

Virgin Atlantic Airways Limited and subsidiary companies

Directors' report and consolidated financial statements

for the year ended 31 December 2018

Registered number 1600117



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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.

For the year ended 31 December 2018, the Airline returned a loss of £32.2m (2017: loss of £64.5m) before tax and exceptional items. This was a strong result as we successfully mitigated £136m higher fuel costs through our revenue initiatives which helped drive £150m more revenue year on year. This was achieved thanks to strong cost discipline and in the context of negative headwinds from macro uncertainty surrounding Brexit, as well as the disruptions as a result of the continuing Trent1000 engine issues.

Result highlights

- Loss before tax and exceptional items is up by £32.3m to £32.2m (statutory loss before tax of £82.1m (2017: loss before tax of £75.4m);
- Airline passenger unit revenue up 1.8% (at constant currency);
- On a unit basis, fuel costs increased by 8.2%, driven primarily by a 31% increase in average Brent Oil. The cost of Brent increased to \$72/bbl in 2018 from \$55.0/bbl in 2017;
- Non fuel unit costs were 1.1% lower than in 2017, due to strong cost control and continued optimisation of our cost base.; and
- Cargo tonnage increased by 6.1% driving revenues up to £222m, an increase of 13% compared to last year.

Airline passenger revenue

Our airline revenue reached £2.3bn, a £150m year on year increase that was supported by strong passenger revenue growth, achieved through strategic initiatives on top of a capacity increase of 3.5%, resulting in load factor increase of 0.3% and yield increase of 1.3%.

Our joint venture routes continued to outperform expectations, with a 13.5% increase in US points of sale. In addition, our codeshare agreements revenue increased by 62%, driven by a strong performance of our partnerships with Flybe, Jet Airways and Virgin Australia.

Our Upper Class passenger unit revenue increased significantly by 10.2%, and our Premium cabin passenger unit revenue also increased by 2.1%. Both improvements positively contributed to our margins and profitability.

Cargo revenue

Cargo revenue reached £222m, an increase of 13% compared to last year achieved through strong volume growth of 6% year on year. In addition, revenue quality improvement saw unit revenue grow by 7%.

Overall for 2018, we saw a rebound in demand driven in part by weak Sterling, high US output and closer collaboration in our joint venture with Delta. We saw strong revenue growth from rest of the world markets, which increased by 7% to £41m despite downward market pressure at the start of the year. Demand for capacity in China improved as well due to higher Chinese consumption of UK food products and pharmaceuticals.

Virgin Australia continued to be a key strategic partner outperforming our expectations with a 58% increase. This performance was driven by the Melbourne and Sydney to Los Angeles routes, which both recorded double digit increases in unit revenue in the second year of operations. We also experienced solid growth in the demand for exports of pharmaceuticals, up by 50% in tonnage and dense shipments were up by 99%.

For 2018 the market remained competitive for cargo posting an annual growth of 3.9% with North America leading the way and Europe coming to a standstill. Weakening demand indicators suggest that wider economic pressures are negatively affecting the cargo market however our operations have outperformed the market.

Strategic report *(continued)*

Fuel cost

On a unit basis, fuel costs increased by 8.2%, driven primarily by a 31% increase in average Brent Oil. The cost of Brent increased to \$72/bbl in 2018 from \$55.0/bbl in 2017.

Non-fuel cost

Non fuel unit costs were 1.1% lower than in 2017, due to strong cost control and continued optimisation of our cost base. We are proud to have removed over £100m of costs from the business over the four year period of the Plan to Win through cost cutting initiatives.

Aircraft ownership costs

We leased four A332s during 2018 and we purchased three A346s outright to support operational resilience and protect our network and our passengers as we experienced ongoing significant disruption from the industry wide issues affecting the Rolls-Royce Trent1000 engines fitted to our 787s.

Cash flow and financing

Our total cash position at the end of 2018 remains robust at £487.4m. Total cash (including restricted cash) decreased by £5.2m compared to last year, mainly due to our higher investment programme in advance of our A350s deliveries. Our undrawn revolving credit facility which was extended to three years from one year currently stands at \$237.5m.

Net cash generated from operations reached £75.6m, a reduction of 4.4% year on year. Cash used in investing activities was £174.2m, which increased by £51.6m year on year as a result of our fleet investments including pre-delivery payments for four A350s which commence delivery in second quarter of 2019.

Net cash from financing activities posted a £61.5m inflow driven by new finance leases of £83.9m related to the sale and leaseback of one 787.

Our net debt has increased by £150m due to a higher capex programme and finance leases as we increased the percentage of owned aircraft.

Outlook

2019 is an exciting year for Virgin Atlantic as we will undertake several transformative projects to drive our future. Despite this we expect to have another challenging year. This is mainly due to the continuation of the unstable macroeconomic conditions; Brexit related uncertainty, continued volatility in fuel prices, inflationary pressures, the weakness of Sterling and the continuation of the Rolls Royce Trent1000 engine issues.

Due to our strategic initiatives we expect to continue increasing our top line growth and our unit passenger revenue year on year. Our initiatives in network expansion including London Heathrow-Tel Aviv and Manchester-Los Angeles, combined with our new codeshare agreement with Air France-KLM Group announced in the first quarter of 2019 are expected to increase our feed and load factor. We also expect to experience the benefits of the first full year implementing our Reimagined Economy offering.

Cargo revenue will continue to bare results by expanding the customer base, utilising our Delta network and expanding into new segments that are expected to increase share and margins. Our new cargo management and handling centre at Heathrow will support this growth by providing higher standards of customer service and efficiencies.

Our revenue growth initiatives will be underpinned by strong cost control and expected increased efficiencies resulting in a below inflation movement in non fuel unit cost. Our cash position is expected to remain strong despite our large investment programme by focusing on our working capital management. We have recently extended the term of our revolving credit facility with a further upsize in the middle 2019 with the capacity to bring available facilities up to \$350m by 2020. The divestment of our frequent flyer programme (Flying Club) is on track and expected to be completed during the first half of the year.

Strategic report (continued)

Outlook (continued)

2019 will be one of our highest ever capital expenditure years, with a spend in excess of £500m due to the on balance sheet acquisition of four A350s to be delivered in the last quarter of the year and pre-delivery payments of the remaining eight aircraft to be delivered in 2020 and 2021.

Virgin Holidays and Virgin Atlantic will continue to work together to provide the best offering for our joint customers and maximise our contribution to group revenue and profit.

We have launched our three year Velocity plan that is focused on profitable growth by driving customer preference, competitive pricing, and expanded network reach. Through our new \$13bn transatlantic expanded joint venture with Delta, Air France and KLM and Flybe's regional capability in conjunction with a younger, modern and fuel efficient fleet, we are well placed to be ahead of the game.

We expect to achieve regulatory clearance for our joint acquisition of Flybe in conjunction with Stobart Group PLC and Cyrus Capital in the third quarter of 2019, enabling us to maximise the revenue opportunities across our joint operations.

Through our partnership with Delta, the early stages of the extended joint venture with Air France-KLM Group and the benefits of the first full year of implementation of our Economy products, we expect to build upon a solid base and manage the risks associated with Brexit and economic uncertainty.

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.

Safety

The safety, security and wellbeing of our customers and our people is our top priority

	2016	2017	2018	YoY
Number of incidents ¹	-	1	2	1

Customers

Best in class operational excellence for our customers is one of our key objectives

	2016	2017	2018	YoY
On-time performance (A15)	80.9%	79.0%	81.1%	2.7%

Capacity

We take a disciplined approach to managing our capacity to deliver our performance results

	2016	2017	2018	YoY
Aircraft	39	40	46	6
Available Seat Kilometres (ASK) (m)	48,385	47,175	47,747	3.5%

Passengers

Load factor measures how efficiently we fill our seats

	2016	2017	2018	YoY
Passenger load factor	78.7%	78.3%	78.6%	0.3pt
Number of passengers (m)	5.4	5.3	5.4	2%

Airline financials

	2016	2017	2018	YoY
Airline Passenger Revenue per ASK (p)	3.98	4.00	4.01	0.1pt
Airline Cost per ASK (p)	4.62	4.69	4.88	4.1%
Cargo tonnage (kg) (m)	218	230	244	5.5%

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

Strategic report *(continued)*

Risk review

Principal risks and uncertainties

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

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

Business and operational

Brand reputation

The strong reputation and loyalty created by the Virgin Atlantic brands is a core part of the value of our business. Any damage to the brands caused by any single event, or series of events, could materially impact customer loyalty propensity of customers to travel and so adversely affect our business. We track brand health monthly and monitor customer satisfaction via monthly customer surveys too, alongside ongoing research and development of our product and services to mitigate this risk. We allocate substantial resources to safety, operational integrity, onboard products and new aircraft to maintain our strong brand position.

Economic conditions

A global or UK economic slowdown may adversely affect the demand for business and leisure travel, and cargo services. This could result in a material adverse impact on our financial performance. Our operations are sensitive to economic conditions in the markets in which we operate and, following the outcome of the UK referendum to leave the EU, there remains uncertainty as to how Brexit will be delivered and how this will affect the UK economy. We produce a regular revenue forecast, which is reviewed by the Executive Management Team and appropriate actions are taken. A working group carefully tracks the development of the Brexit situation and provides analysis and strategic options for developing scenarios to the Leadership Team and Board for approval. We adopt a hedging programme which dynamically assesses the market and our future costs and revenue projects before entering into hedging instruments when necessary to protect ourselves against significant currency and fuel price fluctuations.

Government intervention

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

We continue to engage 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 is required and appropriate.

We have liaised closely with the Government and CAA ever since the EU referendum result to influence policy and inform our contingency planning.

Globally, we continue to assess political risk and work with governments across the world to limit any potential regulatory impact on our operations.

Strategic report *(continued)*

Risk review *(continued)*

Safety, terrorism and security incidents

The threat of terrorism on the aviation and tour operating industries has an impact on us. As a result, we ensure that the safety of customers, crew and staff is at the heart of our business. Failure to respond to terrorism or security incidents may adversely impact our operations and financial performance. Safety is our number one priority. It is the cornerstone of our corporate strategy and underpins everything that we do. An independently chaired Safety and Security Review Board, comprising of Executives and Senior Managers from across the business, reports directly and regularly to our Board of Directors on our safety and security position. We adopt a holistic approach to security, with the Corporate Security team having overall responsibility for security matters linked to aviation, border security, cargo, facilities, IT, personnel and asset protection. To ensure the robustness of our security regime, we operate a self-inspection and test programme. Joint audits and inspections are also conducted with regulators.

Regulated compliance performance is monitored by way of a dedicated scorecard which is reviewed at the Safety and Security Review Board. In view of the ongoing terrorist targeting of civil aviation and the potential impacts of global geopolitical events, much focus is placed on threat monitoring and assessment to ensure that we have the most current and accurate data to make informed judgements about the security of our human and physical assets.

Failure of a critical IT system

We are dependent on IT systems for most of our principal business processes. The failure of a key system through an internal or external threat (including a cyber attack) or event may cause significant disruption to operations or result in lost revenue. We have an Organisational Resilience Board with oversight of this risk. They meets regularly to assess the events, controls and actions linked to this risk. 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. In addition, our technology team work closely and diligently with our key system suppliers to ensure that we are operating our critical systems in a risk appropriate manner.

Key supplier risk

We are dependent on suppliers for some principal business processes. The failure of a key supplier to deliver contractual obligations has a significant impact on operational performance and customer delivery. Our Organisational Resilience Board has oversight of this risk, and meets regularly to assess the events, controls and actions linked to our Key Supplier Risk. A key supplier working group tracks the risk of supplier failure and the adequacy of existing controls using a number of risk metrics. The working group reports progress and any concerns to the Organisational Resilience Board on a regular basis. 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. In light of an industry wide shortage of engines used on our Boeing 787 aircraft, we took delivery of additional aircraft to add resilience to our fleet.

Industrial relations

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. 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 an ongoing trade dispute with the PPU who are seeking recognition at Virgin Atlantic.

Financial risk management

The directors are responsible for setting financial risk management policies and objectives, and for approving the parameters within which the various aspects of financial risk management are operated. The directors have delegated powers to the Financial Risk Committee to ensure that the policies and objectives are fully implemented in line with the Board approved policy. The financial risk management policies outline our approach to market risk (including foreign currency risk, interest rate risk and fuel price risk), counterparty credit risk and liquidity risk. Group Treasury carries out financial risk management within the parameters of the Board approved policies and controls are in place to maintain operational compliance with key reporting requirements in respect of the Group's financing arrangements.

Strategic report *(continued)*

Risk review *(continued)*

Liquidity risk

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 investment and the timing of associated cash flows. We take corrective actions in the form of amendments to fleet, network and the cost base in response to changing external factors. We also ensure that suitable lines of credit are available to provide capital as required. To the extent necessary, we will enter into hedging arrangements 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.

Interest rate risk

We are exposed to the risk of increased costs as a result of movements in interest rates on floating rate debt and cash investments. The net exposure to movements in interest rates is calculated and managed with a view to reducing the impact of any potential rate increase. The mix of fixed and floating rate products are managed to reduce exposure and, where necessary, the Company will utilise financial instruments approved under the financial risk management policies.

Foreign currency risk

We have significant exposure to USD denominated costs, including aviation fuel, aircraft rentals, hotel costs and other USD financing arrangements. Following the outcome of the UK referendum to leave the EU, there remains significant uncertainty as to how Brexit may be delivered and how this will affect the UK economy. During this period of uncertainty, we have seen more volatility in the value of Sterling to USD. In addition, we 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 either because it is not permitted by the authorities in the overseas country or because it is difficult to obtain the foreign currency required.

Where possible, we reduce our exposure through the matching of receipts and payments in individual currencies, as well as utilising natural hedges that exist within the business. Where a significant exposure in foreign currency holdings remains, the Company will utilise financial instruments approved under the financial risk management policies. A working group carefully tracks the development of the Brexit situation, and provides analysis and strategic options for developing scenarios, to the Leadership Team and Board for approval. Where appropriate, these recommendations can include seeking board approval for additional currency hedging activity. 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.

Fuel price risk

A significant and material element of our cost base is jet fuel. As such, we have considerable exposure to significant adverse movements in the price of jet fuel. The Company aims to protect the business from significant near term adverse movements in the jet fuel price, while maintaining an element of price participation when fuel prices are favourable. This is managed with a combination of fixed price supplier contracts and 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.

Counterparty credit risk

Exposure to counterparty credit risk arises from the non-performance of counterparties in respect of financial assets receivable. We aim to reduce the risk of loss from non performance by diversifying exposure and adhering to set limits on credit exposure to counterparties, dependent on their respective credit ratings. Counterparty credit quality is verified before creating actual or potential exposures to counterparties. Actual exposures are regularly reviewed and if these fall outside of the acceptable tolerances, management will take a decision on any remedial action.

Strategic report *(continued)*

Risk review *(continued)*

Derivative financial instruments

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. 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.

Compliance and regulatory

Compliance with competition, anti-bribery and corruption law

We are exposed to the risk of unethical behaviour by individual employees or groups of employees resulting in fines or losses to VAA. To mitigate this risk we have comprehensive training schemes and controls in place to both prevent and detect non-compliance.

Compliance with regulatory authorities

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

Compliance with data protection regulations

The Data Protection Act 2018, commonly referred to as General Data Protection Regulations (GDPR), became law in May 2018. The legislation allows for potentially significant fines to be levied for cases of serious breach or non-compliance. We have a Data Privacy Team in place, reporting to the Company Secretary, who is also the Data Protection Officer. The Data Protection Officer has oversight and the remit of ensuring compliance with data protection regulations. Key deliverables have been achieved for high risk processing activities during the year, and there is an ongoing programme for the 2019 financial year.

The Strategic Report was approved by the Board of Directors on 20 March 2019 and signed on its behalf by



Ian de Sousa
Company Secretary

Directors' report

Registered number: 01600117

The directors present their annual report and the audited financial statements for Virgin Atlantic Airways Limited and subsidiary companies for the year ended 31 December 2018.

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	
Craig Kreeger	(resigned 31 December 2018)
Shai Weiss	
Tom Mackay	
Edward Bastian	
Glen Hauenstein	
Dwight Lamar	
Cornelis Koster	
Mark Anderson	(appointed 1 January 2019)

Share based payments: Long term incentive scheme

VAA has a long term incentive scheme for Executive Directors and other invited participants to incentivise and recognise execution of our Plan to Win. Details of this share appreciation rights (cash settled) 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 14 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 he or she has applied. Employees who become temporarily or permanently disabled are given individual consideration, and where possible equal opportunities for training, career development and promotions are given to disabled persons.

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

Dividends

The directors recommend that no ordinary interim (2017: £nil) or final (2017: £nil) dividend be paid in respect of the year ended 31 December 2018.

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 (2017: £nil).

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. In assessing the basis of preparation of the financial statements of the year ended 31 December 2018, the directors have undertaken an assessment of the Group's liquidity, taking into account financial forecasts and current market conditions. In order to satisfy themselves that the Group has adequate resources for the foreseeable future in order to meet its liquidity and working capital requirements, the directors have reviewed the existing funding arrangements, our ability to generate cash from trading activities and cash management strategies. The Group's current principal facilities include £252m of senior bonds maturing in 2030 and committed facilities of \$237.5 in a revolving credit facility (RCF) with a maturity date of 2021, secured against certain owned aircraft and engines, and with options to increase the total commitment to \$350m and to extend the term out to five years.

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.

The directors' report was approved by the Board of Directors on 20 March 2019 and signed on its behalf by



Ian de Sousa
Company Secretary

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

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the group and parent company 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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group and parent 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 group or the parent 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They 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 group and to prevent and detect fraud and other irregularities.

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



Independent Auditor's Report To The Members Of Virgin Atlantic Airways Limited

Opinion

We have audited the financial statements of Virgin Atlantic Airways Limited ("the Company") for the year ended 31 December 2018 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 2018 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;
- 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 group 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.

Brexit other matter

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's and group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's and group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.



Independent Auditor's Report To The Members Of Virgin Atlantic Airways Limited (continued)

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

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 or 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 10, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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 group and parent 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 group or the parent 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.



Independent Auditor's Report To The Members Of Virgin Atlantic Airways Limited (continued)

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.

A handwritten signature in black ink, appearing to read 'Jonathan Downer'.

Jonathan Downer (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
20 March 2019

Virgin Atlantic Airways Limited and subsidiary companies

Directors' report and consolidated financial statements

for the year ended 31 December 2018

Consolidated statement of comprehensive income

for the year ended 31 December 2018

		2018			2017 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
Airline traffic and cargo operations	6	2,292.2	-	2,292.2	2,151.7	-	2,151.7
Other revenue	6	10.5	-	10.5	11.2	-	11.2
Total revenue		2,302.7	-	2,302.7	2,162.9	-	2,162.9
Aircraft costs		(267.0)	-	(267.0)	(276.7)	(7.7)	(284.5)
Other depreciation and amortisation		(46.7)	-	(46.7)	(45.3)	-	(45.3)
Physical fuel		(697.9)	-	(697.9)	(548.6)	-	(548.6)
Fuel hedging		38.8	(38.8)	-	4.4	(4.4)	-
Airline traffic direct operating costs		(553.3)	-	(553.3)	(524.9)	-	(524.9)
Engineering and maintenance costs		(159.7)	-	(159.7)	(139.6)	-	(139.6)
Employee remuneration	9	(373.7)	-	(373.7)	(354.5)	-	(354.5)
Other income		45.8	-	45.8	1.5	-	1.5
Distribution, marketing and selling costs		(111.6)	-	(111.6)	(106.1)	-	(106.1)
Other operating and overhead costs		(192.8)	5.1	(187.7)	(220.3)	(1.7)	(222.0)
Operating (loss)/profit		(15.4)	(33.7)	(49.1)	(47.2)	(13.8)	(61.0)
Profit on disposal of property, plant and equipment		(1.3)	23.2	21.9	0.9	11.6	12.5
Restructuring		-	(7.8)	(7.8)	-	(7.1)	(7.1)
		(1.3)	15.4	14.1	0.9	4.5	5.4
Finance income		8.6	-	8.6	5.1	-	5.1
Finance expense		(24.1)	-	(24.1)	(23.3)	-	(23.3)
Net finance costs	10	(15.5)	-	(15.5)	(18.2)	-	(18.2)
Fair value (losses)/gains on derivative contracts		-	(31.6)	(31.6)	-	(1.6)	(1.6)
(Loss)/profit before tax	7	(32.2)	(49.9)	(82.1)	(64.5)	(10.9)	(75.4)
Tax credit/(charge)	11			25.9			14.6
(Loss)/profit for the year				(56.2)			(60.8)
Profits attributable to:							
Owners of the Company				(56.3)			(60.8)
Non-controlling interests	25			0.1			-
(Loss)/profit for the year				(56.2)			(60.8)
Other comprehensive income (items that may be reclassified subsequently to the income statement):							
(Losses)/gains arising during the year on cash flow hedges				(0.1)			-
Total comprehensive (loss)/income for the year				(56.3)			(60.8)

*The Group has initially applied IFRS 15 at 1 January 2018, resulting in restatement of comparative information (see note 5).

The loss for the year for the Company is £59.8m (2017 restated: £76.9m loss).

All amounts relate to continuing operations. The notes on pages 20 to 65 form part of these financial statements.

Virgin Atlantic Airways Limited and subsidiary companies

Directors' report and consolidated financial statements
for the year ended 31 December 2018

Consolidated statement of changes in equity

for the year ended 31 December 2018

	Attributable to owners of the Company					Total	Non-controlling interests	Total Equity
	Share Capital	Share Premium	Capital Contribution Reserve	Hedging Reserve	Retained Earnings			
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2017, as previously reported	4.5	5.0	30.9	-	51.1	91.5	-	91.5
Adjustment on initial application of IFRS 15, net of tax (note 5)	-	-	-	-	61.5	61.5	-	61.5
Restated balance at 1 January 2017	4.5	5.0	30.9	-	112.6	153.0	-	153.0
Loss for the year	-	-	-	-	(60.8)	(60.8)	-	(60.8)
Transfers between reserves	-	-	(2.6)	-	2.6	-	-	-
Restated balance at 31 December 2017	4.5	5.0	28.3	-	54.4	92.2	-	92.2
Balance at 1 January 2018	4.5	5.0	28.3	-	54.4	92.2	-	92.2
Adjustment on initial application of IFRS 9, net of tax (note 5)	-	-	-	-	(0.9)	(0.9)	-	(0.9)
Adjusted balance at 1 January 2018	4.5	5.0	28.3	-	53.5	91.3	-	91.3
Transfer of opening assets	-	-	-	-	-	-	0.8	0.8
Loss for the year	-	-	-	-	(56.3)	(56.3)	0.1	(56.2)
Other comprehensive income/(expense) for the year	-	-	-	(0.1)	-	(0.1)	-	(0.1)
Total comprehensive income/(expense) for the year	-	-	-	(0.1)	(56.3)	(56.4)	0.1	(56.3)
Balance at 31 December 2018	4.5	5.0	28.3	(0.1)	(2.8)	34.9	0.9	35.8

Share capital includes 4,497,607 (2016: 4,497,607) ordinary shares of £1 each.

In 2016, a project was undertaken to simplify the Virgin Atlantic Limited Group structure. As a result a number of entities within the Group were placed into voluntary liquidation, and the trade and assets of Bug Leasing Limited were transferred to Fit Leasing Limited at historic cost. Whilst no adjustment arose at Group level, the transaction led to the reclassification of £6m to the capital contribution reserve. In 2017, an adjustment to the tax liability in Bug Leasing led to a reclassification of £2.6m to the capital contribution reserve.

During the year a new subsidiary, Virgin Group Loyalty Company was established. As part of the transaction, the trade and assets of Virgin Red Limited, a wholly owned subsidiary of Virgin Atlantic Limited's ultimate parent company, Virgin Holdings Limited were exchanged for shares in the new loyalty company. As a result Virgin Holdings Limited owns a 6.5% interest in Virgin Group Loyalty Company at year end. Virgin Atlantic Airways Limited a wholly owned subsidiary of Virgin Atlantic Limited owns the remaining 93.5% of the share capital. See note 25 for further information.

The notes on pages 20 to 65 form part of these financial statements.

Virgin Atlantic Airways Limited and subsidiary companies

Directors' report and consolidated financial statements
for the year ended 31 December 2018

Company statement of changes in equity

For the year ended 31 December 2018

	Share Capital £m	Share Premium £m	Capital Contribution Reserve £m	Hedging Reserve £m	Retained Earnings £m	Total £m
Balance at 1 January 2017	4.5	5.0	25.0	-	46.4	80.9
Adjustment on initial application of IFRS 15, net of tax	-	-	-	-	61.5	61.5
Restated balance at 1 January 2017	4.5	5.0	25.0	-	107.9	142.4
Loss for the year	-	-	-	-	(76.9)	(76.9)
Balance at 31 December 2017	4.5	5.0	25.0	-	31.0	65.5
Balance at 1 January 2018	4.5	5.0	25.0	-	31.0	65.5
Adjustment on initial application of IFRS 9, net of tax	-	-	-	-	(0.9)	(0.9)
Adjusted balance at 1 January 2018	4.5	5.0	25.0	-	30.1	64.6
Transfer of opening assets	-	-	-	-	92.6	92.6
Loss for the year	-	-	-	-	(59.8)	(59.8)
Other comprehensive income/(expense)	-	-	-	(0.1)	-	(0.1)
Total comprehensive income/(expense) for the year	-	-	-	(0.1)	(59.8)	(59.9)
Balance at 31 December 2018	4.5	5.0	25.0	(0.1)	62.9	97.3

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

The notes on pages 20 to 65 form part of these financial statements.

Virgin Atlantic Airways Limited and subsidiary companies

Directors' report and consolidated financial statements
for the year ended 31 December 2018

Consolidated statement of financial position

as at 31 December 2018

Registered number: 01600117

	Note	As at 31 December 2018 £m	As at 31 December 2017 Restated* £m	As at 1 January 2017 Restated* £m
Non-current assets				
Intangible assets	12	155.8	150.7	143.6
Property, plant and equipment	13	798.5	696.8	665.5
Investments	15	0.0	0.0	0.0
Derivative financial instruments	16	3.0	5.1	8.3
Trade and other receivables	17	25.1	17.0	30.8
		<u>982.4</u>	<u>869.6</u>	<u>848.2</u>
Current assets				
Inventories	18	33.6	31.3	30.2
Trade and other receivables	17	329.5	229.8	232.3
Derivative financial instruments	16	35.7	30.0	32.4
Cash and cash equivalents	19	390.1	443.5	524.0
Restricted cash	19	97.3	49.1	36.6
		<u>886.2</u>	<u>783.7</u>	<u>855.5</u>
TOTAL ASSETS		<u>1,868.6</u>	<u>1,653.3</u>	<u>1,703.7</u>
Current liabilities				
Borrowings	20	(24.2)	(17.6)	(17.2)
Trade and other payables	21	(577.1)	(482.6)	(436.4)
Deferred revenue on air travel	22	(478.7)	(448.8)	(407.2)
Provisions	23	(35.9)	(35.6)	(43.2)
Derivative financial instruments	16	(66.2)	(14.9)	(8.5)
		<u>(1,182.1)</u>	<u>(999.5)</u>	<u>(912.5)</u>
NET CURRENT LIABILITIES		<u>(295.9)</u>	<u>(215.8)</u>	<u>(57.0)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>686.5</u>	<u>653.8</u>	<u>791.2</u>
Non-current liabilities				
Borrowings	20	(532.3)	(453.8)	(462.8)
Trade and other payables	21	(4.6)	(9.5)	(50.1)
Provisions	23	(93.3)	(68.5)	(83.6)
Derivative financial instruments	16	(17.2)	(3.2)	(4.2)
Deferred tax	14	(3.3)	(26.6)	(37.5)
		<u>(650.7)</u>	<u>(561.6)</u>	<u>(638.2)</u>
NET ASSETS		<u>35.8</u>	<u>92.2</u>	<u>153.0</u>
Equity				
Share capital		4.5	4.5	4.5
Share premium		5.0	5.0	5.0
Capital contribution reserve		28.3	28.3	30.9
Hedging reserve		(0.1)	-	-
Retained earnings		(2.8)	54.4	112.6
Equity attributable to owners of the Company		<u>34.9</u>	<u>92.2</u>	<u>153.0</u>
Non-controlling interests	25	<u>0.9</u>	<u>-</u>	<u>-</u>
Total equity		<u>35.8</u>	<u>92.2</u>	<u>153.0</u>

*The Group has initially applied IFRS 15 at 1 January 2018, resulting in restatement of comparative information (see note 5).

These financial statements were approved by the Board of Directors on 20 March 2019 and were signed on its behalf by:


Shari Weiss
Director

The notes on pages 20 to 65 form part of these financial statements.

Virgin Atlantic Airways Limited and subsidiary companies

Directors' report and consolidated financial statements
for the year ended 31 December 2018

Company statement of financial position

as at 31 December 2018

Registered number: 01600117

	Note	2018 £m	2017 £m
Non-current assets			
Intangible assets	12	155.2	150.7
Property, plant and equipment	13	805.0	703.5
Investments	15	207.1	201.2
Derivative financial instruments	16	3.0	5.1
Trade and other receivables	17	30.1	17.0
		<u>1,200.4</u>	<u>1,077.5</u>
Current assets			
Inventories	18	33.6	31.3
Trade and other receivables	17	354.5	247.0
Investments	15	7.8	7.7
Derivative financial instruments	16	35.7	30.0
Cash and cash equivalents	19	381.1	441.1
Restricted cash	19	73.8	25.8
		<u>886.6</u>	<u>782.9</u>
TOTAL ASSETS		<u>2,086.8</u>	<u>1,860.4</u>
Current liabilities			
Borrowings	20	(25.1)	(17.8)
Trade and other payables	21	(597.5)	(505.4)
Deferred revenue on air travel	22	(383.0)	(448.8)
Provisions	23	(35.9)	(35.6)
Derivative financial instruments	16	(66.2)	(14.9)
		<u>(1,107.7)</u>	<u>(1,022.5)</u>
NET CURRENT LIABILITIES		<u>(221.2)</u>	<u>(239.6)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>979.1</u>	<u>837.9</u>
Non-current liabilities			
Borrowings	20	(759.2)	(660.2)
Deferred tax	14	(7.4)	(31.0)
Trade and other payables including deferred income	21	(4.7)	(9.5)
Provisions	23	(93.3)	(68.5)
Derivative financial instruments	16	(17.2)	(3.2)
		<u>(881.8)</u>	<u>(772.4)</u>
NET ASSETS		<u>97.3</u>	<u>65.5</u>
Equity			
Share capital		4.5	4.5
Share premium		5.0	5.0
Capital contribution reserve		25.0	25.0
Hedging reserve		(0.1)	-
Retained earnings		62.9	31.0
Equity attributable to owners of the Company		<u>97.3</u>	<u>65.5</u>

These financial statements were approved by the Board of Directors on 20 March 2019 and were signed on its behalf by:


Shaj Weiss
Director

The notes on pages 20 to 65 form part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2018

	Note	2018 £m	2017* £m
Net cash from operating activities before exceptional items	31	80.6	89.6
Adjustments for exceptional items	31	(5.0)	(10.5)
Net cash from operating activities	31	75.6	79.1
Purchase of PPE		(354.6)	(217.7)
Purchase of intangible assets		(20.3)	(14.5)
Proceeds from sale of PPE and intangible assets		192.2	104.5
Interest received		8.6	5.1
Net cash used in investing activities		(174.2)	(122.6)
Payment of long term borrowings		(6.1)	(5.8)
Proceeds from issue of new bonds		-	31.4
Payment of finance leases		(16.3)	(12.9)
Proceeds from new finance leases		83.9	-
Net cash from/(used in) financing activities		61.5	12.7
Net decrease in cash and cash equivalents		(37.1)	(30.7)
Cash and cash equivalents at beginning of year and restricted cash	19	492.5	560.6
Effect of foreign exchange rate changes		32.0	(37.3)
Cash and cash equivalents at end of year and restricted cash	19	487.4	492.6

*IFRS 15 had no impact on the presentation of the 2017 statement of cash flows (see note 31 for restated net cash from operating activities reconciliation).

The notes on pages 20 to 65 form part of these financial statements.

Notes

1 General information

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

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

2 Statement of compliance with IFRS

The Group 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 2018 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 policies

Basis of preparation

The Directors have, at the time of approving the financial statements, having regard for the principal risks and uncertainties, as set out in the Strategic and Directors' report, including the net asset position, which could impact the business, consider that the preparation of the financial statements on a going concern basis remains appropriate. The Group has adequate resources to be able to meet its current obligations for the foreseeable future. In assessing the basis of preparation of the financial statements of the year ended 31 December 2018, the directors have undertaken an assessment of the Group's liquidity, taking into account financial forecasts and current market conditions. In order to satisfy themselves that the Group has adequate resources for the foreseeable future in order to meet its liquidity and working capital requirements, the directors have reviewed the existing funding arrangements, our ability to generate cash from trading activities and cash management strategies. The Group's current principal facilities include \$252m of senior bonds maturing in 2030 and committed facilities of \$237.5 in a revolving credit facility (RCF) with a maturity date of 2021, secured against certain owned aircraft and engines, and with options to increase the total commitment to \$350m and to extend the term out to five years.

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

The Company financial statements have been prepared under the historical cost convention and in accordance with applicable UK Accounting Standards. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The Company has taken advantage of section 408 of the Companies Act 2006 and has not published a separate income statement and related notes for the Company. The result for the year attributable to the Company is disclosed in the company statement of changes in equity. In addition, the Company has taken advantage of the disclosure exemptions permitted under FRS 101 to present a cash flow statement and related notes.

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

Notes *(continued)*

3 Accounting policies *(continued)*

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.

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.

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.

In accordance with IFRS15 'Revenue from contracts with customers', the apportioned standalone selling price of the awarded Flying Club mile is deferred as a liability and recognised as revenue at the point the performance obligation has been satisfied by the Group (typically flight date).

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.

Notes *(continued)*

3 Accounting policies *(continued)*

Compensation payments

Income resulting from claims for compensation payments/liquidated damages is recognised as either 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.

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 which are deemed to have been earned in the current period.

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

Notes *(continued)*

3 Accounting policies *(continued)*

Taxation

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

Current tax

The Group's liability for current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it excludes items that are never taxable or deductible.

Deferred tax

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

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

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

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

Intangible assets

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

Landing rights

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

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

Notes *(continued)*

3 Accounting policies *(continued)*

Intangible assets *(continued)*

Software

The cost of purchase or development of computer software that is separable from an item of related hardware is capitalised separately. 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 finance lease if shorter. Residual values and useful economic lives of assets are reviewed annually against prevailing market values for equivalently aged assets and depreciation rates are adjusted accordingly on a prospective basis.

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

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

Fleet

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

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

The balance of aircraft and engine cost is depreciated on a straight-line basis over periods of up to twenty years, so as to reduce the cost to estimated residual value at the end of that period. The effective depreciation rate per annum in respect of new wide-bodied aircraft is approximately 5%.

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

Notes *(continued)*

3 Accounting policies *(continued)*

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

Fleet *(continued)*

Aircraft and engine spares acquired on the introduction or expansion of the fleet as well as rotatable spares purchased separately are carried as PPE and are generally depreciated in line with the fleet to which they relate. The Group depreciates such spares on a straight-line basis so as to reduce the cost or valuation to estimated residual value at the end of their useful lives. The effective depreciation rate per annum in respect of rotatable spares is 7.25% or 12.5% dependent on type. Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over 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 operating leases, is depreciated on a straight-line basis to a nil residual value over a period not exceeding the remaining lease period.

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

The buildings in freehold land and buildings are being depreciated over a period of 50 years, on a straight-line basis. No depreciation is provided in respect of assets in the course of construction or freehold land.

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

Fixtures and fittings	20% - 25% on cost
Plant and equipment	25% - 33% on cost
Computer equipment and software	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.

Notes *(continued)*

3 Accounting policies *(continued)*

Aircraft deposits

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

Leases

Operating leases

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

Sale and leaseback

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

Finance lease

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

Inventories

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

Notes *(continued)*

3 Accounting policies *(continued)*

Provisions

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

Leased aircraft maintenance provisions

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

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

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

- No charge is recorded during the initial period of lease agreements where no compensation or maintenance is required prior to hand-back.
- After a component or maintenance interval has passed the trigger point such that the Group is contractually obliged to carry out the specified work (in order to meet the return conditions), a full provision for the cost of work is recorded. To the extent that this provision represents an increase to 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 services. For owned aircraft and engines, major overhaul expenditure is capitalised and depreciated by reference to the units of economic consumption, typically hours or sectors flown.

Restructuring provisions

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

Notes *(continued)*

3 Accounting policies *(continued)*

Provisions *(continued)*

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.

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.

Cash and cash equivalents

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

Restricted cash

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

Notes *(continued)*

3 Accounting policies *(continued)*

Financial instruments *(continued)*

Impairment of non-derivative financial assets

The Group assesses at each balance sheet date whether a non-derivative financial asset or group of financial assets is impaired. 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.

Notes *(continued)*

3 Accounting policies *(continued)*

Impact of new International Financial Reporting Standards and interpretations

IFRS 16 Leases – effective for the year ending 31 December 2019

The Group is required to adopt IFRS 16 from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adoption the standard on 1 January 2019 may change because:

- The Group has not finalised the testing and assessment of controls over its new IT systems; and
- The new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Group will recognise new assets and liabilities for its operating leases of aircraft and related equipment and land and buildings (see note 28). The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Foreign exchange movements on lease liabilities, which are predominantly denominated in US dollars, will be measured at each balance sheet date; however the right-of-use asset will be recognised at the historic exchange rate. This will create volatility in the income statement which the Group plans to mitigate using cash flow hedge accounting. Gains and losses will be recognised through other comprehensive income, and subsequently reclassified to the income statement when offsetting cash flows are received.

Currently, the Group recognises operating lease expense on a straight-line basis over the term of the lease, and recognises assets and liabilities only to the extent that there is a timing difference between actual lease payments and the expense recognised.

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous as described in note 23. Instead, the Group will include the payments due under the lease in its lease liability.

No significant impact is expected for the Group's finance leases.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of £1,426.3m as at 1 January 2019.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the fully retrospective approach. Therefore the comparative information for the year ended 31 December 2018 will be restated in accordance with IAS 8.

IFRIC 23 – effective for the year ending 31 December 2019

The IASB's Interpretations Committee has issued IFRIC Interpretation 23 'Uncertainty over tax treatments'; effective for the Group from 1 January 2019. The interpretation clarifies application of recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments. The Group has assessed the impact of the interpretation and it is not expected to be material.

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

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

Revenue recognition – frequent flyer programme

For the Group's frequent flyer loyalty programme, the revenue attributed to the awarded miles is deferred as a liability and recognised as revenue at the point the performance obligation has been satisfied by the Group. 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

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

Lease classification

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

Notes (continued)

5 Changes in significant accounting policies

The Group has initially applied IFRS 15 (see A) and IFRS 9 (see B) from 1 January 2018.

A. IFRS 15 Revenue from Contracts with Customers.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IFRIC 13 Customer loyalty programmes and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. The effect of initially applying IFRS 15 on the group is attributed to the following:

- Issuance and change fees: Under IAS 18, revenue was recorded on the date the amendment was made to the booking. Under IFRS 15 the performance obligation to provide a flight cannot be separated from the amendment fee because the customer cannot benefit from the change fee until the flight date. Revenue is now deferred until flight date.
- Loyalty company mile valuation: Under IFRIC 13, miles were valued using the weighted average selling price of all standalone miles sold to third parties. Under IFRS 15, the Group values miles using the redemption value method (an adjusted market assessment approach).

The Group has adopted IFRS 15 using the fully retrospective method (without practical expedients), meaning comparative information throughout these financial statements has been restated to reflect the requirements of the new standard.

The following table summarises the impact, net of tax, of transition to IFRS 15 on retained earnings at 1 January 2018.

	Impact of adopting IFRS 15 at 1 January 2018
Retained earnings	£m
Impact of issuance and change fees	1.1
Impact of Frequent Flyer programme mile valuation	(54.5)
Related tax	9.1
Impact at 1 January 2018	(44.3)

B. IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the impairment of financial assets.

Under IFRS 9, the group was required to revise its impairment methodology for trade receivables. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model.

IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following table summarises the impact, net of tax, of transition to IFRS 9 on retained earnings at 1 January 2018:

	Impact of adopting IFRS 15 at 1 January 2018
Retained earnings	£m
Impact of expected losses	1.0
Related tax	(0.1)
Impact at 1 January 2018	0.9

Virgin Atlantic Airways Limited and subsidiary companies

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Notes (continued)

5 Changes in significant accounting policies (continued)

The following tables summarise the impacts of adopting IFRS 15 and IFRS 9 on the Group's statement of financial position and its statement of comprehensive income:

	1 January 2017 as previously presented	IFRS 15	1 January 2017 restated	As originally presented 2017	IFRS 15	Restated 2017	IFRS 9	1 January 2018 restated
	£m	£m	£m	£m	£m	£m	£m	£m
Non-current assets								
Intangible assets	143.6		143.6	150.7		150.7		150.7
Property, plant and equipment	665.5		665.5	696.8		696.8		696.8
Investments	0.0		0.0	0.0		0.0		0.0
Derivative financial instruments	8.3		8.3	5.1		5.1		5.1
Trade and other receivables	30.8		30.8	17.0		17.0		17.0
	<u>848.2</u>		<u>848.2</u>	<u>869.6</u>		<u>869.6</u>		<u>869.6</u>
Current assets								
Inventories	30.2		30.2	31.3		31.3		31.3
Trade and other receivables	232.3		232.3	229.8		229.8	(1.0)	228.8
Derivative financial instruments	32.4		32.4	30.0		30.0		30.0
Cash and cash equivalents	524.0		524.0	443.5		443.5		443.5
Restricted cash	36.6		36.6	49.1		49.1		49.1
	<u>855.5</u>		<u>855.5</u>	<u>783.7</u>		<u>783.7</u>		<u>782.7</u>
TOTAL ASSETS	<u>1,703.7</u>		<u>1,703.7</u>	<u>1,653.3</u>		<u>1,653.3</u>		<u>1,652.3</u>
Current liabilities								
Borrowings	(17.2)		(17.2)	(17.6)		(17.6)		(17.6)
Trade and other payables	(917.7)	481.3	(436.4)	(984.9)	502.3	(482.6)		(482.6)
Deferred revenue on air travel	-	(407.2)	(407.2)	-	(448.8)	(448.8)		(448.8)
Provisions	(43.2)		(43.2)	(35.6)		(35.6)		(35.6)
Derivative financial instruments	(8.5)		(8.5)	(14.9)		(14.9)		(14.9)
	<u>(986.6)</u>		<u>(912.5)</u>	<u>(1,053.0)</u>		<u>(999.5)</u>		<u>(999.5)</u>
NET CURRENT LIABILITIES	<u>(131.1)</u>		<u>(57.0)</u>	<u>(269.3)</u>		<u>(215.8)</u>		<u>(216.8)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>717.1</u>		<u>791.2</u>	<u>600.3</u>		<u>653.8</u>		<u>652.8</u>
Non-current liabilities								
Borrowings	(462.8)		(462.8)	(453.8)		(453.8)		(453.8)
Trade and other payables including deferred income	(50.1)		(50.1)	(9.5)		(9.5)		(9.5)
Provisions	(83.6)		(83.6)	(68.5)		(68.5)		(68.5)
Derivative financial instruments	(4.2)		(4.2)	(3.2)		(3.2)		(3.2)
Deferred tax	(24.9)	(12.6)	(37.5)	(17.5)	(9.1)	(26.6)	0.1	(26.5)
	<u>(625.6)</u>		<u>(638.2)</u>	<u>(552.5)</u>		<u>(561.6)</u>		<u>(561.5)</u>
NET ASSETS	<u>91.5</u>		<u>153.0</u>	<u>47.8</u>		<u>92.2</u>		<u>91.3</u>
Equity								
Share capital	4.5		4.5	4.5		4.5		4.5
Share premium	5.0		5.0	5.0		5.0		5.0
Capital contribution reserve	30.9		30.9	28.3		28.3		28.3
Retained earnings	51.1	61.5	112.6	10.0	44.4	54.4	(0.9)	53.5
Equity attributable to owners of the Company	<u>91.5</u>		<u>153.0</u>	<u>47.8</u>		<u>92.2</u>		<u>91.3</u>

Notes (continued)

5 Changes in significant accounting policies (continued)

	2017 as originally presented		Total £m	IFRS 15 £m	Restated 2017 £m
	Ordinary	Exceptional			
	activities	items and			
	before exceptional items £m	fair value movements (Note 8) £m			
Airline traffic and cargo operations	2,186.1	-	2,186.1	(34.4)	2,151.7
Other revenue	11.2	-	11.2	-	11.2
Total revenue	2,197.3	-	2,197.3	(34.4)	2,162.9
Aircraft costs	(276.7)	(7.7)	(284.4)	-	(284.4)
Other depreciation and amortisation	(45.3)	-	(45.3)	-	(45.3)
Physical fuel	(548.6)	-	(548.6)	-	(548.6)
Fuel hedging	4.4	(4.4)	-	-	-
Airline traffic direct operating costs	(533.7)	-	(533.7)	8.8	(524.9)
Engineering and maintenance costs	(139.6)	-	(139.6)	-	(139.6)
Employee remuneration	(354.5)	-	(354.5)	-	(354.5)
Other income	1.5	-	1.5	-	1.5
Distribution, marketing and selling costs	(111.1)	-	(111.1)	5.0	(106.1)
Other operating and overhead costs	(220.3)	(1.7)	(222.0)	-	(222.0)
Operating (loss)/profit	(26.6)	(13.8)	(40.4)	(20.6)	(61.0)
Profit on disposal of property, plant and equipment	0.9	11.6	12.5	-	12.5
Restructuring	-	(7.1)	(7.1)	-	(7.1)
	0.9	4.5	5.4		5.4
Finance income	5.1	-	5.1	-	5.1
Finance expense	(23.3)	-	(23.3)	-	(23.3)
Net finance costs	(18.2)	-	(18.2)	-	(18.2)
Fair value (losses)/gains on derivative contracts	-	(1.6)	(1.6)	-	(1.6)
(Loss)/profit before tax	(43.9)	(10.9)	(54.8)	(20.6)	(75.4)
Tax credit/(charge)			11.1	3.5	14.6
(Loss)/profit for the year			(43.7)	(17.1)	(60.8)

Notes (continued)

6 Revenue analysis

	Group	
	2018	2017 Restated*
	£m	£m
Airline traffic and cargo operations	2,292.2	2,151.7
Other revenue	10.5	11.2
	2,302.7	2,162.9

* The Group has initially applied IFRS 15 at 1 January 2018, resulting in a 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	
	2018	2017
	£m	£m
Scheduled airline services by source:		
United Kingdom	1,229.6	1,213.7
North America and Caribbean	704.1	623.3
Far East	97.5	90.4
Africa	71.3	32.0
Other	200.2	203.5
	2,302.7	2,162.9
Scheduled airline services by destination:		
North America	1,584.8	1,483.5
Caribbean	209.8	231.5
Far East	166.2	170.3
Africa	176.3	161.1
Other	165.6	116.5
	2,302.7	2,162.9

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	
	2018	2017
	£m	£m
Depreciation of Property, plant and equipment (note 13)	(81.8)	(81.1)
Amortisation of intangible assets (note 12)	(16.1)	(14.8)
Rentals under operating leases:		
Aircraft and related equipment	(212.2)	(225.3)
Plant and machinery	(11.2)	(12.8)
Land and buildings	(21.2)	(21.7)
Contribution to pension schemes	(30.0)	(27.3)

Fees payable to the Group's auditor and its associates for services other than the statutory audit of the parent company and subsidiaries are not disclosed in Virgin Atlantic Airways Limited's accounts since the consolidated accounts of Virgin Atlantic Airways Limited's parent, Virgin Atlantic Limited, are required to disclose non-audit fees on a consolidated basis. Fees payable to the Company's auditor for the audit of the Company's annual accounts are £0.3m (2017: £0.3m). Fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation are £24,000 (2017: £29,000).

8 Exceptional items

Exceptional items included in profit before tax includes the following:

	Group	
	2018	2017
	£m	£m
Aircraft costs	-	(7.7)
Accelerated depreciation on aircraft equipment (i)	-	(3.1)
Onerous lease (ii)	-	(4.6)
Fuel hedging reclassified to fair value (gains)/losses on derivatives (iii)	(38.8)	(4.4)
Forex derivative (gains)/losses reclassified to fair value gains/(losses) on derivatives (iii)	5.1	(1.7)
Profit on disposal of aircraft equipment (iv)	23.2	11.6
Restructuring costs (v)	(7.8)	(7.1)
Fair value gains/(losses) on derivatives (iii)	(31.6)	(1.6)
	(49.9)	(10.9)
The fair value gains/(losses) on derivatives can be analysed as follows:		
Loss on fair value movements	(65.3)	(7.7)
Gain on fuel derivatives settled during the year (reclassified - see above)	38.8	4.4
(Loss)/gain on forex derivatives settled during the year (reclassified - see above)	(5.1)	1.7
	(31.6)	(1.6)

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) During the year the Group incurred accelerated depreciation of nil (2017: £3.1m) on its A330-300 fleet. The acceleration relates to cabin components which are scheduled to exit the fleet earlier than anticipated.
- (ii) Onerous lease costs of £4.6m were recognised in the previous year relating to aircraft rentals incurred for one aircraft which was surplus to requirements for a portion of the year.
- (iii) Fuel costs include gains of £38.8m (2017: gains of £4.4m) recognised on maturity of fuel derivative contracts. Other income includes losses of £5.1m (2017: gains of £1.7m) 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) The Group purchased and subsequently entered into a sale and operating leaseback of two Boeing 787 aircraft. Profits on sale and leaseback amounted to £23.2m (2017: profits of £11.6m on one sale and operating leaseback transaction). The profits arising from the sale and operating leaseback of the aircraft have been reclassified and are shown net of any supplier compensation received. See note 13 for further details.
- (v) Restructuring costs of £7.8m have been recognised in the year and include costs of cost of enhancing the group's customer loyalty offering. In the prior year, restructuring costs of £6.6m were recognised relating to the Group's change programme – fit.nimble. The programme completed during the year.

Notes *(continued)*

9 Employee remuneration

(i) Head count and total remuneration

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

	Group	
	2018	2017
	Number	Number
Management and administration	1,152	1,173
Flight crew	917	812
Cabin crew	3,343	3,130
Reservations and sales	1,356	1,379
Cargo and handling	169	169
Engineering, cargo and production	692	668
	7,629	7,331

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

	Group	
	2018	2017
	£m	£m
Wages and salaries	310.5	295.4
Social security costs	33.2	31.8
Other pension costs	30.0	27.3
	373.7	354.5

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 £4.1m at 31 December 2018 (2017: £3.7m).

(ii) Aggregate directors' remuneration

During the year/period of their service, the emoluments of the 3 directors (2017: 3) of the Virgin Atlantic Group were:

	Group	
	2018	2017
	£m	£m
Total emoluments		
Aggregate emoluments	2.3	2.3
Company contributions to money purchase pension schemes	0.1	0.2
	2.4	2.5
Highest paid director		
Aggregate emoluments and other benefits	1.1	1.1
Company contributions to money purchase pension schemes	0.1	0.1
	1.2	1.2

Retirement benefits are accruing to 3 (2017: 3) directors under money purchase pension schemes.

During the year an amount of £0.2m (2017: £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.

Notes *(continued)*

9 Employee remuneration *(continued)*

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

In May 2015, the Group granted 108,561 (38,420 A1 shares of £1 each and 70,141 A2 shares of £0.01 each) Share Appreciation Rights ("SARs") within Virgin Atlantic Two Limited, to employees that entitle them to a cash payment after 4 years of service. The SARs expire at the end of the four-year period after grant date. The amount of the cash payment is determined based on the increase in the earnings valuation of the Group between the grant date and the time of exercise. The valuation of the SARs are made on an annual basis using external third parties. The fair value of the SARs are £nil as at 31 December 2018 (2017:£nil).

10 Finance costs

	Group	
	2018	2017
	£m	£m
Finance income		
Bank deposits	8.1	4.6
Unlisted investments (note 15)	0.5	0.5
	8.6	5.1
Finance expense		
Amounts due to the group	(1.9)	(1.1)
In respect of finance leases and hire purchase contracts	(15.4)	(13.8)
Unwinding of discount on provisions (note 23)	(0.1)	(0.3)
External loans	(11.4)	(10.3)
	(28.8)	(25.5)
Interest capitalised on aircraft progress payments (note 13)	4.7	2.2
	(24.1)	(23.3)
Net finance costs	(15.5)	(18.2)

Notes (continued)

11 Tax

Analysis of the tax expense during the year:

	Group	
	2018	2017
	£m	Restated* £m
Current tax		
UK group relief receivable	2.7	4.2
Adjustments in respect of prior periods	-	(0.3)
Non – UK current tax	-	(0.2)
Total current tax credit	2.7	3.7
Deferred tax		
Origination and reversal of timing differences	24.5	9.0
Adjustments in respect of prior years	(1.3)	1.9
Effect of changes in tax rate	-	-
Total deferred tax credit/(charge)	23.2	10.9
Tax credit/(charge)	25.9	14.6

* The Group has initially applied IFRS 15 at 1 January 2018, resulting in a restatement of comparative information (see note 5).

The standard rate of UK corporation tax for the year is 19% (2017: 19.25%). The total tax charge of 34.18% 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	
	2018	2017
	£m	£m
(Loss)/profit before taxation	(82.1)	(75.4)
Tax at the standard rate at 19% (2017:19.25%)	15.6	14.6
Factors affecting the credit/(charge) for the year:		
Income not subject to corporation tax	0.1	0.1
Expenses not deductible for tax purposes	(0.5)	(0.7)
Effects of reduction in deferred tax rate	(1.4)	(0.3)
Fixed asset differences	-	1.6
Adjustments in respect of prior periods	(1.2)	(1.8)
Other timing differences	(0.1)	-
UK Government relief	4.0	5.1
Permanent differences	-	(1.5)
Holdover relief	-	(2.5)
Recognition of previously unrecognised deferred tax	9.4	-
Total tax credit/(charge)	25.9	14.6

Notes (continued)

11 Tax (continued)

A reduction in the UK corporation tax rate to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. The deferred tax liability at 31 December 2018 has been calculated based on this rate. 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			
	Landing slots £m	Software and other £m	Assets under construction £m	Total £m
Cost				
At 1 January 2018	91.1	160.0	8.0	259.1
Additions	-	2.0	20.4	22.4
Disposals	-	(0.1)	-	(0.1)
Reclassifications	-	11.9	(11.9)	-
At 31 December 2018	91.1	173.8	16.5	281.4
Amortisation				
At 1 January 2018	10.6	97.7	-	108.3
Additions	-	1.3	-	1.3
Amortisation for the year	-	16.1	-	16.1
Disposals	-	(0.1)	-	(0.1)
At 31 December 2018	10.6	115.0	-	125.6
Carrying amount				
At 31 December 2018	80.5	58.8	16.5	155.8
At 31 December 2017	80.5	62.2	8.0	150.7

During the year intangible assets and associated accumulated depreciation were acquired from Virgin Red Limited (see note 25).

Notes *(continued)*

12 Intangible assets (continued)

	Company			
	Landing slots £m	Software and other £m	Assets under construction £m	Total £m
Cost				
At 1 January 2018	91.1	160.0	8.0	259.1
Additions	-	-	20.2	20.2
Disposals	-	(0.1)	-	(0.1)
Reclassifications	-	11.9	(11.9)	-
At 31 December 2018	91.1	171.8	16.3	279.2
Amortisation				
At 1 January 2018	10.6	97.7	-	108.3
Amortisation for the year		15.8	-	15.8
Disposals		(0.1)	-	(0.1)
Reclassifications		-	-	-
At 31 December 2018	10.6	113.4	-	124.0
Carrying amount				
At 31 December 2018	80.4	58.4	16.4	155.2
At 31 December 2017	80.4	62.3	8.0	150.7

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 (2017: *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.

Virgin Atlantic Airways Limited and subsidiary companies

Directors' report and consolidated financial statements
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13 Property, plant and equipment

	Group			
	Aircraft, rotable spares and ancillary equipment £m	Other £m	Assets under construction £m	Total £m
Cost				
At 1 January 2018	999.0	183.9	35.4	1,218.3
Additions	328.7	0.1	25.0	353.8
Disposals	(190.2)	(5.9)	-	(196.1)
Transfers to intangible assets	-	-	-	-
Reclassifications	17.0	4.6	(21.6)	-
At 31 December 2018	1,154.5	182.7	38.8	1,376.0
Accumulated depreciation				
At 1 January 2018	410.8	110.8	-	521.6
Depreciation for the year	70.1	11.7	-	81.8
Disposals	(20.7)	(5.2)	-	(25.9)
At 31 December 2018	460.2	117.3	-	577.5
Carrying amount				
At 31 December 2018	694.3	65.4	38.8	798.5
At 31 December 2017	588.3	73.0	35.4	696.8

Virgin Atlantic Airways Limited and subsidiary companies

Directors' report and consolidated financial statements
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Notes *(continued)*

13 Property, plant and equipment *(continued)*

	Company			
	Aircraft, rotable spares and ancillary equipment £m	Other £m	Assets under construction £m	Total £m
Cost				
At 1 January 2018	997.0	183.9	35.5	1,216.4
Additions	328.7	0.1	25.1	353.9
Disposals	(190.2)	(5.9)	-	(196.1)
Reclassifications	17.2	4.6	(21.8)	-
At 31 December 2018	1,152.7	182.7	38.8	1,374.2
Accumulated depreciation				
At 1 January 2018	402.1	110.8	-	512.9
Depreciation for the year	70.5	11.7	-	82.2
Disposals	(20.7)	(5.2)	-	(25.9)
At 31 December 2018	451.9	117.3	-	569.2
Carrying amount				
At 31 December 2018	700.8	65.4	38.8	805.0
At 31 December 2017	594.9	73.0	35.5	703.4

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

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Carrying amount				
Aircraft, rotatable spares and ancillary equipment	233.3	171.6	264.1	186.6
Depreciation charged for the year				
Aircraft, rotatable spares and ancillary equipment	16.8	11.9	18.3	12.5

Freehold land with a cost of £4.4m (2017: £4.4m) has not been depreciated. Included in aircraft, rotatable spares and ancillary equipment are progress payments of £143.1m (2017: £122.1m). These amounts are not depreciated.

During the year, the Group and Company purchased, and subsequently, entered into a sale and operating leaseback of two Boeing 787 aircraft (2017: one). The Group and Company also purchased one Boeing 787 aircraft (2017: nil), two Airbus A340 aircraft (2017: one) and one Trent 1000 engine (2017: nil). The net book value of assets held under finance leases includes maintenance events and modifications to the asset which have been incurred in periods following the lease inception. Finance leases obligations are shown note 20.

No impairments arose on the disposal of any aircraft. The total profit on the disposal of aircraft above (excluding supplier settlements - see note 8 for further details) was nil (2017: £0.8m).

Interest capitalised by the Group and Company on aircraft progress payments included in additions during the year amounted to £4.7m (2017: £2.2m).

Notes (continued)

14 Deferred tax

The following are the material deferred tax assets and liabilities recognised by the Group and Company, and movements thereon during the current and prior reporting period. Deferred taxation is provided for at 17% (2017: 17%):

	Group		Company	
	2018	2017*	2018	2017*
	£m	£m	£m	£m
Accelerated capital allowances	7.5	(2.9)	3.5	(7.3)
Other timing differences	6.6	(2.2)	6.5	(2.2)
UK tax losses	3.2	(4.7)	3.2	(4.7)
Holdover/rollover relief	(20.6)	(16.8)	(20.6)	(16.7)
	(3.3)	(26.6)	(7.4)	(30.9)

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

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

	Group	Company
	£m	£m
Movement in deferred tax asset/(liability)		
Balance as at 1 January 2017 Restated*	(37.5)	(27.0)
Charged to statement of comprehensive income	10.9	(3.9)
Balance as at 1 January 2018	(26.6)	(30.9)
Adjustment on initial application of IFRS 9, net of tax	0.1	0.1
Balance as at 1 January 2018 Restated*	(26.5)	(30.8)
Charged to statement of comprehensive income	23.2	23.4
Balance as at 31 December 2018	(3.3)	(7.4)

* The Group has initially applied IFRS 15 at 1 January 2018, resulting in a restatement of comparative information (see note 5).

15 Investments

	Group		Company	
	2018	2017	2018	2017
	£m	£m	£m	£m
Non-current				
Unlisted investment	0.0	0.0	0.0	0.0
Interest in subsidiaries	-	-	1.3	1.5
Equity loan stock	-	-	205.8	199.7
	0.0	0.0	207.1	201.2
Current				
Equity loan stock	-	-	7.8	7.7

The unlisted investment represents the Group and Company's investment in Airline Group Limited which consists of equity held at cost of £1,575 (2017: £1,575).

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

Notes (continued)

15 Investments (continued)

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.

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 and Company	
	2018	2017
	£m	£m
Non-current assets		
Foreign currency	2.3	0.1
Fuel	0.7	5.0
	<u>3.0</u>	<u>5.1</u>
Current assets		
Foreign currency	32.8	6.6
Fuel	2.9	23.4
	<u>35.7</u>	<u>30.0</u>
Current liabilities		
Foreign currency	(13.0)	(13.4)
Fuel	(53.2)	(1.5)
	<u>(66.2)</u>	<u>(14.9)</u>
Non-current liabilities		
Foreign currency	(0.7)	(1.0)
Fuel	(16.5)	(2.2)
	<u>(17.2)</u>	<u>(3.2)</u>
	<u>(44.7)</u>	<u>17.0</u>

	Group and Company	
	2018	2017
	Quantity	Quantity
	(million)	(million)
Nominal amounts		
Foreign currency (USD)	638.3	286.1
Fuel (barrels)	7.0	4.9

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

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 and Company			
	Gross amount £m	Amount not set off £m	Net amount £m
For the year ended 31 December 2018:			
Derivative financial instruments			
Assets	38.7	(30.0)	8.7
Liabilities	(83.4)	30.0	(53.4)
	(44.7)	-	(44.7)
For the year ended 31 December 2017:			
Derivative financial instruments			
Assets	35.1	(13.1)	22.0
Liabilities	(18.1)	13.1	(5.0)
	17.0	-	17.0

17 Trade and other receivables

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Non-current				
Other receivables	25.1	17.0	25.1	17.0
Amounts owed by group companies	-	-	5.0	-
	25.1	17.0	30.1	17.0
Current				
Trade receivables	139.4	118.2	139.4	118.2
Provision for doubtful receivables	(2.2)	(0.6)	(2.2)	(0.6)
Net trade receivables	137.2	117.6	137.2	117.6
Other receivables	90.9	65.6	88.0	65.6
Corporate tax recoverable	-	-	-	-
Group relief receivables	17.8	15.3	22.1	18.1
Prepayments and accrued income	34.6	31.3	34.2	30.1
Amounts owed by group companies	49.0	0.0	73.0	15.6
	329.5	229.8	354.5	247.0

Notes (continued)

17 Trade and other receivables (continued)

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

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

	Group and Company	
	2018	2017
Ageing of past due but not impaired receivables	£m	£m
1-30 days	21.3	14.1
31-60 days	2.7	0.3
61-90 days	0.5	0.1
91-120 days	0.1	0.0
120+ days	0.3	0.4
Total	24.9	14.9

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.

18 Inventories

	Group and Company	
	2018	2017
	£m	£m
Aircraft consumable spares	29.5	26.3
Inflight stock	3.8	4.8
Fuel	0.3	0.2
	33.6	31.3

19 Cash, cash equivalents and restricted cash

	Group		Company	
	2018	2017	2018	2017
	£m	£m	£m	£m
Cash at bank and in hand	390.1	443.7	381.1	441.3
Bank overdrafts	-	(0.2)	-	(0.2)
Cash and cash equivalents	390.1	443.5	381.1	441.1
Restricted cash	97.3	49.1	73.8	25.8

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.

Notes (continued)

20 Borrowings

	Group		Company	
	2018	2017	2018	2017
	£m	£m	£m	£m
Non-current				
Obligations under finance leases (i)	(307.0)	(222.8)	(335.8)	(236.8)
Loan from VAIL (ii)	-	-	(423.4)	(423.4)
Senior Bonds - A1 (iii)	(172.0)	(175.5)	-	-
Senior Bonds - A2 (iii)	(23.6)	(25.1)	-	-
Senior Bonds - A3 (iii)	(29.7)	(30.4)	-	-
	<u>(532.3)</u>	<u>(453.8)</u>	<u>(759.2)</u>	<u>(660.2)</u>
Current				
Obligations under finance leases (i)	(18.4)	(12.1)	(20.3)	(13.0)
Loan from VAIL (ii)	-	-	(4.8)	(4.8)
Senior Bonds - A1 (iii)	(3.5)	(3.3)	-	-
Senior Bonds - A2 (iii)	(1.5)	(1.4)	-	-
Senior Bonds - A3 (iii)	(0.8)	(0.8)	-	-
	<u>(24.2)</u>	<u>(17.6)</u>	<u>(25.1)</u>	<u>(17.8)</u>

- (i) See note 28 for a full breakdown of all commitments under finance leasing and hire purchase 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 13 years' time.
- (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.

Notes *(continued)*

20 Borrowings *(continued)*

	Group		
	Sterling £m	US dollars £m	Total £m
Analysis of borrowings by currency as at 31 December 2018:			
Obligations under finance leases and hire purchase agreements (i)	-	(325.5)	(325.5)
Senior Bonds - A1 (iii)	(175.5)	-	(175.5)
Senior Bonds - A2 (iii)	(25.1)	-	(25.1)
Senior Bonds - A3 (iii)	(30.5)	-	(30.5)
	(231.1)	(325.5)	(556.6)

Analysis of borrowings by currency as at 31 December

2017:

Obligations under finance leases and hire purchase agreements (i)	-	(234.9)	(234.9)
Senior Bonds - A1 (iii)	(178.8)	-	(178.8)
Senior Bonds - A2 (iii)	(26.5)	-	(26.5)
Senior Bonds - A3 (iii)	(31.2)	-	(31.2)
	(236.5)	(234.9)	(471.4)

	Company		
	Sterling £m	US dollars £m	Total £m
Analysis of borrowings by currency as at 31 December 2018:			
Obligations under finance leases and hire purchase agreements (i)	(30.6)	(325.5)	(356.1)
Loan from VAIL (ii)	(428.3)	-	(428.3)
	(458.9)	(325.5)	(784.4)

Analysis of borrowings by currency as at 31 December

2017:

Obligations under finance leases and hire purchase agreements (i)	-	(249.8)	(249.8)
Loan from VAIL (ii)	(428.2)	-	(428.2)
	(428.2)	(249.8)	(678.0)

The maturity profile of borrowings is disclosed in note 30.

Notes *(continued)*

21 Trade and other payables

	Group		Company	
	2018	2017	2018	2017
	£m	£m	£m	£m
Non-current				
Other revenue received in advance	(4.6)	(9.5)	(4.7)	(9.5)
	<u>(4.6)</u>	<u>(9.5)</u>	<u>(4.7)</u>	<u>(9.5)</u>
Current				
Other revenue received in advance	(21.7)	(44.3)	(32.2)	(44.3)
Flight and airport charges	(114.2)	(99.1)	(114.2)	(99.1)
Trade payables	(76.7)	(61.7)	(76.7)	(61.7)
Amounts owed to other group companies	(119.8)	(52.8)	(127.1)	(75.5)
Corporate tax payable	0.0	(0.0)	0.1	(0.0)
Other taxes and social security	(13.7)	(12.3)	(13.4)	(12.3)
Other payables	(7.3)	(1.8)	(7.0)	(1.7)
Accruals	(223.7)	(210.7)	(227.0)	(210.7)
	<u>(577.1)</u>	<u>(482.6)</u>	<u>(597.5)</u>	<u>(505.4)</u>

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 £5.2 (2017:£nil) 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

	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 2018	(355.1)	(93.7)	(448.8)	(355.1)	(93.7)	(448.8)
Revenue recognised in income statement	2,031.2	38.8	2,070.0	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	(2,059.1)	-	(2,059.1)	(2,059.1)	-	(2,059.1)
Transfer to subsidiary	-	-	-	-	95.7	95.7
Balance at 31 December 2018	(383.0)	(95.7)	(478.7)	(383.0)	-	(383.0)
Restated balance at 1 January 2017	(334.4)	(72.8)	(407.2)			
Revenue recognised in income statement	1,898.8	53.2	1,952.0			
Loyalty points issued to customers	-	(74.1)	(74.1)			
Cash received from customers	(1,919.5)	-	(1,919.5)			
Balance at 31 December 2017	(355.1)	(93.7)	(448.8)			

Deferred revenue relating to customer loyalty programmes consists 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. Active customer accounts do not have an expiry date and revenue may therefore be recognised at any time in the future.

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

Notes (continued)

23 Provisions

	Group and Company	
	2018 £m	2017 £m
Non-current		
Maintenance	(85.4)	(61.5)
Onerous leases	(0.9)	-
Leasehold dilapidation	(7.0)	(7.0)
	(93.3)	(68.5)
Current		
Maintenance	(17.8)	(19.1)
Onerous leases	(0.6)	(1.8)
Leasehold dilapidation	-	(1.2)
Legal claims	(15.7)	(11.9)
Restructuring costs	(1.8)	(1.6)
	(35.9)	(35.6)

	Group and Company					
	Maintenance £m	Onerous leases £m	Leasehold dilapidations £m	Legal claims £m	Restructuring costs £m	Total £m
As at 1 January 2018	(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)	-	-	24.3	-	18.6
Unwinding of discount	-	-	0.1	-	-	0.1
At 31 December 2018	(103.2)	(1.5)	(7.0)	(15.7)	(1.8)	(129.2)

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

Virgin Atlantic Airways Limited and subsidiary companies

Directors' report and consolidated financial statements
for the year ended 31 December 2018

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 2018 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 Group Loyalty Company Limited	England and Wales	93.5	Trading
Virglease Limited	England and Wales	100	In liquidation
Junopart Limited	England and Wales	100	In liquidation
Virgair Limited	England and Wales	100	In liquidation
Worldwide Travel of East Anglia Limited	England and Wales	100	In liquidation

Subsidiary Registered Office Addresses

Entity

Fit Leasing Ltd, VAA Holdings Jersey Ltd
Barbados Enterprises plc

Registered office address:

47 Esplanade, St Helier, Jersey, JE1 0BD
35 Great St Helen's, London, EC3A 6AP

All other trading subsidiaries

The VHQ, Manor Royal, Crawley, West
Sussex, RH10 9DF

All companies in liquidation

9th Floor, 25 Farringdon Street, London,
EC4A 4AB

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.

Junopart Limited, whose results are included in these consolidated financial statements, has taken advantage of the audit exemption under section 479A of the Companies Act 2006 for their financial statements.

Notes (continued)

25 Non-controlling interest

In November 2018 a new subsidiary, Virgin Group Loyalty Company was established. The Groups 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 Holdings Limited, the Groups ultimate parent company was acquired in exchange for 67,626 shares of the total 1,035,626 share capital in Virgin Group Loyalty Company. The following table summarises the assets acquired:

	Assets acquired from Virgin Red Limited £m
Software and other	0.7
Prepaid expenses	0.1
Total assets acquired	0.8

No liabilities were acquired on acquisition

Flying Club will continue as the frequent flyer programme for Virgin Atlantic's customers and will continue to use miles as its currency. Flying Club members will continue to collect tier points and collect and redeem miles across Virgin Atlantic, Delta and a range of airline and other partners as they do today. The new Virgin Group Loyalty Company will bring reward across the wider Virgin family together into a single company and create a more valuable offer for customers

The Group incurred £4.2m of transaction related costs. These costs have been included in 'exceptional items' within the group statement of comprehensive income.

The following table summarises the information relating to the groups subsidiary, Virgin Group Loyalty Company which has an NCI before any intra-group eliminations.

	Virgin Group Loyalty Company £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 2018 and 31 December 2017 with related parties.

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Parent				
Purchases from parent	(1.5)	(0.7)	(1.5)	(0.7)
Amounts owed to parent	(85.1)	(3.3)	(85.1)	(3.3)
Related parties under common control				
Sales to related parties	151.5	145.5	151.5	145.5
Purchases from related parties	(15.8)	(15.1)	(15.4)	(15.1)
Amounts owed by the related parties	49.1	0.0	49.1	0.0
Amounts owed to the related parties	(19.3)	(49.5)	(3.7)	(49.5)
Subsidiaries				
Sales to subsidiaries			0.5	0.5
Purchase from subsidiaries			(16.7)	(29.3)
Amounts owed by subsidiaries			15.3	6.8
Amounts owed to subsidiaries			(802.6)	(701.1)

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

In 2013, Delta Air Lines Inc. acquired a 49% equity stake in Virgin Atlantic Limited from Singapore Airlines. From 1 January 2014 the Group entered into a joint arrangement with Delta 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 2018 the Group owed Delta Air Lines Inc. £8.0m (2017: £38.4m) 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 £6.4m (2017: £7.2m); total purchases were £72.2m (2017: £94.5m). Outstanding receivable balances amounted to £0.4m (2017: £1.2m) and outstanding payables (excluding amounts owed under the joint arrangement) were £2.8m (2017: £0.6m).

As at 31 December 2018, the directors consider the ultimate holding company to be Virgin Group Holdings Limited, a company registered in the British Virgin Islands. The sole shareholder of Virgin Group Holdings is Sir Richard Branson. Sir Richard Branson has interests directly or indirectly in certain other companies, which are considered to give rise to related party disclosures under IAS 24.

Notes (continued)

27 Ultimate holding company

As at 31 December 2018, 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 2018, 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, and the smallest group in which the results of the Group are consolidated is that headed by Virgin Atlantic Two Limited, a company registered in England and Wales.

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

28 Commitments

(i) Commitments under finance leases

The capital element of the future minimum lease payments to which the Group is committed at 31 December 2018 under finance lease and hire purchase contract obligations incurred in the acquisition of aircraft, engines, spares and other equipment are as follows:

	Group		Company	
	2018	2017	2018	2017
	£m	£m	£m	£m
Future minimum lease payments				
Not later than one year	18.5	12.1	20.3	13.0
Later than one year and not later than five years	83.9	55.6	101.1	59.5
Later than 5 years	223.1	167.2	234.7	177.3
	325.5	234.9	356.1	249.8

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

(ii) Commitments under operating leases

As at 31 December 2018, the Group and Company had annual commitments under non-cancellable operating leases as set out below:

	Group and Company			
	2018		2017	
	Land and buildings	Aircraft and other	Land and buildings	Aircraft and other
	£m	£m	£m	£m
Commitments under non-cancellable operating leases				
Not later than one year	19.4	207.5	20.9	199.7
Later than one year and not later than five years	38.7	709.3	48.8	608.8
Beyond 5 years	53.5	597.4	59.0	513.7
	111.6	1,514.2	128.7	1,322.2

Notes (continued)

28 Commitments (continued)

(iii) Capital commitments

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

Group and Company	
2018	2017
£m	£m
2,568.2	2,902.3

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

29 Financial instruments

(i) Financial instruments by category

	Group		Company	
	2018	2017	2018	2017
	£m	£m	£m	£m
Financial assets				
Cash and bank balances	390.1	443.5	381.1	441.1
Restricted cash	97.3	49.1	73.8	25.8
Fair value through profit and loss:				
Derivative financial instruments	38.7	35.1	38.7	35.1
Loans and receivables at amortised cost:				
Investments	0.0	0.0	214.9	208.9
Trade and other receivables (excluding prepayments and accrued income)	320.0	215.5	350.4	233.7
	846.1	743.2	1,058.9	944.6
Financial liabilities				
Fair value through profit and loss:				
Derivative financial instruments	(83.4)	(18.1)	(83.4)	(18.1)
Financial liabilities at amortised cost:				
Borrowings	(556.6)	(471.4)	(784.4)	(678.0)
Trade and other payables (excluding deferred income)	(555.4)	(438.4)	(565.3)	(461.1)
	(1,195.4)	(927.9)	(1,433.1)	(1,157.2)

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

Notes *(continued)*

29 Financial instruments *(continued)*

(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.

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.

Notes (continued)

30 Financial risk management (continued)

(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:

Fuel	Group and Company	
	2018 £m	2017 £m
Increase in fuel price by a fixed percentage	30%	30%
Increase in profit before tax	70.7	60.9
Decrease in fuel price by a fixed percentage	-30%	-30%
Decrease in profit before tax	(89.2)	(31.7)

(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. 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 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.

Notes (continued)

30 Financial risk management (continued)

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	
	2018	2017
US Dollar	£m	£m
Strengthening in currency exchange rate by a fixed percentage	10%	10%
Decrease in profit before tax	(38.5)	(18.7)
Weakening in currency exchange rate by a fixed percentage	-10%	-10%
Increase in profit before tax	55.6	22.5

(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 2018 (2017: 37), 66% were based on fixed interest rates and 34% were based on floating interest rates (2017: 62% fixed, 38% 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 2018 the Group held £5.2m (2017: £nil) of collateral to mitigate this exposure (see note 21).

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.

Notes *(continued)*

30 Financial risk management *(continued)*

(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.

The Company arranged a secured Revolving Credit Facility for \$150.0m in January 2018, with an increase to \$237.5m secured from July 2018. Further increases to the Facility can be requested up to \$350m by charging additional assets. The facility currently matures in January 2022 and can be extended a further year to January 2023 with approval from the Lenders in January 2020. Currently the facility is fully undrawn.

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

	2018			
	Within 1 year	1-2 years	2-5 years	Over 5 years
Group	£m	£m	£m	£m
Trade and other payables (excl. deferred income)	(555.4)	-	-	-
Derivative financial instruments	(66.2)	(17.2)	-	-
Borrowings				
Obligations under finance leases and hire purchase agreements	(18.5)	(19.4)	(64.5)	(223.1)
Senior Bonds - A1	(3.5)	(3.7)	(20.6)	(147.7)
Senior Bonds - A2	(1.5)	(1.5)	(4.1)	(17.8)
Senior Bonds - A3	(0.8)	(0.8)	(3.6)	(25.2)
	(645.9)	(42.6)	(92.8)	(413.8)

	2017			
	Within 1 year	1-2 years	2-5 years	Over 5 years
Group	£m	£m	£m	£m
Trade and other payables (excl. deferred income)	(438.4)	(0.0)	-	-
Derivative financial instruments	(14.9)	(3.2)	-	-
Borrowings				
Obligations under finance leases and hire purchase agreements	(12.1)	(12.8)	(42.8)	(167.2)
Senior Bonds - A1	(3.3)	(3.5)	(17.1)	(154.9)
Senior Bonds - A2	(1.4)	(1.5)	(4.3)	(19.3)
Senior Bonds - A3	(0.8)	(0.8)	(3.2)	(26.4)
	(470.9)	(21.8)	(67.4)	(367.8)

Notes *(continued)*

30 Financial risk management *(continued)*

Company	2018			
	Within 1 year	1-2 years	2-5 years	Over 5 years
	£m	£m	£m	£m
Trade and other payables (excl. deferred income)	(565.3)	-	-	-
Derivative financial instruments (fair value through profit & loss)	(66.2)	(17.2)	-	-
Loans and receivables at amortised cost				
Obligations under finance leases and hire purchase agreements	(20.3)	(21.3)	(79.8)	(234.7)
Loan from VAIL	(4.9)	-	-	(423.4)
	(656.7)	(38.5)	(79.8)	(658.1)

Company	2017			
	Within 1 year	1-2 years	2-5 years	Over 5 years
	£m	£m	£m	£m
Trade and other payables (excl. deferred income)	(461.1)	-	-	-
Derivative financial instruments (fair value through profit & loss)	(14.9)	(3.2)	-	-
Loans and receivables at amortised cost				
Obligations under finance leases and hire purchase agreements	(13.0)	(13.7)	(45.8)	(177.3)
Loan from VAIL	(4.8)	-	-	(423.4)
	(493.8)	(16.9)	(45.8)	(600.7)

(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, finance leases, capitalised operating leases (for calculation purposes) net of cash and cash equivalents.

Notes (continued)

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

	Group	
	2018	2017
	£m	Restated* £m
(Loss)/profit for the period	(56.2)	(60.9)
Adjustments for:		
Depreciation	81.8	81.1
Amortisation	15.9	14.8
(Loss)/gain on unrealised forex	1.0	(0.2)
Profit on disposal of PPE and intangible assets	(21.9)	(12.5)
Taxation	(25.9)	(14.6)
Movement in provision for bad debts	1.7	(4.4)
Unrealised fair value movement in derivatives	66.9	11.0
Net finance cost	15.5	18.2
Other exceptional items (i)	2.7	1.1
Working capital changes		
Inventory	(2.3)	(1.1)
Trade and other receivables	(105.5)	20.3
Trade and other payables	109.8	20.4
Deferred revenue on air travel	29.9	41.5
Provisions	(14.1)	(11.3)
Interest paid	(27.5)	(23.6)
Income taxes paid	3.8	(0.7)
Net cash from operating activities	75.6	79.1
Adjustments for other exceptional items (i)	5.0	10.5
Net cash from operating activities before exceptional items	80.6	89.6

* The Group has initially applied IFRS 15 at 1 January 2018, resulting in restatement of comparative information (see note 5).

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

	Group		
	2018	2018	2018
	£'000	£'000	£'000
	Cash	Non cash	Total
Restructuring costs	(5.0)	(2.7)	(7.7)
	(5.0)	(2.7)	(7.7)

	Group		
	2017	2017	2017
	£'000	£'000	£'000
	Cash	Non cash	Total
Restructuring costs	(6.3)	(0.8)	(7.1)
Onerous lease	(4.2)	(0.3)	(4.5)
	(10.5)	(1.1)	(11.6)

Notes *(continued)*

32 Subsequent events

In July 2017, the Directors announced that subject to regulatory approval, 31% of shares in Virgin Atlantic Limited, the parent company of Virgin Atlantic Two Limited would be sold to Air France-KLM S.A., a company registered in France. In February 2019 Virgin Atlantic Limited received European Union merger control approval for Air France-KLM S.A. to obtain its equity interest in Virgin Atlantic Limited from the European Union commission. The transaction is expected to complete during 2019.

In January 2019, Virgin Atlantic Airways Limited's parent company, Virgin Travel Group Limited along with partners Stobart Aviation and Cyrus Capital established a separate entity named Connect Airways Limited, each of which have ownership of 30%, 30% and 40% respectively.

In February 2019 Connect Airways acquired Flybe Limited (Flybe's main trading company, including Flybe Aviation Services Limited) and Flybe.com Limited for consideration of £2.8m. As a part of the deal, the shareholders of Connect Airways ("the Consortium") have committed to providing funding to Flybe Limited of up to £135m, of which the Group has committed up to £41m. The committed funding from the Consortium to Flybe is secured on certain fleet assets of Flybe Limited. The deal is subject to regulatory approval, and therefore the Consortium will only obtain joint control of Flybe Limited after such approval has been granted.