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Virgin Atlantic Airways Limited and subsidiary companies

Annual report and consolidated financial statements

for the year ended 31 December 2019

Registered number 01600117

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Strategic report

Virgin Atlantic Airways ('VAA', 'Airline' or 'Group') is a significant UK based 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-focused operation from Gatwick and Manchester serving destinations in the US and Caribbean. The group also operates as a tour operator providing inclusive package holidays and flights, from the United Kingdom to the United States, the Caribbean and other worldwide destinations.

For the year ended 31 December 2019, the Group returned a loss of £27.1m (2018 restated: loss of £9.0m) before tax and exceptional items. 2019 was the year in which we put in place the foundation building blocks of our three-year plan which will both return us to profitability and set us on the flight path to being recognised as Britain's 2nd flag carrier. Alongside the rest of the industry we have hit the significant headwinds of the Global Covid-19 pandemic however we believe our relentless focus on delivering long term benefits for our customers, people and the planet through sustainable growth will ultimately enable us to succeed in our aim to be Britain's most loved travel company.

Result highlights

- Loss before tax and exceptional items is £27.1m statutory loss before tax of £57.7m (*2018 restated: loss before tax of £117.8m*);
- Airline passenger unit revenue up 5% (at constant currency);
- Load factor up 2.4pts to 81% and PRASK (passenger revenue per Available Seat Kilometre (ASK) up 4.3%;
- Launched two new destinations in 2019 – Tel Aviv and Mumbai; and
- Our first four A350-1000s joined the fleet in 2019. We have one of the youngest fleets in the sky (average age of 9.2 years) and have reduced our CO2 emissions by over 20% since 2007.

Airline passenger revenue

Airline revenue rose 6% to £2.2bn, with a stronger second half helped by new routes and new A350s flying. Total sectors flown increased 5% and capacity was up 2.3% for the year. The attractiveness of the new A350 and refreshed A330 cabin offerings was supported by good inventory management, optimising capacity on key routes. This helped deliver PRASK growth of 4.3% and load factors increasing 2.4pts over the prior year.
JV transatlantic routes performed well, increasing 5% and codeshare partner revenue rose 23%, with 1.5m passengers connecting onto other flights. Revenue from direct channels including JV partners grew 15%, reflecting our focus on growing this higher margin opportunity. There was also a 15% increase in revenue from travel management companies and corporate accounts. Across our cabins there was positive growth; unit revenue from the Upper class & Premium cabins both increasing over 3%. The new three-product offering in the Economy cabin helped deliver significant benefits, with the Economy cabin showing its strongest unit revenue growth for a number of years, up over 3%.
The loyalty programme relating to the Virgin Atlantic Flying Club was demerged in April, removing £88m of liabilities from the balance sheet. It was acquired by the Virgin Group and Delta in advance of the launch of Virgin Red due in mid-2020 which significantly expands the reach of the loyalty programme and is expected to drive incremental airline and holiday revenue. Prior to the demerger, the programme made a post-tax contribution of £1.2m (2018: £17m).

Cargo revenue

Revenue of £214m was 4% lower than 2018, as cargo tonnage of 227mt was 7% below what had been a very strong 2018. This performance was significantly ahead of the cargo sector as a whole, which was impacted by both Brexit and global trade disputes. There was strong Q1 demand from stockpiling actions in the run up to the March 2019 Brexit deadline, but a much softer second half in line with market conditions.

Despite these external challenges, Cargo achieved a 2% improvement in unit revenue, aided by an on-time delivery record of just below 90%. Fuel cost improvement, together with lower ground transport costs and overhead cost discipline, helped protect margin with EBITDAR down only 3%.

Demand from Cargo's key customers held up well, together with revenues via partner airlines. A strong foothold within some of the more trade and tariff resilient sectors such as pharma and agri-foods also helped mitigate some of the wider sector downturn.

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Strategic report *(continued)*

Holidays

Revenue of £627m was up £7m from the prior year. Our strength of brand in key destinations such as Florida helped to mitigate continued broader market weakness for US-currency destinations. Holiday departures of 390,000 were down only 1.8% on 2018 levels, but were up 2% on the prior year when excluding destinations discontinued in the year. Virgin Holidays customers flying on Virgin Atlantic planes also increased by 5% through better alignment between the two brands. Although there was some net margin compression, the cost of sales increase was kept to 1%, and with significant cost discipline on overheads, which allowed PBTEI to be maintained at over £5.5m, only £0.3m lower than 2018. This was despite c.£2m of one-off impacts from Hurricane Dorian, terrorism in Sri Lanka and FX hedging costs incurred in relation to an expected Brexit currency risk in March. Over £7m of investment was focused on digital transformation and upgrading the retail presence and experience with the fitting out of 19 new retail locations. At year end there were 55 stores open, with a further two opening early in 2020.

Fuel cost

Total net fuel costs increased 2% over the prior year, when taking hedging into account, due to 5% increase in flown sectors, partially offset by lower jet fuel pricing and the introduction of more fuel efficient planes during the year.

Non-fuel cost

Non fuel CASK was 2.6% higher than the prior year. This reflected the airline being in a growth phase, carrying more passengers on more routes, plus additional costs for the entry into service of the A350s and ongoing engine challenges with the 787 fleet, which included extended use of the more maintenance intensive A340-600s. There was continued strong cost control across the company with overhead increases kept to below UK inflation.

Aircraft ownership costs

The £11m decline in ordinary aircraft costs to £173m in 2019 reflects lower engineering and other costs incurred in relation to the Trent 1000 engine problems recognised in 2018. Under IFRS16, aircraft costs exclude any financing component within aircraft operating lease costs, which are now reported in Finance costs.

Outlook

The challenges of 2020 will be like no other we, or global aviation, has ever faced. At Virgin Atlantic, we lean in. The opportunities will be greater and our commitment stronger. Our Velocity plan and the achievements of 2019 mean we are ready to be bold, to innovate and to emerge stronger as the UK's second flag carrier.

Key performance indicators

The directors have outlined below the key performance indicators that they rely on to manage the company. The financial indicators are not stated at constant currency.

Virgin Atlantic

	2017	2018	2019	YoY
Passenger numbers (m)	5.2	5.4	5.9	+6.4%
ASK (km m)	46,154	47,747	X	+2.3%
PRASK (p)	3.99	4.06	4.24	+4.3%
Load Factor (%)	78.3%	78.7%	81.1%	+2.4pts
Fuel CASK (p)	1.19	1.45	1.44	+0.3%
Non-fuel CASK (p)	3.2	3.3	3.39	+2.6%

Strategic report *(continued)*

Key performance indicators *(continued)*

Virgin Holidays

	2017	2018	2019	YoY
Total Customers ('000)	397	397	390	(1.8%)
Contribution (£m)	15.5	5.8	5.5	(5.0%)

Virgin Atlantic Cargo

	2017	2018	2019	YoY
Tonnage (m)	230.46	44.14	227.4	(7.0%)
Flown as Booked (pts)	86.9	86.2	89.1	+3pts

Risk review

We believe corporate risk processes create and protect value to the organisation - by allowing us to be better prepared and more flexible, by providing oversight of opportunities, by helping us prioritise and deploy limited resources, and by minimising the impacts of risks that subsequently do materialise into issues.

Our risks processes are dynamic, allowing for risk escalation and de-escalation from divisional, project and process risk registers into a central Top Risk Register. Risks are assessed for likelihood of occurrence, and impact to corporate objectives and strategy using a number of lenses. They provide a consistent and comparative method to focus attention on the aspect of risk management that matters the most: identifying additional activity and investment needed to maintain our risk profile within appetite.

As **safety and security is our number one priority**, underpinning everything we do, this risk category has its own reporting structure and escalation procedures which integrate with our corporate risk processes through shared membership, aligned frameworks and a cadence of regular meetings.

Principal risks and uncertainties

In 2019 we defined our Top Risks within seven categories, being (i) Safety & Security (ii) Financial & Macro-Economic (iii) Sustainability (iv) Crisis Management & Business Continuity (v) Technology & Data Security (vi) People and (vii) Regulatory and Legislative.

Following the unprecedented impact to the aviation industry and the global economy as a result of the Covid-19 virus pandemic, in early 2020 we created an eighth material risk category, dedicated to this event. 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.

Risk Category 1: Covid Pandemic Risk 1.1: Covid-19 Pandemic Change in year: N/A – New Risk

Risk Context:
Virgin Atlantic, along with the rest of the airline industry, has faced and continues to face a severe and abrupt drop in traffic, and a corresponding drop in revenue, as a result of the Covid-19 pandemic, and the travel restrictions imposed by governments in all of our markets as a response to the virus. As a result of the pandemic, we reduced our flying capacity by 98% in Q2 2020. We continue to review and adjust our flying programme dynamically as the situation changes.

As we ramp our operations back up and markets re-open, we remain exposed to a number of risks and uncertainties associated with the pandemic, most pertinently:

- The risk that any of our customers or employees could be exposed to infection of the virus whilst in our care
- The risk that a second wave or multiple waves of the pandemic could affect our markets, leading to travel restrictions being re-imposed with material financial impacts including but not limited to loss of revenue and increased refund demands
- The risk that our employees, or third party employees such as those of airports or suppliers, are unable or restricted in their ability to work leading to significant disruptions to our core operations
- The risk that critical elements of our supplier base could fail due to the financial repercussions of the pandemic.

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Strategic report *(continued)*

Risk Review *(continued)*

Main Controls and Mitigations:

Health and Safety Risk during Covid-19:

The safety of our passengers and employees is, and always will be, our highest priority. The health and safety measures we have and will continue to implement are based on government, industry and public health guidance, and include but are not limited to:

- State of the art filtration systems installed within all of our aircraft that keep cabin air clean and hygienic to HEPA standards
- Daily cleaning and disinfecting of our aircraft and between all rotations, to industry approved standards and procedures
- Requiring all our passengers and crew wear protective equipment and masks, and providing sanitiser and cleaning products, and socially spacing where load factors allow
- We have amended our on board offering to allow for fewer touch points between crew and customers during the flight, and are also encouraging self-service activities by customers wherever possible, such as on-line check in and self-service bag drop
- Provision of protective equipment, sanitiser, guidance and social distancing measures at all of our other customer and employee touch points and our places of operation – on the ground, in the air, and in the offices

We have established a dedicated Covid operations restart committee with executive oversight, which is responsible for ensuring that comprehensive risk assessments are completed before resuming operations to any destinations, and which ensures that we are compliant with all applicable guidance, legislation and operating procedures required to keep our customer and our people safe.

Financial and Liquidity Risk during Covid-19:

When the pandemic started, we initially relied on our operational disruption processes and the substantial cash reserves we held at year end to preserve as many functions as possible whilst we identified how the pandemic and the global response would evolve. It became clear in Q2 2020 that the pandemic would last longer than our working capital and resilience processes alone could support us, and that we were exposed to a material financial risk associated with our liquidity position. At this stage we launched a solvent recapitalisation plan to ensure the long-term financial viability of the business. This plan has been predicated on modelling of scenarios including extreme scenarios which see prolonged global closure of our markets until the end of 2020 and beyond. At the time of writing, this recapitalisation plan was still being finalised, but is broadly based on reaching agreement across the following key elements:

1. Securing the ongoing support of our existing shareholders, through deferrals of amounts due and injection of additional funding, with a combined value of over £600m
2. Securing the support of our finance and operating lease partners, in the form of lease reductions and deferrals, as well as support from other creditors, resulting in a £450m reduction in cash liabilities over the combined deferral period
3. Gaining the agreement of our card acquirers to provide continuity for our future revenues and working capital
4. Securing agreement from aircraft manufacturers to delay and rephase planned acquisition programmes
5. Secure £170m of new debt financing from Davidson Kempner Capital Management

As noted in our going concern disclosures (see note 3 basis of preparation), our modelling indicates that post completion of this recapitalisation plan we will be able to meet liquidity and slot covenant requirements and continue to operate for the foreseeable future.

We have also taken a number of other measures to immediately preserve cash, reduce costs and generate liquidity within the business, including but not limited to the following:

- Accessing government support available through the Coronavirus Job Retention Scheme, allowing us to place employees on furlough and reduce payroll costs, with up to 80% of our staff furloughed between April and July 2020

Strategic report *(continued)*

Risk Review *(continued)*

- Rightsizing our fleet types down from six to four, and phasing out of older and less-fuel efficient airframes, which will also help us in our long term sustainability goals
- Completing a restructuring of the business, resulting in a reduction of 3,550 roles across the business, in consultation with our people, unions and employee representatives.
- Reviewing and reducing all areas of discretionary spend across the business, including in areas of capital expenditure and overheads
- Reducing our CEO and Leadership Team salaries by 20% and 15% respectively (Apr-Dec 2020)
- Proactively focusing on customer incentives to achieve significant rebooking rates to offset refund liabilities.

Covid-19 remains the biggest challenge we have faced to date, and we are intently focused on ensuring that not only do we survive the current crisis, but that we emerge from it in a better position: fit to meet the challenges of the future and deliveran outstanding and safe experience to all of our customers, employees and partners.

Risk 1.2: Brand and Reputational Damage
Change in year: Increasing

Risk Context:
The Covid-19 pandemic has led to flight cancellations, refund obligations, liquidity and cashflow challenges on an unprecedented scale. Although we now have a plan in place to address and restructure our balance sheet and cash holdings to ensure the long-term sustainability of the business, we also recognise that we have not lived up to the high standards of service that we set ourselves - resulting in a longer term risk to our brand value, and to our ambitions to be the most loved travel company. As a result we are focusing on a significant suite of actions designed to rebuild the love and trust with customers who have been impacted.

Main Controls and Mitigations:
We have taken immediate action to help manage the short term impact to our customer service activity stemming from the level of refund requests received as a result of flight cancellations. This includes increasing the size of the team dedicated to processing refunds five-fold, with over 200 people directly involved and focused on clearing the backlog of requests. At the time of writing we are refunding an average of 9,000 customer bookings per week across Virgin Atlantic and Virgin Holidays, which is 600% higher than prior to Covid. We recognise the importance of every single refund and anyone who has requested one for a cancelled flight or holiday will be paid in full.

During the Covid-19 period we have amended our flying program and service offering to keep our customers and crew safe at all times. We have implemented an extensive suite of health & safety measures that include changing our on board service offer to temporarily reduce interaction between customers and crew and limit the risk of any contamination of our service offering, while giving our customers medical masks, hand gel and alcohol wipes. At the time of writing we have restarted our passenger operation and after 10 days, our customers are giving us great feedback that they are confident to fly Virgin Atlantic. We are seeing record high NPS scores, especially around cabin cleanliness, airport cleanliness and crew and 98% of customers post-flight surveyed are comfortable to fly with us again, under similar (pandemic) circumstances. We will maintain a dynamic assessment and will bring back our most loved interaction and more award winning service elements, as soon as it is safe to do so.

We recognise that the news and publicity surrounding our recapitalisation activity was not all positive, and will have led some to questions on longer term financial stability measures. We have secured a solvent recapitalisation deal valued at over £2bn, and we are confident that once the recapitalisation plan has been finalised, we will have the fortitude required to meet the financial challenges of the future. As part of securing funding we have modelled a number of different scenarios through to 2025 and beyond, and this modelling demonstrates that both our key balance sheet and income statement metrics recover to a comfortable, sustainable and profitable position, even under prudent assumptions. We expect our brand value and financial value to continue to recover together throughout this period.

Strategic report *(continued)*

Risk Review *(continued)*

Risk Category 2: Safety and Security

Risk 2.1: Safety, terrorism and security incidents Change in year: Materially Unchanged

Risk Context:
A major flight or ground safety event could have a significant impact on our ability to operate or attract customers. In addition, all aviation and tour operation businesses are generally exposed to security threats, including the threat of terrorism. A safety or terrorism related event would also have a significant impact on demand or operational ability. Accordingly, the safety of customers, crew and staff is at the heart of all of our business processes and decisions.

Main Controls and Mitigations:
Safety and security is our number one priority. It is the cornerstone of our corporate strategy and underpins everything that we do.

The CAA authorises us to conduct our activities following assessments of safety, ownership and control. In addition to complying with all regulatory and airworthiness directives and processes, we have an independently chaired Safety and Security Review Board comprising Executives and Senior Managers from across the business, which reports directly and regularly to our Board of Directors on our safety and security position.

This monitoring and reporting structure integrates with our corporate risk processes through shared membership, aligned frameworks, and a cadence of regular meetings between the risk and safety and security teams.

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.

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, personnel and asset protection. In view of the ongoing 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.

Risk Category 3: Financial & Macro-Economic Risk 3.1: Liquidity and financing risk
Change in year: Increasing

Risk Context:
The current Covid-19 crisis has put unprecedented financial pressure on all aviation and tour operator business globally. This risk on our liquidity and financing is covered in more detailed in the "Covid-19 Pandemic" risk, above.

Our working capital is financed by retained profit and sales in advance of carriage. The major risks to liquidity are therefore driven by business performance, capital investments, the financing structures we enter into, and the timing of associated cash flows. We are also exposed to the risk of increased finance costs as a result of movements in interest rates on floating rate debt. The yield generated from cash investments provides some compensation as interest rates rise.

Derivative financial instruments are used selectively for financial risk management purposes. The timing difference between derivative maturity date and current mark to market value can give rise to cash margin exposure.

Main Controls and Mitigations:
We have taken a range of immediate short, mid and long term actions designed to protect our liquidity and working capital position in the immediate response to the Covid-19 pandemic For more on these measures, please refer to the "Covid-19 Pandemic" risk, above.

As well as maintaining cash holdings, we ensure that suitable lines of credit are available to provide capital as required, including through the use of a committed revolving credit facility. The net exposure to movements in interest rates is calculated and managed with a view to reducing the impact of any potential rate increase. A mix of fixed and floating rate products is used to reduce exposure and where necessary we utilise financial instruments approved under our risk management policies.

Strategic report *(continued)*

Risk Review *(continued)*

We hedge in line with our financial risk management policies to provide a degree of certainty for future financing costs and to reduce volatility of cash flows. We do not speculatively trade and use these instruments to manage the underlying physical exposures of the business. In addition, the risk is managed through a choice of instruments and appropriate counterparty agreements which either do not have a margin requirement or which only require cash margins over an agreed mark to market threshold.

Risk 3.2: Foreign currency and jet fuel risk Change in year: Increasing

Risk Context:
We have significant exposure to US Dollar denominated costs, most significantly for jet fuel and aircraft rentals, but also for fleet maintenance and other US Dollar financing arrangements. Adverse movements in the US Dollar to Pound sterling rate can therefore significantly impact our financial position. In addition, jet fuel comprises a significant and material element of our cost base, and we therefore have considerable exposure to adverse movements in the base price of oil and jet fuel, independently of the foreign exchange risk outline above.

We also have a net exposure to a number of other currencies due to the local currency revenues exceeding costs. Repatriation may be constrained in countries where exchange controls are imposed to regulate the flow of money.

Main Controls and Mitigations:
Where possible we reduce our exposure through the matching of receipts and payments in individual currencies. For countries with remittance challenges and risks we closely monitor our currency exposure to identify any issues at an early stage and to take remedial action, both operational and financial, to minimise the value of these funds. Where a significant exposure in foreign currency holdings remains we utilise financial instruments approved under the financial risk management policies.

We aim to protect the business from significant near term adverse movements in the jet fuel price. This is managed with financial instruments approved under the financial risk management policies. Our fuel hedging policy allows for the use of derivatives available on the over the counter (OTC) markets with approved counterparties. We do not speculatively trade and use these instruments to manage the underlying physical exposures of the business.

Risk Category 4: Sustainability
Risk 4.1: Consumer expectations and appeal Change in year: Increasing

Risk Context:
Consumer expectations are changing, with social responsibility towards the environment playing an increasingly strong role in determining preference. As leaders in travel and aviation we have a vital role to play in addressing the climate crisis and we know that climate action is important to our customers, our people and the wider world.

Main Controls and Mitigations:
We have committed to net zero carbon emissions by 2050, together with a clear pathway and interim targets to monitor our progress. We continuously monitor the efficiency of our operations and have set a new interim target to reduce aircraft $CO2$ emissions by 20% per Revenue Tonne Kilometre (RTK) between 2019 and 2030. We are transforming our fleet from four-engine to more efficient twin-engine aircraft through a ten-year, multibillion-dollar investment programme, which will yield a material reduction in CO2/RTK. We have been supporting the development of sustainable aviation fuels since 2011, and continue to lobby for regulatory changes needed to allow initiatives to be scaled at speed.

We have created a new Corporate Development team, integrating teams working on long term business strategy for sustainability, business growth and government affairs. To ensure our customers and stakeholders are aware of all our investments in sustainability we communicate this directly onboard and through our reporting and Change is in the Air newsletters. We seek independent assessment of our performance through organisations such as CDP.

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Strategic report *(continued)*

Risk Review *(continued)*

Risk 4.2: Financial cost of carbon offset schemes Change in year: Decreasing

Risk Context:
There are uncertain future costs and the financial impact of market based measures such as CORSIA (Carbon Offset and Reduction Scheme for International Aviation) couldbe material. Under CORSIA, airlines from participating states will be required to buy carbon offsets to compensate for the global growth in CO2 emissions. There are many unknowns associated with the future costs, and two of the largest which are outside our control are the cost of the offsets, and the pound to dollar exchange rate.

Main Controls and Mitigations:
We attend industry workshops (such as IATA and Sustainable Aviation) to keep abreast of the latest developments. We are also liaising with UK government departments to provide input into the UK position, as participation is on a state (country) level. We model the possible financial implications of CORSIA so we can effectively plan for its implementation. We are actively engaging with offset providers to develop our purchasing and investment strategy, to create a diverse portfolio and spread the financial risk. Our Leadership Team regularly review the strategy and approach to ensure visibility of expected near-term costs. Longer term we intend to focus on investing in robust carbon reduction projects with strong community benefits. Wherever possible we will be looking for projects in Virgin Atlantic and Virgin Holidays destinations, and those that have additional benefits such as job creation, health and wellbeing, habitat protection and storm resilience.

Risk 4.3: Future legislative regimes Change in year: Materially Unchanged

Risk Context:
There is the potential that future legislative changes lead to an uncoordinated array of climate policies and taxes. This could create competitive distortion and increase compliance costs without effectively managing aviation emissions.

Main Controls and Mitigations:
We engage with industry groups, government, stakeholders and peers to understand and influence future and existing policy, in support of a single global scheme for aviation: CORSIA. Industry groups such as IATA also actively monitor legislative activities and inform their membership of issues arising. Where appropriate, these are referred to our legal team for further investigations.

Risk Category 5: Crisis Management & Business Continuity Risk 5.1: Key Supplier Failure Risk
Change in year: Increasing

Risk Context:
We are dependent on suppliers for some principal business processes. The failure of a key supplier to deliver contractual obligations could have a significant impact on operational performance and customer delivery. The ongoing Covid-19 pandemic has put further pressure on our supply chain, leading to a generally heightened risk for many businesses we deal and transact with on a daily basis.

Main Controls and Mitigations:
We assess the adequacy and resilience of our supply chain carefully when entering into new contractual agreements and maintain close relationships with existing key suppliers to ensure we are aware of any potential supply chain disruption. Our Organisational Resilience Board has oversight of this risk and meets regularly to assess the controls linked to our key suppliers' performance. We are carefully monitoring the impact of the Covid-19 pandemic on our supply chain to ensure the actions we are taking do not place any undue stress than possible on our valued counter-parties.

Strategic report *(continued)*

Risk Review *(continued)*

Risk 5.2: High impact/low likelihood adverse events Change in year: Increasing

Risk Context:
Black swan and crisis management risk scenarios apply to all airline and tour operators, and include but are not limited to:

- Significant weather events which impact our ability to operate our flying plan or deliver on our holiday packages
- Terrorism events which lead to a pronounced reduction in consumer demand and confidence
- A critical safety event on a Virgin operated aircraft
- Worldwide fleet grounding events
- The unplanned and prolonged downtime of a critical computer system
- Future pandemics, or other World Health Organisation global events, which lead to widespread closure of airspace and/or territories for a short or medium term duration

If any of these crisis events were to transpire, the ability of our business to respond and survive depends on having well established crisis management and business continuity processes. There is a risk that despite taking precautions, in the actual event our preparations may not be sufficient to protect us from material damage.

Main Controls and Mitigations:
As the Covid-19 global crisis has demonstrated, despite the existence of resilience plans and functions, it is very difficult for any entity to realistically and adequately plan for a widespread global event that has the potential to stop all trading activity for a highly sustained period of time.

The processes we have established are designed to protect us from short and mid-term shocks, and briefly are as follows:

We have a dedicated crisis management and resilience function which constantly and consistently manages this risk from an operational perspective. We maintain a dedicated crisis management centre within our headquarters, which at an operational readiness state 24/7/365, with clearly established protocols for engaging, escalation and closure of potential crisis events. We also have a team of volunteers trained in crisis management situations who can be called upon for support activity at short notice.

We have conducted company-wide business impact analyses, and established Business Continuity Plans for all the critical areas of our operating and head office functions, which remain under continuous review. We test our crisis management processes regularly using a range of different and changing scenarios.

Our Organisational Resilience Board and Safety and Security Board meets regularly to assess the sub-risks associated with crisis management and business continuity. We have a number of additional domain-specific controls established for both Information Systems Disaster Recovery risks, and for Safety and Security risks – please refer to the relevant risk sections detailed elsewhere for more details on these.

Risk Category 6: Technology and Data Security
Risk 6.1: Failure of a critical IT system, including from cyber-security threats
Change in year: Increasing

Risk Context:
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 (including a cyber-attack) or event may cause significant disruption to operations or result in loss of revenue.

With the changing ways of working following the Covid-19 crisis, we also have a larger than usual home-based working force, who are reliant on a variety of technology solutions being seamlessly and effectively delivered to them remotely. This brings a separate and heightened consideration to resilience required, compared to previous reporting periods.

Main Controls and Mitigations:
We have an Information Security Board established with overall governance and management of our technology and information risk landscape. The board also providers oversight of the information security improvement programme.

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Strategic report *(continued)*

Risk Review *(continued)*

System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure. We deploy a wide range of preventative and detective controls, including technical solutions, to minimise the threat to our systems from cyber-attacks. Ongoing investment and efforts are directed to this risk to reflect the evolving nature of the threat landscape.

We have carefully and systematically developed solutions that allow us to support home-based working at scale, and since the start of the Covid-19 crisis we have managed to support our changing workforce requirements effectively.

In addition, our technology team works closely and diligently with our key system suppliers to ensure that we are operating our critical systems in a risk appropriate manner.

Risk 6.2: Information security and compliance with data protection
Change in year: Materially Unchanged

Risk Context:
Unauthorised access or loss of customer or employee data could lead to significant reputation and financial damage. We have a duty and a requirement to ensure customer and employee data is only used within the legislative requirements of the Data Protection Act and for purposes to which they have consented.

The Data Protection Act 2018 became law in the U.K. in May 2018. This legislation works with the EU General Data Protection Regulations (GDPR) and allows for potentially significant fines to be levied for cases of serious data breach or non-compliance. Versions of the GDPR are now also being enacted in a number of non-EU destinations served by Virgin Atlantic.

Main Controls and Mitigations:
We have an Information Security Board established with overall governance and management of our technology and information risk landscape. The board also providers oversight of the information security improvement programme.

Our Information Security team, supported by a Security Operations Centre, conduct a range of information security measures, including but not limited to: network monitoring, vulnerability scanning, penetration testing and various other proactive hardening measures to keep our data safe and secure. We invest significantly in the information security sphere each year, and continuously keep our tooling, partnerships, operating models and processes under review.

Our Data Privacy Team and Data Protection Officer for Virgin Atlantic Airways and Virgin Atlantic Holidays report to our General Counsel. The Data Protection Officer has oversight and the remit of ensuring compliance with data protection regulations. The Privacy Team also support the business with processes, procedures, contracts, partnerships and campaigns that use personal data, along with supporting customer and employee privacy requests and handling complaints from data subjects.

To facilitate privacy regulation compliance, investment was made in 2019 to implement the One Trust privacy compliance system. We also continue to invest annually to ensure employee awareness of privacy matters. We are also PCI compliant, and we saw no enforcement action in 2019 from any Data Protection regulator.

Risk Category 7: People Risk 7.1: Industrial Relations
Change in year: Materially Unchanged

Risk Context:
We have a large unionised workforce that are represented by a number of different trade unions. Industrial action by key groups of employees or by the employees of key third party service providers could have potentially adverse operational and/or financial impacts on the Group.

Strategic report *(continued)*

Risk Review *(continued)*

As part of the response to the Covid-19 crisis, we have had to take the difficult decision to undergo a large scale restructuring resulting in a material reduction of our workforce. We completed the consultation on this matter with the support of our unions.

Main Controls and Mitigations:
We recognise the unions Unite the Union and BALPA. Emphasis has been placed on maintaining ongoing dialogue and resolving issues early at a departmental level in order to avoid escalation. A significant level of negotiation takes place during collective bargaining with unions prior to the adoption of any new policies which may impact our people and their work environment.

We have engaged fully and properly with all unions throughout the difficult decisions we have had to take on restructuring the business, and which have resulted in a materially decreased headcount going forward. As a result of the goodwill and openness demonstrated from both the company and the unions throughout these discussions, we feel confident that our working relationships with these critical groups remains one based on achieving mutual goals, underpinned by trust and respect.

Risk 7.2: Talent acquisition, management, development and retention
Change in year: Increasing

Risk Context:
We compete to attract the best talent globally. Without effective talent management and development processes we may have difficulty in attracting and retaining the people with the skills we need to deliver our strategy.

Failure to meet our ambitions to be an open, inclusive and representative company could also compromise our ability to attract and retain the best talent with critical skills and experience, ultimately impacting company performance.

Main Controls and Mitigations:
The strong reputation and loyalty engendered by the Virgin Atlantic brand is a core part of the value of our business, and one which continues to stand us in good stead when we compete for talent, coupled with our competitive reward packages.

We have ambitious BAME and gender targets, and a number of strategic initiatives are running internally to ensure we meet these.

We maintain a clear and equitable talent management process internally, linked to a variety of performance related pay mechanisms, which encourage and reward effective performance at both the individual and company level. We conduct succession planning to ensure that we have an effective view of our internal and external talent pipeline, to provide continuity, and to identify development opportunities for our staff.

We also invest in a number of local and international efforts to increase the diversity and strength of the longer term talent pipeline. These includes, amongst others, initiatives designed to increase the representation of women in STEM subjects and careers; mentoring programmes to support local schools; and apprenticeships schemes which allow us to identify and attract the next generation of leaders.

Risk Category 8: Regulatory & Legislative
Risk 8.1: Compliance with competition, anti-bribery and corruption law
Change in year: Materially Unchanged

Risk Context:
We are exposed to the risk of unethical behaviour by individual employees or groups of employees resulting in fines or losses to our business. Legislation allows for potentially significant fines to be levied for cases of serious breach or non-compliance.

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Strategic report *(continued)*

Risk Review *(continued)*

Main Controls and Mitigations:
To mitigate this risk we have comprehensive training schemes and controls in place to both prevent and detect non-compliance. E-learning courses have been established covering competition compliance, data protection and anti-bribery policy, which are mandatory for everyone across the organisation to complete on an annual basis, and immediately upon joining the company.

For specific areas of higher inherent risk for competition law, we provide additional annual specialized training courses, led by a legal compliance expert, to ensure that the relevant teams are very clear on legal requirements and remain stringently within the bounds of acceptable behaviour.

For our third party relationships, all our suppliers and general sales agents specifically agree in their written contracts with us to comply with all applicable laws and regulations, and to comply with our anti-bribery and ethical business policy. We maintain right-to-audit clauses in all our key and critical supplier contracts, giving us the ability to inspect records and assure compliance where (or if) we have any concerns about supplier compliance with laws and regulations.

Risk 8.2: Compliance with other aviation regulatory authorities and government
Change in year: Materially Unchanged

Risk Context:
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, data protection, environmental controls, government taxes and levies. The ability to both comply with and influence any changes in these regulations is critical to maintaining our operational and financial performance.

Main Controls and Mitigations:
The CAA authorises us to continue our activities following assessments of safety, ownership and control as well as financial fitness criteria. The broad framework of which is available via the CAA website (www.caa.co.uk).

We continue to engage with the UK Government to understand how its objectives are expected to impact Virgin Atlantic and to constructively drive debate and effective policy formulation. We regularly assess the impacts of UK Government policy and objectives on our business and take action as required and appropriate.

Globally, we continue to assess political risk and work with governments across the world to limit any potential regulatory impact on our operations. We retain legal counsel for all jurisdictions we operate in, as well as maintaining close relationships with our trading partners, government departments and through a network of trusted and professional advisors to ensure that our operations stay in compliance with all required legislation.

The Strategic Report was approved by the Board of Directors on 14 August 2020 and signed on its behalf by

Ian de Sousa
Company secretary

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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 2019.

Directors and directors' interests

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

Sir Richard Branson	(President)
Peter Norris	(Chairman)
Gordon McCallum	
Ian Woods	
Shai Weiss	
Tom Mackay	
Edward Bastian	
Glen Hauenstein	
Dwight Lamar	
Cornelis Koster	
Mark Anderson	(appointed 1 January 2019) (resigned 1 July 2019)
Juha Jarvinen	(appointed 1 July 2019)
Steve Sear	(appointed 1 February 2020)

Long term incentive scheme

The Virgin Atlantic Group has a long term incentive scheme for Executive Directors and other invited participants to incentivise and recognise execution of our 'Velocity' plan. The details of this scheme can be found in note 9.

Results, business review and future developments

The results of the Group for the period are set out on page 18 and are commented on within the Strategic Report. The Strategic Report also contains a review of the business and the future developments.

Employees

In considering applications for employment from disabled people in the UK, VAA 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 they have applied. Employees who become temporarily or permanently disabled are given individual consideration, and where possible equal opportunities for training, career development and promotions are given to disabled persons.

Within the bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of our business and are of interest and concern to them as employees.

Dividends

The directors recommend that no ordinary interim *(2018: £nil)* or final *(2018: £nil)* dividend be paid in respect of the year ended 31 December 2019.

Overseas branches

VAA flies to a number of countries and a number of overseas branches have been established in many of these countries to facilitate this. VAA has also established branches in countries to which it does not fly.

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year *(2018: £nil)*.

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Directors' report *(continued)*

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. See note 3.

Auditors

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

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 the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct, and
- need to act fairly as between members of the company.

The Directors understand that how we behave matters not only to our people but also to the many stakeholders who have an interest in our business. We believe that productive business relationships with our suppliers, customers and other key stakeholders are key to the success of the Group and Company and that the interests of relevant parties should be considered when making decisions that may impact them. Though engagement is carried out at a Virgin Atlantic Limited Group level by those most relevant to the stakeholder or issue in question, the Directors receive updates on the engagement that has been undertaken, the reoccurring questions, concerns raised and the feedback provided by the Group and Company's key stakeholders.

When making decisions the Directors takes the course of action that they consider best leads to the success of the Group and Company over the long-term, and when doing so also consider the interests of the stakeholders that we interact with. The Directors acknowledge that every decision made will not necessarily result in a positive outcome for all our stakeholders but by considering the Group and Company's purpose and values together with its strategic priorities the Directors aim to make sure its decision is consistent and predictable.

The directors' report was approved by the Board of Directors on 14 August 2020 and signed on its behalf by

Ian de Sousa
Company Secretary

Registered Office:
Company Secretariat
The VHQ, Fleming Way
Crawley, West Sussex
RH10 9DF

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STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE 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 the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company 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 jurisdiction.

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRGIN ATLANTIC AIRWAYS LIMITED

Opinion

We have audited the financial statements of Virgin Atlantic Airways Limited ("the company") for the year ended 31 December 2019 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position and Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows and related notes, including the accounting policies in note 3.

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 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 3 to the financial statements which indicates that the Company's ability to continue as a going concern is dependent on the continued financial support from its ultimate parent company, Virgin Atlantic Limited. The financial statements of Virgin Atlantic Limited include material uncertainties related to going concern and therefore the availability of support may be in doubt if required. These events and conditions, along with the other matters explained in note 3, constitute a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRGIN ATLANTIC AIRWAYS LIMITED *(continued)*

Directors' responsibilities

As explained more fully in their statement set out on page 15, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Jonathan Downer (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
United Kingdom
14 August 2020

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Consolidated statement of comprehensive income

for the year ended 31 December 2019

		2019			2018 Restated*		
	Note	Ordinary activities before exceptional items £m	Exceptional items and fair value movements (Note 8) £m	Total £m	Ordinary activities before exceptional items £m	Exceptional items and fair value movements (Note 8) £m	Total £m
Total revenue	6	2,927.1	-	2,927.1	2,780.6	-	2,780.6
Aircraft costs		(173.2)	(1.3)	(174.5)	(183.8)	-	(183.8)
Other depreciation and amortisation		(76.8)	(0.3)	(77.1)	(73.7)	-	(73.7)
Physical fuel		(686.3)	-	(686.3)	(697.9)	-	(697.9)
Fuel hedging		(17.8)	17.8	-	38.8	(38.8)	-
Airline traffic direct operating costs		(598.1)	-	(598.1)	(553.3)	-	(553.3)
Engineering and maintenance costs		(175.5)	-	(175.5)	(156.2)	-	(156.2)
Employee remuneration	9	(421.9)	-	(421.9)	(397.4)	-	(397.4)
Other income		30.8	-	30.8	46.0	-	46.0
Tour and other marketing costs		(564.9)	(14.4)	(579.3)	(540.4)	0.4	(540.0)
Other operating and overhead costs		(176.1)	(19.8)	(195.9)	(179.8)	(69.7)	(249.5)
Operating (loss)/profit		67.3	(18.0)	49.3	82.9	(108.1)	(25.2)
Profit on disposal of property, plant and equipment		1.4	-	1.4	(1.3)	23.2	21.9
Restructuring		-	(10.4)	(10.4)	-	(8.7)	(8.7)
Impairments on financial assets		-	(39.2)	(39.2)	-	-	-
		1.4	(49.6)	(48.2)	(1.3)	14.5	13.2
Finance income		16.4	-	16.4	10.1	-	10.1
Finance expense		(112.2)	-	(112.2)	(100.7)	-	(100.7)
Net finance costs	10	(95.8)	-	(95.8)	(90.6)	-	(90.6)
Fair value (losses)/gains on derivative contracts		-	37.0	37.0	-	(15.2)	(15.2)
(Loss)/profit before tax	7	(27.1)	(30.6)	(57.7)	(9.0)	(108.8)	(117.8)
Tax credit/(charge)	11			9.2			22.0
(Loss)/profit for the year				(48.5)			(95.8)
Profits attributable to:							
Owners of the Company				(48.6)			(95.9)
Non-controlling interests	25			0.1			0.1
(Loss)/profit for the year				(48.5)			(95.8)
Other comprehensive income (items that will not be reclassified to the income statement):							
Exchange translation differences				(0.1)			0.2
Other comprehensive income (items that may be reclassified subsequently to the income statement):							
(Losses)/gains arising during the year on cash flow hedges				82.6			(0.1)
Total comprehensive (loss)/income for the year				34.0			(95.7)

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

The loss for the year for the Company is £15.5m *(2018 restated: £120.0m loss).*

All amounts relate to continuing operations. The notes on pages 25 to 77 form part of these financial statements.

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Consolidated statement of changes in equity

for the year ended 31 December 2019

	Share Capital £m	Share Premium £m	Capital Contribution Reserve £m	Hedging Reserve £m	Currency Translation Reserve £m	Retained Earnings £m	Total £m	Non-controlling interests £m	Total Equity £m
Balance at 1 January 2018, as previously reported	4.5	5.0	28.3	-	-	53.5	**91.3**	-	**91.3**
Adjustment on initial application of IFRS 16, net of tax (note 5)	-	-	-	-	-	(227.3)	**(227.3)**	-	**(227.3)**
Merger accounting restatement, Virgin holidays (note 5)	2.5	-	-	-	0.1	50.2	**52.8**	-	**52.8**
Restated balance at 1 January 2018	7.0	5.0	28.3	-	0.1	(123.6)	**(83.2)**	-	**(83.2)**
Transfer of opening assets	-	-	-	-		-	-	0.8	**0.8**
Loss for the year	-	-	-	-	-	(95.9)	**(95.9)**	0.1	**(95.8)**
Exchange translation differences	-	-	-	-	0.2	-	**0.2**	-	**0.2**
Other comprehensive income/(expense) for the year	-	-	-	(0.1)	-	-	**(0.1)**	-	**(0.1)**
Total comprehensive income/(expense) for the year	-	-	-	(0.1)	0.2	(95.9)	**(95.8)**	0.9	**(94.9)**
Balance at 31 December 2018	**7.0**	**5.0**	**28.3**	**(0.1)**	**0.3**	**(219.5)**	**(179.0)**	**0.9**	**(178.1)**
Balance at 1 January 2019	7.0	5.0	28.3	(0.1)	0.3	(219.5)	**(179.0)**	0.9	**(178.1)**
New issue of shares, and subsequent capital reduction	-	-	-	-	-	267.0	**267.0**	-	**267.0**
Bonus issue of shares, and subsequent capital reduction	-	(5.0)	(25.0)	-	-	30.0	-	-	-
De-merger of subsidiary (note 25)	-	-	-	-	-	87.9	**87.9**	(1.0)	**86.9**
Dividends paid	-	-	-	-	-	(50.0)	**(50.0)**	-	**(50.0)**
Loss for the year	-	-	-	-	-	(48.6)	**(48.6)**	0.1	**(48.5)**
Other comprehensive income/(expense) for the year	-	-	-	82.6	(0.1)	-	**82.5**	-	**82.5**
Total comprehensive income/(expense) for the year	-	-	-	82.6	(0.1)	(48.6)	**33.9**	0.1	**34.0**
Balance at 31 December 2019	**7.0**	-	**3.3**	**82.5**	**0.2**	**66.8**	**159.8**	-	**159.8**

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

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Consolidated statement of changes in equity *(continued)*

for the year ended 31 December 2019

Share capital includes 6,954,381 *(2018: 4,497,607)* ordinary shares of £1 each.

During the year the Group acquired a subsidiary, Virgin Holidays Limited. The Group issued 2,456,774 of ordinary shares to its immediate parent, Virgin Travel Group Limited in exchange for the entire shareholding of Virgin Holidays Limited. The assets and liabilities were transferred at book value. See note 5.

The Group demerged a subsidiary during the year. Virgin Group Loyalty Company Limited was transferred via a dividend to the Group's shareholders, Virgin Holdings Limited and Delta Airlines Incorporated. See note 24.

The notes on pages 25 to 77 form part of these financial statements.

Company statement of changes in equity

For the year ended 31 December 2019

	Share Capital £m	Share Premium £m	Capital Contribution Reserve £m	Hedging Reserve £m	Retained Earnings £m	Total £m
Balance at 1 January 2018	4.5	5.0	25.0	-	30.1	**64.6**
Adjustment on initial application of IFRS 16, net of tax	-	-	-	-	(225.7)	**(225.7)**
Restated balance at 1 January 2018	4.5	5.0	25.0	-	(195.6)	**(161.1)**
Transfer of operating assets	-	-	-	-	92.6	**92.6**
Loss for the year	-	-	-	-	(120.0)	**(120.0)**
Other comprehensive income/(expense) for the year	-	-	-	(0.1)	-	**(0.1)**
Total comprehensive income/(expense) for the year	-	-	-	(0.1)	(120.0)	**(120.1)**
Balance at 31 December 2018	4.5	5.0	25.0	(0.1)	(223.0)	**(188.6)**
Balance at 1 January 2019	4.5	5.0	25.0	(0.1)	(223.0)	**(188.6)**
New issue of shares, and subsequent capital reduction	-	-	-	-	267.0	**267.0**
Bonus issue of shares, and subsequent capital reduction	-	(5.0)	(25.0)	-	30.0	**-**
New issue of shares	2.5	-	-	-	-	**2.5**
Loss for the year	-	-	-	-	(15.5)	**(15.5)**
Other comprehensive income/(expense)	-	-	-	82.1	-	**82.1**
Total comprehensive income/(expense) for the year	-	-	-	82.1	(15.5)	**66.6**
Balance at 31 December 2019	**7.0**	**-**	**-**	**82.0**	**58.5**	**147.5**

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

Share capital includes 6,954,381 (prior year: 4,497,607) ordinary shares of £1 each.

The notes on pages 25 to 77 form part of these financial statements.

Consolidated statement of financial position

as at 31 December 2019

Registered number: 01600117

	Note	As at 31 December 2019 £m	As at 31 December 2018 Restated* £m	As at 1 January 2018 Restated* £m
Non-current assets				
Intangible assets	12	**182.5**	173.0	170.4
Property, plant and equipment	13	**2,228.0**	1,921.4	1,727.3
Deferred tax	14	**8.8**	-	-
Investments	15	**-**	-	-
Derivative financial instruments	16	**4.4**	3.2	5.1
Trade and other receivables	17	**17.8**	25.4	17.0
		2,441.5	2,123.0	1,919.8
Current assets				
Inventories	18	**38.8**	33.6	31.3
Trade and other receivables	17	**638.7**	435.8	443.6
Derivative financial instruments	16	**20.2**	47.6	30.2
Cash and cash equivalents	19	**352.6**	391.6	444.9
Restricted cash	19	**96.5**	97.3	49.1
		1,146.8	1,005.9	999.1
TOTAL ASSETS		**3,588.3**	3,128.9	2,918.9
Current liabilities				
Borrowings	20	**(248.2)**	(173.3)	(148.7)
Trade and other payables	21	**(515.4)**	(519.4)	(532.1)
Deferred revenue on air travel and tour operations	22	**(523.5)**	(618.6)	(598.3)
Provisions	23	**(30.4)**	(36.2)	(35.9)
Derivative financial instruments	16	**(34.1)**	(66.2)	(20.7)
		(1,351.6)	(1,413.7)	(1,335.7)
NET CURRENT LIABILITIES		**(204.8)**	(407.8)	(336.6)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,236.7**	1,715.2	1,583.2
Non-current liabilities				
Borrowings	20	**(1,966.6)**	(1,777.1)	(1,562.4)
Trade and other payables	21	**(3.9)**	(4.5)	(9.5)
Deferred revenue on air travel and tour operations	22	**(1.9)**	(1.0)	(1.0)
Provisions	23	**(99.6)**	(93.3)	(68.5)
Derivative financial instruments	16	**(4.9)**	(17.2)	(3.3)
Deferred tax	14	**-**	(0.2)	(21.7)
		(2,076.9)	(1,893.3)	(1,666.4)
NET ASSETS/(LIABILITIES)		**159.8**	(178.1)	(83.2)
Equity				
Share capital		**7.0**	7.0	7.0
Share premium		**-**	5.0	5.0
Capital contribution reserve		**3.3**	28.3	28.3
Hedging reserve		**82.5**	(0.1)	-
Currency translation reserve		**0.2**	0.3	0.1
Retained earnings		**66.8**	(219.5)	(123.6)
Equity attributable to owners of the Company		**159.8**	(179.0)	(83.2)
Non-controlling interests	25	**-**	0.9	-
Total equity		**159.8**	(178.1)	(83.2)

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

These financial statements were approved by the Board of Directors on 14 August 2020 and were signed on its behalf by:

DocuSigned by:
Tom Mackay
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Tom Mackay
Director

The notes on pages 25 to 77 form part of these financial statements.

Company statement of financial position

as at 31 December 2019

Registered number: 01600117	Note	As at 31 December 2019 £m	As at 31 December 2018 Restated* £m	As at 1 January 2018 Restated* £m
Non-current assets				
Intangible assets	12	**168.9**	155.2	150.7
Property, plant and equipment	13	**2,201.7**	1,888.9	1,686.0
Investments	15	**253.1**	207.1	201.2
Derivative financial instruments	16	**4.4**	3.0	5.1
Trade and other receivables	17	**35.5**	30.1	17.0
		2,663.6	2,284.3	2,060.0
Current assets				
Inventories	18	**38.8**	33.6	31.3
Trade and other receivables	17	**417.4**	342.3	230.9
Investments	15	**8.0**	7.8	7.7
Derivative financial instruments	16	**19.7**	35.7	30.0
Cash and cash equivalents	19	**347.9**	381.1	441.1
Restricted cash	19	**72.8**	73.8	25.8
		904.6	874.3	766.8
TOTAL ASSETS		**3,568.2**	3,158.6	2,826.8
Current liabilities				
Borrowings	20	**(239.3)**	(164.2)	(135.9)
Trade and other payables	21	**(475.0)**	(593.6)	(501.2)
Deferred revenue on air travel	22	**(361.2)**	(383.0)	(448.8)
Provisions	23	**(29.6)**	(35.6)	(35.6)
Derivative financial instruments	16	**(26.4)**	(66.2)	(14.9)
		(1,131.5)	(1,242.6)	(1,136.4)
NET CURRENT LIABILITIES		**(226.9)**	(368.3)	(369.6)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,436.7**	1,916.0	1,690.4
Non-current liabilities				
Borrowings	20	**(2,182.1)**	(1,982.0)	(1,739.3)
Deferred tax	14	**-**	(7.4)	(31.0)
Trade and other payables	21	**(3.8)**	(4.7)	(9.5)
Provisions	23	**(99.6)**	(93.3)	(68.5)
Derivative financial instruments	16	**(3.7)**	(17.2)	(3.2)
		(2,289.2)	(2,104.6)	(1,851.5)
NET ASSETS/(LIABILITIES)		**147.5**	(188.6)	(161.1)
Equity				
Share capital		**7.0**	4.5	4.5
Share premium		**-**	5.0	5.0
Capital contribution reserve		**-**	25.0	25.0
Hedging reserve		**82.0**	(0.1)	-
Retained earnings		**58.5**	(223.0)	(195.6)
Equity attributable to owners of the Company		**147.5**	(188.6)	(161.1)

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

These financial statements were approved by the Board of Directors on 14 August 2020 and were signed on its behalf by:

DocuSigned by:
Tom Mackay Tom Mackay
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Director

The notes on pages 25 to 77 form part of these financial statements.

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Consolidated statement of cash flows

for the year ended 31 December 2019

	Note	2019 £m	2018 restated* £m
Net cash from operating activities before exceptional items	31	**217.8**	235.4
Adjustments for exceptional items	31	**(7.7)**	(5.4)
Net cash from operating activities	**31**	**210.1**	230.0
Purchase of PPE		**(533.5)**	(352.6)
Purchase of intangible assets		**(33.6)**	(25.5)
Proceeds from sale of PPE and intangible assets		**6.2**	193.1
Interest received		**8.4**	8.6
Dividends paid		**(50.0)**	-
-Net cash used in investing activities		**(602.5)**	(176.4)
Payment of long term borrowings		**(6.2)**	(6.1)
Payment of lease liabilities		**(173.6)**	(169.2)
Proceeds from asset financing arrangements		**480.5**	83.6
Drawdown on revolving credit facility		**51.3**	-
Loan to associate		**(34.9)**	-
New shares issued		**50.0**	-
Net cash from/(used in) financing activities		**367.1**	(91.7)
Net decrease in cash and cash equivalents		**(25.3)**	(38.1)
Cash and cash equivalents at beginning of year and restricted cash	19	**488.9**	494.0
Effect of foreign exchange rate changes		**(14.5)**	33.0
Cash and cash equivalents at end of year and restricted cash	**19**	**449.1**	488.9

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

The notes on pages 25 to 77 form part of these financial statements.

Notes

1 General information

Virgin Atlantic Airways Limited ('VAA'), (the 'Company') and its subsidiaries (the 'Group') is principally a passenger airline with cargo and tour operations components, 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 12.

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 14.

2 Statement of compliance with IFRS

The Group 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 separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 ('FRS 100') issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2019 the Company has prepared its individual entity accounts under FRS 101'Reduced Disclosure Framework' as issued by the Financial Reporting Council. In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The principal accounting policies adopted by the Group and Company are set out in note 3.

3 Accounting polices

Basis of preparation

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through the successful completion of its ultimate parent's, Virgin Atlantic Limited, court sanctioned restructuring plan, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Virgin Atlantic Limited's successful completion of its court sanctioned restructuring plan. The restructuring plan will need to go through a court-sanctioned process under Part 26A of the Companies Act 2006 before it can be implemented. This is expected in September 2020. Virgin Atlantic Limited has indicated its intention to continue to make available such funds as are needed by the Company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.
The Virgin Atlantic Limited group financial statements indicate that material uncertainties exist over its ability to continue as a going concern as the current court sanctioned recapitalisation process could fail, the potential additional mitigations identified could fail and the inability to obtain additional funding. The following basis of preparation wording has been included in the group accounts:

"In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2019, the Directors are required to consider whether the Group and Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken an assessment of the financial forecasts with specific consideration to the trading position of the Group and Company in the context of the current Coronavirus pandemic ('Covid-19'), for the reasons set out below.

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Notes *(continued)*

3 Accounting policies *(continued)*

At 31 December 2019, the Group's financing consisted of total cash balances of £449.1m (including unrestricted cash of £352.6m) and a revolving credit facility of $280m ('secured bank loans') which had been drawn down by £51.3m. The revolving credit facility was subsequently fully drawn down in March 2020. At 30 June 2020, the Group had total cash balances of £477.3m (including unrestricted cash of £380.2m).

Since March 2020 the impact of the Coronavirus pandemic has been severe on the whole aviation and travel sector and for Virgin Atlantic has included the cessation of our passenger operations since March 2020, and with only an average of 117 flights a week in operation for our Cargo business.

The timing of resumption of flying is uncertain so the Directors have modelled a series of dynamic downside scenarios that cover rolling 12- and 24-month periods. These downside scenarios represent increasingly severe but plausible scenarios and include assumptions relating to the estimates of the impact of factors including:

- Resumptions of passenger flying from September, as well as from December 2020 (expected case); and
- Varying rates of passenger revenue recovery from pre- Covid-19 levels, with the September 2020 case assuming that passenger revenue will be at a maximum of 79% of 2019 levels through 2021 and the December 2020 scenario assuming a 50% overall reduction in passenger revenue throughout the whole period of 2021 when compared with 2019. Both scenarios assume a gradual ramp up in passenger demand.

The Directors consider the December case to be the most likely. This scenario includes the following assumptions:

- Passenger flying resumes in December with passenger revenue throughout the year in 2021 at 50% of 2019 levels overall (and similar levels of reduction in Virgin Holidays revenue), with 4% of Q4 FY19 capacity being forecast in Q4 FY20, increasing to 62% of FY'19 capacity by the end of FY'21. This is due to factors such as the potential for:
    - Extended restriction of travel to the US until December 2020 and partial restrictions remaining through 2021;
    - A second wave of Covid-19 in the UK causing further groundings of aircraft; and
    - Onboard social distancing requirements beyond Q1 2021.
- Airline and holidays forward sales re-booking and refund trends will continue in line with those experienced through the first three months of the pandemic; and
- The requirement for further adjustments to the cost base.

The Directors have sought to recapitalise the Group and Company based on the December case. This scenario indicates that the unrestricted cash and RCF facilities would be insufficient to ensure the 12 and 24-month survival of the business for at least the 12 month period from August 2020. However, the same scenario indicates that, post mitigating actions, the cash low point under such a scenario would be £150m and we would meet liquidity and slot covenant requirements, and continue to operate for the foreseeable future.

Mitigating actions already taken by the Group to secure this outcome include:

- Reducing headcount by 3,450 roles;
- CEO and Leadership Team reduced salaries by 20% and 15% respectively (Apr-Dec 2020);
- Utilisation of the Government Coronavirus Job Retention programme, with up to 80% of our staff furloughed between April and July 2020;
- Rightsizing our fleet – including grounding all 7 of our 747-400s and exiting our 346 fleet, and the deferral of several new aircraft orders. 4xA332s will be retired by Q1 2022;
- Proactively focusing on customer incentives to achieve a c.50% rebook rate;
- Suspension of discretionary overhead and capex spend; and
- Proactive management of the supplier cost base resulting in reductions in cash liability and future cost rates.

Notes *(continued)*

3 Accounting policies *(continued)*

In addition, on 14 July 2020 we announced our court sanctioned Restructuring Plan. This will:

- Secure £200m additional funding from Virgin Group;
- Defer the majority of aircraft lessor payments for 18-21 months from April 2020, with repayment due between January 2022 and December 2025, as well as support from other creditors. resulting in a £450m reduction in cash liabilities over the combined deferral period (April 2020 to February 2022); and
- Secure new debt financing from Davidson Kempner Capital Management, a Global Institutional Investment Management Firm, of £170m.
- Provide card acquirer support (from Lloyds Cardnet and First Data); and
- Confirm additional shareholder support of in excess of £400m.

The Restructuring Plan will need to go through a court sanctioned process under Part 26A of the Companies Act 2006 before it can be implemented. This is expected in September 2020.

Due to the high level of uncertainty of how the operations of the business may emerge from the current Covid-19 pandemic the Directors also modelled a further severe, but plausible, scenario assuming limited resumptions of passenger flying through to 1 August 2021, with a gradual ramp up from this time, to assess the liquidity position over the entire going concern period of at least 12 months from the date of signing of this report. In addition to the assumptions in the expected case scenario, the August 2021 scenario also considered the impact of movements in the US dollar exchange rate and the price of jet fuel.

In this scenario our free cash levels would breach current liquidity and slot covenant levels in January 2021 all other things being equal. The Group would also be exposed to further working capital outflows through refunds as a result of the return of customer advance payments on cancelled departures. At 30 June 2020 the value of forward sales across both the Airline and Holidays businesses was £727million of which around £669million related to departures from July to the end of the year and a further £58million related to departures in 2021. In this scenario, and based on experience to date, the Directors expect a significant portion of sales in advance will be retained, in return for discount vouchers and offers on future departures.

In the unlikely event that this scenario transpires the Directors considered additional potential mitigating actions. These included:

- Review and rationalisation of our network;
- Asset disposals;
- Further significant restructuring and cost reduction activities;
- Deferral of expenditure; and
- Securing additional funding.

The directors consider there are scenarios which could represent a material uncertainty and could cast significant doubt upon the Group's ability to continue as a going concern. These scenarios include the failure of the current court sanctioned recapitalisation process, the failure of potential additional mitigations in the more severe August 2021 scenario (for example the lack of alternative sources of finance, such as sale and leasebacks on aircraft), or the inability to obtain additional funding.

Notwithstanding this material uncertainty caused by the current Coronavirus pandemic, the Directors do not consider this additional severe August 2021 downside scenario to be likely.

Based on the above indications the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, this material uncertainty may cast significant doubt on the Group's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate."

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Notes *(continued)*

3 Accounting policies *(continued)*

Based on their enquiries the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

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.

Business combinations

In line with IFRS 3 - Business combinations, the Group applies merger accounting rules on acquisition of a new subsidiary. Assets and liabilities of the acquired entity are measured at book value rather than fair value of assets and liabilities on acquisition. The Group elects to restate comparatives for business combinations.

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. 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 performance obligation is fulfilled, typically the date of transportation.

Tour operations revenue
The Group records revenue on a net basis after deducting customer discounts and value added tax. For revenue relating to travel services arranged by the Group's travel providers, the performance obligation is the provision of a holiday package; this is treated as a single performance obligation which is delivered over the duration of the holiday. Revenue is taken to the income statement on the date of holiday and flight departure this is deemed to materially reflect recognition over the duration of the holiday. Where the Group's role in the transaction is that of an Agent, revenue is recognised on a net basis with revenue representing the margin earned. The revenue is recognised on the date of booking.
The Group receives grants from local authorities in relation to its tour operations business and in accordance with IAS 20 has accounted for these as a deduction to expenses over the period of the performance obligation.

Frequent flyer programme revenue
For miles earned by members of the Group's Frequent Flyer Programme 'Flying Club', an element of revenue representing the value of the miles issued is deferred until the miles are utilised. The amount of the deferral is based on the redemption value method permitted under IFRS 15. 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.

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Notes *(continued)*

3 Accounting policies *(continued)*

In accordance with IFRS15 'Revenue from contracts with customers', the apportioned standalone selling price of the awarded Flying Club mile in 2018 was deferred as a liability and recognised as revenue at the point the performance obligation has been satisfied by the Group (typically flight date). During 2019 the frequent flyer programme was demerged from the Group (see note 24).

Marketing revenue received from participating companies with the issuance of miles is recognised at the point (or over the period that) the performance obligation has been satisfied by the Group.

Compensation payments

Income resulting from claims for compensation payments/liquidated damages is recognised as either other income or as reduction of costs in the income statement. Income will be recognised where it is over and above the costs suffered, 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. When compensation is received to specifically cover additional costs suffered, it will be offset against those corresponding costs. 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 to reflect the substance of the transaction.

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.

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 the Remuneration committee, and which are deemed to have been earned in the current period.

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Notes *(continued)*

3 Accounting policies *(continued)*

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 the income statement for the year.

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 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.

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Notes *(continued)*

3 Accounting policies *(continued)*

Intangible assets *(continued)*

Goodwill
Where the cost of a business combination exceeds the fair value attributable to the net assets acquired, the resulting goodwill is capitalised and tested for impairment annually and whenever indicators exist that the carrying value may not be recoverable.

Software
The cost of purchase or development of computer software that is separable from an item of related hardware is capitalised separately. Core system assets are amortised over a period of twelve years; other software is amortised over a period not exceeding six years on a straight-line basis. Computer software and systems are 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 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)*

3 Accounting policies *(continued)*

Property plant and equipment ('PPE') *(continued)*

Fleet *(continued)*
Aircraft and spare engines acquired on the introduction or expansion of the fleet as well as rotable spares purchased separately are carried as PPE. 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 rotable spares is 7.25% or 12.5% dependent on type. Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over six to eight years.

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 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	10% - 33% on cost
Computer equipment and software	8% - 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.

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Notes *(continued)*

3 Accounting policies *(continued)*

Aircraft and engine deposits

Aircraft and engine 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

Lease contracts, as defined by IFRS 16 'Leases', are recorded on the balance sheet, leading to the recognition of a right-of-use asset representing the Group's right to use an asset during the term of the lease contract and a lease liability relating to the payment obligation.

Measurement of the Right-of-use asset
Right-of-use assets are measured at cost and comprise the amount equal to the initial measurement of the lease liability, adjusted for (if applicable) lease incentives, initial direct costs incurred for the arrangement of the contract, estimated costs for returning the leased asset to the condition required by the terms of the contract, discounted to reflect the present value on initial recognition.
The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date over the useful life of the underlying asset (lease term for the rentals). The Group has included restoration costs in the right of use asset as required by IFRS 16 (see provisions policy).
The Group presents right-of-use assets in 'property, plant and equipment' in the statement of financial position.

Measurement of the lease liability
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease if readily available, or otherwise the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments;
- Variable lease payments that depend on an index (such as LIBOR), initially measured using the index in force at the commencement of the lease;
- Amounts expected to be payable by the lessee under residual value guarantees;
- Payments for options to purchase, or for terminating the lease if the lease term reflects these options.

The lease liability is subsequently measured based on a process similar to the amortised cost method:

- The liability is increased by accrued interest resulting from the discounting of the lease liability at the beginning of the lease period;
- The liability is reduced by lease payments made.

In addition, the lease liability may be remeasured in the following situations:

- Change in the lease term;
- Modification related to the assessment of the likelihood of an option being exercised;
- Remeasurement linked to residual value guarantees;
- Adjustment to the indices on which the rents are calculated when rent adjustments occur;
- Changes in foreign exchange rate, for lease liabilities due in foreign currency.

The Group presents lease liabilities in 'borrowings' in the statement of financial position.

Sale and leaseback
In sale and leaseback transactions where the Group sells and then leases back aircraft, provided it meets the criteria of a sale per IFRS 15, the Group measures the right of use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. If a sale has not occurred, the asset is retained on balance sheet within property, plant & equipment with a corresponding finance liability recognised under IFRS 9.

Notes *(continued)*

3 Accounting policies *(continued)*

Leases *(continued)*

Short term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets, with a value equal to or less than $5,000, and shorter-term leases, with a duration equal to or less than 12 months. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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 inventory includes aircraft parts which are expendable and non-renewable.

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 aircrafts treated as right of use assets 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. The Group has included restoration costs in the right of use asset as required by IFRS 16.

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 any provision accrued for usage up to the trigger point, 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

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Notes *(continued)*

3 Accounting policies *(continued)*

Provisions *(continued)*

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.

Property provisions
Leasehold dilapidations and onerous lease provisions are discounted only when the interest rate has a material impact on the provision. Any associated unwinding of the discount is 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. Compensation related to delayed or cancelled flights are treated as deductions from revenue in line with IFRS interpretation committee (IFRIC) conclusions pursuant to IFRS 15.

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 IFRS 9 'Financial Instruments', 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.

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Notes *(continued)*

3 Accounting policies *(continued)*

Financial instruments *(continued)*

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.

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. The 'expected credit loss' approach is taken when calculating impairments on financial assets. All financial assets are reviewed for historic write offs and this proportion is applied to its class of financial assets to calculate the required provision.

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.

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Notes *(continued)*

4 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 (note 23)

For aircraft treated as right of use assets held under 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 (note 22)

For the Group's frequent flyer loyalty programme, the revenue attributed to the awarded miles in 2018 is deferred as a liability and recognised as revenue at the point the performance obligation has been satisfied by the Group. Up until the de-merger of the frequent flyer programme in 2019 (see note 24) the release and deferral of revenue is still recognised in the accounts. 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 (breakage).

Residual value and useful economic lives of assets (note 13)

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

When a lease substantially transfers all the risk and rewards of ownership to the Group the aircraft is treated as owned, such leases include but are not limited to JOLCO and asset backed finance leasing arrangements. 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.

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Notes *(continued)*

5 Changes in significant accounting policies & significant transactions

Changes in significant accounting policies

The Group has initially applied IFRS 16 from 1 January 2019. IFRS 16 Leases replaces IAS 17 Leases. The new standard eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lessee accounting model. The Group has a number of leases for assets including aircraft, property and other equipment which have been impacted by the new standard.

Under the revised requirements of IFRS 16, a single lessee accounting model is applied to all leases meeting the capitalisation criteria of the new standard. The Group will now account for such leases through addition of a right-of-use asset and recognition of a corresponding lease liability.

For leases previously accounted for under IAS17 as 'operating leases', rental payments were charged to the statement of comprehensive income. Under IFRS 16 these rental charges are replaced with the depreciation of the right-of-use asset and an interest charge on the lease liability.

Under IFRS 16, in the statement of cash flows, repayments of lease liabilities are moved from operating activities to financing activities, within payment of lease liabilities.

IFRS 16 has been applied to the group using the fully retrospective approach, meaning comparative information throughout these financial statements has been restated to reflect the requirements of the new standard.
In adopting IFRS 16, the Group has chosen to apply the following practical expedient:

- Capitalisation exemptions for lease contracts with a duration equal or less than 12 months and; lease contracts for which the underlying asset has a low value in new which has been defined by the Group below $5,000.

The following table summarises the impact, net of tax, of transition to IFRS 16 on retained earnings at 1 January 2019:

Retained earnings	**Impact of adopting IFRS 16 at 1 January 2019 £m**
Impact of interest & depreciation	285.0
Related tax	-
Decrease on retained earnings at 1 January 2019	**285.0**

Merger accounting

On the 20th December 2019 the Group issued shares to its immediate parent company Virgin Travel Group Limited in exchange for 100% of the shareholding of Virgin Holidays Limited previously a wholly owned subsidiary of Virgin Travel Group Limited.

The Group applied merger accounting and the assets and liabilities were transferred at book value.

The prior year financial statements and notes have been restated throughout.

Notes *(continued)*

5 Changes in significant accounting policies & significant transactions (continued)

The following tables summarise the impacts of adopting IFRS 16 on the Group's statement of financial position and its statement of comprehensive income.

	1 January 2018 as previously presented	IFRS 16	Merger accounting	1 January 2018 restated	31 Dec 2018 as originally presented	IFRS 16	Merger accounting	31 Dec 2018 restated
Non-current assets								
Intangible assets	150.7	-	19.7	170.4	155.8	-	17.2	173.0
Property, plant and equipment	696.8	1,024.3	6.2	1,727.3	798.5	1,116.7	6.2	1,921.4
Deferred tax	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-
Derivative financial instruments	5.1	-	0.0	5.1	3.0	-	0.2	3.2
Trade and other receivables	17.0	-	0.0	17.0	25.1	-	0.3	25.4
	869.6	1,024.3	25.9	1,919.8	982.4	1,116.7	23.9	2,123.0
Current assets								
Inventories	31.3	-	-	31.3	33.6	-	-	33.6
Trade and other receivables	228.8	(16.6)	231.4	443.6	329.5	(12.6)	118.9	435.8
Investments	-	-	-	-	-	-	-	-
Derivative financial instruments	30.0	-	0.2	30.2	35.7	-	11.9	47.6
Cash and cash equivalents	443.5	-	1.4	444.9	390.1	-	1.5	391.6
Restricted cash	49.1	-	-	49.1	97.3	-	-	97.3
	782.7	(16.6)	233.0	999.1	886.2	(12.6)	132.3	1,005.9
TOTAL ASSETS	1,652.3	1,007.7	258.9	2,918.9	1,868.6	1,104.1	156.2	3,128.9
Current liabilities								
Borrowings	(17.6)	(131.1)	-	(148.7)	(24.2)	(149.1)	-	(173.3)
Trade and other payables	(482.6)	4.7	(54.2)	(532.1)	(577.1)	4.6	53.1	(519.4)
Deferred revenue on air travel	(448.8)	-	(149.5)	(598.3)	(478.7)	-	(139.9)	(618.6)
Provisions	(35.6)	(0.0)	(0.3)	(35.9)	(35.9)	0.3	(0.6)	(36.2)
Derivative financial instruments	(14.9)	-	(5.8)	(20.7)	(66.2)	-	-	(66.2)
	(999.5)	(126.4)	(209.8)	(1,335.7)	(1,182.1)	(144.2)	(87.4)	(1,413.7)
NET CURRENT ASSETS/ (LIABILITIES)	(216.8)	(143.0)	23.2	(336.6)	(295.9)	(156.8)	44.9	(407.8)
TOTAL ASSETS LESS CURRENT LIABILITIES	652.8	881.3	49.1	1,583.2	686.5	959.9	68.8	1,715.2
Non-current liabilities								
Borrowings	(453.8)	(1,108.6)	-	(1,562.4)	(532.3)	(1,244.9)	0.1	(1,777.1)
Deferred tax	(26.5)	-	4.8	(21.7)	(3.3)	-	3.1	(0.2)
Trade and other payables	(9.5)	-	-	(9.5)	(4.5)	-	-	(4.5)
Deferred revenue on air travel	-	-	(1.0)	(1.0)	-	-	(1.0)	(1.0)
Provisions	(68.5)	-	-	(68.5)	(93.3)	-	-	(93.3)
Derivative financial instruments	(3.2)	-	(0.1)	(3.3)	(17.2)	-	-	(17.2)
	(561.5)	(1,108.6)	3.7	(1,666.4)	(650.6)	(1,244.9)	2.2	(1,893.3)
NET ASSETS/(LIABILITIES)	91.3	(227.3)	52.8	(83.2)	35.8	(285.0)	71	(178.1)
Equity								
Ordinary Share capital	4.5	-	2.5	7.0	4.5	-	2.5	7.0
Share premium	5.0	-	-	5.0	5.0	-	-	5.0
Hedging reserve	-	-	-	-	(0.1)	-	-	(0.1)
Other reserves	28.3	-	0.1	28.4	28.3	-	0.3	28.6
Retained earnings	53.5	(227.3)	50.2	(123.6)	(2.8)	(285.0)	68.2	(219.5)
Equity attributable to owners of the Company	91.3	(227.3)	52.8	(83.2)	34.9	(285.0)	71.0	(179.0)
NCI					0.9			0.9
Total Equity	91.3	(227.3)	52.8	(83.2)	35.8	(285.0)	71.0	(178.1)

Notes *(continued)*

5 Changes in significant accounting policies & significant transactions (continued)

	2018 as previously reported			IFRS 16		Merger accounting		2018 restated		
	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	Ordinary activities before exceptional items	Exceptional items and fair value movements	Ordinary activities before exceptional items	Exceptional items and fair value movements (Note 8)	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total revenue	2,302.7	-	2,302.7	-	-	477.9	-	**2,780.6**	-	**2,780.6**
Aircraft costs	(267.0)	-	(267.0)	83.2	-	-	-	**(183.8)**	-	**(183.8)**
Other depreciation and amortization	(46.7)	-	(46.7)	(17.9)	-	(9.1)	-	**(73.7)**	-	**(73.7)**
Physical fuel	(697.9)	-	(697.9)	-	-	-	-	**(697.9)**	-	**(697.9)**
Fuel hedging	38.8	(38.8)	-	-	-	-	-	**38.8**	**(38.8)**	-
Airline traffic direct operating costs	(553.3)	-	(553.3)	-	-	-	-	**(553.3)**	-	**(553.3)**
Engineering and maintenance costs	(159.7)	-	(159.7)	3.5	-	-	-	**(156.2)**	-	**(156.2)**
Employee remuneration	(373.7)	-	(373.7)	-	-	(23.7)	-	**(397.4)**	-	**(397.4)**
Other income	45.8	-	45.8	-	-	0.2	-	**46.0**	-	**46.0**
Tour and other marketing costs	(111.6)	-	(111.6)	1.8	-	(430.6)	0.4	**(540.4)**	**0.4**	**(540.0)**
Other operating and overhead costs	(192.8)	5.1	(187.7)	23.9	(74.8)	(10.9)	-	**(179.8)**	**(69.7)**	**(249.5)**
Operating (loss)/profit	(15.4)	(33.7)	(49.1)	94.5	(74.8)	3.8	0.4	**82.9**	**(108.1)**	**(25.2)**
Profit on disposal of property, plant and equipment	(1.3)	23.2	21.9	-	-	-	-	**(1.3)**	**23.2**	**21.9**
Restructuring	-	(7.8)	(7.8)	-	-	-	(0.9)	-	**(8.7)**	**(8.7)**
	(1.3)	15.4	14.1	-	-	-	(0.9)	**(1.3)**	**14.5**	**13.2**
Finance income	8.6	-	8.6	-	-	1.5	-	**10.1**	-	**10.1**
Finance expense	(24.1)	-	(24.1)	(77.3)	-	0.7	-	**(100.7)**	-	**(100.7)**
Net finance costs	(15.5)	-	(15.5)	(77.3)	-	2.2	-	**(90.6)**	-	**(90.6)**
Fair value gains/(losses) on derivative contracts	-	(31.6)	(31.6)	-	-	-	16.4	-	**(15.2)**	**(15.2)**
Profit before tax	(32.2)	(49.9)	(82.1)	17.2	(74.8)	6.0	15.9	**(9.0)**	**(108.8)**	(117.8)
Tax credit/(charge)			25.9							**22.0**
Profit/(loss) for the year			(56.2)							**(95.8)**

Notes *(continued)*

5 Changes in significant accounting policies & significant transactions (continued)

The following table summarise the impacts of adopting IFRS 16 on the Company's statement of financial position.

	1 January 2018 as previously presented	IFRS 16	1 January 2018 restated	31 Dec 2018 as originally presented	IFRS 16	31 Dec 2018 restated
Non-current assets						
Intangible assets	150.7	-	150.7	155.2	-	155.2
Property, plant and equipment	703.5	982.5	1,686.0	805.0	1,083.9	1,888.9
Deferred tax	-	-	-	-	-	-
Investments	201.2	-	201.2	207.1	-	207.1
Derivative financial instruments	5.1	-	5.1	3.0	-	3.0
Trade and other receivables	17.0	-	17.0	30.1	-	30.1
	1,077.5	982.5	2,060.0	1,200.4	1,083.9	2,284.3
Current assets						
Inventories	31.3	-	31.3	33.6	-	33.6
Trade and other receivables	246.1	(15.2)	230.9	354.4	(12.1)	342.3
Investments	7.7	-	7.7	7.8	-	7.8
Derivative financial instruments	30.0	-	30.0	35.7	-	35.7
Cash and cash equivalents	441.1	-	441.1	381.1	-	381.1
Restricted cash	25.8	-	25.8	73.8	-	73.8
	782.0	(15.2)	766.8	886.4	(12.1)	874.3
TOTAL ASSETS	1,859.5	967.3	2,826.8	2,086.8	1,071.8	3,158.6
Current liabilities						
Borrowings	(17.8)	(118.1)	(135.9)	(25.1)	(139.1)	(164.2)
Trade and other payables	(505.4)	4.2	(501.2)	(597.5)	3.9	(593.6)
Deferred revenue on air travel	(448.8)	-	(448.8)	(383.0)	-	(383.0)
Provisions	(35.6)	-	(35.6)	(35.9)	0.3	(35.6)
Derivative financial instruments	(14.9)	-	(14.9)	(66.2)	-	(66.2)
	(1,022.5)	(113.9)	(1,136.4)	(1,107.7)	(134.9)	(1,242.6)
NET CURRENT ASSETS/ (LIABILITIES)	(240.5)	(129.1)	(369.6)	(221.3)	(147.0)	(368.3)
TOTAL ASSETS LESS CURRENT LIABILITIES	837.0	853.4	1,690.4	979.1	936.9	1,916.0
Non-current liabilities						
Borrowings	(660.2)	(1,079.1)	(1,739.3)	(759.2)	(1,222.8)	(1,982.0)
Deferred tax	(31.0)	-	(31.0)	(7.4)	-	(7.4)
Trade and other payables	(9.5)	-	(9.5)	(4.7)	-	(4.7)
Deferred revenue on air travel	-	-	-	-	-	-
Provisions	(68.5)	-	(68.5)	(93.3)	-	(93.3)
Derivative financial instruments	(3.2)	-	(3.2)	(17.2)	-	(17.2)
	(772.4)	(1,079.1)	(1,851.5)	(881.8)	(1,222.8)	(2,104.6)
NET ASSETS/(LIABILITIES)	64.6	(225.7)	(161.1)	97.3	(285.9)	(188.6)
Equity						
Ordinary Share capital	4.5	-	4.5	4.5	-	4.5
Preference share capital	5.0	-	5.0	5.0	-	5.0
Hedging reserve	-	-	-	(0.1)	-	(0.1)
Other reserves	25.0	-	25.0	25.0	-	25.0
Retained earnings	30.1	(225.7)	(195.6)	62.9	(285.9)	(223.0)
Total Equity	64.6	(225.7)	(161.1)	97.3	(285.9)	(188.6)

Notes *(continued)*

6 Revenue analysis

	Group	
	2019	**2018 Restated***
	£m	**£m**
Airline traffic and cargo operations	**2,425.6**	2,292.2
Holiday tour operations	**626.6**	619.7
Other revenue	**18.2**	10.5
Intra-group revenue	**(143.3)**	(141.8)
	2,927.1	2,780.6

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

Other revenue includes income from engineering and other revenue incidental to the primary operations of the Group.

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	
	2019	**2018 Restated***
	£m	**£m**
Scheduled airline services by source:		
United Kingdom	**1,875.9**	1,845.9
North America and Caribbean	**765.9**	707.5
Far East	**98.1**	97.5
Africa	**85.3**	71.3
Other	**245.2**	200.3
Intra-group revenue	**(143.3)**	(141.9)
	2,927.1	2,780.6
Scheduled airline services by destination:		
North America	**1,996.6**	1,939.4
Caribbean	**329.3**	343.8
Far East	**317.5**	258.7
Africa	**203.5**	176.3
Other	**223.5**	204.3
Intra-group revenue	**(143.3)**	(141.9)
	2,927.1	2,780.6

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

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 (Loss)/profit before tax

(Loss)/profit for the year has been arrived at after charging the following, including items presented as exceptional:

	Group	
	2019	**2018 Restated***
	£m	**£m**
Depreciation of Property, plant and equipment (note 13)	**(243.6)**	(234.5)
Amortisation of intangible assets (note 12)	**(23.0)**	(22.9)
Contribution to pension schemes	**(35.4)**	(31.5)

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

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 £330,000 *(2018: £280,000)*. Fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation are £108,000 *(2018: £92,000 (restated to include audit of Virgin Holidays Group)*.

8 Exceptional items

Exceptional items included in profit before tax includes the following:

	Group	
	2019	**2018 Restated***
	£m	**£m**
Aircraft ownership costs (i)	**(1.3)**	-
Goodwill impairment (ii)	**(0.3)**	-
Fuel hedging reclassified to fair value (gains)/losses on derivatives (iii)	**17.8**	(38.8)
Forex derivative (gains)/losses reclassified to fair value gains/(losses) on derivatives (iii)	**(34.2)**	5.5
Profit on disposal of aircraft equipment (iv)	-	23.2
Restructuring costs (v)	**(10.4)**	(8.7)
Fair value gains/(losses) on derivatives (iii)	**37.0**	(15.2)
Unrealised FX, IFRS 16 adjustments on initial application (vi)	-	(74.8)
Other impairments on financial assets (vii)	**(39.2)**	-
	(30.6)	(108.8)

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

Loss on fair value movements	**20.6**	(48.5)
Gain on fuel derivatives settled during the year (reclassified - see above)	**(17.8)**	38.8
(Loss)/gain on forex derivatives settled during the year (reclassified - see above)	**34.2**	(5.5)
	37.0	(15.2)

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

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 IFRS 9 mark-to-market movements.

Notes *(continued)*

8 Exceptional items *(continued)*

(i) Aircraft ownership costs of £1.3m *(2018: £nil)* have been recognised in the year.

(ii) Virgin Vacations Incorporated, a wholly owned subsidiary of the Group based in the US ceased trading on 31 March 2019. The carrying value of the goodwill was £0.3m; this was fully impaired.

(iii) Fuel costs include losses of £17.8m *(2018: gains of £38.8m)* recognised on maturity of fuel derivative contracts. Other income includes gains of £34.2m *(2018: gains of £5.5m)* 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 through fair value gains/(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.

The Group discloses specific IFRS 9 mark-to-market movements separately within the statement of comprehensive income as an exceptional item.

(iv) Profits on sale and leaseback amounted to £nil during the year *(2018: profits of £23.2m)*. During 2018 the Group purchased and subsequently entered into a sale and leaseback of two Boeing 787 aircraft. The profits arising from the sale and leaseback of the aircraft have been reclassified and are shown net of any supplier compensation received.

(v) Restructuring costs of £10.4m have been recognised in the year *(2018: £8.7m)*.

(vi) Unrealised forex losses of £74.8m have been recognised upon restatement of the 2018 income statement following adoption of IFRS 16 (refer to note 5 for further detail). The losses arose as a result of revaluation of USD denominated aircraft lease obligations recognised on the balance sheet for the first time, retrospectively, as at 1 January 2018. During 2019, these aircraft lease obligations were designated in hedge accounting arrangements, and therefore corresponding unrealised forex movements for 2019 have been recognised through other comprehensive income.

(vii) A related party, Flybe Limited, entered administration in March 2020. At 31 December 2019, the Group had provided loans and guarantees to Flybe Ltd. The Group expects to recover material amounts from the administrator however the amount and likely timing of such recoveries are too uncertain to accurately quantify at the balance sheet date. Accordingly, the Group impaired the full value of loans receivable held to £nil, and provided for the guarantees within 2019 *(2018: nil)*.

Notes *(continued)*

9 Employee remuneration

(i) Headcount and total remuneration

The average monthly number of full time equivalent employees (including directors) was:

	Group	
	2019	**2018 Restated***
	Number	**Number**
Management and administration	**1,263**	1,257
Flight crew	**966**	917
Cabin crew	**3,178**	3,343
Reservations and sales	**1,926**	2,057
Cargo and handling	**1,024**	997
	8,357	8,571

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

	Group	
	2019	**2018 Restated***
	£m	**£m**
Wages and salaries	**358.0**	340.6
Social security costs	**38.5**	35.7
Other pension costs	**35.4**	31.5
	431.9	407.8

*The Group has applied merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information.

Included in the above are amounts included within cost of sales within the statement of comprehensive income 2019: £9.9m *(2018: £10.4m)* which relate to retail staff costs.

The Group operates a defined contribution pension scheme. The pension cost charged to the income statement for the year represents contributions payable by the Group to the scheme. The assets of the schemes are held separately from those of the Group in independently administered funds. There were outstanding contributions of £4.9m at 31 December 2019 *(2018: £4.1m)*.

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Notes *(continued)*

9 Employee remuneration *(continued)*

(ii) Aggregate directors' remuneration

During the year/period of their service, the emoluments of the 4 directors (2018: 3) of the Virgin Atlantic Group were:

	Group	
	2019	**2018 Restated***
	£m	**£m**
Total emoluments		
Aggregate emoluments	**3.9**	2.3
Company contributions to money purchase pension schemes	**0.1**	0.1
Aggregate amounts receivable under Long Term Incentive Schemes	**0.7**	3.8
	4.7	6.2
Highest paid director		
Aggregate emoluments and other benefits	**2.7**	1.1
Company contributions to money purchase pension schemes	**0.1**	0.1
Aggregate amounts receivable under Long Term Incentive Schemes	**0.5**	1.9
	3.3	3.1

* The 2018 comparatives have been restated to include amounts for services rendered in 2018.

Retirement benefits are accruing to 4 *(2018: 3)* directors under money purchase pension schemes.

During the year an amount of £0.2m *(2018: £0.2m)* was paid to shareholders in respect of the services of certain shareholder-appointed non-executive directors of the Company.

The Directors are considered to be the key management personnel of the Group.

(iii) Long-term incentive scheme

During the year the Group established a new long term incentive scheme for Executive Directors and other invited participants to incentivise and recognise execution of the 'Velocity' plan. The scheme consists of a series of cash payments over the 3 year term of the grant. Payments are based on the Group's performance against pre-agreed financial and non-financial measures which are linked to the Group's long term objectives. Included above are cash payments made to directors relating to services rendered during 2019.

During 2019, final settlement was made for the Group's share-based payment long term incentive scheme which closed at the end of 2018. Total amounts paid to directors under this scheme were £7.7m.

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Notes *(continued)*

10 Finance costs

	Group	
	2019	2018* Restated
	£m	£m
Finance income		
Bank deposits	**8.0**	8.1
Unlisted investments (note 15)	**0.5**	0.5
Interest on loan to associate	**2.3**	-
Amounts due from Group companies	**5.6**	1.5
	16.4	10.1
Finance expense		
Amounts due to Group companies	**(4.4)**	(1.2)
Interest on leases	**(99.2)**	(92.7)
Unwinding of discount on provisions (note 23)	**-**	(0.1)
External loans	**(13.8)**	(11.4)
	(117.4)	(105.4)
Interest capitalised on aircraft progress payments (note 13)	**5.2**	4.7
	(112.2)	(100.7)
Net finance costs	**(95.8)**	(90.6)

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

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Notes *(continued)*

11 Tax

Analysis of the tax expense during the year:

	Group	
	2019	2018 Restated*
	£m	£m
Current tax		
UK group relief receivable	**0.3**	0.4
Adjustments in respect of prior periods	**-**	0.1
Non – UK current tax	**(0.1)**	-
Total current tax credit	**0.2**	0.5
Deferred tax		
Origination and reversal of timing differences	**2.2**	22.8
Adjustments in respect of prior years	**6.8**	(1.3)
Total deferred tax credit/(charge)	**9.0**	21.5
Tax credit/(charge)	**9.2**	22.0

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

The standard rate of UK corporation tax for the year is 19% *(2018: 19%)*. The total tax credit of 15.94% for the period is higher than the standard rate of corporation tax. This is driven by UK government reliefs and adjustments in respect of prior periods. The actual current tax charge for the period differs from that computed by applying the standard tax rate to the profit before tax as reconciled below:

	Group	
	2019	2018 Restated*
	£m	£m
(Loss)/profit before taxation	**(57.7)**	(117.8)
Tax at the standard rate at 19% (2018:19%)	**11.0**	22.4
Factors affecting the credit/(charge) for the year:		
Income not subject to corporation tax	**0.4**	0.4
Expenses not deductible for tax purposes	**(1.0)**	(0.7)
Effects of difference in deferred tax rate	**0.6**	(1.2)
Fixed asset differences	**(19.4)**	(0.1)
Adjustments in respect of prior periods	**6.8**	(1.3)
UK Government relief	**3.8**	4.0
Recognition of previously unrecognised deferred tax	**7.0**	9.4
Effect of prior period restatement of IFRS 16	**-**	(10.9)
Total tax credit/(charge)	**9.2**	22.0

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

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Notes *(continued)*

11 Tax *(continued)*

The deferred tax liability at 31 December 2019 has been calculated based on 17%. This will reduce the Group's future current tax charge accordingly.

In addition, the Group continues to be directly and indirectly affected by new tax legislation. Changes in such legislation, regulation or interpretation could have an effect on the Group's operating results and financial position. This includes changes in respect of UK legislation to restrict the utilisation of brought forward losses, which apply from 1 April 2017. The restriction applies to Virgin Atlantic Airways Limited as a member of the Group. As well as restricting the use of brought forward losses, the new rules also give more flexibility for the use of losses incurred after 2 April 2017.

12 Intangible assets

	Group				
	Goodwill £m	**Landing slots £m**	**Software and other £m**	**Assets under construction £m**	**Total £m**
Cost					
At 1 January 2019 restated*	8.7	91.1	225.9	18.5	344.2
Additions	-	3.2	0.4	30.0	33.6
Impairment	(0.4)	-	-	-	(0.4)
Disposals	-	-	(6.0)	-	(6.0)
Reclassifications	-	-	18.3	(18.3)	-
At 31 December 2019	**8.3**	**94.3**	**238.6**	**30.2**	**371.4**
Amortisation					
At 1 January 2019 restated*	3.4	10.6	157.2	-	171.2
Additions	-	-	-	-	0.0
Amortisation	-	-	23.0	-	23.0
Impairment	(0.1)	-	-	-	(0.1)
Disposals	-	-	(5.2)	-	(5.2)
At 31 December 2019	**3.3**	**10.6**	**175.0**	**-**	**188.9**
Carrying amount					
At 31 December 2019	**5.0**	**83.7**	**63.6**	**30.2**	**182.5**
At 31 December 2018 restated*	5.3	80.5	68.7	18.5	173.0

*The Group has applied merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

Notes *(continued)*

12 Intangible assets (continued)

	Company			
	Landing slots £m	**Software and other £m**	**Assets under construction £m**	**Total £m**
Cost				
At 1 January 2019	91.1	171.6	16.5	279.2
Additions	3.2	0.1	26.8	30.1
Disposals	-	(1.2)	-	(1.2)
Reclassifications	-	14.1	(14.1)	-
At 31 December 2019	**94.3**	**184.6**	**29.2**	**308.1**
Amortisation				
At 1 January 2019	10.6	113.4	-	124.0
Amortisation	-	16.3	-	16.3
Disposals	-	(1.1)	-	(1.1)
At 31 December 2019	**10.6**	**128.6**	-	**139.2**
Carrying amount				
At 31 December 2019	**83.7**	**56.0**	**29.2**	**168.9**
At 31 December 2018	80.5	58.2	16.5	155.2

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 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 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 *(2018: no impairment)*.

Core systems are amortised on a straight line basis over their useful life of twelve years, and other software amortised over a period not exceeding six years. The carrying amount relates mainly to AIR4, the passenger service system.

Notes *(continued)*

13 Property, plant and equipment

	Group					
	Aircraft, rotable spares and ancillary equipment		Other		Assets under construction	Total
	Owned	Leased	Owned	Leased		
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2018	999.0	-	192.1	7.5	36.0	1,234.6
Adjustment on initial application of IFRS 16 (note 5)	(35.2)	2,053.1	-	163.1	-	2,181.0
At 1 January 2018 (restated)	963.8	2,053.1	192.1	170.6	36.0	3,415.6
Additions	329.1	228.5	-	3.5	27.7	588.8
Disposals	(190.2)	(162.7)	(6.9)	(5.8)	-	(365.6)
Reclassifications	17.0	-	6.3	-	(23.3)	-
Other movements**	-	9.2	-	1.6	-	10.8
At 31 December 2018 (restated)	1,119.7	2,128.1	191.5	169.9	40.4	3,649.6
Accumulated depreciation						
At 1 January 2018	410.8	-	119.9	1.0	-	531.7
Adjustment on initial application of IFRS 16 (note 5)	(15.8)	1,106.6	-	65.8	-	1,156.6
At 1 January 2018 (restated)	395.0	1,106.6	119.9	66.8	-	1,688.3
Depreciation for the year	70.2	133.7	14.4	16.2	-	234.5
Disposals	(20.7)	(162.7)	(6.6)	(4.6)	-	(194.6)
At 31 December 2018 (restated)	444.5	1,077.6	127.7	78.4	-	1,728.2
Carrying amount						
At 31 December 2018 (restated)	675.2	1,050.5	63.8	91.6	40.4	1,921.4
At 1 January 2018 (restated)	568.8	946.5	72.2	103.8	36.0	1,727.3
Cost						
At 1 January 2019	1,119.7	2,128.1	191.5	169.9	40.4	3,649.6
Additions	462.2	11.2	0.5	7.8	87.7	569.4
Disposals	(38.3)	(185.9)	(5.7)	(6.5)	-	(236.4)
Reclassifications	84.8	-	10.4	-	(95.1)	0.1
Other movements**	-	(23.2)	-	7.4	-	(15.8)
At 31 December 2019	**1,628.4**	**1,930.2**	**196.7**	**178.6**	**33.0**	**3,966.9**
Accumulated depreciation						
At 1 January 2019	444.5	1,077.6	127.7	78.4	-	1,728.2
Depreciation for the year	89.1	124.0	13.7	16.8	-	243.6
Disposals	(34.8)	(185.9)	(5.7)	(6.5)	-	(232.9)
At 31 December 2019	**498.8**	**1,015.7**	**135.7**	**88.7**	-	**1,738.9**
Carrying amount						
At 31 December 2019	**1,129.6**	**914.5**	**61.0**	**89.9**	**33.0**	**2,228.0**

Notes *(continued)*

13 Property, plant and equipment *(continued)*

	Company					
	Aircraft, rotable spares and *ancillary equipment*		Other		Assets under *construction*	Total
	Owned	Leased	Owned	Leased		
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2018	997.0	-	176.4	7.5	35.5	1,216.4
Adjustment on initial application of IFRS 16 (note 5)	(35.2)	1,614.4	-	149.1	-	1,728.3
At 1 January 2018 (restated)	961.8	1,614.4	176.4	156.6	35.5	2,944.7
Additions	328.8	228.6	0.1	2.1	25.0	584.6
Disposals	(190.2)	(162.7)	(5.4)	(5.8)	-	(364.1)
Reclassifications	17.2	-	4.6	-	(21.8)	-
Other movements**	-	9.2	-	1.6	-	10.8
At 31 December 2018 (restated)	1,117.6	1,689.5	175.7	154.5	38.8	3,176.1
Accumulated depreciation						
At 1 January 2018	402.1	-	109.8	1.0	-	512.9
Adjustment on initial application of IFRS 16 (note 5)	(15.8)	698.9	-	62.7	-	745.8
At 1 January 2018 (restated)	386.3	698.9	109.8	63.7	-	1,258.7
Depreciation for the year	70.5	124.9	11.7	14.5	-	221.6
Disposals	(20.7)	(162.7)	(5.2)	(4.6)	-	(193.2)
At 31 December 2018 (restated)	436.1	661.1	116.3	73.6	-	1,287.1
Carrying amount						
At 31 December 2018 (restated)	681.5	1,028.4	59.4	80.9	38.8	1,888.9
At 1 January 2018 (restated)	575.5	915.5	66.6	92.9	35.5	1,686.0
Cost						
At 1 January 2019	1,117.6	1,689.5	175.7	154.5	38.8	3,176.1
Additions	462.2	11.1	0.5	5.3	83.9	563.0
Disposals	(38.3)	(185.9)	(1.3)	(6.5)	-	(232.0)
Reclassifications	84.8	-	6.7	-	(91.5)	-
Other movements**	-	(23.2)	-	7.4	-	(15.8)
At 31 December 2019	**1,626.3**	**1,491.5**	**181.6**	**160.7**	**31.2**	**3,491.3**
Accumulated depreciation						
At 1 January 2019	436.1	661.1	116.3	73.6	-	1,287.1
Depreciation for the year	89.5	115.1	11.2	15.1	-	230.9
Disposals	(34.8)	(185.9)	(1.2)	(6.5)	-	(228.4)
At 31 December 2019	**490.8**	**590.3**	**126.3**	**82.2**	**-**	**1,289.6**
Carrying amount						
At 31 December 2019	**1,135.5**	**901.2**	**55.3**	**78.5**	**31.2**	**2,201.7**

Notes *(continued)*

13 Property, plant and equipment *(continued)*

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

**Other movements relates to lease extensions which do not constitute a new lease addition pursuant to IFRS 16 in addition relate to asset adjustments resulting from variable lease rentals which are linked to the prevailing LIBOR at a point in time as per the lease agreements.

Freehold land with a cost of £4.4m (2018: £4.4m) has not been depreciated. Included in aircraft, rotable spares and ancillary equipment are progress payments of £78.1m (2018: £143.1m). These amounts are not depreciated.

No impairments arose on the disposal of any aircraft. The total profit on the disposal of aircraft above was £1.4m (2018: £nil – excluding supplier settlements).

Interest capitalised by the Group and Company on aircraft progress payments included in additions during the year amounted to £5.2m *(2018: £4.7m)*.

In accordance with accounting standards, the Group tests the carrying value of assets including right-of-use assets for impairment if there is an indicator of impairment. There were no indicators of impairment for any of the Group's assets during the year *(2018: no indicators)*. Therefore a test of impairment has not been carried out.

The Group holds certain owned assets as collateral against the RCF borrowing facility this includes 2 owned aircraft and 8 engines *(2018: 2 owned aircraft 5 engines)*.

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 17% *(2018: 17%)*:

	Group		Company	
	2019 £m	**2018 Restated* £m**	**2019 £m**	**2018 £m**
Accelerated capital allowances	**15.5**	12.5	**8.4**	3.5
Other timing differences	**8.2**	4.7	**6.5**	6.5
UK tax losses	**2.0**	3.2	**2.0**	3.2
Holdover/rollover relief	**(16.9)**	(20.6)	**(16.9)**	(20.6)
	8.8	(0.2)	**-**	(7.4)

The Group has restricted its recognition of deferred tax assets to equal the amount of deferred tax liabilities at the period end, as permitted by IAS 12. The gross temporary differences not recognised by the company total £243.5m, which equates to a deferred tax asset not recognised of £41.4m. The deferred tax asset not recognised relates to temporary differences arising on the adoption of IFRS 16.

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

Movement in deferred tax asset/(liability)	**Group £m**	**Company £m**
Balance as at 1 January 2018 Restated*	(21.7)	
Charged to statement of comprehensive income	21.5	
Balance as at 31 December 2018	(0.2)	
Balance as at 1 January 2019 Restated*	(0.2)	(7.4)
Charged to statement of comprehensive income	9.0	7.4
Balance as at 31 December 2019	**8.8**	**-**

*The Group has applied merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

Notes *(continued)*

15 Investments

	Group		Company	
	2019	**2018**	**2019**	**2018 Restated***
	£m	**£m**	**£m**	**£m**
Non-current				
Unlisted investment	**0.0**	0.0	**0.0**	0.0
Interest in subsidiaries	**-**	-	**41.2**	1.3
Equity loan stock	**-**	-	**211.9**	205.8
	0.0	0.0	**253.1**	207.1
Current				
Equity loan stock	**-**	-	**8.0**	7.8

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

The unlisted investment represents the Group and Company's investment in Airline Group Limited which consists of equity held at cost of £1,575 *(2018: £1,575).*

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

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). During 2016 the Company purchased an additional £4.9m of ELS. 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.

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Notes *(continued)*

16 Derivative financial instruments

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

	Group		*Company*	
	2019	**2018 Restated***	**2019**	**2018**
	£m	**£m**	**£m**	**£m**
Non-current assets				
Foreign currency	**1.1**	2.5	**1.2**	2.3
Fuel	**3.3**	0.7	**3.2**	0.7
	4.4	3.2	**4.4**	3.0
Current assets				
Foreign currency	**10.4**	44.7	**9.9**	32.8
Fuel	**9.8**	2.9	**9.8**	2.9
	20.2	47.6	**19.7**	35.7
Current liabilities				
Foreign currency	**(21.9)**	(13.0)	**(14.2)**	(13.0)
Fuel	**(12.2)**	(53.2)	**(12.2)**	(53.2)
	(34.1)	(66.2)	**(26.4)**	(66.2)
Non-current liabilities				
Foreign currency	**(2.9)**	(0.7)	**(1.7)**	(0.7)
Fuel	**(2.0)**	(16.5)	**(2.0)**	(16.5)
	(4.9)	(17.2)	**(3.7)**	(17.2)
	(14.4)	(32.6)	**(6.0)**	(44.7)

The 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.

	Group		*Company*	
	2019	**2018 Restated***	**2019**	**2018**
Nominal amounts	**£m**	**£m**	**£m**	**£m**
Foreign currency (USD, represented in USD)	**755.6**	1,000.1	**385.5**	638.6
Foreign currency (Other, represented in GBP)	**6.9**	9.9	**-**	-
Fuel (barrels)	**6.5**	7.0	**6.5**	7.0

Notes *(continued)*

16 Derivative financial instruments *(continued)*

All derivatives are presented gross as the offsetting criteria have not been met. This is due to the Group 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.

	Group		
For the year ended 31 December 2019:	**Gross amount £m**	**Amount not set off £m**	**Net amount £m**
Derivative financial instruments			
Assets	24.6	(23.4)	1.2
Liabilities	(39.0)	23.4	(15.6)
	(14.4)	-	**(14.4)**

	Group		
For the year ended 31 December 2018 restated*:	**Gross *amount* £m**	**Amount *not set off* £m**	**Net *amount* £m**
Derivative financial instruments			
Assets	50.8	(42.1)	8.7
Liabilities	(83.4)	42.1	(41.3)
	(32.6)	-	(32.6)

	Company		
For the year ended 31 December 2019:	**Gross amount £m**	**Amount not set off £m**	**Net amount £m**
Derivative financial instruments			
Assets	24.1	(22.9)	1.2
Liabilities	(30.1)	22.9	(7.2)
	(6.0)	-	**(6.0)**

	Company		
For the year ended 31 December 2018:	**Gross *amount* £m**	**Amount *not set off* £m**	**Net *amount* £m**
Derivative financial instruments			
Assets	38.7	(30.0)	8.7
Liabilities	(83.4)	30.0	(53.4)
	(44.7)	-	(44.7)

*The Group has applied merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

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Notes *(continued)*

17 Trade and other receivables

	Group		Company	
	2019	2018 Restated*	2019	2018 Restated*
	£m	£m	£m	£m
Non-current				
Other receivables	**17.8**	25.4	**17.8**	25.1
Amounts owed by group companies	**-**	-	**17.7**	5.0
	17.8	25.4	**35.5**	30.1
Current				
Trade receivables	**161.5**	158.0	**142.2**	139.4
Provision for doubtful receivables	**(2.6)**	(3.0)	**(2.3)**	(2.2)
Net trade receivables	**158.9**	155.0	**139.9**	137.2
Other receivables	**92.5**	87.1	**97.0**	75.8
Group relief receivables	**1.6**	0.7	**22.4**	22.1
Prepayments and accrued income	**37.0**	51.1	**20.2**	34.2
Amounts owed by group companies	**348.6**	141.9	**137.9**	73.0
	638.6	435.8	**417.4**	342.3

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

Amounts owed by group companies include intercompany loan arrangements and are repayable on demand. These attract an interest rate of the Bank of England base rate plus 0.25%.

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

	Group		Company	
	2019	2018 Restated*	2019	2018 Restated*
Ageing of past due but not impaired receivables	£m	£m	£m	£m
1-30 days	**15.3**	22.2	**13.3**	21.3
31-60 days	**3.0**	3.1	**2.9**	2.7
61-90 days	**4.6**	0.6	**4.5**	0.5
91-120 days	**0.2**	0.1	**0.1**	0.1
120+ days	**0.1**	0.3	**0.1**	0.3
Total	**23.2**	26.3	**20.9**	24.9

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.

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Notes *(continued)*

18 Inventories

	Group and Company	
	2019	2018
	£m	£m
Aircraft consumable spares	**34.1**	29.5
Inflight stock	**4.5**	3.8
Fuel	**0.2**	0.3
	38.8	33.6

19 Cash, cash equivalents and restricted cash

	Group		Company	
	2019	2018 Restated*	2019	2018
	£m	£m	£m	£m
Cash at bank and in hand	352.6	391.6	347.9	381.1
Bank overdrafts	-	-	-	-
Cash and cash equivalents	352.6	391.6	347.9	381.1
Restricted cash	96.5	97.3	72.8	73.8

*The Group has applied merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

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.

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Notes *(continued)*

20 Borrowings

	Group		Company	
	2019	2018 Restated*	2019	2018 Restated*
	£m	£m	£m	£m
Non-current				
Obligations under leases (i)	**(1,747.1)**	(1,551.8)	**(1,758.7)**	(1,558.6)
Loan from VAIL (ii)	**-**	-	**(423.4)**	(423.4)
Senior Bonds - A1 (iii)	**(168.6)**	(172.0)	**-**	-
Senior Bonds - A2 (iii)	**(22.1)**	(23.6)	**-**	-
Senior Bonds - A3 (iii)	**(28.8)**	(29.7)	**-**	-
	(1,966.6)	(1,777.1)	**(2,182.1)**	(1,982.0)
Current				
Obligations under leases (i)	**(190.9)**	(167.5)	**(183.1)**	(159.4)
Loan from VAIL (ii)	**-**	-	**(4.9)**	(4.8)
Senior Bonds - A1 (iii)	**(3.7)**	(3.5)	**-**	-
Senior Bonds - A2 (iii)	**(1.5)**	(1.5)	**-**	-
Senior Bonds - A3 (iii)	**(0.8)**	(0.8)	**-**	-
Drawdown on revolving credit facility (iv)	**(51.3)**	-	**(51.3)**	-
	(248.2)	(173.3)	**(239.3)**	(164.2)

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

(i) See below for a full breakdown of all commitments under leasing agreements.

(ii) 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 12 years' time.

The current portion of the VAIL loan relates to interest payable to VAIL within the next 12 months.

(iii) 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 only payable on the maturity of the bonds after 15 years. The value of the bonds is stated after transaction costs.

In January 2017, the Group issued an additional £32m of Senior Bonds to investors (Class A3). The maturation date of the bonds matches that of the A1 and A2 bonds, with repayment of the principal occurring in part over the life of the bonds and £16m payable after 14 years.

(iv) The Group had drawn down £51.3m on its revolving credit facility at year end.

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Notes *(continued)*

20 Borrowings *(continued)*

	Group					
	Sterling	US dollars	Chinese Yuan	Hong Kong dollar	South African rand	Total
	£m	£m	£m	£m	£m	£m
Analysis of borrowings by currency as at 31 December 2019 represented in GBP:						
Obligations under leases	(57.7)	(1,878.5)	(0.4)	(0.7)	(0.7)	(1,938.0)
Senior Bonds - A1	(172.2)	-	-	-	-	(172.2)
Senior Bonds - A2	(23.7)	-	-	-	-	(23.7)
Senior Bonds - A3	(29.6)	-	-	-	-	(29.6)
Drawdown on revolving credit facility	-	(51.3)	-	-	-	(51.3)
	(283.2)	**(1,929.8)**	**(0.4)**	**(0.7)**	**(0.7)**	**(2,214.8)**
Analysis of borrowings by currency as at 31 December 2018 Restated* represented in GBP:						
Obligations under leases	(58.4)	(1,660.1)	-	(0.6)	(0.2)	(1,719.3)
Senior Bonds - A1	(175.5)	-	-	-	-	(175.5)
Senior Bonds - A2	(25.1)	-	-	-	-	(25.1)
Senior Bonds - A3	(30.5)	-	-	-	-	(30.5)
Drawdown on revolving credit facility	-	-	-	-	-	-
	(289.5)	(1,660.1)	-	(0.6)	(0.2)	(1,950.4)

	Company					
	Sterling	US dollars	Chinese Yuan	Hong Kong dollar	South African rand	Total
	£m	£m	£m	£m	£m	£m
Analysis of borrowings by currency as at 31 December 2019 represented in GBP:						
Obligations under leases	(73.5)	(1,866.5)	(0.4)	(0.7)	(0.7)	(1,941.8)
Loan from VAIL (ii)	(428.3)	-	-	-	-	(428.3)
Drawdown on revolving credit facility	-	(51.3)	-	-	-	(51.3)
	(501.8)	**(1,917.8)**	**(0.4)**	**(0.7)**	**(0.7)**	**(2,421.4)**
Analysis of borrowings by currency as at 31 December 2018 Restated* represented in GBP:						
Obligations under leases	(76.8)	(1,640.4)	-	(0.6)	(0.2)	(1,718.0)
Loan from VAIL (ii)	(428.2)	-	-	-	-	(428.2)
	(505.0)	(1,640.4)	-	(0.6)	(0.2)	(2,146.2)

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Notes *(continued)*

20 Borrowings *(continued)*

Analysis of leased debt by maturity:

	Group				
	Within 1 year	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
Analysis of leased debt by maturity as at 31 December 2019:	**£m**	**£m**	**£m**	**£m**	**£m**
Leased aircraft & engines	(172.2)	(175.4)	(467.5)	(980.4)	(1,795.5)
Leased property	(16.1)	(15.0)	(29.8)	(45.9)	(106.8)
Leased - other	(2.6)	(2.5)	(6.4)	(24.2)	(35.7)
	(190.9)	**(192.9)**	**(503.7)**	**(1,050.5)**	**(1,938.0)**
Analysis of leased debt by maturity as at 31 December 2018 Restated*:					
Leased aircraft & engines	(149.8)	(150.9)	(427.8)	(852.8)	(1,581.3)
Leased property	(15.5)	(13.2)	(30.0)	(50.9)	(109.6)
Leased - other	(2.2)	(2.3)	(5.7)	(18.2)	(28.4)
	(167.5)	(166.4)	(463.5)	(921.9)	(1,719.3)

Analysis of leased debt by maturity:

	Company				
	Within 1 year	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
Analysis of leased debt by maturity as at 31 December 2019:	**£m**	**£m**	**£m**	**£m**	**£m**
Leased aircraft & engines	(166.2)	(173.5)	(480.8)	(992.0)	(1,812.5)
Leased property	(14.4)	(13.3)	(24.2)	(42.0)	(93.9)
Leased - other	(2.5)	(2.5)	(6.4)	(24.0)	(35.4)
	(183.1)	**(189.3)**	**(511.4)**	**(1,058.0)**	**(1,941.8)**
Analysis of leased debt by maturity as at 31 December 2018 Restated*:					
Leased aircraft & engines	(143.4)	(144.6)	(439.0)	(865.3)	(1,592.3)
Leased property	(13.9)	(11.7)	(25.4)	(46.7)	(97.7)
Leased - other	(2.1)	(2.3)	(5.7)	(17.9)	(28.0)
	(159.4)	(158.6)	(470.1)	(929.9)	(1,718.0)

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Notes *(continued)*

20 Borrowings *(continued)*

Change in lease debt:

	Group						
	1 January 2019 restated*	**New contracts & renewal of contracts**	**Other movements**	**Payment of lease rental**	**Revaluation**	**Interest**	**31 December 2019**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Leased aircraft & engine	(1,581.3)	(480.5)	23.5	238.1	96.3	(91.6)	(1,795.5)
Leased property	(109.8)	(5.0)	(9.7)	22.9	1.2	(6.4)	(106.8)
Leased - other	(28.0)	(11.5)	-	4.0	1.5	(1.7)	(35.7)
	(1,719.1)	**(497.0)**	**13.8**	**265.0**	**99.0**	**(99.7)**	**(1,938.0)**
	1 January 2018 restated*	**New contracts & renewal of contracts**	**Other movements**	**Payment of lease rental**	**Revaluation**	**Interest**	**31 December 2018**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Leased aircraft & engine	(1,322.6)	(301.0)	(8.4)	240.9	(105.4)	(84.8)	(1,581.3)
Leased property	(119.7)	(3.4)	(1.5)	22.7	(1.0)	(6.7)	(109.6)
Leased - other	(24.6)	(3.3)	(0.8)	3.4	(1.8)	(1.3)	(28.4)
	(1,466.9)	**(307.7)**	**(10.7)**	**267.0**	**(108.2)**	(92.8)	**(1,719.3)**

	Company						
	1 January 2019 restated*	**New contracts & renewal of contracts**	**Other movements**	**Payment of lease rental**	**Revaluation**	**Interest**	**31 December 2019**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Leased aircraft & engine	(1,592.2)	(480.5)	23.5	233.3	95.5	(92.1)	(1,812.5)
Leased property	(97.7)	(2.6)	(9.7)	21.2	0.8	(5.9)	(93.9)
Leased - other	(28.1)	(11.5)	-	4.1	1.6	(1.7)	(35.4)
	(1,718.0)	**(494.6)**	**13.8**	**258.6**	**98.1**	**(99.7)**	**(1,941.8)**
	1 January 2018 restated*	**New contracts & renewal of contracts**	**Other movements**	**Payment of lease rental**	**Revaluation**	**Interest**	**31 December 2018**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Leased aircraft & engine	(1,292.1)	(333.6)	(8.4)	230.9	(104.3)	(84.8)	(1,592.3)
Leased property	(107.8)	(2.0)	(1.5)	20.9	(1.2)	(6.1)	(97.7)
Leased - other	(24.6)	(3.3)	(0.8)	3.4	(1.5)	(1.2)	(28.0)
	(1,424.5)	**(338.9)**	**(10.7)**	**255.2**	**(107.0)**	**(92.1)**	**(1,718.0)**

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

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Notes *(continued)*

21 Trade and other payables

	Group		Company	
	2019	**2018 Restated***	**2019**	**2018 Restated***
	£m	**£m**	**£m**	**£m**
Non-current				
Other revenue received in advance	**(3.9)**	(4.5)	**(3.8)**	(4.7)
	(3.9)	(4.5)	**(3.8)**	(4.7)
Current				
Other revenue received in advance	**(22.3)**	(17.4)	**(22.3)**	(28.6)
Trade payables	**(117.1)**	(78.3)	**(115.0)**	(76.7)
Flight and airport charges	**(114.5)**	(114.2)	**(114.5)**	(114.2)
Amounts owed to other group companies	**(5.2)**	(20.8)	**(10.1)**	(127.1)
Other taxes and social security	**(14.9)**	(13.7)	**(14.9)**	(13.4)
Other payables	**(10.1)**	(9.2)	**(2.7)**	(7.0)
Accruals	**(231.3)**	(265.8)	**(195.5)**	(226.6)
	(515.4)	(519.4)	**(475.0)**	(593.6)

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

Amounts owed to other group companies include intercompany loan arrangements and are repayable on demand. These attract an interest rate of Bank of England base rate plus 0.25%.

Included within current other payables is an amount of £nil *(2018: £5.2m)* relating to margin calls on fuel and foreign currency derivative positions. The carrying amounts of trade and other payables is approximately equal to their fair values.

Notes *(continued)*

22 Deferred revenue on air travel and tour operation

	Group		Company	
	2019	2018 Restated*	2019	2018 Restated*
	£m	£m	£m	£m
Non-current	**(1.9)**	(1.0)	-	-
Current	**(523.5)**	(618.6)	**(361.2)**	(383.0)
Total deferred revenue on air travel and tour operations	**(525.4)**	(619.6)	**(361.2)**	(383.0)

	Group			Company		
	Forward sales of passenger carriage and holidays	Customer Loyalty Programme	Total	Forward sales of passenger carriage and holidays	Customer Loyalty Programme	Total
	£m	£m	£m	£m	£m	£m
Balance at 1 January 2019	(523.9)	(95.7)	(619.6)	(383.0)	-	(383.0)
Revenue recognised in income statement	2,712.1	8.7	2,720.8	2,222.1	-	2,222.1
Loyalty points issued to customers	-	(10.2)	(10.2)	-	-	-
Cash received from customers	(2,713.6)	-	(2,713.6)	(2,200.3)	-	(2,200.3)
Demerger	-	97.2	97.2	-	-	-
Balance at 31 December 2019	**(525.4)**	-	**(525.4)**	**(361.2)**	-	**(361.2)**
Balance at 1 January 2018 restated*	(505.6)	(93.7)	(599.3)	(355.1)	(93.7)	(448.8)
Revenue recognised in income statement	2,741.8	38.8	2,780.6	2,031.2	38.8	2,070.0
Loyalty points issued to customers	-	(40.8)	(40.8)	-	(40.8)	(40.8)
Cash received from customers	(2,760.1)	-	(2,760.1)	(2,059.1)		(2,059.1)
Transfer to subsidiary			-	-	95.7	95.7
Balance at 31 December 2018 restated*	**(523.9)**	**(95.7)**	**(619.6)**	**(383.0)**	-	**(383.0)**

*The Group has applied merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

Deferred revenue relating to customer loyalty programmes consisted primarily of revenue allocated to performance obligations associated with Flying Club points. Flying Club points are issued by the Group's airlines through their loyalty programmes. The customer loyalty programme was demerged from the Group in 2019 see note 24.

Deferred revenue in respect of forward sales of passenger carriage consists of revenue allocated to airline tickets and holiday packages. These tickets can typically be purchased twelve months from the date of travel.

Notes *(continued)*

23 Provisions

	Group		Company	
	2019	2018 Restated*	2019	2018 Restated*
	£m	£m	£m	£m
Non-current				
Maintenance	**(92.4)**	(85.4)	**(92.4)**	(85.4)
Onerous contracts	**(0.4)**	(0.9)	**(0.4)**	(0.9)
Leasehold dilapidation	**(6.8)**	(7.0)	**(6.8)**	(7.0)
	(99.6)	(93.3)	**(99.6)**	(93.3)
Current				
Maintenance	**(15.7)**	(17.8)	**(15.7)**	(17.8)
Onerous contracts	**(0.2)**	(0.3)	**(0.2)**	(0.3)
Leasehold dilapidation	**(0.2)**	-	**(0.2)**	-
Legal claims	**(14.3)**	(16.3)	**(13.5)**	(15.7)
Restructuring costs	**-**	(1.8)	**-**	(1.8)
	(30.4)	(36.2)	**(29.6)**	(35.6)

	Group					
	Maintenance	Onerous contracts	Leasehold dilapidations	Legal claims	Restructuring costs	Total
	£m	£m	£m	£m	£m	£m
As at 1 January 2018 restated*	(80.6)	(1.8)	(8.2)	(12.2)	(1.6)	(104.4)
Amounts (provided)/released in the year	(27.1)	-	1.0	(39.0)	(2.3)	(67.4)
Amounts utilised in the year	10.2	0.3	0.1	10.6	2.1	23.3
Other movements	(5.7)	0.3	-	24.3	-	18.9
Unwinding of discount	-	-	0.1	-	-	0.1
At 31 December 2018 restated*	(103.2)	(1.2)	(7.0)	(16.3)	(1.8)	(129.5)
As at 1 January 2019 restated*	(103.2)	(1.2)	(7.0)	(16.3)	(1.8)	(129.5)
Amounts (provided)/released in the year	(22.3)	-	-	(12.1)	0.4	(34.0)
Amounts utilised in the year	16.4	0.2	-	13.1	1.4	31.1
Other movements	1.0	0.4	-	1.0	-	2.4
Unwinding of discount	-	-	-	-	-	-
At 31 December 2019	***(108.1)***	***(0.6)***	***(7.0)***	***(14.3)***	**-**	***(130.0)***

*The Group has applied merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

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Notes *(continued)*

23 Provisions *(continued)*

	Company					
	Maintenance	**Onerous contracts**	**Leasehold dilapidations**	**Legal claims**	**Restructuring costs**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
As at 1 January 2018 restated*	(80.6)	(1.8)	(8.2)	(11.9)	(1.6)	(104.1)
Amounts (provided)/released in the year	(27.1)	-	1.0	(38.7)	(2.3)	(67.1)
Amounts utilised in the year	10.2	0.3	0.1	10.6	2.1	23.3
Other movements	(5.7)	0.3	-	24.3	-	18.9
Unwinding of discount	-	-	0.1	-	-	0.1
At 31 December 2018 restated*	(103.2)	(1.2)	(7.0)	(15.7)	(1.8)	(128.9)
As at 1 January 2019 restated*	(103.2)	(1.2)	(7.0)	(15.7)	(1.8)	(128.9)
Amounts (provided)/released in the year	(22.3)	-	-	(11.9)	0.4	(33.8)
Amounts utilised in the year	16.4	0.2	-	13.1	1.4	31.1
Other movements	1.0	0.4	-	1.0	-	2.4
Unwinding of discount	-	-	-	-	-	-
At 31 December 2019	**(108.1)**	**(0.6)**	**(7.0)**	**(13.5)**	-	**(129.2)**

*The Group has applied merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

Maintenance included in provisions, relates to the costs to meet the contractual return conditions on aircraft treated as right of use assets held under leases. Cash outflows on aircraft and engine maintenance occur when the maintenance events take place on future dates not exceeding June 2032. Maintenance provisions are discounted only when the interest rate has a deemed material impact on the provision.

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.

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Notes *(continued)*

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 2019 are:

Subsidiaries	**Country of incorporation *or registration***	**% Ordinary issued *shares***	**Principal *activity***
VA Cargo Limited	England and Wales	100	Cargo management
VAA Holdings Jersey Limited	Jersey	100	Holding company
VAA Holdings UK Limited	England and Wales	100	Holding company
Barbados Enterprises plc	England and Wales	0	Investment company
Fit Leasing Limited	Jersey	100	Leasing of aircraft
Virglease (3) Limited	England and Wales	100	Leasing of aircraft
Virgin Atlantic International Limited	England and Wales	100	Trading
Virgin Holidays Limited	England and Wales	100	Trading
Virgin Vacations Incorporated	United States of America	100	Ceased trading
Virgin Incoming Services Incorporated	United States of America	100	Tour Operator

Subsidiary Registered Office Addresses

Entity	**Registered office address:**
Fit Leasing Limited, VAA Holdings Jersey Limited	47 Esplanade, St Helier, Jersey, JE1 0BD.
Virgin Vacations Inc, Virgin Incoming Services Inc.	5787 Vineland Road, Suite 204, Orlando, Florida, 32819.
Barbados Enterprise PLC	35 Great St Helen's, London, EC3A 6AP
All other trading subsidiaries	The VHQ, Manor Royal, Crawley, West Sussex, RH10 9DF.

Virgin Vacations Incorporated ceased trading on 31 March 2019.

During the year the Group issued shares to its immediate parent company Virgin Travel Group Limited in exchange for 100% of the shareholding of Virgin Holidays Limited (see note 5).

During 2015, Barbados Enterprises plc and Virgin Atlantic International Limited became newly incorporated subsidiaries of the Group. Virgin Atlantic International Limited is a 100% owned subsidiary, whilst Barbados Enterprises plc 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.

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Notes *(continued)*

24 Interest in subsidiaries *(continued)*

Demerger of a subsidiary

On 31 March 2019 the Group demerged a subsidiary, Virgin Group Loyalty Company (VGLC) which had a non-controlling interest (see note 25). The shares of VGLC were transferred via a dividend of shares to the Group's shareholders, Virgin Group Holdings Limited & Delta Airlines Incorporated.

The following table summarises the information relating to the groups former subsidiary, Virgin Group Loyalty Company immediately prior to demerger.

	As at 31st March 2019 £m
Total assets	28.8
Total liabilities	(116.7)
Net liabilities on demerger	**(87.9)**

25 Non-controlling interests

In 2018 the Group established a new subsidiary, Virgin Group Loyalty Company. The Group's Loyalty offering, Flying Club was transferred to the new company and the trade and assets of Virgin Red Limited, a wholly owned subsidiary of Virgin Group Holdings Limited, the Group's ultimate parent company were acquired in exchange for 67,626 of the total 1,035,626 share capital in Virgin Group Loyalty Company. The Group accounted for a non-controlling interest ('NCI') until the subsidiary, Virgin Group Loyalty Company was demerged from the Group (see note 24) on 31 March 2019.

The following table summarises the information relating to the Group's former subsidiary, Virgin Group Loyalty Company which had a NCI before any intra-group eliminations in the prior year. Profits allocated to the NCI for the three months ended 31st March 2019 were £0.1m; the table below shows the comparative for 2018. The Group did not have a NCI as at 31 December 2019.

	2018 £m
NCI percentage	6.5%
Current assets	27.5
Current liabilities	(117.4)
Net liabilities	(89.9)
Net liabilities attributable to NCI	(5.8)
Revenue	3.4
Profit	2.0
Profit allocated to NCI	**0.1**

Notes *(continued)*

26 Related party transactions

The Group had transactions in the ordinary course of business during the year ended 31 December 2019 and 31 December 2018 with related parties.

	Group		Company	
	2019	2018 Restated*	2019	2018
	£m	£m	£m	£m
Parent				
Purchases from parent	(1.3)	(1.5)	(1.3)	(1.5)
Amounts owed from parent	238.7	141.9	4.8	-
Amounts owed to parent	-	-	-	(85.1)
Related parties under common control				
Sales to related parties	58.0	10.6	54.7	10.6
Purchases from related parties	(74.0)	(19.9)	(66.1)	(13.7)
Amounts owed by the related parties	124.2	131.5	120.0	131.5
Amounts owed to the related parties	(5.9)	(21.7)	(4.1)	(20.0)
Subsidiaries				
Sales to subsidiaries	-	-	161.7	141.8
Purchase from subsidiaries	-	-	(32.9)	(27.4)
Amounts owed by subsidiaries	-	-	36.3	65.6
Amounts owed to subsidiaries	-	-	(462.7)	(481.7)

*The Group has applied merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information.

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.

Not included in the table above is a balance of £8.3m within deferred income at the balance sheet date. Revenue also includes £1.0m of sales to the related party Virgin Money UK PLC. These transactions were at arms length.

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 Air Lines 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 2019 the Group owed Delta Air Lines Inc. £32.4m (2018: £8.0m) with respect to the joint operation agreement. Costs incurred in relation to the joint arrangement are presented within other operating and overhead costs. Total sales to Delta Air Lines Inc. during the year amounted to £5.5m (2018: £6.4m); total purchases were £98.4m (2018: £72.2m). Outstanding receivable balances amounted to £0.2m (2018: £0.4m) and outstanding payables (excluding amounts owed under the joint arrangement) were £7.2m (2018: 2.8m).

In March 2019, a £30.0m facility was made available by the Group's shareholders; Delta Air Lines committed 49% of this facility and Virgin Holdings Limited committed 51%. During the year, the Group paid commitment fees of £0.1m to Delta Air Lines and £0.1m to Virgin Holdings Limited in respect of this facility.

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Notes *(continued)*

26 Related party transactions *(continued)*

In January 2019, Virgin Atlantic Airways Limited's parent company, Virgin Travel Group Limited, with partners Stobart Aviation and Cyrus Capital ('the Consortium') established a separate entity named Connect Airways Limited, with each having ownership of 30%, 30% and 40% respectively. In February 2019 Connect Airways Limited acquired Flybe Limited. During the year, the Company entered into a commercial agreement with Flybe Limited to receive all revenue generated from and settle all operating costs of certain routes operated by Flybe Limited, resulting in a net settlement of £5.2m to Flybe in the year, presented within Airline traffic direct operating costs. The Consortium also entered into loan agreements, including certain guarantees, which committed funding to Flybe Limited of up to £135.0m, of which the Group committed up to £41.0m, secured on certain fleet and other assets of Flybe Limited. The Group received interest under these loan agreements amounting to £2.3m during the year, presented within Finance income. All transactions have been concluded at arm's length. During the year the Group entered into agreements with Flybe Limited, whereby certain take-off and landing slots at London Heathrow Airport currently allocated to Virgin Atlantic shall be temporarily exchanged to Flybe Limited, these are considered to be at below market rates. On 5th March 2020, Flybe Limited filed for administration (refer to note 32). The Group consider this to be an indicator that the loan receivable was impaired as at 31 December 2019. The Group expects to recover material amounts from the administrator however the amount and likely timing of such recoveries are too uncertain to accurately quantify at the balance sheet date, and therefore do not meet the 'virtually certain' recognition criteria per IAS 37. Accordingly, the Group impaired the full value of the loans receivable balance held to £nil, and provided for the guarantees as at 31 December 2019 (refer to note 8).

As at 31 December 2019, 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 relate party disclosures under IAS 24.

27 Ultimate holding company

As at 31 December 2019, 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 2019, the largest group in which the results of the Group are consolidated is that headed by Virgin Atlantic Limited, a company registered in England and Wales.

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

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Notes *(continued)*

28 Commitments

As at 31 December 2019 the Group had the following annual commitments under non-cancellable leases which *are out of the scope of IFRS 16 (see note 5):*

	Group			
	2019		**2018**	
Commitments under non-cancellable leases	**Land and buildings £m**	**Aircraft and other £m**	**Land and buildings £m**	**Aircraft and other £m**
Not later than one year	**2.4**	**0.6**	1.3	-
Later than one year and not later than five years	**2.5**	**-**	0.9	-
Beyond 5 years	**-**	**-**	-	-
	4.9	**0.6**	2.2	-

At 31 December 2019 the Company had commitments of £0.6m relating to aircraft and other *(2018: nil).*

Capital commitments

	Group and Company	
	2019 £m	**2018 £m**
Capital commitments at the balance sheet date for which no provision has been made:	**3,433.1**	2,568.2

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

It is intended that these purchases will be financed partly through cash flow and partly through external financing and leasing arrangements.

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29 Financial instruments

(i) Financial instruments by category

	Group		Company	
	2019	2018 Restated*	2019	2018 Restated*
	£m	£m	£m	£m
Financial assets				
Cash and bank balances	**352.6**	391.6	**347.9**	381.1
Restricted cash	**96.5**	97.3	**72.8**	73.8
Fair value through profit and loss:				
Derivative financial instruments	**24.6**	50.8	**24.1**	38.7
Loans and receivables at amortised cost:				
Investments	**0.0**	0.0	**261.1**	214.9
Trade and other receivables (excluding prepayments and accrued income)	**619.5**	410.0	**432.5**	338.2
	1,093.2	949.7	**1,138.4**	1,046.7
Financial liabilities				
Fair value through profit and loss:				
Derivative financial instruments	**(39.0)**	(83.4)	**(30.1)**	(83.4)
Financial liabilities at amortised cost:				
Borrowings (including lease liabilities)	**(2,214.8)**	(1,950.4)	**(2,421.4)**	(2,146.2)
Trade and other payables	**(519.3)**	(523.9)	**(478.8)**	(598.3)
	(2,773.1)	(2,557.7)	**(2,930.3)**	(2,827.9)

*The Group has applied merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

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 is 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 overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate limits and controls and monitor risks and adherence to limits. The Treasury function of the Group implements the financial risk management policies under governance approved by the Board and overseen by the Financial Risk Committee. The Group's 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 is exposed to fuel price risk. The Group's fuel hedging policy aims to protect the business from significant near term adverse movement in the jet fuel price. The policy allows the Group to hedge within bands up to 18 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	
	2019	**2018**
Fuel	**£m**	**£m**
Increase in fuel price by a fixed percentage	**30%**	30%
Increase in profit before tax	**97.1**	70.7
Decrease in fuel price by a fixed percentage	**-30%**	-30%
Decrease in profit before tax	**(80.7)**	(89.2)

(ii) Foreign currency risk

The Group is primarily exposed to fluctuations in the US dollar which can significantly impact financial results and liquidity. The Group has substantial liabilities denominated in USD dollar due to Engineering Maintenance Provisions and Aircraft Leases. A significant proportion of these are matched with US dollar cash.

Currency risk is reduced through the matching of receipts and payments in individual currencies and holding foreign currency balances to meet future obligations. In addition, the Group designates certain Aircraft Lease contracts as cash flow hedges.

Any exposure that cannot be naturally hedged, or is not designated in a cash flow hedge is managed through application of the foreign exchange hedging policy.

The Group has designated certain US dollar Aircraft Lease payments to hedge exposure in highly probable forecast US dollar revenue. The transactions are considered highly probably based on past performance (USD revenues received in prior years), forecast cash flows and the Group's business model ie. an emphasis on transatlantic flying. These are designated as cash flow hedges, and the hedge ratio applied is 1:1. The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the Aircraft Lease designated in each hedging

30 Financial risk management *(continued)*

relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method. In these hedge relationships, the main sources of ineffectiveness are:

- Changes in the timing of the hedged transactions; and
- Non-alignment between the exchange rate ruling at the balance sheet date and the exchange rate ruling at the date the forecast revenue is recognised.

The foreign exchange hedging policy aims to protect the business from significant near term adverse movement in exchange rates. The policy allows the Group to hedge within bands up to 18 months out with declining percentages. In implementing the strategy, the foreign exchange hedging policy allows for the use of a number of derivatives available on the over-the-counter (OTC) markets with approved counterparties.

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/(loss) before tax and equity.

	Group and Company	
	2019	**2018**
US Dollar	**£m**	**£m**
Strengthening in currency exchange rate by a fixed percentage	10%	10%
Decrease in profit before tax	(51.7)	(62.0)
Weakening in currency exchange rate by a fixed percentage	-10%	-10%
Increase in profit before tax	51.9	87.2

(iii) Interest rate risk

Interest rate cash flow risk arises on floating rate borrowings and cash investments. The Interest rate risk management policy 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.

Aircraft leases are a mix of fixed and floating rates. Of the 38 leases in place at 31 December 2019 *(2018: 38)*, 66% were based on fixed interest rates and 34% were based on floating interest rates *(2018: 66% fixed, 34% floating)*.

A significant proportion of US dollar liabilities by value are matched with US dollar cash.

(iv) Credit risk

The Group is exposed to credit risk to the extent of non-performance by its counterparties in respect of financial assets receivable, cash, money market deposits and derivative financial instruments.

Credit risk management aims to reduce the risk of default by diversifying exposure and adhering to acceptable limits on credit exposure to counterparties based on their respective credit ratings. Credit default swaps are also considered wherever relevant and available.

Counterparty credit quality and exposures are regularly reviewed and if outside of the acceptable tolerances, management will make a decision on remedial action to be taken.

Disclosure relating to the credit quality of trade and other receivables is given in note 29. As at 31 December 2019 the Group held £nil *(2018: £5.2m)* of collateral to mitigate this exposure (see note 21).

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Notes *(continued)*

30 Financial risk management *(continued)*

Eligible currencies are USD and GBP. Interest return on the collateral is based on Effective Fed Fund rates for USD and Overnight Sonia for GBP.

(v) Liquidity risk

The objective of the Group's liquidity risk management is to ensure sufficient cash is available to meet future liabilities as and when they fall due and ensure planned access to cost effective funding in various markets.

The Group maintains high proportion of cash in overnight money market funds with same day access to manage the impact of any business disruption. Additionally, the Group uses a combination of Non – CSA and CSA arrangement with its counterparties to manage liquidity requirements relating to derivatives trading activities.

As at 31 December 2019 the Group had a secured Revolving Credit Facility for $280m.. Further increases to the Facility can be requested up to $350m by charging additional assets. The facility currently matures in January 2023. At 31 December 2019 the facility is drawn by $68.0m (£51.3m) undrawn.

The maturity profile of financial liabilities based on undiscounted gross cash flows and contractual maturities can be found in note 20.

(vi) Capital risk

The Group's objectives when managing capital are to safeguard the Group's 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 monitors its leverage ratio i.e. net debt to EBITDAR. Net debt is defined as the total loans and borrowings, leases, (for calculation purposes) net of cash and cash equivalents.

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Notes *(continued)*

31 Reconciliation between (loss)/profit for the year and cash generated from operations

		Group	
		2019	**2018 Restated***
		£m	**£m**
(Loss)/profit for the period		**(48.5)**	(95.8)
Adjustments for:			
Depreciation (of owned and right-of-use assets)		**243.6**	234.5
Amortisation		**23.0**	22.9
(Loss)/gain on unrealised forex		**(2.2)**	75.7
Profit on disposal of PPE and intangible assets		**(1.4)**	(21.9)
Taxation		**(9.2)**	(22.0)
Movement in provision for bad debts		**0.4**	0.6
Unrealised fair value movement in derivatives		**(23.5)**	49.2
Net finance cost		**95.8**	90.6
Other exceptional items	(i)	**43.5**	3.3
Working capital changes			
Inventory		**(5.2)**	(27.5)
Trade and other receivables		**(13.6)**	(15.8)
Trade and other payables		**23.7**	(29.7)
Deferred revenue on air travel and tour operations		**7.9**	72.4
Provisions		**(16.1)**	(5.5)
Interest paid		**(108.1)**	(101.4)
Income taxes paid		**-**	0.4
Net cash from operating activities		**210.1**	230.0
Adjustments for other exceptional items	(i)	**7.7**	5.4
Net cash from operating activities before exceptional items		**217.8**	235.4

*The Group has initially applied IFRS 16 at 1 January 2019 and merger accounting rules for the acquisition of a subsidiary during 2019 resulting in the restatement of comparative information. (see note 5)

(i) Other exceptional items consist of the following (see note 8):

	Group		
	2019	**2019**	**2019**
	£m	**£m**	**£m**
	Cash	**Non cash**	**Total**
Restructuring costs	(7.7)	(2.7)	(10.4)
Aircraft costs	-	(1.3)	(1.3)
Goodwill impairment	-	(0.3)	(0.3)
Other impairments	-	(39.2)	(39.2)
	(7.7)	**(43.5)**	**(51.2)**

	Group		
	2018	**2018**	**2018**
	£m	**£m**	**£m**
	Cash	**Non cash**	**Total**
Restructuring costs	(5.4)	(3.3)	(8.7)
	(5.4)	(3.3)	(8.7)

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Notes *(continued)*

32 Subsequent events

In January 2020, the Group entered into a joint arrangement with Delta Air Lines Inc. and Air France-KLM S.A., which provides for the sharing of revenues and costs, as well as joint marketing and sales, co-ordinated pricing and revenue management, network planning and scheduling and other co-ordinated activities with respect to the parties' operations on joint arrangement routes. This joint arrangement, for which the Group received anti-trust immunity from the US Department of Transportation in November 2019, replaces the joint arrangement which previously existed between the Group and Delta Air Lines Inc.

In March 2020, Flybe Limited and its parent company, Connect Airways Limited filed for administration. While not considered in itself to be a post-balance sheet adjusting event, the Group considers this to be an indicator that the loan receivable from Flybe Limited was impaired as at the balance sheet date. The Group expects to recover material amounts from the administrator however the amount and likely timing of such recoveries are too uncertain to accurately quantify at the balance sheet date. Accordingly, the Group impaired the full value of balances held within 2019 (refer to notes 8 and 26).

In March 2020, the World Health Organisation categorised the spread of COVID-19 as a pandemic, following the origination of the disease in China in December 2019 and its spread across Europe and other regions in the following months. The pandemic has had a severe impact on the airline and travel industries, as measures put in place by governments across the globe to contain the spread of the disease have placed restrictions on international travel. The impact of COVID-19 is considered to be a non-adjusting post balance sheet event as it relates to conditions that arose after the reporting period, particularly following the categorisation of the disease as a pandemic. An accurate estimate of the financial effect caused by COVID-19 cannot be made as at the date of this report, since the impact of the pandemic is ongoing.