.2)	-
		41.0	32.0	73.0
Current assets				
Trade and other receivables	(i)	(0.2)	(3.3)	(3.5)
Trade and other receivables	(ii)	0.8	(0.8)	-
Derivative financial instruments	(i)	(19.1)	45.1	26.0
		(18.5)	41.0	22.5
Current liabilities				
Derivative financial instruments	(i)	(122.9)	(50.8)	(173.7)
Deferred income	(iii)	(3.0)	(74.5)	(77.5)
Trade and other payables	(v)	0.8	(0.5)	0.3
		(125.1)	(125.8)	(250.9)
Non-current liabilities				
Derivative financial instruments	(i)	(60.6)	(18.8)	(79.4)
Provisions	(iv)	(1.4)	(11.0)	(12.4)
		(62.0)	(29.8)	(91.8)
Equity				
Profit/(loss) for the year		(164.6)	-	(164.6)
IFRS transition reserve		-	(82.6)	(82.6)
		(164.6)	(82.6)	(247.2)

Notes (continued)

31 Reconciliation of Group and Company IFRS comparatives from previously reported UK GAAP financial statements (continued)

Statement of comprehensive income For the period ended 31 December 2014	Note	Period ended 31 December 2014 £m
Revenue		
Airline traffic and cargo operations revenue	(iii)	(3.0)
Airline traffic and cargo operations revenue	(ix)	(97.5)
		(100.5)
Operating profit		
Fuel hedging	(viii)	1.9
Airline traffic direct operating cost	(ix)	97.5
Engineering and maintenance	(iv)	0.6
Other operating costs and overheads	(v)	0.2
Other operating costs and overheads	(viii)	11.9
		112.1
Fair value (losses) on derivatives	(i)	(207.5)
Fair value (losses) on derivatives	(viii)	(13.8)
Fair value (losses) on derivatives	(ii)	4.0
		(217.3)
Tax charge		
Deferred tax	(vi) and (vii)	41.1
		41.1
Movement in profit/(loss) for the year as a result of IFRS adjustments		(164.6)

Notes

- (i) Under UK GAAP the gain or loss on derivative financial instruments (fuel and foreign exchange) would not be recognised until the maturation of the contract. Under IFRS the movement in the fair value of these derivative financial instruments at each reporting date is recognised in the statement of comprehensive income. Any fair value movements after the date of conversion have therefore been recognised.
- (ii) Under UK GAAP, gains or losses on interest rate swaps that were settled ahead of contractual maturities were deferred on the statement of financial position and amortised over the life of the existing hedge. In accordance with IFRS such hedging relationships are deemed non-qualifying requiring immediate recognition of any gains or losses in the income statement.
- (iii) Under UK GAAP, the Group recorded a provision for unredeemed frequent flyer miles based on the estimated additional incremental cost to the Group of miles being redeemed by customers. In accordance with IFRIC 13 the consideration allocated to award credits is measured by reference to their fair value and deferred until the service obligation has been provided.
- (iv) UK GAAP permitted the Group to provide for maintenance obligations on operating leased aircraft on an incremental basis over the maintenance cycle. In accordance with IAS 37 the Group is required to recognise a full liability when the obligation arises under the relevant lease terms. See the note 4 accounting policies for further details.

**Notes** (continued)

**31 Reconciliation of Group and Company IFRS comparatives from previously reported UK GAAP financial statements** (continued)

**Notes (continued)**

- (v) Under UK GAAP, the Group recognised lease incentives over the period to the next rent review. In accordance with IAS 17, lease incentives must be spread over the whole lease term rather than to the next rent review.
- (vi) This adjustment reflects the deferred tax effects of the profit and loss movements arising from the first time adoption of IFRS.
- (vii) Under UK GAAP, deferred tax was provided on certain timing differences that had originated but not reversed at the balance sheet date. Under IFRS, deferred tax is provided on temporary differences based upon future recovery or settlement of assets and liabilities recognised in the balance sheet.
- (viii) Under UK GAAP matured fuel and foreign exchange derivatives were previously recognised within the fuel and other operating costs and overheads line items respectively. Both items have been reclassified to fair value (losses) on derivatives such that all derivative gains and losses are recognised within a single line item on the face of the statement of comprehensive income. The Group does not apply hedge accounting.
- (ix) Under UK GAAP, passenger service charges revenue was previously disclosed on a gross basis. Under IFRS, the Group should present any revenue earned net of costs when acting as an agent to a transaction. As a result, total costs incurred were written back to the traffic direct operating cost line item and netted off against revenue.

**Company statement of financial position**

As at 31 December 2013

	As per UK GAAP £m	(A) Reclass- ifications £m	UK GAAP after Reclassifications £m	(B) Remeas- urements £m	As per IFRS £m
Non-current assets	484.6	-	484.6	18.1	502.7
Current assets	683.4	(0.2)	683.2	41.1	724.3
Current liabilities	(893.1)	(53.4)	(946.5)	(125.9)	(1,072.4)
Non-current liabilities	(223.8)	53.6	(170.2)	(15.9)	(186.1)
Equity	51.1	-	51.1	(82.6)	(31.5)

As at 31 December 2014

Non-current assets	565.6	(36.4)	529.2	73.2	602.4
Current assets	665.8	(1.4)	664.4	22.6	687.0
Current liabilities	(966.0)	(53.6)	(1,019.6)	(251.0)	(1,270.6)
Non-current liabilities	(210.7)	91.4	(119.3)	(91.9)	(211.2)
Equity	54.7	-	54.7	(247.1)	(192.4)

**Notes** *(continued)*

**31 Reconciliation of Group and Company IFRS comparatives from previously reported UK GAAP financial statements** *(continued)*

The reclassifications and remeasurements as a result of the IFRS conversion are identical to those at Group level except for the following differences in 2013:

- £0.2m in bank overdrafts were reclassified to cash and cash equivalents, £2.2m was reclassified at Group level;
- £41.0m in deferred tax liabilities were presented separately from provisions, £12.8m was presented separately at Group level;
- Deferred tax ended in a liability position at the end of 2013 (deferred tax was an asset position at the Group level), as a result there was no reclassification of deferred tax from liability to asset in the 2013 Company conversion and the 2013 IFRS adjustments in respect of deferred taxes were applied to the liability position (IFRS adjustments were applied against the asset position at Group level);
- £468.5m was reclassified from current trade and other payables to current deferred income, £472.9m was reclassified at Group level.

The reclassifications and remeasurements as a result of the IFRS conversion are identical to those at Group level except for the following differences in 2014:

- £19.1m was reclassified to restricted cash, £9.0m was reclassified at Group level;
- £36.4m in deferred tax liabilities were presented separately from provisions, £9.7m was presented separately at Group level;
- Deferred tax ended in an asset position at the end of 2014, as a result the deferred tax liability of £36.4m as at the end of 2013 was reclassified to an asset position, and IFRS adjustments were applied to this asset position in arriving to the closing IFRS figures.
- £510.4m was reclassified from current trade and other payables to current deferred income, £514.6m was reclassified at Group level.

**Virgin Atlantic Airways Limited and subsidiary companies**

Directors' report and consolidated financial statements  
for the year ended 31 December 2015

**Notes** *(continued)*

**32 Reconciliation between profit for the year and cash generated from operations**

	<b>Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
Profit/(loss) for the period	<b>83.4</b>	(154.0)
Adjustments for:		
Depreciation	<b>65.6</b>	47.2
Amortisation	<b>16.2</b>	9.0
Loss on unrealised forex	<b>13.9</b>	-
Profit on disposal of property, plant & equipment and intangible assets	<b>(62.6)</b>	(10.9)
Profit on sale of unlisted investments	-	(30.9)
Taxation	<b>6.1</b>	(40.2)
Movement in provision for bad debts	<b>(0.6)</b>	(1.0)
Fair value movement in derivatives	<b>145.6</b>	217.4
Net interest paid	<b>4.9</b>	26.9
Exceptional items	<b>14.6</b>	-
Working capital changes:		
Inventory	<b>4.2</b>	0.7
Trade and other receivables	<b>35.2</b>	23.0
Trade and other payables	<b>(20.6)</b>	23.1
Deferred income	<b>40.7</b>	41.9
Provisions	<b>(75.5)</b>	(1.1)
Interest paid	<b>(5.5)</b>	(28.6)
Dividends paid	-	-
Income taxes paid	<b>(5.8)</b>	(2.4)
Net cash from operating activities	<b>259.8</b>	120.1