

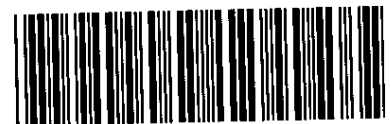
**Virgin Atlantic Airways Limited and
subsidiary companies**

**Directors' report and consolidated
financial statements**

for the year ended 31 December 2016

Registered number 1600117

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Virgin Atlantic Airways Limited and subsidiary companies
Directors' report and consolidated financial statements
for the year ended 31 December 2016

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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 2016, the Airline returned a profit of £3.9m (2015: £12.0m) before tax and exceptional items.

2016 continued our trend of profitability. This was despite consumer uncertainty impacting our business. We were exposed to the 20% drop in the strength of Pound Sterling against the US Dollar between the EU Referendum outcome and the end of 2016. Our largest outgoings are mostly paid in US Dollars, while the greatest proportion of our revenue is in Pounds. The higher cost for UK customers of being overseas reduced demand further.

To prepare for the risks arising from a Brexit result, we took steps ahead of the EU Referendum to ensure our 2016 income statement and balance sheet were mostly insulated from exchange rate volatility, through currency hedging.

Operationally, we achieved our best year ever, beating all our On Time Performance (OTP) targets for departures and arrivals. This result was delivered despite challenges through the year including increased flying across all fleet types resulting in less downtime for our aircraft, and an unexpected ground handling change at Gatwick Airport. This is testament to the hard work of our teams around the business.

Result highlights

- Profit before tax and exceptional items is down by £8.1m to £3.9m (statutory profit before tax of £202.3m (2015: £89.5m))
- Airline passenger unit revenue down 4.3% (at constant currency);
- Airline operating costs have been further reduced year on year by £225m, driven by fuel cost reduction of £191m;
- Underlying non-fuel unit costs (excluding the costs associated with the delivery of AIR4) are 0.6% better year on year, on 2.5% less capacity;
- Cargo tonnage increased by 1.8%; and
- Total cash (including restricted cash) decreased by £24m to £561m after the purchase of one unencumbered Boeing 787-9 aircraft.

Airline passenger revenue

2016 saw a significant increase of 6% in market capacity across the transatlantic driven predominantly by low fare carriers.

Despite this our load factor was up 1.9pts to 78.7% as the network changes we made in 2014 mature. Yield declined 5.9% driven by a combination of lower fuel prices being passed on to customers and supply/demand imbalance leading to market fare reductions. These factors lead to an overall reduction in airline passenger revenue of £121m year on year, a reduction in unit passenger revenue of 3.4%.

During the year we continued to optimise our fleet deployment moving our Boeing 787-9 aircraft to our longer routes and thereby maximising the cost savings achieved by these aircraft.

Following the Brexit vote we saw bookings decline which materially impacted the second half of the year. However, we were still able to grow our UK point of sale market share by 6.5pts to 44.4% in the second half of the year.

Cargo revenue

Cargo revenue declined 15.9% primarily driven by overcapacity in the market and the weakness of the Pound which put pressure on price and meant our yields were down 17.2% year on year. Overall we saw modest growth in volume of 1.8% through the year with a particularly strong tonnage performance from Europe, USA, Caribbean and the UAE. The impact of the US West Coast port strike in early 2015 meant overall trading was significantly softer through the first half of 2016 but we saw significant improvements in demand across the network as we moved through the summer months. This was sustained through the remainder of the year and meant we began to see the pricing environment stabilise.

Strategic report (continued)

Cargo revenue (continued)

Overall our market share position continues to improve, particularly in the USA where we have been growing aggressively over the last 12 months. A focus on growing our premium product offering, leveraging partnerships and improving salesforce effectiveness have all contributed significantly to the relative performance improvement through a very challenging year.

Operating costs

Airline operating costs before exceptional items have reduced year on year by £225m, driven by falling fuel prices (including the cost of hedging) and improved operating efficiency. We have removed over £60m of cost from the business through fit.nimble savings and further tactical cost activity. Airline unit operating costs have improved by 7.2% year on year.

Fuel cost

On a unit basis, fuel costs fell by 21.8% mainly driven by fuel prices with a reduction from 2015 average Brent crude spot price of \$54.4/barrel, to an average of \$44.6/barrel in 2016. On a capacity reduction of 2.5%, fuel burn was 8.7% lower than prior year driven by the continued modernisation of our fleet with four Boeing 787-9 aircraft joining us and four, four-engine aircraft being retired.

VAA operates a fuel hedging policy to reduce our exposure to the volatility of oil prices. The policy allows Virgin Atlantic to hedge out to a medium term horizon in declining percentages. During 2016 Brent crude prices rose 52% (from \$37/barrel on 1 January to \$57/barrel).

In 2016 we made realised hedging losses of £179m (which was down from £198m in 2015) as we still had historic hedging at higher levels preventing us from benefitting fully from the lower oil prices seen at the beginning of the year. With the unwinding of historic trades and revised hedging policy, we expect these losses to reduce significantly in 2017.

Non-fuel cost

Our underlying non-fuel unit costs are 0.6% better than 2015 on 2.5% less capacity. Including the non-fuel cost associated with the delivery of AIR4, non-fuel unit costs are 0.1% higher year on year. We have mitigated inflationary pressure and capacity reductions through savings from our change programme fit.nimble.

Aircraft ownership costs

We took delivery of four new Boeing 787-9 aircraft during 2016, taking our total Boeing 787-9 fleet to 13 so far and representing a third of our fleet. These arrivals as well as the disposal of several of our older aircraft brought the average age of our fleet down from eight to seven years. Furthermore this has increased the number of owned aircraft as we move towards our target for ownership of approximately 50% of our aircraft fleet, which will lead to lower ownership costs.

These changes along with optimisation of our flying programme enabled us to improve our operational resilience by maintaining a spare aircraft at Gatwick throughout the year. During 2016 our increased collaboration with Delta also supported our network resilience and performance.

Cash flow and financing

We continue to improve our capital structure and the current low interest rate environment enabled us to secure long term financing. This supported us in continuing to invest in creating one of the youngest fleets in the sky as we purchased two of the four new Boeing 787-9 aircraft and also invested in AIR4, Virgin Atlantic's largest ever technology project.

The £220m inflow from the senior secured note financing transaction in late 2015 allowed us to purchase one Boeing 787-9 outright in March 2016. Total cash (including restricted cash) fell £24m as cash generated from operations of £355m offset by £305m outflows from investing activities and £74m outflows from financing activities.

Our first Japanese Operating Lease with Call Option ("JOLCO") was completed in April 2016 and used to finance one Boeing 787-9 aircraft which had been delivered in 2015. For the four new Boeing 787-9 aircraft brought into service in 2016 we entered into two operating leases and purchased two outright.

Strategic report *(continued)*

Regulatory landscape

There is currently uncertainty over the regulatory impact of the UK leaving the European Union. It is likely that the UK Government will retain current European aviation regulations as they stand and enter into negotiations to deliver new Air Service Agreements where necessary. We expect the Government to prioritise a liberal Air Service Agreement with the United States, and we have made clear that we believe the UK should remain a full EASA member state with the ability to shape future policy.

Internationally, a new US administration elected on a change platform brings some regulatory uncertainty. We will continue to work with and seek guidance from the US authorities on these matters.

In domestic policy, VAA continues to advocate the importance to consumers of promoting competition in the airline sector. We applaud the Government for reaching a decision on a new runway in the South East. We support Heathrow expansion provided that it delivers for passengers a transformative increase in airline competition and genuine value for money.

This is an exciting, once in a generation opportunity to significantly increase airline competition at the UK's hub airport. If the full benefits of the new runway are to be realised for passengers and the country, new capacity must be allocated in a way that brings more choice, lower fares and better service for customers. We welcome the Secretary of State's comment that expansion "must be delivered without hitting passengers in the pocket". With passenger charges at Heathrow already the highest in the world, it is simply untenable to increase them further. Our customers rightly expect charges to fall over time to more internationally competitive levels.

Air Passenger Duty (APD) remains the highest long haul passenger tax in the world; double the next highest in Europe, Germany. From April 2017, a passenger travelling with Virgin Atlantic will be taxed £75 in Economy or £150 in Premium Economy or Upper Class for an outbound journey. The Scottish Government has announced a plan to reduce long haul APD by 50%, and the Scottish Conservatives have called for its abolition. They are to be applauded for seeking to develop greater connectivity to long haul markets to boost trade and tourism. As we leave the European Union and seek to grow trade with key markets such as the USA, China and India, it makes no sense for the UK to have such an uncompetitive tax. Achieving an internationally competitive rate of APD across the UK remains an absolute priority.

We welcomed the announcement in 2016 from the International Civil Aviation Organization (ICAO) Assembly of a global climate change framework for our industry which is both economically efficient and environmentally effective.

Outlook

As we enter the third year of the Plan to Win, our four year business plan to deliver long term success, we remain committed to its objectives. We remain focused on delighting our customers, engaging our people, ensuring strong returns on our investments and on delivering an enduring Virgin Atlantic that is profitable for the long term.

2017 will be a challenging year due to volatility in the macro-environment. With a weaker Pound and excess supply in the market, we anticipate a challenging year for revenues. We have a number of initiatives to address this. In addition to providing better propositions to our customers, the new Flying Club proposition and further opportunities to adapt our product and service offerings to better match customer values gives us confidence in our future. We are also targeting significant growth from our US point of sale as we anticipate increasing demand for travel from the US to UK.

We will continue to practise strong cost control with the delivery of further savings from fit.nimble and other tactical initiatives and through a significant reduction in fuel hedging losses arising under our revised fuel hedging policy.

Longer term we have already taken steps towards achieving further cost efficiencies by securing forward orders for 12 Airbus A350-1000 aircraft. We are confident that through these initiatives to manage our performance, engage our people and delight our customers, we are now well placed to achieve our goal of building a sustainably profitable business.

Virgin Atlantic Airways Limited and subsidiary companies
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Strategic report *(continued)*

Key performance indicators

The directors have outlined below the key performance indicators that they rely on to manage the company. The financial indicators are stated at constant currency and on a 12 month basis to December for comparability.

Safety

The safety and security of our customers is our primary concern

	2014	2015	2016	YoY
Number of incidents ¹	1	-	-	-

Customers

Always for the customer, with flair

	2014	2015	2016	YoY
On-time performance (A15)	80.2%	75.9%	80.9%	5.0pt

Capacity

Disciplined approach to managing our capacity

	2014	2015	2016	YoY
Aircraft	39	40	39	(2.5%)
Available Seat Kilometres (ASK) (m)	48,710	48,385	47,175	(2.5%)

Passengers

Load factor was strong despite increased market capacity

	2014	2015	2016	YoY
Revenue Passenger Kilometres (RPK) (m)	38,643	37,157	37,126	(0.1%)
Passenger load factor	79.3%	76.8%	78.7%	1.9pt

Airline financials

	2014	2015	2016	YoY
Airline Passenger Revenue per ASK (p)	4.22	4.10	4.06	(1.0%)
Airline Passenger Revenue per RPK (p)	5.32	5.34	5.16	(3.4%)
Airline Cost per ASK (p)	5.06	4.69	4.64	(1.1%)
Fuel uplift (USG) (m)	482	460	423	8.0%
Cargo tonnage (kg) (m)	224	214	218	1.8%

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 affect customer loyalty and likelihood of them travelling with us and so adversely affect our business. We regularly monitor customer satisfaction through monthly customer surveys, alongside on-going research and development of our product and services, in order to mitigate this risk. We allocate substantial resources to safety, operational integrity, on-board product and new aircraft to maintain our strong brand position.

Economic conditions

Our operations are particularly sensitive to economic conditions in the markets in which we operate. A global economic slowdown may adversely affect the demand for business and leisure travel, and cargo services, which could result in a material adverse impact on our financial performance. We produce a regular revenue forecast, which is reviewed by the Executive Management Team and appropriate actions are taken.

Government intervention

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

There is currently uncertainty over the regulatory impact of the UK leaving the European Union. Whilst it is likely that the UK Government will retain current European aviation regulations as they stand, and enter into negotiations to deliver new Air Service Agreements where necessary, the outcome of these negotiations is not certain.

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

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. We adopt a holistic approach to security, with the Corporate Security team having overall responsibility for security matters linked to aviation, border security, cargo, facilities, IT, personnel and asset protection. To ensure the robustness of our security regime, we operate a self-inspection and test programme. Joint audits and inspections are also conducted with regulators. Regulated compliance performance is monitored by way of a dedicated scorecard which is reviewed at the Safety and Security Review Board. In view of the on-going terrorist targeting of civil aviation and the potential impacts of global geopolitical events, much focus is placed on threat monitoring and assessment to ensure that we have the most current and accurate data to make informed judgements about the security of our human and physical assets.

Failure of a critical IT system

We are dependent on IT systems for most of our principal business processes. The failure of a key system through an internal or external threat or event may cause significant disruption to operations or result in lost revenue. System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.

Strategic report *(continued)*

Risk review *(continued)*

Key supplier risk

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

Financial risk management

The directors are responsible for setting financial risk management policies and objectives, and for approving the parameters within which the various aspects of financial risk management are operated. The directors have delegated powers to the Financial Risk Committee to ensure that the policies and objectives are fully implemented in line with their approved policy. The financial risk management policies outline our approach to market risk (including foreign currency risk, interest rate risk and fuel price risk), credit risk, capital risk and liquidity risk. Group Treasury carries out financial risk management within the parameters of the approved policies.

Liquidity, financing and interest rate risk

Our working capital is financed by retained profit and sales in advance of carriage. The major risks to liquidity are driven by business performance and cash timing differences for our derivative financial instruments. The former is managed by taking corrective actions in the form of amendments to fleet, network and the cost base in response to changing external factors. The latter is managed through our financial risk management policies.

Our business activities expose us to market risks arising from changes in interest rates on floating rate debt and cash investments. We monitor this risk by calculating the potential movements in interest costs as a result of fluctuation in interest payments. The majority of our loans and operating leases are on a fixed interest rate basis although to the extent necessary we will enter into hedging arrangements to provide a degree of certainty for future financing costs and to reduce volatility of cash flows.

Foreign currency risk

We have a significant US Dollar exposure including aviation fuel, finance and operating leases. In addition, we are exposed to a number of other currencies. We seek to reduce our foreign exchange exposure in various currencies by matching receipts and payments in individual currencies. Where there is a predicted exposure in foreign currency holdings, we use a limited range of hedging instruments approved under the financial risk management policies.

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

Fuel price risk

Our fuel hedging policy 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. In implementing the strategy, the fuel hedging policy allows for the use of derivatives available on the over-the-counter (OTC) markets with approved counterparties.

Credit risk

We are exposed to credit risk to the extent of non-performance by our counterparties in respect of financial assets receivable. Credit risk management aims to reduce the risk of default by diversifying exposure and adhering to set limits on credit exposure to counterparties based on their respective credit ratings. Counterparty credit quality is verified before trading on credit terms and exposures are regularly reviewed and if outside of the acceptable tolerances, management will make a decision on remedial action to be taken.

Derivative financial instruments

We use derivative financial instruments selectively for financial risk management purposes. Our policy is not to trade in derivatives but to use these instruments to hedge anticipated future cash flows. All derivatives are used for the purpose of risk management and accordingly they do not expose VAA to market risk as they are matched to actual physical exposures within VAA. However, the timing difference between derivative maturity date and current mark-to-market value can give rise to cash margin exposure; this risk is managed through choice of instrument, appropriate counterparty agreements and, where required, cash deposits with counterparties.

Strategic report *(continued)*

Risk review *(continued)*

Compliance and regulatory

Compliance with competition, anti-bribery and corruption law

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

Compliance with regulatory authorities

We are exposed to regulation across 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).

The Strategic Report was approved by the Board of Directors on 23 March 2017 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 2016.

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	
Shai Weiss	
Tom Mackay	(appointed 1 March 2017)
Edward Bastian	
Glen Hauenstein	
Nathaniel Pieper	
Dwight James	(appointed 1 January 2016)

Results

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

Employees

In considering applications for employment from disabled people in the UK, Virgin Atlantic 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. Virgin Atlantic also encourages employees, where relevant, to meet on a regular basis to discuss matters affecting them.

Environmental impacts

Aircraft fuel use accounts for more than 99% of our direct carbon emissions and it's also the single biggest cost to our business, so it's a double win to address it. The best place to start is with the aircraft themselves.

We've continued to evolve our fleet, adding four more Boeing 787-9 aircraft during 2016 taking our total to 13. Over the coming years, we plan to take four more Boeing 787-9 aircraft, and from 2019 we'll add the Airbus A350-1000 aircraft to our family. The Boeing 787-9 aircraft are proving to be around 30% more fuel efficient than the aircraft they are replacing. We expect a similar performance from the Airbus A350-1000 aircraft through a combination of the aircraft and engine efficiencies as well as detailed network planning to optimise passenger numbers and cargo loads.

2016 saw a continuing reduction in total CO2 emissions from our fleet. They were 4.04m tonnes in 2016, an 8% reduction on last year, and a 22% reduction since 2007. Our overall efficiency has also improved, with a reduction of 17% in our CO2 per revenue tonne kilometre since 2007. It's great to see the impact our new fleet investments have had on our aircraft emissions.

The progress of our Change is in the Air programme was shown in our Carbon Disclosure Project (CDP) scores for 2016. CDP is a global disclosure system where businesses assess the environmental impacts of their operations. We scored a 'B' (Management) for our Climate Change assessment, which has improved year on year since 2011. We also achieved an A- (Leadership) in the Forests assessment, which looks at how we manage products at particular risk of driving deforestation (such as soy, palm oil, timber and cattle products). The average for our sector is C, so we are pleased with our performance but will continue to strive to improve across the board.

Virgin Atlantic Airways Limited and subsidiary companies
Directors' report and consolidated financial statements
for the year ended 31 December 2016

Directors' report *(continued)*

Dividends

The directors recommend that no ordinary interim (2015: £nil) or final (2015: £nil) dividend be paid in respect of the year ended 31 December 2016.

Political contributions

During the year the Company made a contribution of £90,000 to Virgin Management Limited in relation to its campaign for the EU Referendum (in favour of Remain) (2015: £nil).

Share based payments: Long term incentive scheme

Virgin Atlantic 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 8.

Going concern

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

Auditors

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

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all 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 23 March 2017 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 Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with 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 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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

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



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

We have audited the financial statements of Virgin Atlantic Airways Limited for the year ended 31 December 2016 set out on pages 12 to 54. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- 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 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; 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

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

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

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

23 March 2017

KPMG LLP
15 Canada Square
London
E14 5GL
United Kingdom

Virgin Atlantic Airways Limited and subsidiary companies
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for the year ended 31 December 2016

Consolidated statement of comprehensive income
for the year ended 31 December 2016

		Ordinary activities before exceptional items	2016 Exceptional items and fair value movements (note 7)	Total	Ordinary activities before exceptional items	2015 Exceptional items and fair value movements (note 7)	Total
	Note	£m	£m	£m	£m	£m	£m
Airline traffic and cargo operations	5	2,240.6	-	2,240.6	2,352.7	-	2,352.7
Other revenue	5	9.9	-	9.9	15.7	-	15.7
Total revenue		2,250.5	-	2,250.5	2,386.4	-	2,368.4
Aircraft costs		(268.0)	(25.6)	(293.6)	(246.2)	(6.7)	(252.9)
Other depreciation and amortisation		(44.0)	-	(44.0)	(44.1)	-	(44.1)
Physical fuel		(435.2)	-	(435.2)	(525.5)	-	(525.5)
Fuel hedging		(179.2)	179.2	-	(198.0)	198.0	-
Airline traffic direct operating costs		(518.8)	-	(518.8)	(511.2)	-	(511.2)
Engineering and maintenance costs		(140.6)	-	(140.6)	(138.9)	-	(138.9)
Employee remuneration	8	(340.6)	-	(340.6)	(331.1)	-	(331.1)
Other income		1.9	-	1.9	15.4	(6.2)	9.2
Distribution, marketing and selling costs		(117.1)	-	(117.1)	(109.2)	-	(109.2)
Other operating and overhead costs		(187.3)	(20.4)	(207.7)	(267.5)	-	(267.5)
Operating profit		21.6	133.2	154.8	12.1	185.1	197.2
Profit on disposal of property, plant and equipment		1.7	23.2	24.9	4.9	57.7	62.6
Restructuring		-	(3.2)	(3.2)	-	(19.8)	(19.8)
		1.7	20.0	21.7	4.9	37.9	42.8
Finance income		3.7	-	3.7	1.8	-	1.8
Finance expense		(23.1)	-	(23.1)	(6.7)	-	(6.7)
Net finance costs	9	(19.4)	-	(19.4)	(4.9)	-	(4.9)
Fair value gains/(losses) on derivatives		-	45.2	45.2	-	(145.6)	(145.6)
Profit before tax	6	3.9	198.4	202.3	12.0	77.5	89.5
Tax charge	10			(21.4)			(6.1)
Profit for the year				180.9			83.4

The profit for the year for the Company is £196.7m (2015: £76.7m profit).

All amounts relate to continuing operations. The notes on pages 17 to 54 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 2016

Consolidated statement of changes in equity
for the year ended 31 December 2016

	Share capital £m	Share premium £m	Capital contribution reserve £m	Retained earnings £m	Total £m
Balance at 1 January 2015	4.5	5.0	25.0	(232.5)	(198.0)
Profit for the year	-	-	-	83.4	83.4
Balance at 31 December 2015	4.5	5.0	25.0	(149.1)	(114.6)
Balance at 1 January 2016	4.5	5.0	25.0	(149.1)	(114.6)
Profit for the year	-	-	-	180.9	180.9
Transfers between reserves	-	-	5.9	(5.9)	-
Adjustment arising from voluntary liquidation of subsidiaries	-	-	-	25.2	25.2
Balance at 31 December 2016	4.5	5.0	30.9	51.1	91.5

Share capital includes 4,497,607 (2015: 4,497,607) ordinary shares of £1 each.

During the year, the Group has under taken a project to simplify the structure of the wider Virgin Atlantic Limited Group. As a result a number of entities within the VAA Group were placed into voluntary liquidation (note 23), and the trade and assets of Bug Leasing Limited were transferred to Fit Leasing Limited at historic cost. Whilst no adjustment arose at Virgin Atlantic Ltd Group level, the transaction has led to the reclassification of £5.9m to the capital contribution reserve.

As part of this simplification exercise, an intercompany debt between a subsidiary of VAA Group and a fellow subsidiary within the Virgin Atlantic Limited Group has been waived. This has resulted in a gain of £25.2m which is offset at the consolidated level within the Group accounts of Virgin Atlantic Limited.

Company statement of changes in equity
for the year ended 31 December 2016

	Share capital £m	Share premium £m	Capital contribution reserve £m	Retained earnings £m	Total £m
Balance at 1 January 2015	4.5	5.0	25.0	(226.9)	(192.4)
Profit for the year	-	-	-	76.7	76.7
Balance at 31 December 2015	4.5	5.0	25.0	(150.3)	(115.8)
Balance at 1 January 2016	4.5	5.0	25.0	(150.3)	(115.8)
Profit for the year	-	-	-	196.7	196.7
Balance at 31 December 2016	4.5	5.0	25.0	46.4	80.9

Share capital includes 4,497,607 (2015: 4,497,607) ordinary shares of £1 each.

The notes on pages 17 to 54 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 2016

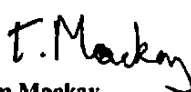
Consolidated statement of financial position

as at 31 December 2016

Registered number 01600117

	Note	2016 £m	2015 £m
Non-current assets			
Intangible assets	11	143.6	104.1
Property, plant and equipment	12	665.5	536.4
Deferred tax	13	-	34.9
Derivative financial instruments	15	8.3	4.9
Trade and other receivables	16	30.8	33.0
		<u>848.2</u>	<u>713.3</u>
Current assets			
Inventories	17	30.2	38.8
Trade and other receivables	16	232.3	311.5
Derivative financial instruments	15	32.4	11.9
Cash and cash equivalents	18	524.0	521.7
Restricted cash	18	36.6	62.7
		<u>855.5</u>	<u>946.6</u>
TOTAL ASSETS		<u>1,703.7</u>	<u>1,659.9</u>
Current liabilities			
Borrowings	19	(17.2)	(34.4)
Trade and other payables	20	(333.6)	(419.8)
Provisions	21	(43.2)	(55.5)
Derivative financial instruments	15	(8.5)	(183.6)
Deferred income	22	(584.1)	(591.2)
		<u>(986.6)</u>	<u>(1,284.5)</u>
NET CURRENT LIABILITIES		<u>(131.1)</u>	<u>(337.9)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>717.1</u>	<u>375.4</u>
Non-current liabilities			
Borrowings	19	(462.8)	(363.5)
Deferred income	22	(47.7)	(52.8)
Trade and other payables	20	(2.4)	(5.1)
Provisions	21	(83.6)	(58.7)
Derivative financial instruments	15	(4.2)	(9.9)
Deferred tax	13	(24.9)	-
		<u>(625.6)</u>	<u>(490.0)</u>
NET ASSETS/(LIABILITIES)		<u>91.5</u>	<u>(114.6)</u>
Equity			
Share capital		4.5	4.5
Share premium		5.0	5.0
Capital contribution reserve		30.9	25.0
Retained earnings		51.1	(149.1)
		<u>91.5</u>	<u>(114.6)</u>

These financial statements were approved by the Board of Directors on 23 March 2017 and were signed on its behalf by:


Tom Mackay
Director

The notes on pages 17 to 54 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 2016

Company statement of financial position

as at 31 December 2016

Registered number 01600117

	Note	2016 £m	2015 £m
Non-current assets			
Intangible assets	11	143.6	104.1
Property, plant and equipment	12	673.6	541.7
Deferred tax	13	-	9.5
Investments	14	224.4	231.0
Derivative financial instruments	15	8.3	4.9
Trade and other receivables	16	30.8	32.1
		<u>1,080.7</u>	<u>923.3</u>
Current assets			
Inventories	17	30.2	38.9
Trade and other receivables	16	251.8	328.1
Investments	14	8.4	0.6
Derivative financial instruments	15	32.4	11.9
Cash and cash equivalents	18	524.0	508.9
Restricted cash	18	13.3	56.6
		<u>860.1</u>	<u>945.0</u>
TOTAL ASSETS		<u>1,940.8</u>	<u>1,868.3</u>
Current liabilities			
Borrowings	19	(17.3)	(33.8)
Deferred income	22	(584.1)	(591.2)
Trade and other payables	20	(358.8)	(416.6)
Provisions	21	(43.2)	(55.5)
Derivative financial instruments	15	(8.5)	(183.6)
		<u>(1,011.9)</u>	<u>(1,280.7)</u>
NET CURRENT LIABILITIES		<u>(151.8)</u>	<u>(335.7)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>928.9</u>	<u>587.6</u>
Non-current liabilities			
Borrowings	19	(680.7)	(576.9)
Deferred income	22	(47.7)	(52.8)
Deferred tax	13	(29.5)	-
Trade and other payables	19	(2.3)	(5.1)
Provisions	21	(83.6)	(58.7)
Derivative financial instruments	15	(4.2)	(9.9)
		<u>(848.0)</u>	<u>(703.4)</u>
NET ASSETS/(LIABILITIES)		<u>80.9</u>	<u>(115.8)</u>
Equity			
Share capital		4.5	4.5
Share premium		5.0	5.0
Capital contribution reserve		25.0	25.0
Retained earnings		<u>46.4</u>	<u>(150.3)</u>
		<u>80.9</u>	<u>(115.8)</u>

These financial statements were approved by the Board of Directors on 23 March 2017 and were signed on its behalf by:

Tom Mackay
Director

T. Mackay

The notes on pages 17 to 54 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 2016

Consolidated statement of cash flows
for the year ended 31 December 2016

	Note	2016 £m	2015 £m
Net cash from operating activities	30	355.4	259.8
Purchase of property, plant and equipment		(275.4)	(381.0)
Purchase of intangible assets		(54.6)	(0.6)
Sale of investments		-	0.4
Proceeds from sale of property, plant and equipment and intangible assets		181.1	415.1
Realised (losses) on derivative financial instruments		(159.5)	(189.4)
Interest received		3.7	1.8
Net cash (used in) investing activities		(304.7)	(153.7)
Repayment of long term borrowings		(49.5)	(18.8)
Proceeds from issue of new bonds		-	236.2
Payment of finance leases		(25.0)	(22.8)
Net cash (used in)/from financing activities		(74.5)	194.6
Net (decrease)/increase in cash and cash equivalents		(23.8)	300.7
Cash and cash equivalents at beginning of year (including restricted cash)	18	584.4	283.7
Cash and cash equivalents at end of year (including restricted cash)	18	560.6	584.4

The notes on pages 17 to 54 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 2016 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.

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"), with a transition date of 1 January 2016. 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. In the transition to FRS 101 from adopted IFRS, the Company has made no measurement and recognition adjustments. The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

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

Virgin Atlantic Airways Limited and subsidiary companies
Directors' report and consolidated financial statements
for the year ended 31 December 2016

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 right to receive consideration occurs, typically the date of transportation. In respect of credit and debit card fees, revenue is recognised when each flight is booked and paid for.

Frequent flyer programme revenue

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

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

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

Revenue on redemption is measured based on Management's estimate of the fair value of the expected awards for which the miles will be redeemed. The fair value of the awards is reduced to take into account the proportion of miles that are expected to expire (breakage) based on the results of actuarial valuation.

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

Notes *(continued)*

3 Accounting policies *(continued)*

Compensation payments

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

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 and amortised over a period not exceeding six years on a straight-line basis. Computer software is carried at cost less accumulated amortisation.

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

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

Property plant and equipment ("PPE")

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

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

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

Fleet

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

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

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

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

Notes (continued)

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 the half-life compensation provision already recorded a maintenance asset is recorded within property, plant and equipment. The asset is depreciated over the expected period to the next half-life compensation point, or the end of the lease, whichever is sooner.

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

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

The bases of all estimates are reviewed once each year and also when information becomes available that is capable of causing a material change to an estimate, such as renegotiation of end of lease return conditions, increased or decreased utilisation, or unanticipated changes in the cost of heavy maintenance services. For owned aircraft and engines, major overhaul expenditure is capitalised and depreciated by reference to the units of economic consumption, typically hours or sectors flown.

Restructuring provisions

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

Notes (continued)

3 Accounting policies (continued)

Provisions (continued)

Property provisions

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

Passenger delay compensation

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

Financial instruments

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

Derivative financial instruments and hedging

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

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

Non-derivative financial assets

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

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

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

Cash and cash equivalents

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

Restricted cash

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

Notes *(continued)*

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

De-recognition of non-derivative financial assets

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

Non-derivative financial liabilities

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

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

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

De-recognition of non-derivative financial liabilities

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

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

Borrowing costs

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

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

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Notes (continued)

3 Accounting policies (continued)

Impact of new International Financial Reporting Standards and interpretations

The following standards and interpretations issued by the International Accounting Standards Board have been implemented for the year ended 31 December 2016; however the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

New or amended standards	Summary of requirements	Adoption and EU endorsement status	Possible impact on consolidated financial statements
IFRS 9 <i>Financial Instruments</i>	IFRS 9 published in July 2014, replaces the existing guidance in IAS39 <i>Financial Instruments: Recognition and Measurement</i> . IFRS9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment of financial assets, and new hedge accounting requirements.	IFRS9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The new standard is not yet endorsed by the EU.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.
IFRS 15 <i>Revenue from contracts with customers</i>	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS18 Revenue, IAS11 Construction Contracts and IFRIC13 Customer Loyalty Programmes.	IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The new standard is not yet endorsed by the EU.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.
IFRS 16 <i>Leases</i>	IFRS 16 changes fundamentally the accounting for operating leases by lessees. It eliminates the current IAS 17 dual accounting model, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases and, instead, introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting. Sale-and-leaseback is effectively eliminated as an off-balance sheet financing structure.	IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted providing IFRS15 is also adopted. The new standard is not yet endorsed by the EU.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

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

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

Notes *(continued)*

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

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

Residual value and useful economic lives of assets

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

Lease classification

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

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Notes *(continued)*

5 Revenue analysis

	Group	
	2016	2015
Revenue	£m	£m
Airline traffic and cargo operations	2,240.6	2,352.7
Other revenue	9.9	15.7
	2,250.5	2,368.4

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	
	2016	2015
	£m	£m
Revenue by source:		
United Kingdom	1,334.1	1,417.0
North America and the Caribbean	613.7	584.0
Far East	82.2	93.2
Africa	59.9	96.6
Other	160.6	177.6
	2,250.5	2,368.4
Revenue by destination:		
North America	1,574.3	1,558.5
Caribbean	248.5	243.0
Far East	162.8	178.6
Africa	134.9	191.1
Other	130.0	197.2
	2,250.5	2,368.4

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.

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Notes (continued)

6 Profit before tax

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

	Group	
	2016	2015
	£m	£m
Depreciation of property, plant and equipment (note 12)	(94.1)	(65.6)
Amortisation of intangible assets (note 11)	(14.7)	(16.2)
Rentals under operating leases:		
Aircraft and related equipment	(215.1)	(212.0)
Plant and machinery	(11.7)	(10.4)
Land and buildings	(23.2)	(22.1)
Contribution to pension schemes	(26.5)	(26.4)

Fees payable to the Group's auditor and its associates for services other than the statutory audit of the parent company and subsidiaries are not disclosed in Virgin Atlantic Airways Limited's accounts since the consolidated accounts of Virgin Atlantic Airways Limited's parent, Virgin Atlantic Limited, are required to disclose non-audit fees on a consolidated basis. Fees payable to the Company's auditor for the audit of the Company's annual accounts are £0.2m (2015: £0.2m). Fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation are £nil (2015: £nil).

7 Exceptional items

Exceptional items included in profit before tax includes the following:

	Group	
	2016	2015
	£m	£m
Aircraft costs		
Accelerated depreciation on aircraft equipment (i)	(14.9)	(6.6)
Write down in aircraft consumable spares (ii)	(10.7)	-
Fuel hedging reclassified to fair value gains/(losses) on derivatives (iii)	179.2	198.0
Forex derivative gains reclassified to fair value (losses) on derivatives (iii)	(20.4)	(6.2)
Profit on disposal of aircraft equipment (iv)	23.2	57.7
Restructuring costs (v)	(3.2)	(19.8)
Fair value gains/(losses) on derivatives (iii)	45.2	(145.6)
	198.4	77.5

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

Gain on fair value movements	204.0	46.2
Loss on fuel derivatives settled during the year (reclassified - see above)	(179.2)	(198.0)
Gains on forex derivatives settled during the year (reclassified - see above)	20.4	6.2
	45.2	(145.6)

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 IAS 39 mark-to-market movements.

Notes (continued)

7 Exceptional items (continued)

- (i) During the year the Group incurred accelerated depreciation of £14.9m (2015: £6.7m), on its A-330 fleet. The acceleration relates to cabin components which are scheduled to exit the fleet earlier than anticipated.
- (ii) During the year the Group revised its accounting convention in relation to aircraft consumable spares; to better reflect the economic consumption of benefit across fleet life. As a result, the Group has recognised a loss of £10.7m.
- (iii) Fuel costs include £179.2m (2015: £198.0m) relating to losses recognised on maturity of fuel derivative contracts. Other income includes gains of £20.4m (2015: gains of £6.2m) relating to movements on maturity of foreign currency derivative contracts. Fair value movements in relation to the Group's fuel and foreign currency derivatives are reclassified as an exceptional item to fair value (losses) on derivative contracts, to ensure that the operating costs of the Group can be reflected at an unhedged rate as the Group does not apply hedge accounting.

The Group discloses specific IAS 39 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 (2015: profits of £57.7m on four sale and operating leaseback transactions). The profits arising from the sale and operating leaseback of the aircraft have been reclassified as exceptional and are shown net of any supplier compensation received. See note 13 for further details.
- (v) Restructuring costs of £3.2m (2015: £19.8m) have been recognised in the year and relate to the Group's change programme - fit.nimble. Costs incurred relate to employee restructuring costs as well as incremental costs associated with the implementation of the programme. The programme involves fundamental appraisal of how the business operates in both front and back office functions and will continue to transform the business over a number of years.

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Notes (continued)

8 Employee remuneration

(i) Headcount and total remuneration

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

	Group	
	2016 Number	2015 Number
Management and administration	994	1,045
Flight crew	781	777
Cabin crew	3,244	3,507
Reservations and sales	1,559	1,672
Cargo and handling	165	203
Engineering, cargo and production	684	729
	7,427	7,933

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

	Group	
	2016 £m	2015 £m
Wages and salaries	285.9	277.0
Social security costs	28.2	27.7
Other pension costs (note 24)	26.5	26.4
	340.6	331.1

(ii) Aggregate directors' remuneration

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

	Group	
	2016 £m	2015 £m
Total emoluments		
Aggregate emoluments	1.0	1.2
Contributions to money purchase pension schemes	0.1	0.1
	1.1	1.3
 Highest paid director		
Aggregate emoluments and other benefits	0.5	0.7
Contributions to money purchase pension schemes	0.1	0.1
	0.6	0.8

Retirement benefits are accruing to two (2015: two) directors under money purchase pension schemes. The directors are considered to be the key management personnel of the Group.

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Notes *(continued)*

8 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 2016 (2015: nil).

9 Net finance costs

	Group	
	2016	2015
	£m	£m
Finance income		
Bank deposits	3.5	1.5
Unlisted investments (note 14)	0.2	0.3
	3.7	1.8
Finance expense		
Bank loans and overdrafts (note 19)	-	(1.0)
Other loans	(9.3)	(5.0)
Amounts due to the Group	(1.1)	(0.4)
Exchange loss on foreign currency borrowings less deposits	-	(0.7)
In respect of finance leases and hire purchase contracts (note 19)	(12.0)	(3.5)
Unwinding of discount on provisions (note 21)	(0.9)	(0.5)
	(23.3)	(11.1)
Interest capitalised on aircraft progress payments (note 12)	0.2	4.4
	(23.1)	(6.7)
Net finance costs	(19.4)	(4.9)

Notes (continued)

10 Tax

Analysis of the tax expense during the year:

	Group	
	2016	2015
	£m	£m
Current tax		
UK corporation tax	-	1.6
UK group relief receivable	5.8	-
Adjustments in respect of prior periods	34.0	2.7
Non – UK current tax	(0.4)	-
Total current tax credit	<u>39.4</u>	<u>4.3</u>
Deferred tax		
Origination and reversal of timing differences	(47.0)	(5.6)
Adjustments in respect of prior years	(18.2)	(4.9)
Effect of changes in tax rate	4.4	0.1
Total deferred tax charge	<u>(60.8)</u>	<u>(10.4)</u>
Tax charge	<u>(21.4)</u>	<u>(6.1)</u>

The standard rate of UK corporation tax for the year is 20% (2015: 20.25%). The total tax charge of 10.6% for the period is lower 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	
	2016	2015
	£m	£m
Profit before taxation	<u>202.3</u>	<u>89.5</u>
Tax at the standard rate of 20% (2015: 20.25%)	<u>(40.5)</u>	<u>(18.1)</u>
Factors affecting the (charge) for the year:		
Income not subject to corporation tax	1.6	-
Expenses not deductible for tax purposes	-	(0.3)
Effects of reduction in deferred tax rate	4.4	-
Effects of changes in tax rates	-	0.1
Fixed asset differences	1.2	-
Adjustments in respect of prior periods	15.7	(2.4)
Impairment not deductible for tax purposes	(1.1)	-
UK government relief	4.7	4.4
Permanent differences	(2.5)	10.2
Holdover relief	(4.9)	-
Total tax charge	<u>(21.4)</u>	<u>(6.1)</u>

Notes (continued)

10 Tax (continued)

A reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A further reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. The deferred tax liability at 31 December 2016 has been calculated based on these rates. 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 potential changes in respect of draft UK legislation to restrict the utilisation of brought forward losses, expected to apply to accounting periods commencing after 1 April 2017. The restriction would apply 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 include proposals to give more flexibility for the use of losses incurred after 1 April 2017.

11 Intangible assets

	Group and Company			
	Software	Landing slots	Carbon allowances	Total
	£m	£m	£m	£m
Cost				
At 1 January 2016	96.8	91.1	0.1	188.0
Transfers from property, plant and equipment	54.6	-	-	54.6
Disposals	(4.9)	-	(0.1)	(5.0)
At 31 December 2016	146.5	91.1	-	237.6
Accumulated amortisation				
At 1 January 2016	73.3	10.6	-	83.9
Amortisation for the year	14.7	-	-	14.7
Disposals	(4.6)	-	-	(4.6)
At 31 December 2016	83.4	10.6	-	94.0
Carrying amount				
At 31 December 2016	63.1	80.5	-	143.6
At 31 December 2015	23.5	80.5	0.1	104.1

An annual impairment review is conducted on all intangible assets that have an indefinite economic life. Landing rights based within the EU are considered to have an indefinite economic life. The impairment review is carried out at the level of a 'cash-generating unit' (CGU), defined as the smallest identifiable group of assets, liabilities and associated intangible assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets.

On this basis, management have determined that the Group and Company has one CGU, namely its route network. An impairment review has been conducted on the operations of the route network as it contains landing rights within the EU.

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

A sensitivity analysis has not been disclosed as management believe that any reasonable change in assumptions would not cause the carrying value of the CGU to exceed their recoverable amount. The impairment review of the route network CGU resulted in no impairment during the year (2015: no impairment).

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Notes (continued)

12 Property, plant and equipment

	Group					Total
	Land and buildings	Aircraft, rotatable spares and ancillary equipment	Modifications to aircraft on operating leases	Plant and machinery, fixtures and fittings	Assets under construction	
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2016	30.0	589.7	198.8	129.6	59.0	1,007.1
Additions	-	331.4	27.3	2.0	73.0	433.7
Disposals	-	(163.5)	(50.9)	(5.6)	-	(220.0)
Transfers to intangible assets	-	-	-	-	(54.6)	(54.6)
Reclassifications	6.9	15.8	4.7	14.4	(41.8)	-
At 31 December 2016	36.9	773.4	179.9	140.4	35.6	1,166.2
Accumulated depreciation						
At 1 January 2016	5.0	229.8	143.5	92.3	-	470.6
Depreciation for the year	0.7	43.0	37.2	13.2	-	94.1
Disposals	-	(7.6)	(50.8)	(5.6)	-	(64.0)
At 31 December 2016	5.7	265.2	129.9	99.9	-	500.7
Carrying amount						
At 31 December 2016	31.2	508.2	50.0	40.6	35.5	665.5
At 31 December 2015	25.0	359.9	55.2	37.3	59.0	536.5

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Notes (continued)

12 Property, plant and equipment (continued)

	Company					Total
	Land and buildings	Aircraft, rotatable spares and ancillary equipment	Modifications to aircraft on operating leases	Plant and machinery, fixtures and fittings	Assets under construction	
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2016	30.0	581.3	205.1	128.8	59.2	1,004.4
Additions	-	331.4	27.3	2.0	73.0	433.7
Disposals	-	(163.5)	(50.9)	(4.8)	-	(219.2)
Transfers to intangible assets					(54.6)	(54.6)
Reclassifications	6.9	15.8	4.9	14.4	(42.0)	-
At 31 December 2016	36.9	765.0	186.4	140.4	35.6	1,164.3
Accumulated depreciation						
At 1 January 2016	5.0	220.3	145.7	91.7	-	462.7
Depreciation for the year	0.7	38.2	39.0	13.2	-	91.1
Disposals	-	(7.6)	(50.8)	(4.7)	-	(63.1)
At 31 December 2016	5.7	250.9	133.9	100.2	-	490.7
Carrying amount						
At 31 December 2016	31.2	514.1	52.5	40.3	35.5	673.6
At 31 December 2015	25.0	361.0	59.4	37.1	59.2	541.7

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

	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Carrying amount				
Aircraft, rotatable spares and ancillary equipment	181.8	124.4	188.1	133.7
Depreciation charged for the year				
Aircraft, rotatable spares and ancillary equipment	11.8	5.3	14.9	6.3

Freehold land with a cost of £4.4m (2015: £4.4m) has not been depreciated. Included in aircraft, rotatable spares and ancillary equipment are progress payments of £34.3m (2015: £46.8m), these amounts are not depreciated.

During the year, the Group and Company purchased, and subsequently, entered into sale and operating leasebacks of two Boeing 787 aircraft. The Group and Company entered into a sale and finance leaseback for one Boeing 787 aircraft that had been purchased in the prior year; this has a carrying value of £66.3m (2015: £129.2m). 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 19.

No impairments arose on the disposal of any aircraft. The total profit on the disposal of aircraft above (excluding supplier settlements - see note 7 for further details) was £1.2m (2015: £4.7m).

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Notes (continued)

12 Property, plant and equipment (continued)

Interest capitalised by the Group and Company on aircraft progress payments for the future purchase of aircraft included in additions during the year amounted to £0.2m (2015: £4.4m).

At 31 December 2016, fleet assets with a carrying amount of £nil (2015: £30.3m) have been pledged as security for bank and other loans.

13 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% (2015 20%):

	Group		Company	
	2016	2015	2016	2015
	£m	£m	£m	£m
Accelerated capital allowances	(15.7)	(18.6)	(20.3)	(38.5)
Other timing differences	(1.4)	36.7	(1.4)	34.8
UK tax losses	6.9	29.1	6.8	25.5
Holdover relief	(14.7)	(12.3)	(14.6)	(12.3)
	<u>(24.9)</u>	<u>34.9</u>	<u>(29.5)</u>	<u>9.5</u>

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

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

	Group	Company
	£m	£m
Movement in deferred tax asset/(liability)		
Balance as at 1 January 2015	45.3	18.7
Charged to statement of comprehensive income	(10.4)	(9.2)
Balance as at 31 December 2015 / 1 January 2016	34.9	9.5
Charged to statement of comprehensive income	(60.8)	(39.0)
Charged to other comprehensive income	1.0	-
Balance as at 31 December 2016	<u>(24.9)</u>	<u>(29.5)</u>

14 Investments

	Group		Company	
	2016	2015	2016	2015
	£m	£m	£m	£m
Non-current				
Unlisted investment	0.0	0.0	0.0	0.0
Interest in subsidiaries	-	-	1.5	6.8
Equity loan stock	-	-	222.9	224.2
	<u>-</u>	<u>-</u>	<u>224.4</u>	<u>231.0</u>
Current				
Equity loan stock	-	-	8.4	0.6

The unlisted investment represents the Group and Company's investment in Airline Group Limited which consists of equity held at cost of £1,575 (2015: £1,575).

Investments in subsidiaries are carried at cost. For further information on the subsidiaries of the Group, see note 23.

Notes (continued)

14 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 drew down 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.

15 Derivative financial instruments

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

	Group and Company	
	2016 £m	2015 £m
Non-current assets		
Foreign currency	2.4	2.1
Fuel	5.9	2.8
	8.3	4.9
Current assets		
Foreign currency	16.9	11.9
Fuel	15.5	-
	32.4	11.9
Current liabilities		
Foreign currency	(3.1)	(0.6)
Fuel	(5.4)	(183.0)
	(8.5)	(183.6)
Non-current liabilities		
Foreign currency	(0.8)	-
Fuel	(3.4)	(9.9)
	(4.2)	(9.9)
	28.0	(176.7)
	Group and Company	
	2016 Quantity (million)	2015 Quantity (million)
Nominal amounts		
Foreign currency (USD)	261.8	493.9
Fuel (Barrels)	5.9	7.5

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.

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Notes (continued)

15 Derivative financial instruments (continued)

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

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

Group and Company			
	Gross amount £m	Amount not set off £m	Net amount £m
As at 31 December 2016:			
Derivative financial instruments			
Assets	40.7	(11.7)	29.0
Liabilities	(12.6)	11.7	(0.9)
	28.1	-	28.1
Group and Company			
	Gross amount £m	Amount not set off £m	Net amount £m
As at 31 December 2015:			
Derivative financial instruments			
Assets	16.8	(2.9)	13.9
Liabilities	(193.5)	2.9	(190.6)
	(176.7)	-	(176.7)

16 Trade and other receivables

	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Non-current				
Other receivables	30.8	32.8	30.8	31.9
Prepayments and accrued income	-	0.2	-	0.2
	30.8	33.0	30.8	32.1
Current				
Trade receivables	136.0	134.5	136.0	134.5
Provision for doubtful receivables	(5.0)	(4.8)	(5.0)	(4.8)
Net trade receivables	131.0	129.7	131.0	129.7
Other receivables	45.3	107.0	45.3	106.9
Corporate tax recoverable	-	5.7	0.1	5.8
Group relief receivables	11.1	4.0	9.5	-
Prepayments and accrued income	39.7	41.7	38.0	40.4
Amounts owed by group companies	5.2	23.4	27.9	45.3
	232.3	311.5	251.8	328.1

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Notes *(continued)*

16 Trade and other receivables *(continued)*

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. Included within current other receivables is an amount of £nil (2015: £69.5m) relating to margin calls on fuel and foreign currency derivative positions.

During the year the Group and Company wrote £0.7m (2015: £0.4 million) of receivables off against the provision.

	Group and Company	
	2016	2015
	£m	£m
Ageing of past due but not impaired receivables		
1-30 days	12.4	43.9
31-60 days	0.8	1.0
61-90 days	-	-
91-120 days	-	-
120+ days	1.1	1.2
Total	14.3	46.1

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 are approximately equal to their fair values.

17 Inventories

	Group and Company	
	2016	2015
	£m	£m
Aircraft consumable spares	22.9	32.3
Finished goods and goods for resale	7.1	5.4
Fuel	0.2	0.1
Uniforms	-	1.1
	30.2	38.9

As described in note 7, the accounting convention adopted for aircraft consumables was modified during the year to better reflect the economic consumption of value through fleet life. As a result, a loss of £10.7m has been recognised in the income statement.

18 Cash, cash equivalents and restricted cash

	Group		Company	
	2016	2015	2016	2015
	£m	£m	£m	£m
Cash at bank and in hand	528.2	525.4	528.2	512.6
Bank overdrafts	(4.2)	(3.7)	(4.2)	(3.7)
Cash and cash equivalents	524.0	521.7	524.0	508.9
Restricted cash	36.6	62.7	13.3	56.6

Cash and cash equivalents comprise of cash and short-term bank deposits with maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is equal to their fair value.

Restricted cash includes liquidity reserves relating to collateralised borrowings and cash collateral relating to trade finance and merchant banking facilities.

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Notes (continued)

19 Borrowings

	Group		Company	
	2016	2015	2016	2015
	£m	£m	£m	£m
Non-current				
Secured bank loans	-	(10.5)	-	(10.5)
Obligations under finance leases (i)	(257.3)	(143.0)	(257.3)	(143.0)
Loan from VAIL (ii)	-	-	(423.4)	(423.4)
Senior bonds - A1 (iii)	(178.9)	(182.1)	-	-
Senior bonds - A2 (iii)	(26.6)	(27.9)	-	-
	(462.8)	(363.5)	(680.7)	(576.9)
Current				
Secured bank loans	-	(26.2)	-	(26.2)
Obligations under finance leases (i)	(12.6)	(5.7)	(12.6)	(5.7)
Loan from VAIL (ii)	-	-	(4.7)	(1.8)
Senior bonds - A1 (iii)	(3.2)	(1.4)	-	-
Senior bonds - A2 (iii)	(1.4)	(1.1)	-	-
	(17.2)	(34.4)	(17.3)	(33.8)

- (i) See note 27 for a full breakdown of all commitments under finance leasing and hire purchase agreements. One additional aircraft was obtained under finance leases that were entered into during the year.
- (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 14 years' time.
- (iii) In December 2015, the Group issued £220m of Senior Bonds to bond investors (£190m Class A-1 bonds and £30m of Class A-2 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 A-1 bonds and £12m of Class A-2 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 A-3). The maturation date of the bonds matches that of the A-1 and A-2 bonds, with repayment of the principal occurring in part over the life of the bonds and £16m payable after 14 years.

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Notes (continued)

19 Borrowings (continued)

	Group		
	Sterling £m	US dollars £m	Total £m
Analysis of borrowings by currency as at 31 December 2016:			
Obligations under finance leases and hire purchase agreements (i)	-	(269.9)	(269.9)
Senior bonds - A1 (iii)	(182.1)	-	(182.1)
Senior bonds - A2 (iii)	(27.9)	-	(27.9)
	(210.0)	(269.9)	(479.9)
Analysis of borrowings by currency as at 31 December 2015:			
Secured bank loans	-	(36.7)	(36.7)
Obligations under finance leases and hire purchase agreements (i)	-	(148.7)	(148.7)
Senior bonds - A1 (iii)	(183.5)	-	(183.5)
Senior bonds - A2 (iii)	(29.0)	-	(29.0)
	(212.5)	(185.4)	(397.9)
	Company		
	Sterling £m	US dollars £m	Total £m
Analysis of borrowings by currency as at 31 December 2016:			
Obligations under finance leases and hire purchase agreements (i)	-	(269.9)	(269.9)
Loan from VAIL (ii)	(428.1)	-	(428.1)
	(428.1)	(269.9)	(698.0)
Analysis of borrowings by currency as at 31 December 2015:			
Secured bank loans	-	(36.7)	(36.7)
Obligations under finance leases and hire purchase agreements (i)	-	(148.7)	(148.7)
Loan from VAIL (ii)	(425.3)	-	(425.3)
	(425.3)	(185.4)	(610.7)

The maturity profile of borrowings is disclosed in note 29.

20 Trade and other payables

	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Non-current				
Accruals	(2.4)	(5.1)	(2.3)	(5.1)
	(2.4)	(5.1)	(2.3)	(5.1)
Current				
Trade payables	(36.0)	(41.1)	(36.0)	(41.1)
Amounts owed to other group companies	(53.0)	(102.0)	(78.3)	(98.7)
Group relief payable	(0.1)	(8.8)	-	(10.4)
Other taxes and social security	(12.5)	(11.3)	(12.5)	(11.3)
Other payables	(3.9)	(1.4)	(3.9)	(1.4)
Accruals	(228.1)	(255.2)	(228.1)	(253.6)
	(333.6)	(419.9)	(358.8)	(416.6)

Included within current other payables is an amount of £2.3m (2015: £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.

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21 Provisions

	Group and Company	
	2016	2015
	£m	£m
Non-current		
Maintenance	(81.7)	(49.6)
Onerous leases	-	(3.0)
Leasehold dilapidation	(1.9)	(6.1)
	(83.6)	(58.7)
Current		
Maintenance	(22.3)	(42.6)
Onerous leases	(2.6)	(3.2)
Leasehold dilapidation	(6.8)	(1.1)
Legal claims	(11.5)	(8.6)
	(43.2)	(55.5)

	Group and Company				
	Maintenance	Onerous leases	Leasehold dilapidations	Legal claims	Total
	£m	£m	£m	£m	£m
As at 1 January 2016	(92.3)	(6.2)	(7.2)	(8.6)	(114.2)
Amounts (provided)/released in the year	(42.6)	1.0	(0.7)	(7.9)	(50.2)
Amounts utilised in the year	45.8	2.5	-	6.0	54.3
Other movements	(14.8)	-	-	(1.0)	(15.8)
Unwinding of discount	-	-	(0.9)	-	(0.9)
At 31 December 2016	(103.9)	(2.7)	(8.8)	(11.5)	(126.8)

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.

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.

Notes (continued)

22 Deferred income

	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Current				
Forward sales of passenger carriage	(420.6)	(415.6)	(420.6)	(415.6)
Unredeemed revenue: Customer loyalty programme	(146.9)	(131.6)	(146.9)	(131.6)
Other revenue received in advance	(16.6)	(44.0)	(16.6)	(44.0)
	(584.1)	(591.2)	(584.1)	(591.2)
Non-current				
Other revenue received in advance	(47.7)	(52.8)	(47.7)	(52.8)
	(47.7)	(52.8)	(47.7)	(52.8)

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

23 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 2016 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
Bug Leasing Limited	Jersey	100	Leasing of aircraft
Fit Leasing Limited	Jersey	100	Leasing of aircraft
Virglease Limited	England and Wales	100	Leasing of aircraft
Virglease (3) Limited	England and Wales	100	Leasing of aircraft
Junopart Limited	England and Wales	100	Leasing property
Virgin Atlantic International Limited	England and Wales	100	Trading
Campden Security Limited	England and Wales	100	In liquidation
Public Eye Promotions Limited	England and Wales	100	In liquidation
Speed 5024 Limited	England and Wales	100	In liquidation
Threesixty Aerospace Limited	England and Wales	100	In liquidation
Virgair Limited	England and Wales	100	In liquidation
Virgin Airways Limited	England and Wales	100	In liquidation
Virgin Atlantic Consol Limited	England and Wales	100	In liquidation
Virgin Atlantic Engineering Limited	England and Wales	100	In liquidation
Virgin Aviation Services Limited	England and Wales	100	In liquidation
Virgin Freeway Limited	England and Wales	100	In liquidation
Virglease (2) Limited	England and Wales	100	In liquidation
Worldwide Travel of East Anglia Limited	England and Wales	100	In liquidation

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Notes (continued)

23 Interests in subsidiaries (continued)

Subsidiary Registered Office Addresses

Entity

Fit Leasing Ltd, Bug Leasing Ltd, VAA Holdings Jersey Ltd
Barbados Enterprises plc

All other trading subsidiaries

All companies in liquidation

Registered office address:

47 Esplanade, St Helier, Jersey, JE1 0BD

35 Great St Helen's, London, EC3A 6AP

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

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

During the prior year ended December 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.

During the year, a number of subsidiary entities were placed into voluntary liquidation as part of a project to simplify the Group structure.

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.

24 Pension scheme

The Group offers its employees a contract based defined contribution pension in the form of a Group Personal Pension Plan. The assets of the scheme are held separately from those of the Group in independently administered funds. There were no outstanding or prepaid contributions at 31 December 2016 (2015: £nil).

25 Related party transactions

The Group and Company had transactions in the ordinary course of business during the year ended 31 December 2016 and 31 December 2015 with related parties.

	Group		Company	
	2016	2015*	2016	2015*
	£m	£m	£m	£m
Parent				
Purchases from parent	-	(0.1)	-	(0.1)
Amounts owed to parent	2.5	-	2.5	-
Related parties under common control				
Sales to related parties	168.5	168.9	168.5	168.9
Purchases from related parties	(12.6)	(19.9)	(12.6)	(19.9)
Amounts owed by related parties	5.2	8.0	5.2	8.0
Amounts owed to related parties	(50.7)	(52.6)	(50.7)	(52.6)
Subsidiaries				
Sales to subsidiaries			0.1	0.1
Purchase from subsidiaries			(28.5)	(0.3)
Amounts owed to subsidiaries			(33.1)	(1.8)

* Transactions and balances with related parties have been restated for the prior year ended 31 December 2015.

Notes *(continued)*

25. Related party transactions *(continued)*

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

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

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

On 31 December 2016 the Group owed Delta Air Lines Inc £40.5m (2015: £84.8m) with respect to the joint operation agreement. Costs incurred in relation to the joint arrangement are presented within airline traffic direct operating costs. Total sales to Delta Air Lines Inc. during the year amounted to £4.2m (2015: £16.7m); total purchases were £35.5m (2015: £7.6m). Outstanding receivable balances amounted to £1.2m (2015: £3.2m) and outstanding payables were £42.3m (2015: £85.7m).

As at 31 December 2016, 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.

26 Ultimate holding company

As at 31 December 2016, 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 2016, the largest group in which the results of the Group are consolidated and are publicly available is that headed by Virgin Atlantic Limited, a company registered in England and Wales, and the smallest group in which the results of the Group are consolidated is that headed by Virgin Atlantic Two Limited, a company registered in England and Wales.

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

Notes (continued)

27 Commitments

(i) Commitments under finance leases

The capital element of the future minimum lease payments to which the Group and Company is committed at 31 December 2016 under finance lease and hire purchase contract obligations incurred in the acquisition of aircraft, engines, spares and other equipment are as follows:

	Group and Company	
	2016	2015
	£m	£m
Not later than one year	12.6	5.7
Later than one year and not later than five years	57.7	26.1
Later than 5 years	199.7	116.9
	270.0	148.7

The present value of future minimum lease payments are included in note 19.

(ii) Commitments under operating leases

As at 31 December 2016, the Group and Company had annual commitments under non-cancellable operating leases as set out below:

	Group and Company			
	2016		2015	
	Land and buildings	Aircraft and other	Land and buildings	Aircraft and other
	£m	£m	£m	£m
Not later than one year	21.3	231.7	24.4	8.9
Later than one year and not later than five years	56.1	474.7	58.9	197.5
Later than 5 years	69.0	737.8	82.3	996.5
	146.4	1,444.2	165.6	1,202.9

(iii) Capital commitments

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

Group and Company	
2016	2015
£m	£m
3,405.5	1,313.0

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

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28 Financial instruments

(i) Financial instruments by category

	Group		Company	
	2016	2015	2016	2015
	£m	£m	£m	£m
Financial assets				
Cash and cash equivalents	524.0	521.7	524.0	508.9
Restricted cash	36.6	62.7	13.3	56.6
Fair value through profit and loss:				
Derivative financial instruments	40.7	16.8	40.7	16.8
Loans and receivables at amortised cost:				
Investments	-	-	232.9	231.6
Trade and other receivables (excluding prepayments and accrued income)	223.4	298.6	244.6	319.7
	824.7	899.8	1,055.5	1,133.6
Financial liabilities				
Fair value through profit and loss:				
Derivative financial instruments	(12.6)	(193.5)	(12.6)	(193.5)
Financial liabilities at amortised cost:				
Borrowings	(479.9)	(397.9)	(698.1)	(610.7)
Trade and other payables*	(333.6)	(419.9)	(358.8)	(416.6)
	(826.1)	(1,011.3)	(1,069.5)	(1,220.8)

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

* The comparatives for the year ended 31 December 2015 have been restated to include accruals.

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

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

There were no transfers between levels during the year.

Notes (continued)

29 Financial risk management

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

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

(i) Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel hedging policy aims to protect the business from significant near term adverse movement in the jet fuel price. The policy allows the Group to hedge within bands up to 18 months out with declining percentages. In implementing the strategy, the fuel hedging policy allows for the use of a number of derivatives available on the over-the-counter (OTC) markets with approved counterparties and within approved limits.

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

	Group and Company	
	2016	2015
	£m	£m
Increase in fuel price by a fixed percentage	30%	30%
Increase in profit before tax	63.5	50.4
Decrease in fuel price by a fixed percentage	(30%)	(30%)
Decrease in profit before tax	(35.7)	(64.3)

(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 US dollar due to engineering maintenance provisions and aircraft lease payments. Currency risk is reduced through the matching of receipts and payments in individual currencies and holding foreign currency balances to meet future obligations. Any exposure that cannot be naturally hedged is managed through application of the foreign exchange hedging policy.

The foreign exchange hedging policy aims to 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 FX hedging policy allows for the use of a number of derivatives available on the over-the-counter (OTC) markets with approved counterparties.

The Group and Company has substantial liabilities denominated in US dollar. A significant proportion of these are matched with US dollar cash.

Notes (continued)

29 Financial risk management (continued)

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

	Group and Company	
	2016	2015
	£m	£m
Strengthening in US Dollar exchange rate by a fixed percentage	10%	10%
Decrease in profit before tax	(24.6)	(32.9)
Weakening in US Dollar exchange rate by a fixed percentage	(10%)	(10%)
Increase in profit before tax	32.7	40.5

(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 optimum 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 36 leases in place at 31 December 2016 (2015: 36), 64% were based on fixed interest rates and 36% were based on floating interest rates (2015: 72% fixed, 28 % floating).

(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 17.

As at 31 December 2016 the Group held £2.3m (2015: £nil) of collateral to mitigate this exposure.

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)

29 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 a 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.

In January 2017, the Group issued an additional £32m of notes secured against its Heathrow slot portfolio. The proceeds are to be used for general corporate purposes.

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

Group	2016			
	Within 1 year	1-2 years	2-5 years	Over 5 years
	£m	£m	£m	£m
Trade and other payables	(333.6)	(2.3)	-	-
Derivative financial instruments	(8.5)	(4.2)	-	-
Borrowings				
Obligations under finance leases and hire purchase agreements	(12.6)	(13.3)	(44.4)	(199.7)
Senior bonds - A1	(3.2)	(3.3)	(13.7)	(161.8)
Senior bonds - A2	(1.4)	(1.4)	(4.4)	(20.8)
	(359.3)	(24.5)	(62.5)	(382.3)
Group	2015			
	Within 1 year	1-2 years	2-5 years	Over 5 years
	£m	£m	£m	£m
Trade and other payables*	(419.9)	(5.1)	-	-
Derivative financial instruments	(183.6)	(9.9)	-	-
Borrowings				
Secured bank loans	(26.6)	(1.1)	(10.0)	-
Obligations under finance leases and hire purchase agreements	(15.1)	(17.2)	(47.7)	(162.1)
Senior bonds- A1	(6.6)	(7.7)	(23.3)	(155.5)
Senior bonds- A2	(1.5)	(1.7)	(5.1)	(19.5)
	(653.3)	(42.7)	(86.1)	(337.1)

* The comparatives for the year ended 31 December 2015 have been restated to include accruals.

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Notes *(continued)*

29 Financial risk management *(continued)*

Company	2016			
	Within 1 year	1-2 years	2-5 years	Over 5 years
	£m	£m	£m	£m
Trade and other payables	(358.1)	(5.1)	-	-
Derivative financial instruments	(8.5)	(4.2)	-	-
Loans and receivables at amortised cost				
Secured bank loans	-	-	-	-
Obligations under finance leases and hire purchase agreements	(12.6)	(13.3)	(44.4)	(199.7)
Loan from VAIL	(4.7)	-	-	(423.4)
	(383.9)	(22.6)	(44.4)	(623.1)

Company	2015			
	Within 1 year	1-2 years	2-5 years	Over 5 years
	£m	£m	£m	£m
Trade and other payables*	(416.6)	(5.1)	-	-
Derivative financial instruments	(183.6)	(9.9)	-	-
Loans and receivables at amortised cost				
Secured bank loans	(26.6)	(1.1)	(10.0)	-
Obligations under finance leases and hire purchase agreements	(15.1)	(17.2)	(47.7)	(162.1)
Loan from VAIL	(16.0)	(12.5)	(37.4)	(408.6)
	(404.3)	(45.8)	(95.1)	(570.7)

* The comparatives for the year ended 31 December 2015 have been restated to include accruals.

(vi) Capital risk

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

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

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Notes *(continued)*

30 Reconciliation between profit for the year and cash generated from operations

	Group	
	2016	2015
	£m	£m
Profit for the period	180.9	83.4
Adjustments for:		
Depreciation	94.0	65.6
Amortisation	14.7	16.2
Loss on unrealised forex	29.7	13.9
Profit on disposal of property, plant & equipment and intangible assets	(24.9)	(62.6)
Taxation	21.4	6.1
Movement in provision for bad debts	0.2	(0.6)
Fair value movement in derivatives	(45.2)	145.6
Net interest paid	19.4	4.9
Exceptional items	11.4	14.6
Working capital changes:		
Inventory	(2.1)	4.2
Trade and other receivables	80.1	35.2
Trade and other payables	(30.7)	(20.6)
Deferred income	(12.2)	40.7
Provisions	11.9	(75.5)
Interest paid	0.1	(5.5)
Income taxes paid	6.7	(5.8)
Net cash from operating activities	<u>355.4</u>	<u>259.8</u>