Virgin Holdings Limited and subsidiary companies

Strategic Report, Directors' Report and consolidated financial statements

Registered number 03609453

31 December 2014

Contents

Group Strategic Report

For the Year Ended 31 December 2014

The principal activities of the Group are air and rail transportation, holidays, mobile telecommunications and healthcare.

Business review

Given the diverse nature of the Group's activities, the review focuses individually on the principal businesses consolidated or equity accounted for in these financial statements. In the prior period, the Group changed its year end from 31 March to 31 December. Comparatives for all entities except Virgin Atlantic Limited are for the 9 month period ended ended 31 December 2013. For Virgin Atlantic Limited the comparatives are for the 10 month period ended 31 December 2013, as the entity's previous year end was 28 February.

Air Travel and Holidays

Virgin Atlantic Limited and its subsidiary companies ("Virgin Atlantic") is the airline and holidays business consolidated in these financial statements. Virgin Atlantic comprises Virgin Atlantic Airways Limited, a significant UK international scheduled airline operating principally from Heathrow and Gatwick, and Virgin Holidays Limited, a tour operator providing inclusive package holidays and flights from the UK to the United States, the Caribbean and other worldwide destinations.

In early 2013, Virgin Atlantic embarked on a comprehensive recovery programme, with the objective of returning to profit within two years without compromising its relentless focus on delighting its customers and engaging its people.

This recovery phase has been successfully completed in 2014 with Virgin Atlantic returning a pre-exceptional profit before tax of £14million which is a £65million improvement on the pro forma 12 month pre-exceptional loss before tax reported for 2013 and £116million improvement from 2012.

	12 months ended 31 December 2014 £m	12 months ended 31 December 2013 Pro forma £m	Better/(Worse)
Turnover by activity			
Airline passenger and ancillary services	**2,530**	2,588	(2.2)%
Holiday tour operations	**540**	534	1.1%
Other and intra-group eliminations	**(142)**	(147)	(3.4)%
	2,928	2,975	(1.6)%
Profit/(loss) on ordinary activities before tax and exceptional items by activity			
Airline passenger and ancillary services	**7**	(74)	109.4%
Holiday tour operations	**4**	1	300.0%
Other and intra-group eliminations	**3**	22	(86.3)%
	14	(51)	127.4%
Key airline statistics			
Available Seat Kilometres (ASK) (m)	**48,710**	50,330	(3.2)%
Revenue Passenger Kilometres (RPK) (m)	**37,692**	39,549	(4.6)%
Passenger load factor	**77.4%**	78.6%	(1.2)pt
Passenger Revenue per ASK (p)	**4.37**	4.23	3.3%
Passenger Revenue per RPK (p)	**5.37**	5.18	3.6%
Airline cost per ASK (p)	**5.12**	5.10	0.3%

Group Strategic Report (continued)
For the Year Ended 31 December 2014

Air Travel and Holidays (continued)

Result Highlights

- Profit before tax and exceptional items improved by £65million year on year to a profit of £14million (statutory profit before tax of £18million)
- Airline revenue for the year down 1.6% (up 1.5% at constant currency)
- Airline passenger unit revenue up 0.5% (3.5% at constant currency)
- Airline operating costs before exceptional items have fallen year on year by £109million
- Virgin Holidays revenue saw a 1.1% year on year increase in 2014
- Airline operating margin improvement of 2.6pts year on year
- Total operating profit for the year to 31 December 2014 of £10million
- Return on invested capital improves 4.2pts to 6.4%

By continuing to improve service and product and by exploiting the opportunities enabled by the joint venture with Delta, Virgin Atlantic increased Airline Passenger Revenue per ASK (p) by 3.5% at constant currency. The joint venture has seen a successful first year, with 100,000 connecting passengers resulting in a 9.9% increase in associated revenue year on year.

Virgin Atlantic's customer loyalty programme, Flying Club, saw strong revenue performance and they continue to invest in building long-term customer loyalty and engagement.

Virgin Atlantic offer cargo products on all of its long-haul services and on its Virgin Australia joint venture. Cargo revenue has decreased 1.8% year on year (increased 3.1% at constant currency with strong demand from UK for exports). Market conditions have improved slightly since the lows experienced in 2013, and despite cessation on the Sydney route, which was disadvantageous to Cargo revenue, tonnage matched performance in 2013.

Airline operating costs before exceptional items have fallen year on year by £109million driven by reduction in fuel cost and improved efficiency. Virgin Atlantic empower its front-line team to identify opportunities to reduce the volume of fuel that its aircraft consume and this reduced fuel consumption by 3.1%.

As part of its recovery, Virgin Atlantic undertook a detailed cost review, and during 2014 the company successfully delivered £32million in cost reduction through effective procurement and improving efficiency. They absorbed regulated cost increases in excess of inflation (especially at London Heathrow), and increased investment in customer product and services.

On a unit basis at constant currency, fuel reduced 3.8%. Virgin Atlantic are active in efforts to minimise fuel consumption through purchasing fuel efficient aircraft and by employing best practice to ensure we improve fuel efficiency with our existing aircraft.

Virgin Atlantic operates a hedging policy that protects the business from exposure to volatility in oil prices and FX rates. The policy allows Virgin Atlantic to hedge within bands, up to 24 months out with declining percentages. While Brent oil prices have fallen by 47% (from $108 on 1 January to $57 on 31 December), Virgin Atlantic's prices remained materially higher and they did not benefit fully from the decline in price because of its hedging policy.

Aircraft ownership costs reduced 5.0% at constant currency due the reduction in the number of aircraft in the fleet and partially due to lower interest rates. The majority of Virgin Atlantic's aircraft are financed through operating leases. The replacement of A340s with state-of-the-art Boeing 787-9 continues with eight arriving in 2015 reducing the average age of Virgin Atlantic's aircraft from ten years to eight years making its fleet one of the youngest and most fuel efficient in the skies.

Group Strategic Report (continued)
For the Year Ended 31 December 2014

Rail

Virgin Rail Group Holdings Limited and its subsidiary companies ("Virgin Rail") operates passenger rail services between London (Euston) and Birmingham, Wolverhampton, Holyhead, Chester, Liverpool, Manchester, Preston, Carlisle and Glasgow under the franchise operated by West Coast Trains Limited ("West Coast"). The profit for the year ended 31 December 2014, after taxation and minority interests, amounted to £31million (Period ended 31 December 2013: £8million). The Group's share of this is a profit of £16million (Period ended 31 December 2013: £4million).

Virgin Rail operated its services under the terms of the Interim Franchise Agreement, dated 5 December 2012, for the period from 9 December 2012 to 22 June 2014. The Interim Franchise Agreement operated as a management contract, with the majority of revenue and cost risk being borne by the Department for Transport ("DfT").

Following negotiations with the DfT, a new Franchise Agreement for West Coast was signed on 18 June 2014. This supercedes the Interim Franchise Agreement and is effective from 22 June 2014 to 31 March 2017, with an option for the DfT to extend it by up to one year. The new Franchise Agreement sees Virgin Rail taking on greater revenue and cost risk in return for a commercial profit margin. It will see Virgin Rail delivering improvements to the customer experience, local communities and the environment.

Virgin Rail has seen strong passenger revenue and journey growth during the financial year. Virgin Rail is focused on continually improving its customer experience and customer satisfaction levels. The selection, training, development and encouragement of staff continues to reflect this; while management is continually reviewing operations to provide the best value for money service to customers.

Customer satisfaction as measured by the independent National Passenger Survey is positive and Virgin Rail has maintained its position at the top of long distance train operators, in terms of overall satisfaction scores.

Under the new Franchise Agreement, Virgin Rail will build on its customer satisfaction levels by delivering a range of further enhancements to the customer experience. These include additional standard class seating capacity, high bandwidth Wi-Fi, a partnership with the Nectar loyalty scheme, more ticketing vending machines, an upgraded website and new direct train services from London to Blackpool and Shrewsbury.

Virgin Rail continues to experience days of poor infrastructure performance by Network Rail which impacts its overall Public Performance Measure ("PPM") being the percentage of trains that arrive at their destination within 10 minutes of their scheduled arrival time having called at all scheduled stations. Virgin Rail continues to press for improvements from Network Rail under its performance contract to ensure that the effects of poor performance days are minimised. Virgin Rail is in an alliance with Network Rail which focuses on performance improvements and efficiency savings.

Financial KPIs focus on profitability and cash management. Financial results are closely monitored by management, shareholders and the DfT.

Virgin Rail has seen strong passenger revenue and journey growth year on year. Annual passenger journeys now stand at 34.5million, an 8% increase from the previous financial year.

Mobile telecoms

On 4 December 2014, the Group, together with the other shareholders in Omer Telecom Limited, being The Carphone Warehouse Group PLC and Financom SAS, sold their entire shareholding in Omer Telecom Limited to Numericable Group. The Group received £85million (€133million) in consideration for the sale to Numericable of its proportion of the shares held.

Group Strategic Report (continued)
For the Year Ended 31 December 2014

Healthcare

Virgin Healthcare Holdings Limited and its subsidiary companies ("Virgin Care") is an innovative provider of NHS services across England. Virgin Care provides a range of NHS and social care services including community hospitals, district nursing, sexual health and prison health as well as GP-led walk-in and healthcare centres, urgent care centres, out of hours services, community diagnostics and GP practices. Virgin Care works with a wide range of NHS, independent and third sector partners to deliver NHS services, employing nurses, GP's, consultants and other clinical and administrative staff.

Virgin Care's largest contract is to provide community health services in Surrey. This includes the provision of NHS services, specifically community services across north-west and south-west Surrey, as well as some county-wide services including sexual health and prison healthcare. In addition, since 1 April 2013 Virgin Care has provided combined NHS and Social Care services under the Devon Integrated Children's Services contract. Virgin Care's loss for the period ended 31 December 2014, after taxation, amounted to £6million (Period ended 31 December 2013: £4million). The Group's share of this is a loss of £6million (Period ended 31 December 2013: £3million).

Principal risks and uncertainties

The Group faces a range of risks and uncertainties. Detailed below are those specific risks and uncertainties that could have the most significant impact on the Group's long-term performance. The risks and uncertainties described below are not intended to be exhaustive.

Economic conditions

A prolonged economic downturn may result in revenue reduction and potential reduction of profit for all businesses. A global economic slowdown may adversely affect discretionary spending, particularly for leisure activities and travel. In order to minimise this risk, there is a focus across all activities of the Group on cost control and efficient operation.

Brand reputation

The strong reputation and loyalty engendered by the Group's brands is a core part of the value of the businesses. Any damage to the brands caused by any single event or series of events could materially impact customer loyalty and the propensity of customers to travel with Virgin, or purchase Virgin products and services, and so adversely affect our business. The businesses regularly monitor customer satisfaction through monthly customer surveys, alongside on-going research and development of products and services to mitigate this risk. The Group invests in substancial resourses to maintain its strong brand position.

Cyber risk

The Group, whilst maintaining adequate protection, is aware that the risks of cyber attacks are increasing and may cause significant disruption to operations or result in lost revenue. The Group, along with its suppliers, is constantly monitoring the risk to its operations. System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.

Risks specific to Virgin Atlantic:

Safety, terrorism and security incidents

The Group is impacted by the effect of terrorism on the aviation and tour operating industries; as a result Virgin Atlantic ensures that the safety of passengers, crew and staff is at the heart of its business. Failure to respond to terrorism or security incidents may adversely impact operations and financial performance. Virgin Atlantic 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 their security regime, the airline operates 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 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 Virgin Atlantic have the most current and accurate data to make informed judgements about the security of its human and physical assets.

Group Strategic Report (continued)
For the Year Ended 31 December 2014

Government intervention

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

Risks specific to Virgin Rail:

Major incidents/Terrorism

As with any operator of public transportation, there is a risk that Virgin Rail is involved in a major incident which could result in injury to customers or staff. The potential impact on Virgin Rail includes damage to reputation and possible claims made against them. Virgin Rail has procedures in place to respond to any major incident that may occur.

Franchise Risk

The new Franchise Agreement was negotiated using a range of assumptions with regard to revenue growth and cost base. It is imperative that Virgin Rail takes all actions outlined in its bid to ensure that its targets are met. The new Franchise Agreement includes a "GDP sharing" arrangement that is intended to ensure that the DfT bears most of the risk of variances in revenue resulting from UK GDP differing from that expected at the time of the June 2014 Franchise Agreement.

Virgin Rail is required to comply with certain conditions as part of its rail franchise agreement. If it fails to comply with these conditions, it may be liable to penalties or the potential termination of the franchise. Compliance with franchise conditions are closely managed and monitored and procedures are in place to minimise the risk of non-compliance.

Network Rail performance

Reliable running of the high frequency West Coast timetable depends on the ability of Network Rail to maintain a fully operational network. Failure to do so impacts Virgin Rail's operational performance. In order to manage the risk, there is close monitoring by management of performance targets.

Failure of critical suppliers

Virgin Rail has a number of key suppliers supporting various areas of the business, for example infrastructure, rolling stock and IT. Failure of one of these key suppliers, including Network Rail, would impact on the financial and operational performance of Virgin Rail. Virgin Rail has made contingency plans for each key supplier if this eventuality occurs.

Risks specific to Virgin Care:

Business growth

Virgin Care is a fast-growing business. As a result of its success and expansion, the directors ensure the business has the resources and management processes in place to mobilise more than one large contract at a time. The directors are satisfied such matters are properly discussed by the Virgin Care board and are adequately resourced.

Government regulation

Recent changes in the healthcare sector, including the recent "Health and Social Care Act 2012", present an opportunity for the business, however there remains a lack of clarity over how certain measures contained within the Act will be implemented.

Group Strategic Report (continued)
For the Year Ended 31 December 2014

Financial Risk Management

The Board of Directors is responsible for setting financial risk management policy and objectives, and approves the parameters within which the various aspects of financial risk management are operated.

Financing and interest rate risk

The working capital of Virgin Atlantic 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 Virgin Atlantic's 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; and the latter as described in the derivative financial instruments policy.

All of Virgin Atlantic's debt is asset related, reflecting the capital intensive nature of the airline industry and the attractiveness of aircraft as security to lenders and other financiers. These factors are also reflected in the medium-term profile of Virgin Atlantic's loans and operating leases. Virgin Atlantic's interest rate management policy aims to provide a degree of certainty for future financing costs; this is achieved by funding the majority of loans and operating leases on a fixed interest rate basis. Virgin Atlantic's loans and operating leases are principally denominated in US dollars.

Virgin Rail policy is to invest cash assets safely and profitably. To control credit risk, counterparty credit limits are set by reference to published credit ratings. In addition, Virgin Rail seeks to maximise financial income from short term deposits via the monitoring of cash balances and working capital requirements.

Foreign currency risk

Virgin Atlantic has a significant net US dollar exposure. Capital, lease and a number of operational costs, most significantly aviation fuel, are denominated in US dollars. In addition Virgin Atlantic is exposed to a number of other currencies. Virgin Atlantic seeks to reduce its foreign exchange exposure arising in various currencies through matching, as far as possible, receipts and payments in individual currencies. To the extent possible, Virgin Atlantic holds foreign currency balances in the short term to meet its future trading obligations. Where there is a predicted exposure in foreign currency holdings, Virgin Atlantic uses a limited range of hedging instruments as stipulated in the Treasury and Aviation Fuel Price Exposure Management Policies.

Fuel price risk

Virgin Atlantic aims to provide protection against sudden and significant increases in the jet fuel price while ensuring that Virgin Atlantic may also benefit from price reductions having regard to cash margin exposure. In order to provide protection Virgin Atlantic uses a limited range of hedging instruments, principally zero-cost collars and forwards, with approved counterparties and within approved limits.

Derivative financial instruments

Virgin Atlantic uses derivative financial instruments selectively for foreign currency and aviation fuel price risk management purposes, as described above. Virgin Atlantic's policy is not to trade in derivatives but to use these instruments to hedge anticipated future cash flows. Virgin Atlantic does not permit selling currency or jet fuel options, except as part of a fully matched collar hedging structure. All derivatives are used for the purpose of risk management and accordingly they do not expose Virgin Atlantic to market risk as they are matched to identify physical exposures within these businesses. However, the timing difference between derivative maturity date and current mark-to-market value can give rise to cash margin exposure; this risk is managed through choice of instrument, appropriate counterparty agreements and, where required, cash deposits with counterparties. Counterparty credit risk is controlled through mark-to-market based credit limits.

Group Strategic Report (continued)
For the Year Ended 31 December 2014

Working capital and cash flow

As noted above, working capital and cashflow of operating subsidiaries are managed by those subsidiaries according to their immediate requirements. Across the group/investment holding companies, cash balances held will fluctuate according to immediate requirements. Cash is managed centrally across the companies on review of their cashflows. The directors have determined it appropriate to prepare these financial statements on a going concern basis.

This report was approved by the board on 16 June 2015 and signed on its behalf.

B A R Gerrard
Company Secretary

Directors' Report

The directors present their report and the consolidated financial statements for the year ended 31 December 2014. The previous financial statements were for the 9 month period ended 31 December 2013.

Results and dividends

The results of the Group for the period are set out on page 13 and are commented on within the Strategic Report.

The Group has considerable financial resources, and no significant changes are expected in relation to its income streams or cost base that could jeopardise this. As a consquence, the directors believe that the Group is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

During the year, a group wide reorganisation took place. As part of this reorganisation, the Company made a bonus issue of one ordinary share of £1 issued at a premium of £1,526million and subsequently effected a reduction of its capital by cancelling 648,590,203 of it 848,590,203 shares then in issue. On 10 December 2014, the Company paid a dividend of £2,527million (Period ended 31 December 2013: £nil), satisfied by the transfer of intercompany debt receivable due from its parent company, Classboss Limited.

Virgin Atlantic Limited

Preference dividends of £nil (Period ended 31 December 2013: £2million) were paid during the year, of which £nil (Period ended 31 December 2013: £1million) relates to minority interests.

The directors declared and paid interim ordinary dividends of £88million in aggregate, in respect of the year ended 31 December 2014 (Period ended 31 December 2013:£nil), of which £43million relates to minority interests.

Virgin Rail Group Holdings Limited

Dividends paid during the period totalled £4million (Period ended 31 December 2013: £14million) of which £2million (Period ended 31 December 2013: £7million) relates to minority interests.

Directors

The directors who served during the year were:

I P Woods	Alternate R P Blok
R P Blok	
N A R Fox	

Employees

The Group is a non-discriminatory employer operating an Equal Opportunities Policy that aims to eliminate unfair discrimination, harassment, victimisation and bullying. The Group is committed to ensuring that all individuals are treated fairly, with respect, and are valued irrespective of disability, race, gender, health, social class, sexual preference, marital status, nationality, religion, employment status, age or membership or non-membership of a trade union.

The Group uses the consultative procedures agreed with its staff and elected representatives with a view to ensuring that its employees are aware of the financial and economic factors that affect the Group's performance and prospects. Within the bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of the Group and are of interest and concern to them as employees. The Group also encourages employees, where relevant, to meet on a regular basis to discuss matters affecting them.

In considering applications for employment from disabled people in the UK, the Group seeks to ensure that full and fair consideration is given to the abilities and aptitudes of the applicant against the requirements of the jobs 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.

Directors' Report

Political and charitable contributions

The Group made no political contributions during the year (Period ended 31 December 2013: £nil). Donations to UK charities amounted to £5million (Period ended 31 December 2013: £4million) of which £5million (Period ended 31 December 2013: £4million) was made to Virgin Unite, a charity affiliated to the Group.

Environmental impact *(applicable primarily to Virgin Atlantic)*

More than 99% of Virgin Atlantic's carbon footprint comes from its aircraft operations, so it makes sense to focus efforts on improving the fuel efficiency of its flying. The aim is to significantly improve aircraft fuel and carbon efficiency through new aircraft and technologies, as well as more efficient operations and fleet maintenance. The airline is also helping to drive the commercial uptake of low carbon aviation fuels through its award winning sustainable fuels programme.

The first Boeing 787-9 aircraft, Birthday Girl, received in October 2014, has a 20% smaller carbon footprint compared with similar sized aircraft, and a 60% reduction in noise output. Alongside the existing Airbus A330-300 aircraft, these new Boeing 787-9 aircraft represent a significant step forward in the sustainability of Virgin Atlantic's fleet.

In 2014 Virgin Atlantic also announced the next step in its partnership with fuel technologists LanzaTech – the intention to operate a proving flight using a blend of their sustainably produced alcohol-to-jet fuel, with the support of HSBC and Boeing. LanzaTech's fuel sees waste gases from industrial steel production being captured, fermented and then chemically converted for use as jet fuel.

The support of HSBC will allow production of this innovative new fuel to move from sample size to demo scale – and will produce a sufficient amount of fuel to conduct the proving flight. These are vital steps in the process to achieve American Society for Testing and Materials (ASTM) certification of the alcohol to jet production pathway. ASTM certification is a significant step towards commercialisation of LanzaTech's sustainable fuel solution, which is expected to have half the carbon footprint of petroleum jet.

Virgin Atlantic is also actively working with the industry and government to reduce its noise output. In 2013, it was the first airline to publish a Noise Management Strategy and to commit to challenging targets on reducing the noise impacts of its our operations. In December 2014, the first update to the strategy was published, including the contribution of the new Boeing 787-9 and quieter operating procedures developed alongside other industry partners.

On the ground, Virgin Atlantic is always looking for better ways to manage its energy consumption, vehicles, water, and waste, as well as engaging its designers, buyers and suppliers on improved, more sustainable supply chain practices.

Provision of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company and the Group's auditor in connection with preparing its report and to establish that the Company and the Group's auditor is aware of that information.

Auditor

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

Directors' Report

This report was approved by the board on 16 June 2015 and signed on its behalf.

B A R Gerrard
Company Secretary

The Battleship Building
179 Harrow Road
London
W2 6NB

Directors' Responsibilities Statement
For the Year Ended 31 December 2014

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of Virgin Holdings Limited

We have audited the financial statements of Virgin Holdings Limited for the year ended 31 December 2014, set out on pages 13 to 56. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 on page 11, 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:

- give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Group strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Sarah Styant (Senior statutory auditor)
for and on behalf of KPMG LLP, Statutory auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

18 June 2015

Consolidated Profit and Loss Account

For the Year Ended 31 December 2014

	Note	**12 months ended 31 December 2014 £M**	9 months ended 31 December 2013 £M
Turnover			
Group and share of joint venture's turnover		**4,414**	3,671
Less: share of joint venture's turnover		**(138)**	(123)
Group turnover	2	**4,276**	3,548
Cost of sales		**(3,395)**	(2,899)
Gross profit		**881**	649
Administrative expenses		**(775)**	(578)
Exceptional administrative (expenses)/credit	6	**(12)**	47
Total administrative expenses		**(787)**	(531)
Other operating expense		**(20)**	(31)
Exceptional other operating income	6	**7**	2
Total other operating expense		**(13)**	(29)
Operating profit	3	**81**	89
Share of operating loss in joint ventures		**-**	(3)
Total operating profit		**81**	86
Net exceptional profit/(loss) on sale of fixed assets	6	**155**	(5)
Profit on ordinary activities before interest		**236**	81
Interest receivable and similar income	9	**75**	63
Interest payable and similar charges	10	**(53)**	(34)
Other finance income	28	**6**	4
Profit on ordinary activities before taxation		**264**	114
Tax on profit on ordinary activities	11	**(20)**	29
Profit on ordinary activities after taxation		**244**	143
Minority interests	25	**(53)**	(4)
Profit for the financial year		**191**	139

All amounts relate to continuing operations except for share of joint venture's turnover in relation to Omer Telecom Limited of £136million.

The notes on pages 18 to 56 form part of these financial statements.

Registered number: 03609453

Consolidated Balance Sheet
As at 31 December 2014

	Note	£M	2014 £M	£M	2013 £M
Fixed assets					
Intangible assets	12		**224**		241
Tangible assets	13		**507**		403
Other investments	14		**1**		16
Investments in joint ventures					
-Share of gross assets		**1**		79	
-Share of gross liabilities		**(1)**		(102)	
Share of net liabilities	14		**-**		(23)
			732		637
Current assets					
Stocks	15	**45**		45	
Debtors (including £74million (2013: £116million) due after more than one year)	16	**732**		3,134	
Cash at bank	17	**639**		535	
		1,416		3,714	
Creditors: amounts falling due within one year	18	**(1,536)**		(1,998)	
Net current (liabilities)/assets			**(120)**		1,716
Total assets less current liabilities			**612**		2,353
Creditors: amounts falling due after more than one year	19		**(224)**		(373)
Provisions for liabilities					
Deferred tax	20	**(24)**		(25)	
Other provisions	21	**(160)**		(160)	
			(184)		(185)
Net assets excluding pension scheme liability			**204**		1,795
Defined benefit pension scheme liability	28		**(1)**		(1)
Net assets			**203**		1,794
Capital and reserves					
Called up share capital	22		**200**		849
Share premium account	23		**-**		96
Profit and loss account	23		**(54)**		804
Shareholders' funds	24		**146**		1,749
Minority interests	25		**57**		45
			203		1,794

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 16 June 2015.

I P Woods
Director

The notes on pages 18 to 56 form part of these financial statements.

Registered number: 03609453

Company Balance Sheet
As at 31 December 2014

	Note	£M	2014 £M	£M	2013 £M
Fixed assets					
Investments	14		**793**		1,376
Current assets					
Debtors	16	**57**		3,518	
Cash at bank	17	**196**		113	
		253		3,631	
Creditors: amounts falling due within one year	18	**(214)**		(3,162)	
Net current assets			**39**		469
Total assets less current liabilities			**832**		1,845
Creditors: amounts falling due after more than one year	19		**(152)**		(294)
Net assets			**680**		1,551
Capital and reserves					
Called up share capital	22		**200**		849
Share premium account			**-**		96
Profit and loss account			**480**		606
Shareholders' funds	24		**680**		1,551

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 16 June 2015.

I P Woods
Director

The notes on pages 18 to 56 form part of these financial statements.

Consolidated statement of total recognised gains and losses
For the Year Ended 31 December 2014

	Note	12 months ended 31 December 2014 £M	9 months ended 31 December 2013 £M
Gain/(loss) for the financial period/year			
Group		**192**	142
Share of joint ventures	14	**(1)**	(3)
	24	**191**	139
Currency translation differences on net foreign currency investments	24	**-**	3
Actuarial gain on pension scheme	28	**2**	-
		2	3
Total recognised gains relating to the financial year/period		**193**	142

The notes on pages 18 to 56 form part of these financial statements.

Notes to the Financial Statements

1. Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements for the period under review, except as noted below.

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The holding company has taken advantage of section 408 of the Companies Act 2006, and a separate profit and loss account of the Company has not been published. The profit for the period attributable to the Company is disclosed in Note 24.

1.2 Basis of consolidation

The financial statements consolidate the accounts of Virgin Holdings Limited and all of its subsidiary undertakings ('subsidiaries'), referred to as the 'Group'.

Except in the case of Virgin Atlantic Limited and Virgin Rail Group Holdings Limited, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal.

In the case of Virgin Atlantic Limited and Virgin Rail Group Holdings Limited, merger accounting has been adopted, as if its business had been part of Virgin Holdings Limited since it came under common control.

Where an unrealised gain or loss arises on the dilution of the Group's interest in the net liabilities/assets of a subsidiary, associate or joint venture, the respective gain or loss is reflected directly as a movement in the Group's reserves.

A joint venture is an undertaking in which the Group has a long term interest and over which it exercises joint control. The Group's share of the profits less losses of joint ventures is included in the consolidated profit and loss account, and its interest in their net assets is included in investments on the balance sheet.

The results of subsidiaries acquired during the year are included from the effective date of acquisition.

The consolidated accounts have been compiled using the financial statements of the Group's subsidiaries and joint ventures for accounting periods which are usually coterminous with the Group's own accounting reference date. Where such entities have different accounting reference dates, appropriate adjustments have been made to realign the figures for those entities so that they are incorporated for the period covered by this financial information.

During the prior year the Group changed its accounting reference date from 31 March to 31 December, resulting in a 9 month reporting period ended 31 December 2013. As this was the first period of alignment for Virgin Atlantic, it was appropriate to include their results for 10 months in that period.

Notes to the Financial Statements

1. Accounting Policies (continued)

1.3 Turnover

Turnover comprises revenue recognised by the Company in respect of goods and services supplied during the year, exclusive of VAT and trade discounts.

Air travel

Turnover is stated gross of commission, and comprises revenue from passenger ticket sales, cargo and ancillary goods and services in respect of flights operated in the accounting period, sales of holiday packages and travel insurance with departure dates in the accounting period, and income relating to rights over the use of the Virgin name and its intellectual property. Revenue relating to flights, holidays and travel insurance commencing after the accounting period, together with any commission thereon, is carried forward as deferred income. Unused tickets are recognised as turnover on a systematic basis.

Virgin Atlantic also receives agency commission for the sale of third party holiday products. The agency commission due from the third party is recognised when earned, typically at date of booking.

Rail

Turnover represents amounts receivable, excluding VAT, for services and goods supplied to external customers, primarily in respect of passenger transportation. Turnover originates wholly in the UK.

Passenger revenue principally represents amounts attributed to the Group by the Railway Settlement Plan (which administers the income allocation system within the UK rail industry) for each financial period. Income is attributed based on models of certain aspects of passenger behaviour and, to a lesser extent, from allocations agreed for specific revenue flows. The attributed share of season ticket income is deferred within creditors and released to the profit and loss account over the life of the relevant season ticket.

Other trading income consists principally of the provision of station facilities to other train operators, retail commissions, car parking and the hire out of train crew and rolling stock. Other trading income and catering income are recognised as the income is earned.

Turnover is recognised when all performance conditions associated with turnover have been met.

Royalties

Royalties are receivable under trademark licence agreements entered into with companies using the Virgin brand (Licensees), exclusive of VAT and trade discounts. Royalties receivable are recognised as earned typically based on a percentage of the revenues of the Licensee, subject to minimum guarantees. Certain licences are pre-paid, and these royalty revenues are recognised on a straight line basis over the term of the licence agreement

1.4 Rail franchise expense

Revenue grants receivable/payable in respect of the operation of the rail franchises are taken to other operating expenses in the profit and loss account in the financial year to which they relate.

1.5 Compensation for service disruption

Compensation receivable/payable for service disruption under the performance regime provisions of the track access agreements with Network Rail is recognised over the period of disruption and the net amount is shown within other operating income. Network change compensation receivable in respect of lost revenue and incremental costs incurred due to Network Rail's alterations of the track and infrastructure is recognised over the period of disruption and is shown within other operating income.

Notes to the Financial Statements

1. Accounting Policies (continued)

1.6 Administrative expenses

Administrative expenses comprise overhead expenses, depreciation of assets and amortisation of goodwill, together with marketing and promotional costs. Marketing and promotional costs are expensed to the profit and loss account as incurred.

1.7 Goodwill, negative goodwill and other intangible fixed assets

In accordance with Financial Reporting Standard 10, "Goodwill and Intangible Assets", positive goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised in the balance sheet as an intangible asset at cost and amortised to nil by equal annual instalments over its estimated useful economic life as set out in Note 12. If the goodwill is considered to have an indefinite useful life, it is not amortised but is subject to annual review for impairment. Negative goodwill arising on consolidation in respect of acquisitions is included within intangible fixed assets and released to the profit and loss account in the period in which the fair value of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale. On the subsequent disposal or termination of a business acquired, the profit or loss on disposal or termination is calculated after charging (crediting) the unamortised amount of any related goodwill (negative goodwill). In the Group's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off.

Intellectual property rights, concessions, patents, licences and trademarks purchased are capitalised and amortised through the profit and loss account over the expected useful economic life of the asset.

EU Emissions Trading Scheme (ETS)

On 24 April 2013 the EU removed the compliance requirements on international aviation for the 2012 calendar year. On 4 October 2013 the International Civil Aviation Organisation decided on a roadmap for a global market-based mechanism to tackle aviation emissions to be implemented by 2020. On the same date the EU again announced its intention to remove the compliance requirement on international aviation for the 2013 calendar year and for 2014 - 2020 to limit the EU ETS to only cover part of the international flight within EEA airspace.

Emissions on intra-EU flights:

Carbon allowances received free of charge are recognised as intangible assets at market value on the date of receipt. Consistent with Statement of Standard Accounting Practice 4 'Accounting for Government Grants', the value of allowances received is deferred and recognised in income on a systematic basis over the period to which the grant relates. The estimated gross cost of settling the liability for CO_2 emitted in the period is recognised in the profit and loss account as incurred.

Emissions on international flights:

Given the current global position the Directors consider there to be sufficient uncertainty surrounding the operation of the EU ETS for international flying to not recognise any net assets or liabilities under the scheme as at the balance sheet date.

Notes to the Financial Statements

1. Accounting Policies (continued)

1.8 Development costs

Development expenditure, relating primarily to the setting up of new routes and introducing new aircraft to the fleet, is charged to the profit and loss account as incurred.

Development expenditure is capitalised when the criteria for recognition as an asset are met, when the Group can demonstrate the technical feasibility of completing the project so that it will be available for use or sale, its intention to complete, its availability of resources to complete and that costs attributable to the asset in its development can be measured reliably. Regulatory and other uncertainties generally mean that such criteria are not met. When development costs are capitalised they are amortised over their useful economic lives. The expenditure capitalised is tested for impairment annually.

1.9 Landing slot expenditure

Virgin Atlantic has previously amortised purchased landing slots over their useful economic life which has been estimated at 20 years from the date at which they came into service. The directors of Virgin Atlantic reassessed this economic life in view of the Open Skies agreements which came into effect in 2008 and 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 that 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 to the Financial Statements

1. Accounting Policies (continued)

1.10 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Freehold land	-	Not depreciated
Freehold property	-	Up to 50 years
Leasehold land and building	-	Term of lease up to 50 years
Plant & machinery	-	3 - 10 years
Motor vehicles	-	3 - 4 years
Furniture & fittings	-	2 - 10 years
Office equipment	-	3 - 5 years
Computer equipment and software	-	3 - 10 years
Aircraft, aircraft spares and rotables	-	Up to 25 years

Aircraft and engine maintenance costs in respect of major overhauls, which are typically carried out at intervals greater than one year, are capitalised and depreciated by reference to their units of economic consumption, typically hours or sectors flown. Part of the initial cost of new or used aircraft is treated as maintenance expenditure based upon its maintenance status on acquisition and the current cost of the maintenance procedures. The balance of aircraft and engine cost is depreciated on a straight line basis over periods of up to twenty five years so as to reduce the cost to estimated residual value at the end of that period. The effective depreciation rate per annum in respect of new wide-bodied aircraft is approximately 4%.

Rotable spares are depreciated on a straight-line basis so as to reduce the cost or valuation to estimated residual value at the end of that period. The depreciation rate per annum in respect of rotable spares is 7.25% or 12.5% dependent on type.

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 lease period.

Design and content development costs of websites are capitalised only to the extent that they lead to the creation of an enduring asset delivering benefits at least as great as the amount capitalised. If there is insufficient evidence on which to base reasonable estimates of the economic benefits that will be generated in the period until the design and content are next updated, the costs of developing the design and content are charged to the profit and loss account as incurred.

The Group evaluates its fixed assets for financial impairment where events or circumstances indicate that the carrying amount of such assets may not be fully recoverable. When such evaluations indicate that the carrying value of an asset exceeds its recoverable amount an impairment in value is recorded and charged through the profit and loss account.

1.11 Investments

(i) Subsidiary undertakings
Investments in subsidiaries are valued at cost less provision for impairment.

(ii) Joint venture undertakings
Investments in joint ventures are stated at the Group's share of net assets. The Group's share of the profits or losses of the joint ventures is included in the Profit and loss account using the equity accounting basis.

(iii) Other investments
Investments held as fixed assets are shown at cost less provision for impairment.

Notes to the Financial Statements

1. Accounting Policies (continued)

1.12 Leasing and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the Group. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

1.13 Operating leases

Rentals under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight-line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

Leasehold dilapidations and onerous lease provisions are discounted, with the unwinding of the discount being taken to the profit and loss account.

1.14 Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements. As at 31 December 2014, there is no dividend liability (Period ended 31 December 2013: £nil).

1.15 Aircraft maintenance costs

Routine maintenance costs are charged to the profit and loss account as incurred. Maintenance costs for overhauls relating to aircraft and engines held under operating leases for which there is a contractual obligation are provided for by making appropriate charges to the profit and loss account. For owned aircraft and engines, major overhaul expenditure is capitalised and depreciated by reference to the units of economic consumption, typically hours or sectors flown.

Where the effect is material, the provision for maintenance costs is discounted to present value using a current pre-tax discount rate that reflects the risks specific to the liability.

1.16 New train service arrangement costs

Under its original franchise agreements, the Virgin Rail Group was required to operate faster and more frequent services on the West Coast Main Line. In order to achieve this, contracts were entered into several years ago to lease new trains under operating lease arrangements. In accordance with these agreements, Virgin Rail Group incurred direct costs on behalf of the lessor associated with developing the contracted new train service arrangements. These costs are an integral part of the operating lease expense, and therefore were recorded within prepayments when incurred, and are being charged to the profit and loss account on a straight-line basis from the point at which new trains came into operation, until the earlier of the end of the relevant lease agreements or the franchise term.

Notes to the Financial Statements

1. Accounting Policies (continued)

1.17 Track access costs

Track access costs are charged to the profit and loss account in the period to which they relate, based on the terms of the contract.

Network Rail has undertaken a programme of infrastructure works to upgrade the West Coast Main Line to enable trains to run at higher speeds and frequencies. Under a series of supplemental track access agreements, the Virgin Rail Group paid additional separately identifiable track access charges in respect of the increased track speed and capacity that these infrastructure improvement works create. This increased track capacity became available to the Virgin Rail Group with the introduction of the timetable in September 2004. In order that additional track access charges can be recorded in the periods in which the Virgin Rail Group benefits from the additional track capacity, additional payments made prior to September 2004 were recorded within prepayments and are being charged to the profit and loss account on a straight-line basis from September 2004 to the end of the franchise term.

1.18 Fuel costs

Fuel costs represent the commodity spot price ruling at the date of the transaction or, if appropriate, the commodity price under the related fuel hedging contract, together with the costs of delivery and duty.

1.19 Frequent flyer programme

Virgin Atlantic'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 flights on Virgin Atlantic, selected partner airlines and other partners such as hotels and car rental companies.

Where the fair value of miles issued is significant in the context of the overall underlying transaction, the fair value of miles issued at the expected redemption rate is deferred and recognised in revenue when redeemed and services are provided. Where the fair value of miles issued is not significant in the context of the overall underlying transaction, no revenue is deferred and an onerous cost obligation is provided for on an incremental cost basis at the expected redemption rate.

1.20 Cash and liquid resources

Cash at bank and in hand includes both cash and liquid resources. Cash includes cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources include term deposits.

1.21 Provisions

Provisions are recognised where the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. The amounts recognised are the best estimate of the expenditure that will be required to meet the Group's obligation. Where provisions are discounted, the unwinding of the discount is taken to the profit and loss account.

1.22 Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

Notes to the Financial Statements

1. Accounting Policies (continued)

1.23 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

1.24 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction or, if hedged, at the forward contract rate.

Exchange gains and losses are recognised in the Profit and loss account.

The assets and liabilities of overseas subsidiary undertakings, joint ventures and associated undertakings, are translated at the closing exchange rates or, where applicable, at hedged rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations, net of exchange differences arising on related foreign currency borrowings are taken directly to reserves and reported within the statement of total recognised gains and losses.

Loans between companies within the Group are translated at historic rates if there is a clear expectation and understanding from both parties that the loan will not be repaid. All other intra-group loans are retranslated at year end rates.

Notes to the Financial Statements

1. Accounting Policies (continued)

1.25 Pensions

The Group operates a defined contribution pension scheme and the pension charge represents the amounts payable by the Group to the fund in respect of the year.

West Coast Trains Limited, a subsidiary of Virgin Rail Group Holdings Limited, participates in the Railways Pension Scheme ("RPS"), which provides benefits on a defined benefit basis. The assets of the scheme are held separately from those of the Group in an independently administered fund. The RPS is a shared cost scheme with costs being shared between the employer and the members on the basis of a 60:40 split.

The Group has no rights or obligations in respect of the RPS following expiry of the related franchises. Therefore, the liabilities recognised for the relevant sections of RPS only represent that part of the net deficit of each section that the employer is obliged to fund over the life of the franchise to which the section relates. The restriction on the liabilities is presented as a "franchise adjustment" to the overall deficit.

The Group's contributions to the schemes are paid in accordance with the scheme rules and the recommendation of the actuary. The charge to operating profit reflects the current service costs of such obligations. The expected return on scheme assets, the interest cost on scheme liabilities and the unwinding of the discount on the franchise adjustment are included within other finance income (net) in the profit and loss account.

Differences between the actual and expected returns on assets and experience gains/(losses) arising on the scheme liabilities during the year, together with differences arising from changes in assumptions, are recognised in the statement of total recognised gains and losses in the year. The resulting defined benefit asset/liability, net of the franchise adjustment and any deferred tax, is presented separately after other net assets on the face of the balance sheet.

Pension scheme assets are measured using market values. For quoted securities the current bid-price is taken as market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return.

1.26 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 relevant Board of Directors, and which are deemed to have been earned in the current year.

Notes to the Financial Statements

1. Accounting Policies (continued)

1.27 Classification of financial instruments issued by the Group

The Group uses various derivative financial instruments to manage its exposure to interest rate movements and foreign exchange risks. Gains and losses on hedges of revenue or operating payments are recognised in the profit and loss account of the period in which the hedged transaction matures or is closed out.

Financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company (or Group, as the case may be) to deliver cash or other financial assets, or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments, or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares. Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds are dealt with as appropriations in the reconciliation of movements in shareholders' funds. For the year ended 31 December 2014, preference dividends payable of £nil (Period ended 31 December 2013: £nil) were recognised within the total interest payable expense, as disclosed in Note 10.

1.28 Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount of debt is increased by the finance cost that is charged to the profit and loss account in respect of the accounting period, and reduced by payments made in the period.

Notes to the Financial Statements

2. Segmental information

The table below sets out turnover for each of the Group's industry segments and geographic areas of operation.

By activity	**Turnover 12 months ended 31 December 2014 £M**	Turnover 9 months ended 31 December 2013 £M
Air travel	**2,926**	2,554
Rail	**996**	716
Mobile telecoms	**136**	120
Financial services	**20**	25
Hotels	**35**	22
Healthcare	**213**	153
Other trading	**40**	22
Management services	**48**	59
	4,414	3,671
Less share of joint ventures' turnover	**(138)**	(123)
	4,276	3,548

Management services include amounts due from related parties.

Other trading principally includes brand licensing.

By geographical market	**Turnover by origin 12 months ended 31 December 2014 £M**	Turnover by origin 9 months ended 31 December 2013 £M	**Turnover by destination 12 months ended 31 December 2014 £M**	Turnover by destination 9 months ended 31 December 2013 £M
UK	**3,183**	2,491	**1,207**	833
Europe	**279**	236	**195**	166
North America	**531**	484	**2,192**	1,881
South America	**-**	-	**1**	-
Africa	**124**	121	**250**	225
Asia	**213**	211	**481**	438
Australia	**36**	69	**40**	69
Management services	**48**	59	**48**	59
	4,414	3,671	**4,414**	3,671
Less share of joint ventures' turnover	**(138)**	(123)	**(138)**	(123)
	4,276	3,548	**4,276**	3,548

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

The geographical analysis of revenue by destination is derived by allocating revenue from inbound and outbound services between the United Kingdom and overseas points to the geographical area in which the relevant overseas point lies. Revenue from the sale of package holidays is allocated to the geographical area in which the holiday is taken.

Notes to the Financial Statements

3. Operating profit

	12 months ended 31 December 2014 £M	9 months ended 31 December 2013 £M
Amortisation - intangible fixed assets	27	8
Depreciation of tangible fixed assets:		
- owned by the group	65	61
- held under finance leases	5	5
Reversal of impairment provisions against fixed assets	-	(58)
Operating lease rentals:		
- land and buildings	40	20
- aircraft and other	335	305
Provision charged against debts owed by group and fellow subsidiary undertakings	3	2
Provision released against debts owed by group and fellow subsidiary undertakings	(3)	-

4. Other operating income/(expense)

	12 months ended 31 December 2014 £M	9 months ended 31 December 2013 £M
Other operating income	7	4
Rail franchise expense	(107)	(69)
Network change compensation and performance regime	39	29
Distribution income	36	-
Operating income from related parties	5	5
	(20)	(31)
Other exceptional operating income (refer to note 6)	7	2
	(13)	(29)

On 11 November 2014, the Group received a distribution from VA Holdings (Guernsey) LP of £54million as a result of a recapitalisation of debt in Virgin America Inc., £36million is recognised as distribution income in the profit and loss account and £18million has been recorded as a return of investment.

5. Auditors' remuneration

	12 months ended 31 December 2014 £M	9 months ended 31 December 2013 £M
Fees payable to the Company's auditor and its associates in respect of:		
The auditing of accounts of subsidiaries of the Company pursuant to legislation	1	1

Fees payable for the audit of these financial statements is £nil (Period ended 31 December 2013: £nil).

Notes to the Financial Statements

6. Exceptional items

	12 months ended 31 December 2014 £M	9 months ended 31 December 2013 £M
Administrative (expenses)/income	**(12)**	47
Other operating income	**7**	2
Net profit/(loss) on sale of investments	**144**	(5)
Net profit on sale of tangible fixed assets	**11**	-
	150	44

Exceptional administrative expense in the current period includes investment provisions of £3million (Period ended 31 December 2013: release of investment provisions of £1million) and £9million legal and restructuring costs (Period ended 31 December 2013: £12million). The prior period ended 31 December 2013 also included an intangible asset impairment reversal of £58million.

Exceptional other operating income of £7million relates to the successful settlement of a legal claim that Virgin Atlantic had pursued in relation to a supplier (Period ended 31 December 2013:. £2million, relating to bid costs refund).

Profit on disposal of tangible fixed assets of £11million relates to the sale of an Airbus A346 aircraft, no impairments arose on the sale of the aircraft.

The net profit/(Loss) on sale of investments arises from:

31 December 2014	**Net consideration £M**	**Share of net liabilities £M**	**% disposal**	**Net liabilities disposed £M**	**Profit £M**
Omer Telecom Limited (1)	85	23	100	23	108
					108
Profit on disposal of Airline Group Limited (2)					31
Profit on redemption of Virgin America Inc warrants (3)					5
					144

(1) On 4 December 2014, the Group disposed of its entire shareholdings in Omer Telecom Limited being 45.09%, for cash consideration of £85million, realising a profit on disposal of £108million.

(2) In March 2014, the Group disposed of the majority of its shares in Airline Group Limited, for sale proceeds of £38million, realising a profit on disposal of £31million.

(3) On 13 November 2014, the Group redeemed its warrants in respect of Virgin America Inc stock which was subsquently sold for a value of £5million, resulting in a profit of £5million.

7. Directors' remuneration

The directors did not receive any remuneration during the period for services to the Company (Period ended 31 December 2013: £nil).

Notes to the Financial Statements

8. Staff costs

Staff costs were as follows:	**12 months ended 31 December 2014 £M**	9 months ended 31 December 2013 £M
Wages and salaries	**615**	474
Social security costs	**59**	46
Other pension costs (Note 28)	**58**	44
Other costs	**6**	2
	738	566

The average monthly number of employees employed by the Group, including the directors, during the year was as follows:

	12 months ended 31 December 2014 £M	9 months ended 31 December 2013 £M
Management and administration	**2,710**	2,167
Flight and cabin crew	**4,328**	4,457
Reservations, sales and distribution	**2,500**	3,056
Engineering, cargo and production	**1,135**	1,215
Operations and other	**7,499**	7,299
	18,172	18,194

The Company had no employees in the year (Period ended 31 December 2013: nil).

9. Interest receivable and similar income

	12 months ended 31 December 2014 £M	9 months ended 31 December 2013 £M
Interest receivable from related undertakings	**64**	50
Bank interest receivable	**2**	1
Other interest receivable	**-**	9
Net foreign exchange gains	**9**	3
	75	63

Notes to the Financial Statements

10. Interest payable and similar charges

	12 months ended 31 December 2014 £M	9 months ended 31 December 2013 £M
On bank loans and overdrafts	**15**	18
On finance leases and hire purchase contracts	**-**	1
On loans from related undertakings	**12**	6
Share of joint ventures' interest payable	**1**	1
Other interest payable	**25**	8
	53	34

Other interest payable includes an amount of £25million (Period ended 31 December 2013: £nil) incurred by Virgin Atlantic, to settle historic interest rate swaps where the hedging relationship was no longer effective in relation to the underlying hedged item.

11. Taxation

	12 months ended 31 December 2014 £M	9 months ended 31 December 2013 £M
Analysis of tax charge/(credit) in the year/period		
Current tax		
UK corporation tax charge on profit for the year/period	**25**	13
Adjustments in respect of prior periods	**-**	(33)
Double taxation relief	**(1)**	(1)
Foreign tax on income for the year/period	**2**	1
Total current tax	**26**	(20)
Deferred tax		
Origination and reversal of timing differences	**(5)**	(2)
Effect of rate change	**-**	(5)
Adjustments in respect of prior year	**(1)**	(1)
Share of joint ventures' deferred tax	**-**	(1)
Total deferred tax	**(6)**	(9)
Tax on profit on ordinary activities	**20**	(29)

Notes to the Financial Statements

11. Taxation (continued)

Factors affecting tax charge for the year/period

The tax assessed for the year/period is lower than (2013 - lower than) the standard rate of corporation tax in the UK of 21.5% (2013 - 23%). The differences are explained below:

	12 months ended 31 December 2014 £M	9 months ended 31 December 2013 £M
Profit on ordinary activities before tax	**264**	114
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21.5% (2013 - 23%)	**57**	27
Effects of:		
Expenses not deductible for tax purposes	**24**	8
Depreciation in excess of capital allowances for year/period	**10**	10
Utilisation of tax losses brought forward	**(23)**	(14)
Rollover relief / capital gain	**2**	-
Adjustments to tax charge in respect of prior periods	**-**	(33)
Other timing differences leading to a decrease in taxation	**(3)**	(2)
Non-taxable income	**(44)**	(15)
Tax losses not utilised	**9**	2
Group relief surrendered for nil consideration	**(6)**	(3)
Current tax charge/(credit) for the year/period (see note above)	**26**	(20)

Notes to the Financial Statements

12. Intangible fixed assets

Group	Goodwill £M	Negative goodwill £M	Landing slots £M	Intellectual property £M	Carbon Licenses £M	Total £M
Cost						
At 1 January 2014	596	(81)	92	90	1	698
Additions	3	-	-	7	-	10
Reclassifications	(2)	-	-	2	-	-
At 31 December 2014	597	(81)	92	99	1	708
Amortisation						
At 1 January 2014	458	(34)	11	22	-	457
Charge for the year	27	(6)	-	6	-	27
At 31 December 2014	485	(40)	11	28	-	484
Net book value						
At 31 December 2014	112	(41)	81	71	1	224
At 31 December 2013	138	(47)	81	68	1	241

Intellectual property

Intellectual property principally comprises of Virgin Enterprises Limited's intellectual property licences amounting to £65million (2013: £68million). A licence agreement with Virgin Active IPCO Limited, an associate of its ultimate parent undertaking Virgin Group Holdings Limited entered into on 20 October 2011, required an upfront payment of £60million, which is being amortised over 27 years, representing the period of the head licence.

Carbon Licenses

Carbon licenses amounting to £1million (2013: £1million) relates to licenses obtained under the EU Emissions Trading Scheme. Consistent with the Statement of Standard Accounting Practice 4 'Accounting for Government Grants', the value of allowances received is deferred and recognised in income on a systematic basis of the period to which the grant relates.

Landing slots

Landing slots amounting to £81million (2013: £81million) relates to the capitalisation of the cost of landing slots purchased by Virgin Atlantic Limited. These 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.

Goodwill and negative goodwill

All goodwill is amortised on a straight-line basis. The Directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises.

Where evidence of goodwill impairment has arisen, the impairment charge was taken to the profit and loss account as an exceptional item. No impairments were made during the year.

Notes to the Financial Statements

13. Tangible fixed assets

Group	Freehold property £M	Leasehold Property £M	Aircraft, aircraft spares and rotables £M	Plant & machinery £M	Furniture & fittings £M	Assets in the course of construction £M	Total £M
Cost							
At 1 January 2014	65	11	635	16	268	33	1,028
Additions	-	-	190	3	13	38	244
Disposals	(2)	-	(149)	(2)	(5)	(2)	(160)
Reclassifications	4	-	(1)	2	28	(33)	-
Foreign exchange movement	1	-	-	-	-	(1)	-
At 31 December 2014	68	11	675	19	304	35	1,112
Depreciation							
At 1 January 2014	4	5	419	7	190	-	625
Charge for the year	3	1	37	3	26	-	70
On disposals	-	-	(84)	(2)	(5)	-	(91)
Foreign exchange movement	-	-	-	1	-	-	1
At 31 December 2014	7	6	372	9	211	-	605
Net book value							
At 31 December 2014	61	5	303	10	93	35	507
At 31 December 2013	61	6	216	9	78	33	403

The net book value and depreciation of assets held under finance leases or hire purchase contracts, included above, are as follows:

	Net book value 31 December 2014 £M	Depreciation charge 31 December 2014 £M	Net book value 31 December 2013 £M	Depreciation charge 31 December 2013 £M
Aircraft, aircraft spares and rotables	28	5	34	5
Plant and machinery	1	-	1	-
	29	5	35	5

Notes to the Financial Statements

13. Tangible fixed assets (continued)

The net book value of land and buildings comprises:

	Group 31 December 2014 £M	Group 31 December 2013 £M
Freehold	62	61
Long leasehold	1	-
Short leasehold	3	5
	66	66

14. Fixed asset investments

Group	Investment in joint ventures £M	Other investments £M	Total £M
Cost or valuation			
At 1 January 2014	(23)	23	-
Disposals	22	(11)	11
Foreign exchange movement	1	-	1
At 31 December 2014	-	12	12
Impairment			
At 1 January 2014	-	7	7
Charge for the year	-	4	4
At 31 December 2014	-	11	11
Net book value			
At 31 December 2014	-	1	1
At 31 December 2013	(23)	16	(7)

On 4 December 2014, the Group disposed of its entire shareholding in its joint venture, Omer Telecom Limited for a cash consideration of £85million. Refer to note 29.

In March, the Group disposed of the majority of its shareholding in Airline Group Limited with a net book value of £7million, for a cash consideration of £38million.

Notes to the Financial Statements

14. Fixed asset investments (continued)

Participating interests

The Group's share of the joint venture's net liabilities at the balance sheet date was as follows:

	£M	**2014 £M**	£M	2013 £M
Share of assets				
Fixed assets	-		18	
Current assets	1		61	
		1		79
Share of liabilities				
Due within one year or less	(1)		(98)	
Due after more than one year	-		(4)	
		(1)		(102)
Share of net liabilities		-		(23)

Company	**Investments in subsidiary companies £M**
Cost or valuation	
At 1 January 2014	**1,377**
Disposals	**(575)**
At 31 December 2014	**802**
Impairment	
At 1 January 2014	**1**
Charge for the year	**8**
At 31 December 2014	**9**
Net book value	
At 31 December 2014	**793**
At 31 December 2013	1,376

During the year, Virgin group implemented a reorganisation in order to reduce the number of debts outstanding between wholly owned Virgin group companies. On 10 December 2014, the company received a dividend from its subsidiary VML 2 Limited of £647million satisfied by the transfer of intercompany debt receivable, of which £575million has been treated as a capital reduction against the investment held and the remaining £72million has been recognised in the profit and loss account, as distribution income.

Notes to the Financial Statements

14. Fixed asset investments (continued)

Virgin Holdings Limited considers its principal undertakings to be those companies that have significant trading activities and provide funding to other companies within the Group. The principal undertakings in which the Group has an interest at the period end are as follows:

	Country of registration	Principal activity	Holding	Class of shares
Subsidiary undertakings				
Virgin Rail Group Holdings Limited	England & Wales	Train operator	51.0	Ordinary
Virgin Management SA	Switzerland	Management services	100.0	Ordinary
Virgin Healthcare Holdings Limited	England & Wales	Health service provider	93.8	Ordinary
Virgin Atlantic Limited *	England & Wales	Flight and holiday operator	51.0	Ordinary
			51.0	Preference
Barfair Limited *	England & Wales	Investment holding company	100.0	Ordinary
Virgin Management Limited *	England & Wales	Management services	100.0	Ordinary
Voyager Group Limited *	England & Wales	Investment holding company	100.0	Ordinary
			100.0	Preference
Necker Island BVI Limited *	British Virgin Islands	Hotel operator	100.0	Ordinary
Virgin Life Care Investments Limited	England & Wales	Health and rewards program	89.4	Ordinary
Virgin Management USA Inc *	USA	Management services	100.0	Common stock
Virgin Management Asia Pacific Pty Limited *	Australia	Management services	100.0	Ordinary
Bluebottle UK Limited	England & Wales	Investment holding company	100.0	Ordinary
Bluebottle Investments (UK) Limited *	England & Wales	Investment holding company	100.0	Ordinary
VEL Holdings Limited *	England & Wales	Investment holding company	100.0	Ordinary
Virgin Enterprises Limited *	England & Wales	Brand licensing	100.0	Ordinary
			100.0	
Virgin Hotels Group Limited *	England & Wales	Hotel operator	100.0	Ordinary
Virgin Insight Limited *	England & Wales	Procurement services	100.0	Ordinary
Virgin Sport Holdings UK Limited	England & Wales	Investment holding company	92.0	Ordinary
Virgin Aviation TM Limited *	England & Wales	Brand licensing	100.0	Ordinary
VAL TM (Holdings) Limited *	England & Wales	Brand licensing	51.0	Ordinary
Trade investments				
Air Nigeria Development Limited * ^	Nigeria	Flight operator	49.0	Ordinary
Inter City Railways Limited	England & Wales	Train operator	10.0	Ordinary

* Indirectly held investment
^ The Group's interest in Air Nigeria Development Limited is classified as trade investments as the Group is unable to exercise significant influence as a result of the position of the major shareholders.

Notes to the Financial Statements

15. Stocks

	Group		Company	
	2014	2013	**2014**	2013
	£M	£M	**£M**	£M
Raw materials	**1**	-	-	-
Finished goods and goods for resale	**10**	9	-	-
Aircraft consumable spares	**34**	36	-	-
	45	45	-	-

16. Debtors

	Group		Company	
	2014	2013	**2014**	2013
	£M	£M	**£M**	£M
Due after more than one year				
Amounts owed by related undertakings	**32**	59	-	-
Other debtors	**33**	41	-	-
Prepayments and accrued income	**9**	16	**1**	2
Due within one year				
Trade debtors	**199**	209	-	-
Amounts owed by related undertakings	**46**	2,399	**58**	3,515
Other taxation and social security	**16**	16	-	-
Other debtors	**267**	285	**(3)**	-
Prepayments and accrued income	**124**	108	**1**	1
Deferred tax asset	**6**	1	-	-
	732	3,134	**57**	3,518

Included within other debtors due within one year is an amount of £67million (2013: £nil) relating to margin calls on open derivative positions.

17. Cash at bank

At 31 December 2014, the balance of cash at bank included £64million (2013: £nil) in restricted cash. The restricted cash supports a letter of credit issued by a bank in favour of of Virgin America Inc, which allows credit card companies to draw down on the letter of credit if certain events take place.

Notes to the Financial Statements

18. Creditors:
Amounts falling due within one year

	Group		Company	
	2014	2013	**2014**	2013
	£M	£M	**£M**	£M
Secured bank loans (note 18)	**19**	15	**3**	2
Other bank loans and overdrafts	**3**	2	**-**	-
Net obligations under finance leases and hire purchase contracts	**4**	3	**-**	-
Trade creditors	**162**	116	**-**	-
Amounts owed to related undertakings	**202**	809	**182**	3,125
Corporation tax	**33**	30	**8**	7
Other taxation and social security	**23**	23	**-**	-
Other creditors	**98**	159	**-**	-
Accruals and deferred income	**992**	841	**21**	28
	1,536	1,998	**214**	3,162

Included within other creditors due within one year is an amount of £nil (2013: £3million) relating to margin calls on open derivative positions.

19. Creditors:
Amounts falling due after more than one year

	Group		Company	
	2014	2013	**2014**	2013
	£M	£M	**£M**	£M
Secured bank loans	**182**	324	**152**	294
Other bank loans and overdrafts	**3**	4	**-**	-
Net obligations under finance leases and hire purchase contracts	**-**	4	**-**	-
Accruals and deferred income	**35**	37	**-**	-
Shareholders loans	**4**	4	**-**	-
	224	373	**152**	294

Notes to the Financial Statements

19. Creditors:
Amounts falling due after more than one year (continued)

	Group		Company	
	31 December 2014 £M	31 December 2013 £M	**31 December 2014 £M**	31 December 2013 £M
Analysis of debt:				
Debt can be analysed as falling due:				
In one year or less, or on demand	**26**	20	**3**	2
Between one and two years	**6**	300	**2**	294
Between two and five years	**173**	24	**150**	-
In five years or more	**6**	8	**-**	-
	211	352	**155**	296

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	Group 31 December 2014 £M	Group 31 December 2013 £M
Within one year	**4**	3
In the second to fifth year	**-**	4
	4	7

The Company has no commitments under finance lease and hire purchase contracts (2013: £nil).

Financing

On 5 November 2014 the £430million multi-currency revolving credit facility of Virgin Holdings Limited and Virgin Group Investments Limited, a subsidiary of the ultimate parent undertaking, Virgin Group Holdings Limited, dated 22 October 2012 ("the Previous Facility") was refinanced by two new facilities, the VHL Facility and the VELH Facility (both as defined below).

As at 31 December 2014, £150million was drawn down under the VHL Facility and £nil under the VELH Facility (2013: £300million under the Previous Facility).

The VHL Facility

On 5 November 2014, Virgin Holdings Limited and Virgin Group Investments Limited, as borrowers and guarantors, and certain other subsidiaries of Virgin Group Holdings Limited entered into a multi-currency term facility of £150million with Lloyds Bank plc and Barclays Bank plc ("the VHL Facility").

The VHL Facility is guaranteed by Virgin Holdings Limited and its subsidiaries Virgin Enterprises Limited, Bluebottle Investments (UK) Limited, VEL Holdings Limited and Virgin Management Limited and by subsidiaries of the ultimate parent undertaking, Virgin Group Holdings Limited, namely Virgin Group Investments Limited, Corvina Holdings Limited and Classboss Limited.

The VHL Facility has sub-facilities for cash drawings in AUD, EUR, GBP and USD. The final maturity date of the VHL Facility is 5 November 2019.

Notes to the Financial Statements

19. Creditors:

Amounts falling due after more than one year (continued)

Financing (continued)

Interest is payable on amounts drawn under the VHL Facility by reference to the London Inter Bank Offered Rate (LIBOR) for borrowings in Sterling or US Dollar, by reference to the Bank Bill Swap Reference Rate (BBSW) for borrowings in Australian Dollar and by reference to the Euro Interbank Offered Rate (EURIBOR) for borrowings in Euro in each case plus a margin and mandatory costs. The margin under the VHL Facility is fixed at 4% per annum (2013: 3.45% under the Previous Facility).

The VHL Facility contains a security covenant in respect of the ratio of the total value of secured investments to total utilisation under the Facility. Compliance with this covenant is tested annually as of 31 December or on request by Lloyds Bank plc.

The VHL Facility contains certain affirmative covenants, negative pledges and events of default, which are customary for facilities of this nature. The event of default provisions include payment defaults (subject to a three day grace period), breach of financial covenant, breach of other obligations, misrepresentation, cross default, insolvency, repudiation, illegality, cessation of business, appropriation of assets and material adverse change.

On 20 December 2012, the Group entered into a £8million amortising term loan facility with Lloyds Bank plc which was amended and restated on 21 November 2014. As at the balance sheet date, 31 December 2014, the balance was £5million (2013: £8million). The loan is repayable by 23 December 2016 and repayment instalments are £3million due annually on 23 December. Under the terms of the loan agreement, interest is payable on amounts drawn at LIBOR plus a margin of 2.30% per annum and mandatory costs.

The VELH Facility

On 5 November 2014, VEL Holdings Limited, a subsidiary of the Group, as borrower and guarantor, and certain other subsidiaries of Virgin Group Holdings Limited, the company's ultimate parent undertaking, entered into a multi-currency revolving credit facility of £150million with Lloyds Bank plc and Barclays Bank plc ("the VELH Facility").

The VELH Facility is guaranteed by Virgin Holdings Limited, Virgin Enterprises Limited, VEL Holdings Limited, Virgin Management Limited, Virgin Aviation TM Holdings Limited and Virgin Aviation TM Limited.

The VELH Facility has sub-facilities for drawings in AUD, EUR, GBP and USD which can be utilised for both cash drawings and letters of credit. The final maturity date of the VELH Facility is 5 December 2019.

Interest is payable on amounts drawn under the VELH Facility by reference to the London Inter Bank Offered Rate (LIBOR) for borrowings in Sterling or US Dollar, by reference to the Bank Bill Swap Reference Rate (BBSW) for borrowings in Australian Dollar and by reference to the Euro Interbank Offered Rate (EURIBOR) for borrowings in Euro in each case plus a margin and mandatory costs. The margin under the VELH Facility is linked to the Total Debt to Royalty Income ratio and ranges from 3.00% to 4.00% and as at 31 December 2014 was 3.00%.

The VELH Facility contains a security covenant based on the value of VEL Holdings Limited in relation to the amount outstanding under the facility. The VELH Facility also contains a financial covenant based on the ratio of indebtedness of VEL Holdings Limited and Virgin Enterprises Limited to their direct and indirect royalty income. Compliance with this covenant is tested on a quarterly basis.

The VELH Facility contains certain affirmative covenants, negative pledges and events of default, which are customary for facilities of this nature. The event of default provisions include payment defaults (subject to a three day grace period), breach of financial covenant, breach of other obligations, misrepresentation, cross default, insolvency, repudiation, illegality, cessation of business, appropriation of assets and material adverse change.

Notes to the Financial Statements

19. Creditors:

Amounts falling due after more than one year (continued)

Other secured loans

Virgin Atlantic has secured bank loans totalling £28million (2013: £25million) secured by mortgages over certain aircraft and engine assets. None (2013: £nil) of these loans fall due for repayment after five years. The interest rates charged for the year are in the range from 3.00% - 3.35% above US$ LIBOR.

Necker Island (BVI) Limited has a secured bank loan to the value of £11million (2013: £11million) of which £6million (2013: £8million) is due for repayment after five years. The interest rate on this loan was 2.5% (Period ended 31 December 2013: 2.5%) above US$ LIBOR. The loan is secured on the property held by the entity.

Virgin Hotels Group Limited has a secured bank loan of £10million (2013: £10million) of which £nil (2013: £nil) is due for repayment after five years. The interest rates in the year were fixed interest rates ranging from 1.4% to 1.86% (Period ended 31 December 2013: 1.35% to 1.86%). The loan is secured on the land and buildings of Verbier Lodge.

Financial instruments

Under the terms of the Facility the Group is required to hedge the interest payable under the facility over the life of the facility. On 7 November 2014 the Group terminated its previous interest rate hedges and entered into three new interest rate hedges against 3 month LIBOR/BBSW/EURIBOR as follows:

- US$30million interest rate swap at a fixed rate of 3.4576% (Fair value at 31 December 2014: US$3million)
- £206million interest rate swap at a fixed rate of 3.3536% (Fair value at 31 December 2014: £20million)
- €40million interest rate swap at a fixed rate of 1.9806% (Fair value at 31 December 2014: €4million)

The maturity of the hedges are aligned with the maturity of the VHL Facility and the VELH Facility. Part of the facility nominated in AUD is not hedged under the interest rate hedge agreements.

Notes to the Financial Statements

20. Deferred taxation

Deferred tax liability

	31 December 2014 £M	31 December 2013 £M
At beginning of year	**25**	34
Released during the year	**(1)**	(8)
Adjustments in respect of prior year	**-**	(1)
At end of year	**24**	25

The elements of deferred taxation are as follows:

	31 December 2014 Cumulative provided £M	**31 December 2014 Cumulative unprovided £M**	31 December 2013 Cumulative provided £M	31 December 2013 Cumulative unprovided £M
Accelerated capital allowances	**38**	**(1)**	49	(1)
Other timing differences	**(2)**	**-**	(5)	-
Tax losses	**(18)**	**(89)**	(20)	(98)
	18	**(90)**	24	(99)
Deferred tax asset	**(6)**	**(90)**	(1)	(99)
Deferred tax liability	**24**	**-**	25	-
Deferred tax asset on pension liability	**-**	**-**	-	-
	18	**(90)**	24	(99)

£6million (31 December 2013: £1million) of the deferred tax asset cannot be offset against the deferred tax liability and is, therefore, included in debtors.

Reductions in the UK tax rate from 21% to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. A rate of 20% has been used within the deferred tax calculations within these financial statement.

Notes to the Financial Statements

21. Provisions

	Aircraft maintenance	Legal and other	Restructuring costs and onerous leases	Total
	£M	£M	£M	£M
Group				
At 1 January 2014	139	13	8	160
Amounts used	(40)	(9)	(9)	(58)
Amounts charged/(released)	29	8	16	53
Foreign exchange translation	5	-	-	5
At 31 December 2014	133	12	15	160

Aircraft maintenance

Aircraft maintenance provisions relate to overhauls on aircrafts and engines held under operating leases for which there is a contractual obligation.

Legal and other

Legal and other provisions principally comprise the following:

£9million (2013: £11million) represents the estimated outstanding cost arising from the settlement of civil actions against Virgin Atlantic Airways Limited. The information usually required by Financial Reporting Standard 12 for these litigation provisions is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation.

Restructuring costs and onerous lease provisions

Leasehold dilapidations and onerous lease provisions are discounted with the unwinding of the discount being taken to the profit and loss account.

Restructuring costs and onerous leases provisions principally comprise the following:

Virgin Atlantic Airways Limited's onerous lease provisions and potential dilapidation costs of £8million (2013: £3million).

£1million (2013: £1million) of dilapidations costs relates to costs required to be incurred by Virgin Rail Group Holdings Limited at properties leased by West Coast in accordance with lease obligations. These costs are expected to be incurred by the end of the West Coast franchise as extended by the Interim Franchise Agreement.

£2million (2013: £2million) relates to Virgin Enterprises Limited's onerous lease provision.

£4million (2013: £2million) relates to Cribyn Limited's onerous lease provision.

Notes to the Financial Statements

22. Share capital

	2014 £M	2013 £M
Shares classified as capital		
Allotted, called up and fully paid		
200,000,000 (2013 - 848,590,200) Ordinary shares shares of £1 each	**200**	849

On 10 December 2014, the Company capitalised its Profit and Loss Reserve by way of a bonus issue of 1 ordinary share of £1 issued at a premium of £1,526million.

On the same day, the Company issued two ordinary shares of £1, at a premium of £732million, to Classboss Limited, in satisfaction of intercompany debt.

On the same day, the company effected a reduction of its capital and cancelled 648,590,203 of its 848,590,203 shares then in issue.

23. Reserves

	Share premium account £M	Profit and loss account £M
Group		
At 1 January 2014	96	804
Profit for the financial year	-	191
Bonus issue	1,526	(1,526)
Premium on shares issued during the year	732	-
Capital reduction	(2,354)	3,003
Dividend in specie	-	(2,528)
Actuarial gain on pension scheme	-	2
At 31 December 2014	-	(54)

Notes to the Financial Statements

23. Reserves (continued)

	Share premium account £M	Profit and loss account £M
Company		
At 1 January 2014	96	606
Profit for the financial year	-	925
Bonus issue	1,526	(1,526)
Premium on shares issued during the year	732	-
Capital reduction	(2,354)	3,003
Dividend in specie	-	(2,528)
At 31 December 2014	-	480

During the year, Virgin group implemented a reorganisation in order to reduce the number of debts outstanding between wholly owned Virgin group companies.

On 10 December 2014, the Company capitalised the full amount standing to the credit of its Profit and Loss Reserve by way of a bonus issue of 1 ordinary share of £1 issued at a premium of £1,526million.

On the same day, the Company issued two ordinary shares of £1, at a premium of £732million, to Classboss Limited, in satisfaction of an intercompany debt.

On the same day, the Company effected a reduction of its capital and cancelled 648,590,203 of its 848,590,203 shares then in issue, in order to create additional distributable reserves of £3,003million.

On the same day, the Company declared a final dividend of £3.90 per ordinary share of £1, satisfied by the transfer of an intercompany debt receivable, due from its parent company Classboss Limited.

On 19 January 2015, the Company issued one share of £1, at a premium of £3million to Classboss Limited, in satisfaction of an intercompany debt.

On 2 April 2015, the Company issued a further 125,000,000 shares of £1, at a premium of £11million to Classboss Limited, in satisfaction of an intercompany debt.

On the same day, the Company capitalised an amount standing to the credit of its Profit and Loss Reserve by way of a bonus issue of 470,000,000 ordinary shares of £1.

Notes to the Financial Statements

24. Reconciliation of movement in shareholders' funds

Group	2014 £M	2013 £M
Opening shareholders' funds	1,749	1,607
Profit for the financial year/period	191	139
Actuarial gain on pension scheme	2	-
Currency translation differences on net foreign currency investments	-	3
Premium on shares issued during the year	732	-
Dividend in specie	(2,528)	-
Closing shareholders' funds	146	1,749

Company	2014 £M	2013 £M
Opening shareholders' funds	1,551	1,533
Profit for the financial year/period	925	18
Premium on shares issued during the year	732	-
Dividend in specie	(2,528)	-
Closing shareholders' funds	680	1,551

The Company has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own profit and loss account.

Refer to notes 22 and 23 for movements during the year.

25. Minority interests

Equity

	£M
At 1 January 2014	45
Minority interests share of profit after taxation for the year	53
Minority interests share of acturial gain on pension scheme	2
Dividends paid to minority interests	(43)
At 31 December 2014	57

Notes to the Financial Statements

26. Contingent liabilities

In accordance with the Interim Franchise Agreement for West Coast, Virgin Rail Group Limited has procured a performance bond in favour of the DfT for West Coast. The West Coast bond has been issued by ACE European Group Limited for up to £21million (2013: £21million).

Virgin Voyager Limited and Voyager Group Limited guarantee the operating lease commitments in relation to various properties leased by Virgin Active Group Limited, Virgin Clubs Limited and Virgin Management Limited. The total aggregate liability is £26million (2013: £48million).

The Company has given the following guarantees:

Beneficiary	**Obligation**	**Aggregate Liability**
Delta Air Lines Inc	Tax indemnity in relation to Delta Airlines Inc's acquisition of interests in Virgin Atlantic Limited	$15million
Virgin Galactic customers	Aggregate Virgin Galactic customer deposits	$83million
NHS Surrey Primary Care Trust	Provision of community health services	£9million
New Devon CCG	Provision of community health services	£5million
Nozee Limited	Obligations and amounts payable in relation to the sale of Virgin Games' assets	£10million

27. Capital commitments

At 31 December 2014 the Group and Company had capital commitments as follows:

	Group		Company	
	2014	2013	**2014**	2013
	£M	£M	**£M**	£M
Contracted for but not provided in these financial statements	**2,246**	2,274	-	-

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

Notes to the Financial Statements

28. Pension commitments

Defined contribution plans

Virgin Atlantic Limited operates defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The total expense relating to these plans in the current year was £27million (Period ended 31 December 2013: £21million). There were no outstanding or prepaid contributions at year end (2013: £nil).

Virgin Management Limited operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in independently administered funds. The total expense relating to the plan in the current year was £1million (Period ended 31 December 2013: £1million). There were no outstanding or prepaid contributions at year end (2013: £nil).

Virgin Healthcare Holdings Limited operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in independently administered funds. The total expense relating to the plan in the current year was £13million (Period ended 31 December 2013: £10million). There were no outstanding or prepaid contributions at year end (2013: £nil).

Defined benefit plans

Rail scheme

Virgin Rail Group Limited operates a defined benefit pension scheme. The subsidiary participates in its own separate shared cost section of the Railway Pension Scheme ('RPS'). The RPS is a funded scheme and provides benefits based on final pensionable pay. The assets of the RPS are held separately from those of the subsidiary. The RPS is a shared cost scheme with costs being shared between the employer and the members on the basis of a 60:40 split.

Net pension liability	**31 December 2014 £M**	31 December 2013 £M
Present value of defined benefit obligations	**(684)**	(570)
Fair value of section assets	**450**	400
Deficit in section	**(234)**	(170)
Members share of section	**94**	68
Franchise adjustment	**139**	101
Deficit recognised by the Group	**(1)**	(1)
Related deferred tax asset	**-**	-
Net pension liability	**(1)**	(1)

Notes to the Financial Statements

28. Pension commitments (continued)

Movements in present value of defined benefit obligation	31 December 2014 £M	31 December 2013 £M
At beginning of year	570	553
Employer share of current service cost	17	12
Member share of current service cost	11	8
Interest cost	26	20
Benefits paid	(15)	(11)
Actuarial losses/(gains)	75	(12)
At end of year	684	570

Movements in fair value of section assets	31 December 2014 £M	31 December 2013 £M
At beginning of year	400	383
Expected return on section assets	28	20
Contributions by employer	11	9
Contributions by members	7	5
Benefits paid	(15)	(11)
Actuarial gains/(losses)	19	(6)
At end of year	450	400

Expense recognised in the profit and loss account	31 December 2014 £M	31 December 2013 £M
Current service cost	17	12
Expected return on section assets	(17)	(12)
Interest on section liabilities	16	12
Interest credit on franchise adjustment	(5)	(4)
	11	8

Notes to the Financial Statements

28. Pension commitments (continued)

The expense is recognised in the following lines of the profit and loss account:

	31 December 2014 £M	31 December 2013 £M
Administrative expenses - staff costs	**17**	12
Other finance income	**(6)**	(4)
	11	8

Amounts recognised in the statement of total recognised gains and losses

The Group's share of total amount recognised in the consolidated statement of total recognised gains and losses in respect of actuarial gains is £2million (Year ended 31 December 2013: £nil).

Cumulative actuarial gains/losses reported in the consolidated statement of total recognised gains and losses since 1 March 2004 are £4million gain (Year ended 31 December 2013: £2million gain).

Movement in deficit recognised by Group	**31 December 2014 £M**	31 December 2013 £M
At beginning of year	**(1)**	(1)
Current service cost	**(17)**	(12)
Contributions	**11**	9
Other finance income	**6**	4
Actuarial gain	**4**	-
Deficit at start of Interim Franchise Agreement	**-**	(1)
Deficit at start of Direct Award Franchise Agreement	**(4)**	-
At end of financial period	**(1)**	(1)

From 22 June 2014, the Interim Franchise Agreement was superseded by the Direct Award Franchise Agreement, effective for the period from 22 June 2014 to 31 March 2017. The pension deficit from the Interim Franchise Agreement remaining at 22 June 2014 has been extinguished, with a corresponding credit to the profit and loss account, and superseded by the deficit in relation to the Direct Award Franchise Agreement.

Fair value of section assets	**31 December 2014 £M**	31 December 2013 £M
Equities	**191**	168
Bonds	**73**	65
Property	**43**	39
Other	**143**	128
	450	400
Actual return on section assets	**47**	14

Future contributions

The Group currently expects to pay contributions of £12million in the year to 31 December 2015.

Notes to the Financial Statements

28. Pension commitments (continued)

Actuarial assumptions

Principal actuarial assumptions at the balance sheet date were as follows:

	31 December 2014 %	31 December 2013 %
Rate of increase of salaries	**4.0**	4.3
Rate of increase in pensions in payment and deferred pensions	**2.0**	2.3
Discount rate	**3.7**	4.5
RPI Inflation assumption	**3.0**	3.3
CPI inflation assumption	**2.0**	2.3
Long term rate of return expected on		
- Equities	**7.5**	8.0
- Bonds	**3.2**	4.3
- Property	**7.0**	7.5
- Other	**6.5**	7.0
- Overall	**6.5**	7.0

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are as follows:

Member aged 60 (current life expectancy): 26 years (male), 28½ years (female)
Member aged 40 (life expectancy from age 60): 28½ years (male), 31 years (female)

The inflation assumptions for certain benefits are now based on the consumer Price Index ("CPI") rather than the Retail Price Index ("RPI") following the change announced by the UK Government in 2010.

History of sections

The history of the sections for the current and prior years is as follows:

Balance sheet	**31 December 2014 £M**	31 December 2013 £M	31 March 2013 £M	31 March 2012 £M	31 March 2011 £M
Present value of section liabilities	**(684)**	(570)	(553)	(478)	(385)
Fair value of section assets	**450**	400	383	347	327
Deficit in section	**(234)**	(170)	(170)	(131)	(58)
Members share of section	**94**	68	68	52	23
Franchise adjustment	**139**	101	101	78	32
Deficit recognised by Group	**(1)**	(1)	(1)	(1)	(3)

Notes to the Financial Statements

28. Pension commitments (continued)

Experience adjustments	**31 December 2014**	31 December 2013	31 March 2013	31 March 2012	31 March 2011
Experience adjustments on section assets:					
amount (£m)	**11**	4	4	8	3
percentage of section assets	**(2%)**	(1%)	(1%)	(2%)	1%
Experience adjustments on section liabilities:					
amount (£m)	**(1)**	3	(8)	(6)	1
percentage of present value of section liabilities	**0%**	1%	(1%)	(1%)	0

29. Operating lease commitments

At 31 December 2014 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		**Aircraft and other**	
	2014	2013	**2014**	2013
Group	**£M**	£M	**£M**	£M
Expiry date:				
Within 1 year	**5**	19	**11**	125
Between 2 and 5 years	**25**	12	**222**	46
After more than 5 years	**10**	12	**72**	133
	40	43	**305**	304

Virgin Rail Group Holdings Limited has in the normal course of business entered into a number of long term supply contracts. The most significant of these relate to track access facilities, train maintenance arrangements and IT outsourcing. Under the Interim Franchise Agreement for West Coast, there is a requirement for Virgin Rail Group Limited and West Coast to comply with certain performance and other obligations.

Under the Amended and Restated Franchise Agreement for West Coast, there is a requirement for Virgin Rail Group Limited and West Coast to comply with certain performance and other obligations.

Other commitments

The substantial proportion of capital expenditure, leasing commitments, fuel and other operating costs of Virgin Atlantic Limited are denominated in US dollars. A number of derivative financial instruments have been taken out to cover part of the exposure risk. 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 a choice of instruments, appropriate counterparty agreements and, where required, cash deposits with counterparties.

Notes to the Financial Statements

30. Acquisitions and disposals

Disposals

On 4 December 2014, the Group sold its entire shareholding of 45.09% in Omer Telecom Limited to Numericable Group for consideration of £85million (€133million).

	£M
Group's carrying value disposed of (45.09%)	(23)
Profit on disposal	108
Consideration received	85
Satisfied by:	
Cash	85

31. Post balance sheet events

On 22 May 2015, the Group disposed of part of its investment in Virgin Pulse Inc. for cash consideration of £32million. The Group's effective shareholding decreased from 91.15% to 30.10%.

Notes to the Financial Statements

30. Related party transactions

As at 31 December 2014, the Company's immediate parent was Classboss Limited, whose accounts are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.

As at 31 December 2014, the Company's ultimate parent company was Virgin Group Holdings Limited, whose principal shareholders are Sir Richard Branson and certain trusts, none of which individually has a controlling interest in Virgin Group Holdings Limited. The principal beneficiaries of those trusts are Sir Richard Branson and/or members of his immediate family. Virgin Group Holdings Limited is incorporated in the British Virgin Islands. The shareholders of Virgin Group Holdings Limited have interests directly or indirectly in certain other companies which are considered to give rise to related party disclosures under Financial Reporting Standard 8.

The Group has taken advantage of the exemption within Financial Reporting Standard 8 which allows transactions entered into by wholly owned Group subsidiaries to be excluded from disclosure. The following is a summary of material transactions and balances by the Group with related entities, which are required to be disclosed by Financial Reporting Standard 8:

	Turnover	**Purchases**	**Interest receivable**	**Loans receivable**	**Creditors**	**Dividend s received**
	£M	**£M**	**£M**	**£M**	**£M**	**£M**
Companies related by virtue of common control or ownership						
Vieco 10 Limited	1	-	-	-	-	-
Companies related by virtue of being joint ventures or associates of the Group						
Omer Telecom Ltd	1	-	1	-	-	-
Activetopco Ltd	14	-	-	-	-	-
Virgin Money Holdings (UK) Plc	5	(1)	-	-	-	-
Companies related by virtue of being investors in the Group						
Delta Air Lines Inc	10	(58)	-	2	(56)	-
Stagecoach Group Ltd	-	-	-	10	-	2
Assura Group Ltd	-	-	-	-	(4)	-

31. Controlling party

At 31 December 2014, the ultimate parent undertaking was Virgin Group Holdings Limited, a company registered in the British Virgin Islands.

The largest and smallest other group in which the Company and group results are consolidated is Virgin UK Holdings Limited. Copies of the group accounts of Virgin UK Holdings Limited can be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.