virgin atlantic

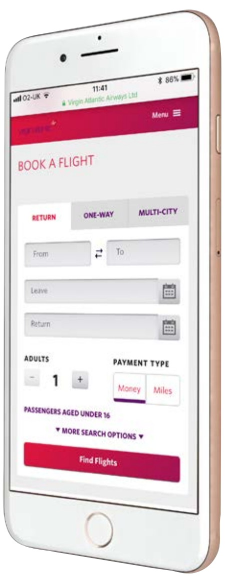
Annual Report 2017

The Virgin Atlantic experience

The Virgin Atlantic experience

With our pioneering spirit and human touch, we want everyone to share our passion for flying.

Our strategy to ensure sustainable growth is delivering an irresistible customer experience.



Contents

LEARN MORE

For more information please visit:
www.virginatlantic.com

2017... A great year for our customers

5.3 **million**

passengers flown

#1

in customer satisfaction for UK-US traffic[1]

397k

Virgin Holidays customers

2.7£bn

in revenue

230m

kilograms of cargo transported

1. IATA airs@t transatlantic 2017.

Working together to provide a unique experience

virgin atlantic

We have a simple goal – by being uniquely Virgin Atlantic, we want to be the airline most loved by our customers.

We are achieving this through realising the full potential of our transatlantic Joint Venture with Delta Air Lines, Inc (Delta), maximising opportunities with Virgin Holidays, as well as empowering our people with the right skills and tools to deliver that unique Virgin Atlantic experience.

Highlights

5.3m
passengers flown this year, down 0.1m year on year

£2.7bn
total revenue, **1%** down year on year

NPS
net promoter score improved by 5pts year on year

Joint Venture
offers over **200** destinations between the UK and the US, providing 35% share of total UK-US capacity

We announced our intention to launch an expanded transatlantic Joint Venture with Air France-KLM and Delta Air Lines

Employees
9,823 people across the Group[1]

OTP
We achieved our on-time performance (OTP) metrics, including **79%** of flights arriving within 15 minutes of schedule, 2.3% down compared to prior year

Fleet
We became the first carrier in Europe to offer **Wi-Fi** across our entire fleet

We are the **first** airline to offer an accessible inflight entertainment system for customers with sight loss

10 A330 Upper Class cabins refreshed

Network
Added **new routes** from Manchester

Launched new daily service to Seattle

Extended Flybe codeshare to Heathrow, and Jet Airways codeshare to our transatlantic flights

virgin atlantic cargo

Virgin Atlantic's international cargo operations is focused on delivering consistency and reliability for its customers across the globe. The offering spans general freight, express courier, automotive, pets, perishables and pharmaceuticals over 500 destinations.

Highlights

230.5m
kilograms of cargo transported

Launched
new **Pharma Zone** at Heathrow to serve pharmaceuticals market

1. As at 31 December 2017.

HOLIDAYS

Built on a belief that 'everyone can take on the world', Virgin Holidays gives aspiring adventurers the confidence to make their holiday dreams real.

Offering a differentiated experience and a brand that's known and trusted as the consumer champion, Virgin Holidays is a leading tour operator to the US and Caribbean, as well as offering holidays to other popular long haul destinations.

Highlights

Winner
of **three** British Travel Awards and **two** Silver Awards, voted by UK consumers

Customers
397,000 in 2017, 1.5% growth year on year

Online
4% growth year on year in online distribution mix

Retail
Opened a further v-room retail store in Cardiff and our new concept store in Stevenage

NPS
score increased by **3pts** year on year reflecting higher customer satisfaction

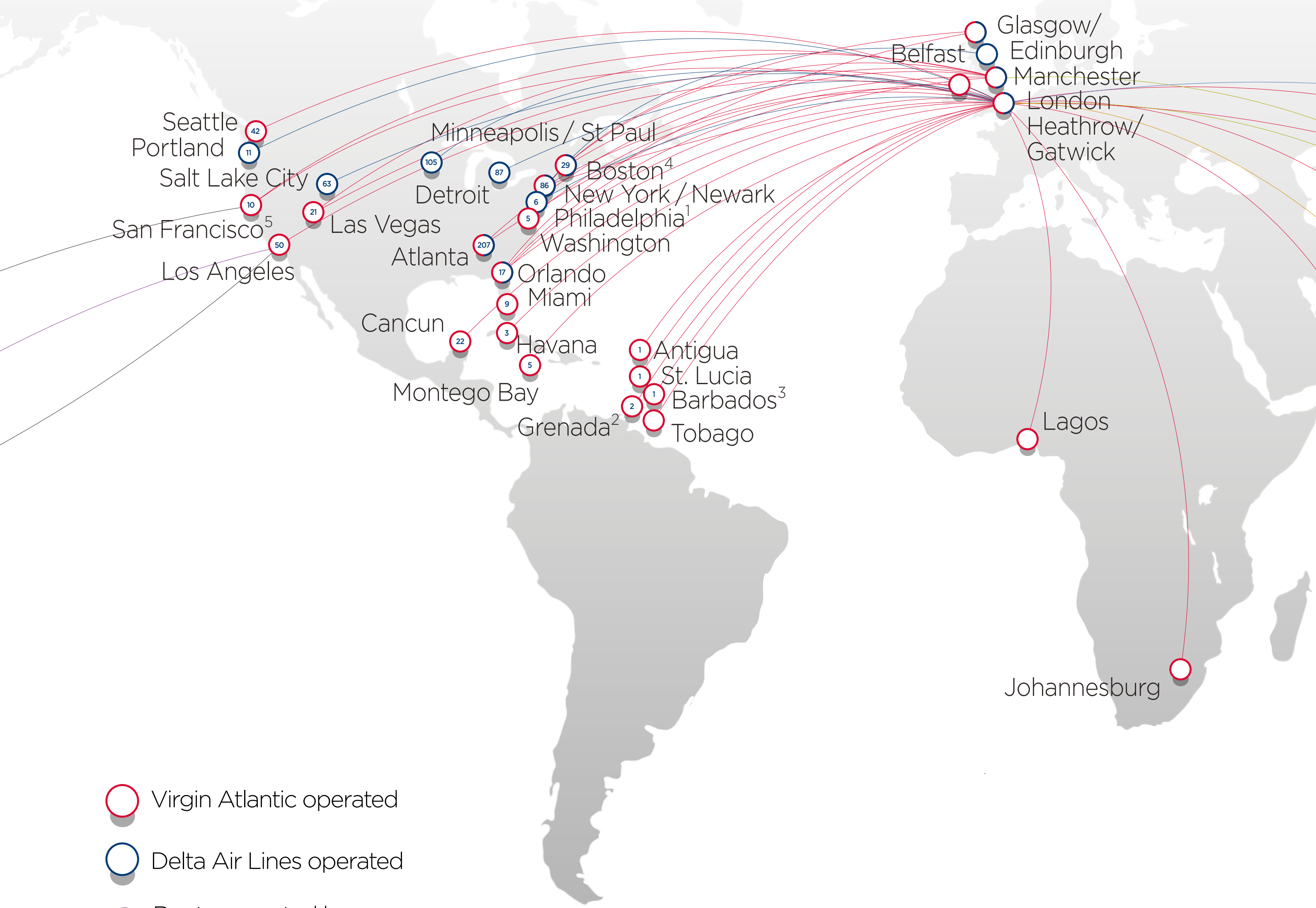
Departure Beach
Launch of the world's first Departure Beach, due to open May 2018

Experiences
supported by the HoliDOs campaign – 'it's not where you go, it's what you do' – the largest new product launch in our history

Inclusivity
Launched single parent holidays and introduced a new policy to address captive dolphins and whales. Supported the Caribbean with the recovery effort and helped to reignite tourism following Hurricane Irma

Expanding our reach

On top of the 200+ destinations offered through our Joint Venture with Delta, this year we swapped our Detroit service with Delta's Seattle service to optimise market demand and meet customer preferences. Our Flybe codeshare expanded to include their new Heathrow-Scotland services, adding feed for our Heathrow flights and improving travel options for our Scottish customers. We expanded our Jet Airways partnership to cover US-India flying as well as ten new India and South East Asia destinations. We also announced a codeshare with Virgin Australia, creating all-Virgin travel experiences between the UK and Australia, expected to start in March 2018.



Virgin Atlantic operated

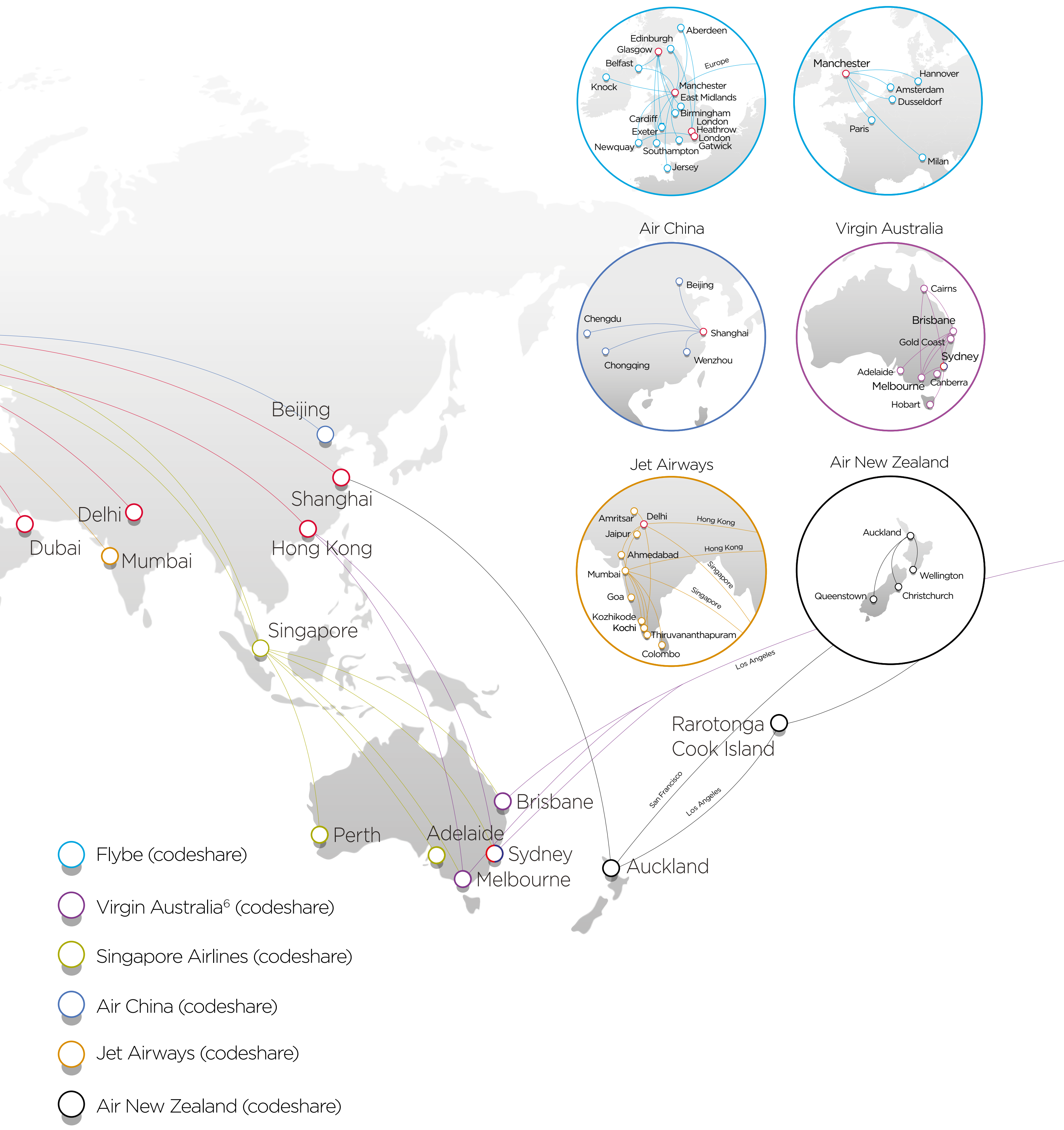
Delta Air Lines operated

Route operated by Delta, Virgin Atlantic or Virgin Australia

207 Number of onward Delta connections from this hub

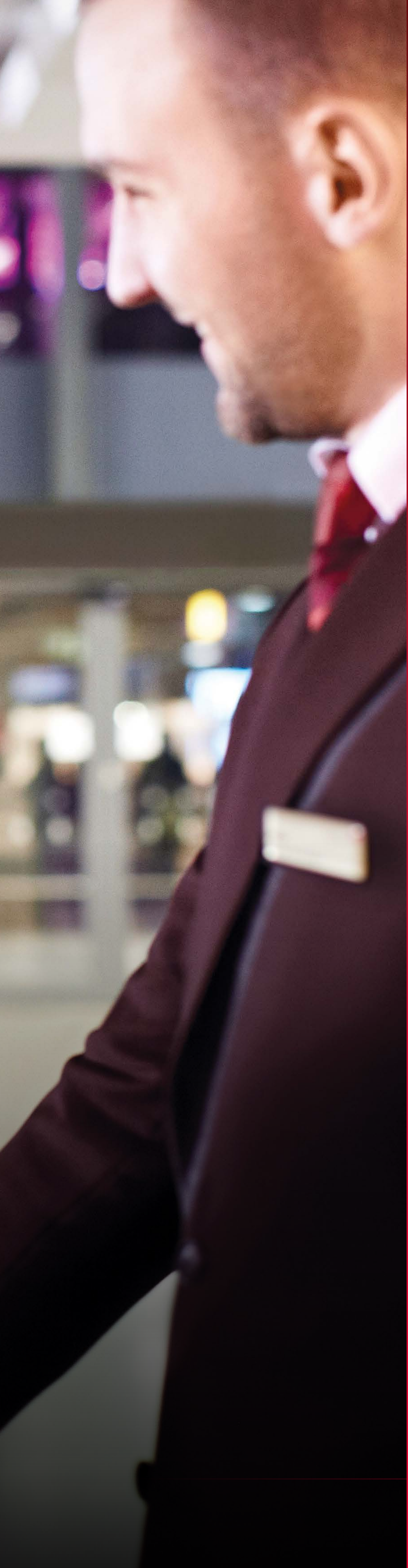
1. PHL: Service ceases 3 May 2018.
2. GND/TAB: Operates as tag flights from UVF.
3. BGI: Served from both LHR and LGW, but LHR service only operates until 24 Feb 2018.
4. BOS: MANBOS operates summer season only.
5. SFO: MANSFO operates summer season only.
6. Planned launch March 2018.
7. SYD: HKGSYD from 2 July 2018. Subject to regulatory approval.

Codeshare



Flybe
Aberdeen
Edinburgh
Glasgow
Belfast
Europe
Knock
Manchester
East Midlands
Birmingham
Cardiff
London
Heathrow
Exeter
London
Gatwick
Newquay
Southampton
Jersey
Flybe
Manchester
Hannover
Amsterdam
Dusseldorf
Paris
Milan
Air China
Beijing
Chengdu
Shanghai
Chongqing
Wenzhou
Virgin Australia
Cairns
Brisbane
Gold Coast
Sydney
Adelaide
Melbourne
Canberra
Hobart
Jet Airways
Amritsar
Delhi
Hong Kong
Jaipur
Hong Kong
Ahmedabad
Mumbai
Singapore
Goa
Singapore
Kozhikode
Kochi
Thiruvananthapuram
Colombo
Air New Zealand
Auckland
Wellington
Queenstown
Christchurch
Los Angeles
Beijing
Shanghai
Delhi
Dubai
Mumbai
Hong Kong
Singapore
Rarotonga
Cook Island
San Francisco
Los Angeles
Brisbane
Perth
Adelaide
Sydney
Melbourne
Auckland
Flybe (codeshare)
Virgin Australia6 (codeshare)
Singapore Airlines (codeshare)
Air China (codeshare)
Jet Airways (codeshare)
Air New Zealand (codeshare)

Countdown: excitement on the ground



From our very first booking more than thirty years ago, our customers have been at the heart of our business.

We take delight in delivering our service with flair – embracing the human spirit and letting it fly.

In 2017, we continued to focus on what makes us different, which is the way we take care of our customers – offering irresistible experiences at a competitive price. This starts from when a customer visits us online, by phone or in a Virgin Holidays retail store to book a journey. It continues with a friendly, seamless check-in and an innovative experience at our unique airside Clubhouses and v-rooms.

This year, we continued to invest in our customer experience – after all, it's what makes us stand out from the pack.

Enabling an effortless customer experience

Putting the customer first drives our technology investments and our passenger service system AIR4, which is a shared platform with Delta, is helping us deliver a seamless service. Launched in 2016, we continued to invest in 2017 to deliver more functionality – from easy to use, engaging mobile apps to a simple to navigate website – to meet the needs of our customers.

Reaping rewards with our Delta Joint Venture

Around half a million passengers took advantage of our connections to more than 200 destinations between the UK and the US, including 13 flights per day from UK cities to New York. Adopting the Delta VIPER rebooking system changed the game for us in providing an improved customer experience during flight disruption – which proved its worth during North America's hurricane season this year.

In Los Angeles, we were pleased to welcome Delta into Terminal 2 where we're both now located. This enables us to offer better connectivity and a heightened experience for our passengers across the West Coast.

Getting that Virgin Holidays feeling

With us, a great holiday experience starts long before you get on a Virgin Atlantic plane.

We sought new ways to inspire customers through an innovative partnership with ITV's Saturday Night Takeaway and Disney.

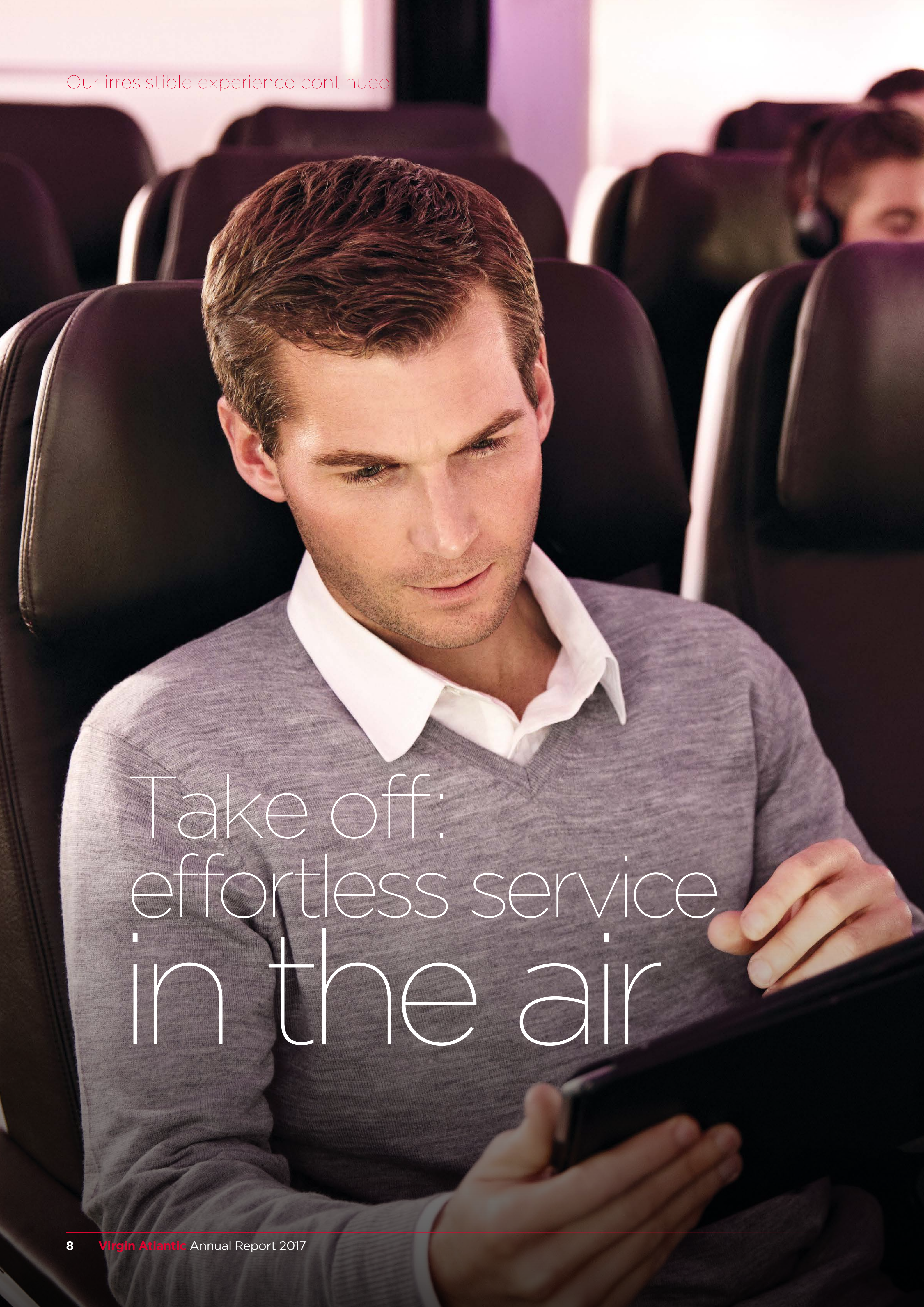
Building on the success of our standalone retail v-room stores, we opened a further store in Cardiff and refreshed 13 of our concession stores. They are all designed for an inspiring and relaxed booking experience. We've also overhauled our customer communications and developed more intuitive ways for customers to manage their travel plans for a stress-free trip.

Our Clubhouses and v-rooms

To take that unique Virgin experience airside, this year we launched a fantastic new Virgin Atlantic Clubhouse and Virgin Holidays v-room at Gatwick North Terminal. And at our Heathrow Clubhouse, we completed extensive refurbishments to enhance the dining experience and create new spaces for Upper Class and Delta One passengers to enjoy. In December, we took things over the top (literally) with a 'pop-up' igloo on the roof of the Clubhouse. This was the first of many planned projects to re-ignite our customer experience and garnered over 20 million media impressions and fantastic feedback from our customers.

200+

destinations between the UK and US



Take off: effortless service in the air

The unique Virgin Atlantic experience really takes off in the air – and it's not just about the destination. With us, the journey really is part of the fun.

Enhancing the experience

We continued to invest to make Virgin Atlantic a special experience, no matter where our customers sit on the plane. From personalised, warm and friendly service aided by investments in great hand-held technology for our crew and fleet-wide Wi-Fi, to engaging inflight entertainment and great food. We also refitted our A330 Upper Class cabin and bar.

And with key onboard catering processes now digitised, we can get quicker feedback when we introduce new menus, as well as improved turnaround times for customers requiring a special dietary meal on their next trip.

Getting you there on time

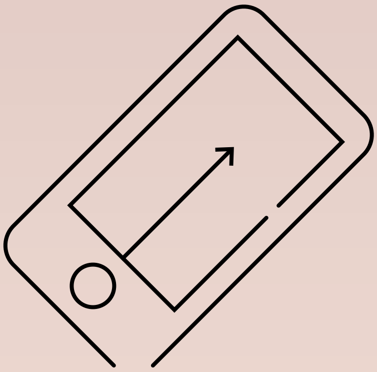
We want to make sure that whatever your reason for travel, we get you there when we say we will. That is why we are so focused on on-time performance and this year with Delta we maintained our position as the two most punctual airlines across the Atlantic from Heathrow.

Cleaner, quieter aircraft

But it is not only the customer experience that counts. It's also about doing our very best to be a responsible airline, investing to make the aircraft that takes you where you want to be cleaner, greener and quieter.

We continued our journey to transform our fleet to more efficient new twin-engine aircraft – helping to reduce our environmental footprint and saving us costs. We took delivery of our 14th 787 aircraft and preparations for the introduction of 12 new A350s from 2019 continued apace.

We will take delivery of our last three 787s in 2018, making 17 in total. Our first A350s arrive from 2019 and by 2021 we will have replaced our entire fleet in ten years.



1st

carrier in Europe to offer Wi-Fi across our entire fleet

Onward journey: personalised experiences on arrival

On arrival, Virgin Holidays continues the customer experience with true Virgin flair.

We are focused on enhancing the journey every step of the way – from the airport arrival to the last day of your holiday, then reintegrating with reality back home. Our deep strategic relationships with trusted partners and product suppliers enable our guests to benefit from extra special touches, while maintaining the highest standards of service and health and safety.

The Virgin Holidays experience

Holidays are whatever our customers want them to be – relaxing poolside with a cocktail in hand, intimate times with loved ones, fun times for the kids, or just a flat-out, non-stop adrenaline rush. All our Virgin Holidays can be tailored to match the unique needs of each individual customer.

To celebrate this we temporarily rebranded as Virgin HoliDOs for a campaign that said 'it's not where you go, it's what you do' to showcase the launch of a fantastic range of 300 new Experiences to help customers get the most from their holidays.

Life's a beach

With us, we want it to seem like the holiday never ends. So, this year we announced the launch of the world's first Departure Beach at Carlisle Bay, Barbados. Coming in 2018, customers will be able to check in, drop their bags and get their boarding passes. Seaside – instead of airside – they can enjoy a full-service bar, tuck in to a spot of lunch, and of course go for a refreshing dip if it takes their fancy – with towels and showers provided before they're whisked straight to airport security.

Help is at hand

Launched this year in Orlando and Dubai our v-hub concept lounges are where customers can get help from our Holiday reps and relax while waiting to check into their room or before getting onto their flight. After all, a holiday should never be stressful.

Flying Club – more adventures, more often

With our Flying Club, it's all about earning miles and tier points to spend on great rewards. And as the only UK airline to offer mileage redemptions on a Holiday package through Virgin Holidays, the points can mount up more quickly and be ready to be spent with a whole world of partners in the air and on the ground.

Intuitive service

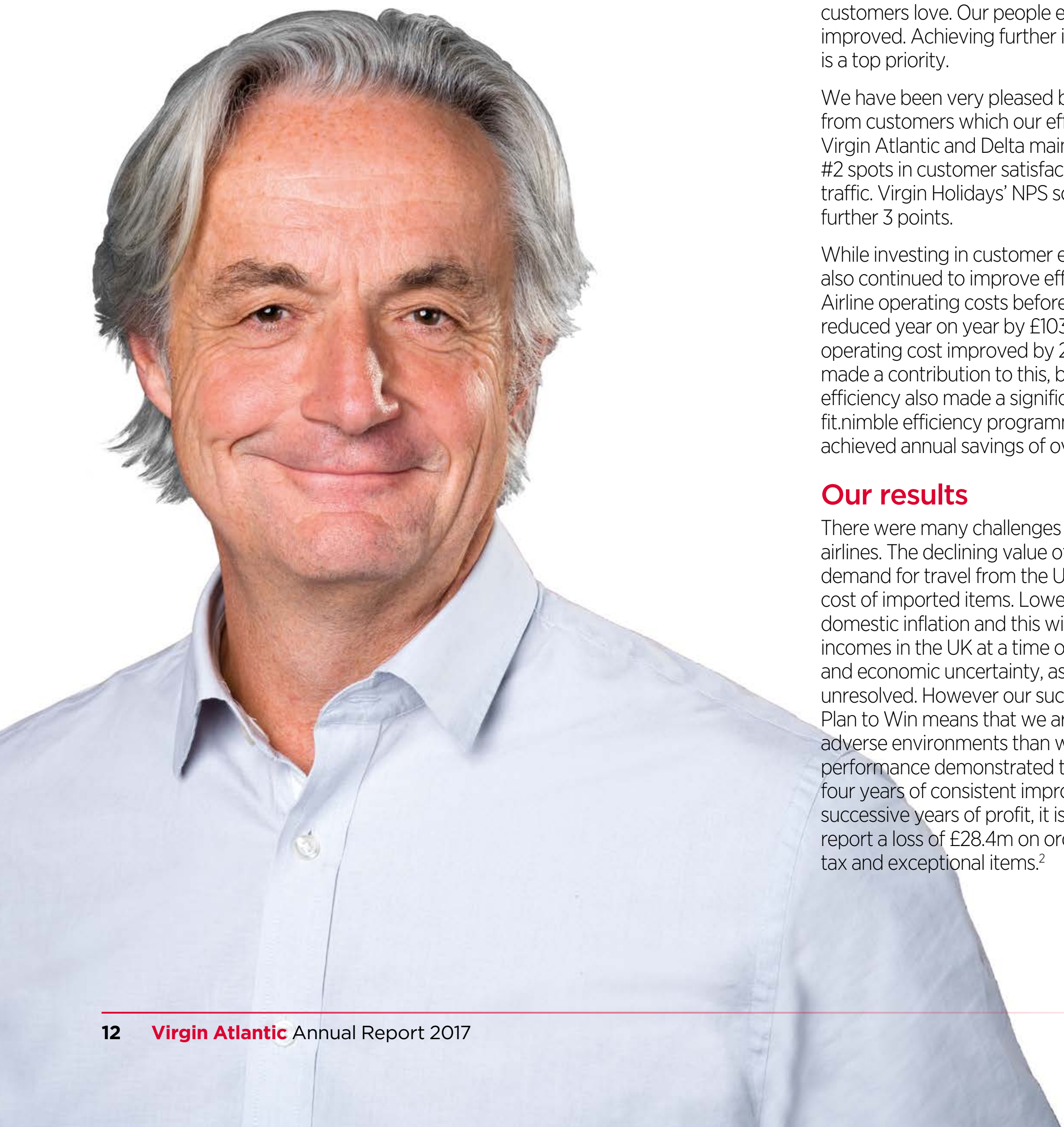
By pairing Customer Relationship Management (CRM) technology with our loyalty and reservations systems, we are able to tailor our customers' journeys to their individual preferences – from booking to returning home. For example, we can pre-inform our cabin crew to congratulate a couple who are travelling on honeymoon or help smooth the journey of a nervous flyer. By linking CRM with a Single Customer View, our team has the tools to give our customers that unique Virgin Atlantic and Virgin Holidays experience and extend the relationship once customers return home.

1st

Launch of the world's first Departure Beach, due to open May 2018

Delivering our strategy

We continued to deliver great experiences for our customers while being focused on building the platform for sustainable growth.



2017 was the third year of delivery of our Plan to Win programme. The strategy has continued to deliver great benefits operationally and to our customers. These improvements are the bedrock of our plan to build a sustainable business.

Our transatlantic Joint Venture partnership with Delta again performed very well. We took advantage of the strong Dollar to welcome more Americans to the UK and adjusted our networks so to best serve the markets for our different brands.

We continued our four year £300m programme of investment to improve customer experience which will complete in 2018. We maintained industry-leading on-time performance, efficiently managed the disruptions caused by the Caribbean Hurricane season and launched more than 300 new Virgin Holidays Experiences. A core principle of our business is to create the conditions which enable our people to be at their best in delivering the service that our customers love. Our people engagement score has improved. Achieving further improvement in 2018 is a top priority.

We have been very pleased by the positive feedback from customers which our efforts have earned. Virgin Atlantic and Delta maintained the #1 and #2 spots in customer satisfaction rankings for UK-US traffic. Virgin Holidays' NPS score increased by a further 3 points.

While investing in customer experience, we have also continued to improve efficiency and unit costs. Airline operating costs before exceptional items have reduced year on year by £103.5m[1], and airline unit operating cost improved by 2.9%. Lower fuel prices made a contribution to this, but improved operating efficiency also made a significant contribution. The fit.nimble efficiency programme started in 2015 has achieved annual savings of over £82m at this point.

Our results

There were many challenges in 2017 for UK-based airlines. The declining value of Sterling dampened demand for travel from the UK and increased the cost of imported items. Lower Sterling means higher domestic inflation and this will erode discretionary incomes in the UK at a time of continuing political and economic uncertainty, as the Brexit issue remains unresolved. However our success so far in executing Plan to Win means that we are more resilient in adverse environments than we were. Our 2017 performance demonstrated this. Nevertheless, after four years of consistent improvement and three successive years of profit, it is most frustrating to report a loss of £28.4m on ordinary activities before tax and exceptional items.[2]

There were three big external issues in 2017 for us to deal with which were not in our plan for the year. First, the impact of weaker Sterling; second, unforeseen engine supply issues; and third, the severe disruption to traffic caused by a terrible hurricane season in the Caribbean.

Virgin Holidays was affected by the same issues, but it is pleasing to report that it produced a profit before tax and exceptional items of £15.5m (compared to £19.1m in 2016). This was an impressive performance. Our cargo operation was a beneficiary of the weaker currency which made UK exports more competitive and so increased revenue by 9.3% year on year.

I am very glad to be able to report that we continued to improve our environmental performance. We achieved a 1.8% reduction in our headline carbon efficiency measure in 2017, and reduced our total carbon emissions by 2.5% compared to last year. The arrival of our last three 787s on order in 2018, to be followed by 12 A350s from 2019 will deliver further carbon efficiencies and reductions in our noise impact.

Our customers and our people continue to provide most generous support for our charity and non-profit partnerships. Virgin Atlantic Foundation's onboard Change for Children appeal raised £680,000 and our annual employee fundraising campaign raised almost £170,000 for our much-loved partner WE. Thanks to the generosity of Virgin Holidays customers, we donated £200,000 to the Caribbean Branson Centre for Entrepreneurship in Jamaica and £48,000 to the Travel Foundation to support sustainable tourism projects.

Looking ahead with confidence

As we enter the final year of Plan to Win, the finishing touches are being put on the next stage of our strategy, which will take us into the 2020s. There is much to look forward to.

Partnerships will continue to be the foundation of our success. Our immediate priority is to conclude agreements and to secure the necessary regulatory approvals for our planned expanded transatlantic Joint Venture with Delta and Air France-KLM announced in July 2017. Completion should follow in 2019.

The expanded transatlantic Joint Venture would enable the four airlines to offer consumers improved choice and competition, an enhanced customer experience, and convenient flight schedules with competitive fares and reciprocal frequent flyer benefits.

To support the success of the Joint Venture, Air France-KLM will acquire a 31% stake in Virgin Atlantic currently held by Virgin Group; Virgin Group will retain a 20% stake and Chairmanship; and Delta will retain its 49% stake.

As we said when the deal was announced, Virgin Atlantic will continue to be an independent UK airline, flying under the Virgin brand, headquartered in the UK, and operating with a UK Air Operating Certificate. We will continue to invest in our people, the iconic Virgin Atlantic brand and our unique customer experience.

Further ahead is the prospect of Heathrow expansion. While a new runway and terminal facilities may not be open until 2025 or beyond, work on the design of a future Heathrow is well underway. We will continue to support expansion at Heathrow provided that it will enable a significant increase in airline competition at the airport and offer value in cost terms. Our intention is to play an even bigger role in delivering choice and outstanding value for money to consumers at an expanded Heathrow.

Governance

My Board colleagues have made a great contribution during the year. In parting, I would like to thank Nathaniel Pieper and wish him very well in his new role at Delta as Senior Vice President – Global Alliances. I welcome from Delta Corneel Koster, Senior Vice President – Europe, Middle East, Africa and India to the Board, and Tom Mackay, our CFO, as an Alternate Executive Director.

Our people

On behalf of the Board and shareholders I thank Craig Kreeger, his executive team, and all of the people of Virgin Atlantic and Virgin Holidays for their hard work and outstanding commitment to creating amazing experiences for our customers. There have been some great achievements during 2017 as we confronted some very serious external issues. This meant that our final result was significantly better than it might otherwise have been. But underpinning all these efforts is the service which our people provide day in, day out, throughout the customer journey. This is what makes Virgin Atlantic and Virgin Holidays so special.

Peter Norris
Chairman

14 March 2018

Partnerships will continue to be the foundation of our success.

1. In constant currency.
2. Exceptional items are one off events that do not form part of business-as-usual activities. For this reason our measure of profit is profit before tax and exceptional items. They include the reclassification of gains or losses on hedging, restructuring costs and some gains or losses on the disposal of property, plant and equipment. The significant fluctuations in fuel price and foreign exchange and the resulting hedging gains or losses would distort our view of underlying performance.

Delivering for our customers in a challenging environment

Virgin Atlantic faced significant macroeconomic and operational challenges in 2017. Here Chief Executive Officer Craig Kreeger explains how the business is responding to these issues while remaining focused on meeting the needs of its customers.

What were Virgin Atlantic's key achievements this year?

What drives our people is ensuring we deliver our unique Virgin Atlantic experience for our customers. So, in a year of many highlights, it is fantastic to see both Virgin Atlantic and Virgin Holidays achieve high customer satisfaction scores despite significant operational challenges and the difficult economic backdrop.

Once again, with our Joint Venture partners Delta, we have the highest overall passenger satisfaction scores across the Atlantic from Heathrow. I believe this is because our customers love the warm, friendly, personalised service provided by our people, and they are also responding positively to our continued investment in our product and experience. From refreshed aircraft and a fantastic new combined v-room and Clubhouse at Gatwick, through to being the first European airline to have fleet wide Wi-Fi and the launch of Virgin Holidays Experiences, we continued to give customers even more reasons to travel with us. We've announced we'll even offer them the choice to check in at the beach in 2018, a truly unique experience at our Departure Beach in Barbados.

With the continuing success of our Delta Joint Venture and the newly announced future strategic partnership with Air France-KLM and Delta, we are also looking ahead to an exciting future. We want to offer customers access to the most comprehensive transatlantic route network, promising expanded flight choices and enhanced loyalty programme rewards.

What makes Virgin Atlantic special?

For me the answer is simple – our people. They are both our magic ingredient and our greatest strength. From the very beginning we have sought to enable them to put the customer at the heart of everything they do. Our people are empowered to be themselves, so that everyone who travels with us receives a unique, memorable and human experience. Our purpose is to embrace the human spirit and let it fly, and the way that our people deliver this is really what makes us stand out from the pack.

With the uncertain political and economic situation and currency fluctuations, how has being based in the UK affected the business this year?

Revenue was affected by the depreciation of Sterling, attributable to the continuing uncertainty following the vote to leave the EU. This not only impacted UK-based customers' appetite for international travel, it also increased our costs, with the majority priced in US Dollars.

On the flipside, we were able to take positive and decisive action to capitalise on the fact the UK became much more attractive to customers inbound to the UK. From strategic pricing to marketing campaigns, the team worked hard to grow revenues in our US and rest of world markets. Thanks to the extended network of our Joint Venture partner Delta in the US, along with their sales presence and brand recognition, we have seen 20% more US-based travellers onboard Virgin Atlantic flights.

The weaker Sterling benefited UK exporters which meant our cargo division performed well, with an increase in tonnage of 6%. Overall, the cargo team had an exceptional last quarter resulting in a revenue performance of £56m, 16% higher than the fourth quarter of 2016.

It was also heartening to maintain the great momentum in Virgin Holidays. This is testament to the strength of our business model which places customer service, choice, value and experience at the centre. New initiatives included the launch of a new 'Experience' range which gives travellers the ability to create their own bespoke trips. In addition, we launched our groundbreaking 'single parent holidays' offering, a first for the long haul holiday market and something I am particularly proud of.

Once again, with our Joint Venture partners Delta, we have the highest overall passenger satisfaction scores across the Atlantic from Heathrow.

What benefits are you seeing from the Delta Joint Venture?

I see 2017 as marking a step change in how we have worked together. I've described how we worked together to take advantage of the weaker Sterling, but the closeness of our partnership was also reflected in our decision to relocate our US Head Office alongside Delta's in Atlanta. Furthermore, we mutually agreed to swap two of our US services, with daily flights to Seattle now operated by Virgin Atlantic, and both London to Detroit services by Delta, to better meet customer demand. This shows how we can be adaptable with the Joint Venture to benefit our customers and, ultimately, our business. Most of all, we share a focus on putting our customers first. This year in light of some operational challenges, Delta stepped in at short notice, providing aircraft to help us operate services and get our customers to their destinations as planned.

Were there any particular challenges that the team had to contend with this year?

Operationally, as with many airlines with Rolls-Royce Trent 1000 engines on their Boeing 787s, we were required to adjust to an engine supply issue, brought on by shorter replacement schedules. This required some of our fleet to be out of service for longer periods than originally expected.

To ensure our customers continued to enjoy the best possible service, we leased three additional aircraft that will enter service during 2018. Combined with the impact of hurricanes Irma and Harvey and fuel price increases, our bottom line was affected by these factors.

Importantly, as part of our Plan to Win strategy, we have removed over £80 million in costs from our business over the past three years. This puts us in a far stronger position to mitigate these issues and the other inevitable challenges that can confront our industry. In addition, our passenger revenue per available seat kilometre (PRASK) in the fourth quarter of 2017 was up, reversing several years of PRASK decline. In fact, November and December gave us two consecutive months of PRASK growth, for the first time since 2014. I am optimistic that this trend will continue in 2018.

Why is the business strategy the right one?

Our faith in the competitive advantage of enabling our people to provide a uniquely Virgin experience at both Virgin Atlantic and Virgin Holidays continues to bring rewards. This strategy really gives us a unique identity in a crowded and highly competitive marketplace. It is this key strength that gives me great confidence as we face steadily growing competition from our traditional competitors as well as low fare long haul operators.

Do you have the right team in place to succeed?

I made a number of changes to the executive team at the start of the year to ensure we had the right senior management structure in place to support our longer-term vision of a stronger, more agile organisation. I was pleased to achieve several internal moves, including Mark Anderson joining the airline from Virgin Holidays and Joe Thompson moving in the opposite direction as part of our strategy to realise the potential from closer cooperation between Virgin Atlantic and Virgin Holidays. I was delighted to welcome Nikki Humphrey who joined us as Senior Vice President – People, and brings over 20 years' HR leadership experience across multiple sectors.

What does doing the right thing mean to you and Virgin Atlantic?

Doing business for good is in our Virgin DNA.

As an airline, we love being able to bring people together, delivering incredible experiences and supporting a globally connected world. However this does not come without environmental impacts. Reducing our carbon emissions is not only the right thing to do for the environment and generations to come, with fuel our largest single cost, it also makes perfect business sense. For this reason, along with enhancing our customers' experience, we have undertaken a massive investment programme, to replace our entire fleet over a ten year period and switch from four-engine aircraft to a full two-engine aircraft fleet.

This year we took delivery of an additional 787 and preparations for introducing our new 12 A350s got underway in earnest. Since launching our Change is in the Air sustainability programme in 2007, we have reduced total CO_2 emissions from our fleet by 23.7%.

Ultimately, doing business for good supports our culture and is part of our brand values – we know our reputation is something that attracts our customers and engages our people. Across the world, I am proud of the commitment all our people have to living our values. This was no more in evidence than when our teams stepped up and worked shoulder to shoulder with our Delta partners to support customers and communities in the aftermath of Hurricane Irma. But it isn't just about addressing short-term emergencies; we want to make a positive long-term difference in our own communities and the destinations we serve. Virgin Atlantic Foundation's support for WE and Virgin Holidays' support for the Branson Centre of Entrepreneurship in Jamaica are our ways of trying to do just that.

How would you sum up 2017?

In a challenging external environment, impacted by consumer uncertainty, currency and fuel price fluctuations, and increasing competition and capacity across the Atlantic, we performed well ahead of our expectations. As this was in large part due to the hard work of our people, and their unwavering focus on looking after our customers, I want to thank them all for their exceptional commitment to putting the customer at the heart of our business.

What does the future look like for Virgin Atlantic?

Looking to 2018 and beyond, I'm truly excited about the possibilities for Virgin Atlantic and Virgin Holidays. The two parts of our business are working ever more closely together. There is still great opportunity to realise the full potential from closer co-operation, to share our resource, experiences and ideas to achieve even more joint success in the future. Our partnership with Delta remains a key part of our strategy for the long term, and we are looking forward to entering into an expanded transatlantic Joint Venture with Air France-KLM and Delta. It will mean working with great partners, to fill our planes with more customers, from more places.

Meanwhile, we will keep our constant focus on delighting our customers and continue to put them at the heart of everything we do. We'll complete our £300m investment programme in 2018, while also looking for new opportunities to invest in the areas which have the most impact and that help us to differentiate.

Most of all, the future, in the same way as our 34 year past, will continue to be about our people. They are our greatest strength, delivering a level of service and experience that helps us to stand out from our competitors and means we continue to hold a unique position in the industry. I'd like to personally thank all of them for bringing those little moments of Virgin magic to their roles day in and day out.

Craig Kreeger
Chief Executive Officer

14 March 2018

We will keep our constant focus on delighting our customers and continue to put them at the heart of everything we do.

Building a sustainable future

Our Joint Venture partners helped to successfully increase sales from our US point of sale, partially offsetting the weakness in UK leisure demand. We increased the number of US-based passengers on board our flights by 20%.

Result highlights[1]:

- Total revenue of £2.7bn for the year, down 1% driven by airline passenger unit revenue decline of 1.5%
- Airline operating costs have been further reduced by £103.5m, driven by lower fuel prices and year on year efficiencies
- Non-fuel unit costs are 2.2% worse year on year driven by 2.2% less capacity
- Loss before tax and exceptional items of £28.4m in the year from £23m profit last year
- Virgin Holidays made a profit before tax and exceptional items of £15.5m. This is £3.6m lower year on year due to softer consumer demand caused by the weakness of Sterling and the impact of hurricane disruption
- Cargo tonnage increased by 5.8% driving revenues up by 9.3% to £199.3m
- Return on invested capital at 4.1%, a decline of 2.9pts
- The statutory loss for the year is £48.5m (2016: profit of £187.3m)

	2017	2016
EBIT[2]	**(11.3)**	41.3
EBITDAR[2]	**316.1**	358.1
Leverage	**4.9x**	4.0x
Net Debt	**1,554.4**	1,417.2
Liquidity	**18.5%**	21.1%

1. Comparatives to 2016 with the exception of profit before tax and exceptional items are made on a constant currency basis.
2. Before exceptional items

Airline passenger revenue

Our airline passenger revenue reached £2bn, a reduction of £69m year on year mainly due to macroeconomic factors.

2017 saw a full year impact of the weakness in Sterling relative to the Dollar, making the US relatively more expensive to customers from the UK. As over 70% of our flying is transatlantic, this had a significant impact on our performance.

In addition, we continued to see oversupply in the market, with low cost carriers increasing their transatlantic market capacity by 49.5%. As a result of these factors, our load factor reduced 0.4pts to 78.3%.

The combination of a continuing low fuel cost environment being passed on to customers and a supply / demand imbalance led to market fare reductions. These were partially offset by the strength of our partnerships with a decline in yield of only 1%.

Our Joint Venture partners helped to successfully increase sales from our US point of sale, partially offsetting the weakness in UK leisure demand. We increased the number of US-based passengers on board our flights by 20%, a key strategy for growing the now, more valuable dollar revenues. Additionally, our performance outside of our transatlantic routes saw double-digit unit revenue growth.

Cargo revenue

The market remains competitive for cargo, but we have seen trading conditions improve in certain markets, most notably the UK where there was solid growth in demand for exports of perishables, e-commerce, automotive and pharmaceuticals. The US remains challenging, with demand growing much slower than supply. This is putting continuing pressure on price.

That said, on both sides of the Atlantic, the team has done a great job to continue to grow our market share through the summer and into the final quarter of 2017.

Our rest of world routes continue to perform well and revenues have improved in all markets. Overall, the cargo team had an exceptional last quarter, resulting in a fantastic revenue performance of £56m, which is 16% higher than Q4 2016.

Virgin Australia continues to be a key strategic partner and the freight outsourcing arrangement we have with them significantly expands our reach. The addition of new routes from Melbourne to LA and Hong Kong has strengthened our position in these three key markets.

Virgin Holidays

Virgin Holidays made a profit before tax and exceptional items of £15.5m. This is a £3.6m year on year decrease due to the impact on consumer demand of a weak Sterling combined with additional costs caused by hurricane disruption in the Caribbean and the United States.

Operating costs

Airline operating costs before exceptional items have successfully reduced year on year by £103.5m, driven by lower fuel prices (including the cost of hedging) and improved operating efficiency.

We have removed over £82m of cost from the business since 2015 through fit.nimble savings and further tactical cost activity. Airline unit operating cost also significantly improved by 2.9% year on year.

Fuel costs

On a unit basis, fuel costs fell by 15.7%, driven primarily by further unwinding of hedging losses and improved fleet efficiency, as we added one new Boeing 787 aircraft. This is despite a 18.9% increase in average Brent Oil from \$44.6 / bbl in 2016 to \$55.0 / bbl in 2017.

Non-fuel costs

Our underlying non-fuel costs were 0.3% higher than in 2016, mainly driven by an uptick in cargo direct costs as a result of increased revenue.

We had planned for a small capacity reduction in 2017, but as a result of the industry-wide engine supply issues relating to Rolls-Royce Trent 1000 engines, our capacity was 2.2% lower than in 2016. We took the decision to not significantly reduce fixed costs in reaction to this temporary decline in capacity as it would be detrimental to our longer term plans. Instead we added three former Air Berlin aircraft to increase resilience and support our flying programme in response to possible continued engine supply issues in 2018, and to provide opportunities for future profitable growth.

Aircraft costs

We took delivery of one new Boeing 787 and retired one A346 aircraft during 2017, taking our total Boeing 787 fleet to 14 so far, representing over one third of our fleet. We entered into an operating lease for the new Boeing 787 aircraft brought into service in 2017. To further support operational resilience, we have also purchased one A346 which was previously leased to us.

Cash flow and financing

Our net cash generated from operations of £80m and financing activities of £13m were offset by £130m outflows from investing activities as we continued to invest in our fleet and the adverse translation impact of foreign currency cash of £37m. The £32m inflow from our successful upsizing of our senior secured note financing transaction was used to make pre-delivery payments for the A350s which will commence delivery in 2019.

Our investments are focused on customer valued differentiation and driving further efficiencies in the business.

Our total cash remains robust with close to £500m cash in the Group at the end of 2017. Total cash (including restricted cash) fell £74m compared to last year. While the decrease in our cash position is in part due to operating performance, half of the change is as a result of foreign exchange translation.

Our net debt has increased by £137m compared to last year, with over half of this movement due to decreased total cash with the remainder of the increase due to higher capitalised leases.

Outlook

2018 is expected to be another challenging year due to increasing fuel prices compounded with UK inflation being at a five year high.

Whilst 2017 was our third consecutive year of unit passenger revenue decline, there were significant signs of improvement in Q4 which saw underlying unit passenger revenue (adjusted for the impact of metal swaps) 1.1% higher year on year; the first time this has happened since 2014. We have a number of exciting revenue initiatives planned for 2018 including expanding our codeshare portfolio to increase feed onto our network. From a cargo revenue perspective, we will continue to develop our premium product offering, with particular focus on the life sciences sector as well as optimising our partnerships with Virgin Australia and Delta to increase our market share.

Whilst the focus is now shifting towards revenue growth, we will continue to practise strong cost control as we conclude our fit.nimble programme and other tactical initiatives. Our investments will remain focused on customer valued differentiation and driving further efficiencies in the business.

Virgin Holidays will focus on customer growth through 2018, by supporting the airline through an increase of its share of the plane and revenue. We are continuing to invest in the long-term growth of the business specifically in experiential travel, cruise and Virgin Vacations, our US outbound holiday company.

We will be launching our new long-term plan, as a successor to Plan to Win in 2018 which will include details of our revenue initiatives as well as our planned expanded transatlantic Joint Venture with Air France-KLM and Delta. I am confident that the combination of these factors will help us to maintain and continue to build a solid platform for future success..

Tom Mackay
Chief Financial Officer

14 March 2018

A fast-paced dynamic market place

UK based airlines had to respond to a range of challenges, including a weaker pound. Our strategy is designed to meet these challenges, as well as capture opportunities in a rapidly changing landscape.

Aviation is a highly regulated sector where changes in public policy and the global economy, geopolitical events and severe weather can have an impact on our business. A significant proportion of revenue is also reliant on discretionary spending, which can be impacted by some of these factors. The steps we took in 2015 and 2016, including our Joint Venture with Delta and our Plan to Win strategy, are enabling us to mitigate these challenges and meet and exceed our customers' expectations.

GDP

GDP growth has a positive effect on air passenger traffic. Trends remain favourable in core markets that we operate in which supports our strategic direction.

GDP

GDP YoY	%
UK	1.5
Eurozone	2.7
US	2.5

Source: Bloomberg

USD / EUR

Indexed to GBP

Source: Bloomberg

Foreign Exchange

A significant proportion of our transactions are in foreign currency (particularly USD and EUR) and so we are exposed to foreign exchange rate movements which we partly mitigate through hedging.[1]

After the leave vote in the June 2016 EU referendum, the value of Sterling declined and remained relatively weak throughout the first half of 2017. Sterling strengthened towards the end of 2017 above analyst expectations, but this was partly due to a weakening of the US Dollar over this period.

The significant devaluing of Sterling has led to pressure on financial performance. In addition to our use of financial derivatives, we achieve natural hedging through our US point-of-sale revenue.

Oil

Fuel is our most significant operating cost. We hedge our exposure to jet fuel prices to mitigate volatility.

The average price of Brent increased by more than 20% in 2017 year on year. This was partly driven by the announcement from Saudi Arabia that it would limit supply starting August 2017 to help boost prices. Hurricanes in the US in 2017 impacted oil refineries which drove an increase in Jet Crack prices in the latter part of the year.

All airlines will feel the impact of rising oil prices. Our investments in young, fuel-efficient, twin-engine aircraft position us well to absorb this impact.

Air passenger traffic trends

The International Air Transport Association (IATA) announced global passenger traffic results for 2017 showing above-trend passenger growth (RPKs up 7.6% year on year) and a record average load factor of 81.4% (0.9% up year on year). However, UK-North America seat capacity growth slowed to 2.6% year on year (down from 5.8% growth in 2016).

1. The Company does not apply hedging for accounting purposes. All derivative financial instruments are initially recognised and subsequently re-measured at fair value through profit or loss.

Our Joint Venture with Delta and our Plan to Win strategy, has enabled us to mitigate these challenges and meet and exceed our customers' expectations.

Brexit

The UK Government formally notified the European Council of its intention to withdraw from the European Union (EU) in March. Negotiations commenced on the future relationship and will continue throughout 2018. The UK will leave the EU on 29 March 2019, although both sides are seeking to agree a transition, most likely mirroring the UK's existing terms of membership, lasting approximately two years.

Virgin Atlantic identified and monitored the risks and opportunities arising from Brexit during 2017. Our top priority is securing liberal market access between the UK and US when the UK is no longer party to the EU-US 'Open Skies' air service agreement. Remaining under the aegis of the European Air Safety Agency (EASA), which currently regulates our aircraft, colleagues and operations, is also important.

We engaged with the UK Government to make sure our priorities are understood and taken into account. We are pleased that discussions between the UK and US governments commenced and expect new arrangements to be agreed in 2018.

Heathrow expansion

The political, regulatory and planning processes associated with Heathrow expansion continued throughout 2017. The Government published a draft National Policy Statement (NPS) for consultation setting out its requirements and expectations. The Transport Select Committee established a parliamentary inquiry into the draft NPS. The CAA consulted on the economic regulatory framework for expansion. Heathrow Airport Limited (HAL) began design work and airline engagement in preparation for its first public consultation.

Virgin Atlantic supports expansion provided that it delivers a significant increase in airline competition and genuine value for money for passengers. A fifty per cent increase in airport capacity at the UK's only hub airport represents a significant opportunity. If the full benefits of expansion are to be realised, new capacity must be allocated to enable stronger airline competition to give passengers more choice, lower fares, and better service. We continue to seek a commitment that passengers, who already pay the highest long haul passenger charges in the world at Heathrow, will not have to pay more to fund expansion.

We are fully engaged with HAL, the Government, the CAA and other stakeholders to ensure that expansion meet the needs of our passengers and business. This engagement will intensify throughout 2018.

Air Passenger Duty

Air Passenger Duty (APD) is the tax levied on passengers departing UK airports. Long haul passengers pay the highest air travel tax in the world. On 1 April, the UK long haul rate air travel increased by a further £2 to £75 for Economy passengers, and by £4 to £150 for Premium Economy and Upper Class passengers.

We continued to campaign for a reduction in long haul APD. It is an unfair and damaging tax on passengers, businesses, international trade and tourism. As the UK leaves the EU and seeks increased trade with established and emerging markets, the case for reducing long haul APD grows even more compelling.

In his Autumn Budget, the Chancellor confirmed that the rates will increase as planned on 1 April 2018, with a further £3 increase for Economy passengers and a £6 increase for our other passengers. However, we are pleased that the long haul rate for Economy passengers will be frozen from 1 April 2019. We were disappointed this was part-funded by a 10% increase for our other passengers – from £156 to £172 – raising the cost of business travel just as the UK withdraws from the EU.

Terrorism

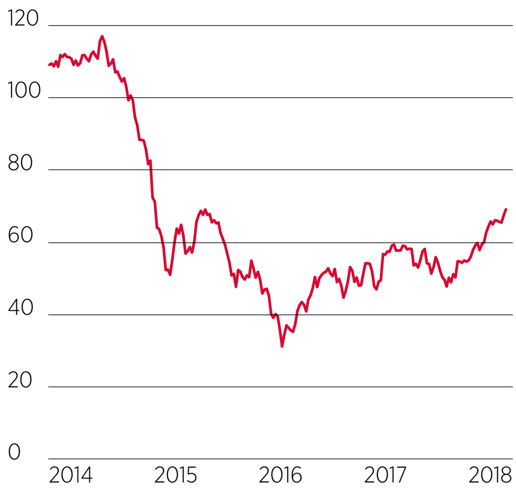
Major UK and US cities have been subject to terrorist attacks including Virgin Atlantic destinations Las Vegas, London, Manchester and New York. A small immediate impact on demand was quickly reversed, demonstrating the resilience of consumers in the face of such atrocities.

Severe weather events

Major snow storms on the US East Coast and category four and five hurricanes Harvey and Irma respectively in the Caribbean and US affected our airline and tour operator operations. Unavoidable delays and cancellations increased costs as we provided customer care and assistance during incidents and compensation.

Brent

Brent spot price $ / bbl



Source: Bloomberg

We support Heathrow expansion provided it delivers a significant increase in airline competition.

Key resources

Foundation of our business

People	Customer proposition
Brand	Partnerships & suppliers
Network & slots	Fleet
Technology	Capital structure

Business lines

Three brands, winning together

Plan to Win

How we do it

People – Us at our Best

— The Virgin Atlantic ethos is that if we look after our people, they will look after our customers.

— We recognise that our people are our biggest differentiator and we ensure that they can be at their best by connecting them to our purpose and values, giving them the tools they need, and recognising their performance.

Customer – Loved for Service

— Our focus is always for the customer with flair.

— We strive to deliver a personalised and effortless experience that differentiates us from other airlines and tour operators.

Shifting Gears – Building the Platform

— Transforming our business by building an organisation that is resilient, with the flexibility to meet our customers' needs and a cost base that reflects the size of our business.

— Investing in technology transformation that equips our people with the tools to deliver great service.

Performance – Delivering the Goods

— We deliver the goods financially and operationally by realising the full potential of our Joint Venture with Delta, and realising the potential for closer co-operation between Virgin Holidays and Virgin Atlantic.

— We also achieve deep integration with other airline partners to increase network reach, provide short haul feed and optimise operational performance.

Outcomes

Creating value for our stakeholders

People

9,823

employees

Customers

#1

for UK-TATL customer satisfaction[1]

Partners

35,000

pax per month connecting to / from Delta domestic flights

Environment

23.7%

reduction in aircraft CO_2 since 2007

Shareholders

4.1%

ROIC[2]

1. IATA airs@t transatlantic 2017
2. Return on Invested Capital (ROIC) has been calculated as EBIT divided by net assets deployed, less net debt. Adjustments are made to EBIT and net assets to account for those aircraft operated under operating leases and mark-to-market movements on open contracts.

People – Us at our Best

Key developments

Open communications – connected leadership

Our plan is designed to engage and connect our people, putting them at the heart of everything we do. We took a significant step forward in modernising how we communicate in September, with the launch at Virgin Atlantic and Virgin Holidays of Workplace by Facebook. We introduced Workplace as a new way for us all to connect, work together, share stories and ideas, ask questions and provide feedback, at any time, from anywhere, on any topic. Right from the launch, Workplace proved its worth and has helped us change our business for the better. 77% of our people are using it regularly.

We launched a new internal TV programme, Ruby On Air. Made by, featuring and enjoyed by our people. Ruby On Air has proven a highly engaging way of keeping our people updated and connected with everything going on across both businesses.

95%
feel proud to work for Virgin Holidays

86%
would still like to be working with Virgin Holidays in 12 months' time

95%
care about the future of Virgin Holidays

86%
of employees are proud to work for Virgin Atlantic

78%
would still like to be working with Virgin Atlantic in two years' time

95%
care about the future of Virgin Atlantic

Our Engagement Survey results from 2017 were significantly improved providing a clear indication that we are going in the right direction.

Building our talent pipeline

Early in 2017, we took significant steps towards ensuring we had the right senior management structure to support our long-term vision. Following on from organisational design work carried out in 2015, we undertook further work to become fitter and nimbler in how we make decisions and to ensure our people are as connected as possible. The result was a management structure which:

- **develops key leaders** – one third of our senior leaders took on new functions or broader responsibility;
- **promotes collaboration and innovation across departmental lines** – we introduced a new business structure to prevent 'siloes' and encourage closer working; and
- **reduces the overall cost of our senior leadership structure** – we reduced our total senior leadership costs by £5.8m in 2017.

Nurturing future leaders

In June, we kicked off a refreshed talent development plan. So far, 80 of our senior leaders have been through a programme of masterclasses that form the basis of our new Executive Development Programme (EDP).

We made a successful application to the UK Government to be an employer apprentice scheme provider. This enables us to deliver our own industry-recognised apprenticeships, investing in future talent for Virgin Atlantic and our industry. We also successfully relaunched apprenticeship programmes in our Engineering and Maintenance division, for both Virgin Atlantic and Virgin Holidays.

In October, we were one of the first airlines to launch fast track recruitment schemes for individuals affected by the closure of Monarch Airlines, helping cabin crew, pilots, and engineers secure new roles.

We unveiled a completely changed approach to our Wellbeing programme, introducing a comprehensive strategy under the 'Living Well, Working Better' banner, focusing on three aspects of wellbeing: mental health, physical health and financial health. Our efforts in wellbeing were recognised when we achieved the National Workplace Wellbeing Charter in November – the first Company to do so in West Sussex.

Customer – Loved for Service

Key developments

A new plan to delight our customers

With a customer investment programme of £300 million over four years up to the end of 2018, we are committed to being the leading airline for irresistible customer service. We have created a new plan built on four pillars – engagement, excitement, excellence and efficiency. Our focus is on engaging our customers, with flair. We do this by:

— striving to deliver a personalised and effortless service where we engage with our customers to make friends with them;

— delivering excitement with Virgin flair and innovation, understanding our customers' needs and constantly asking 'what if?' to meet them;

— remembering that excellence is not an act but a habit; we are focused on getting it right every time with continuous improvement; and

— being competitive on price, knowing that our efficiency is critical to delivering real customer value.

Delivering irresistible experiences

Through Me and My Leadership and Me and My Customer programmes, all of our cabin crew have undertaken training to understand how we make friends with our customers and truly understand their needs. This has led to dramatic improvements in our NPS scores and has also helped to drive engagement.

From January we welcomed our customers to a fabulous new environment at Gatwick's North terminal. The successful move from Gatwick South enabled us to create a next generation check-in area, making the process more sleek, simple and welcoming for our customers. A brand new Clubhouse and Virgin Holidays v-room further enhances our award winning customer experience, with a fresh and exciting place for our customers to relax and enjoy. There are great new environments for our teams too, with improved office spaces for our Flight Deck, Cabin Crew, Engineering and Airports teams.

Innovations that excite

We continued to invest heavily in customer excitement with significant seat and experience innovations due to launch on our new A350 aircraft from 2019 and some interesting new customer touches on the three A332 aircraft from March 2018.

A new food and beverage programme is being developed that will see closer synergy between our Clubhouse and Upper Class offer and greater differentiation of Premium Economy.

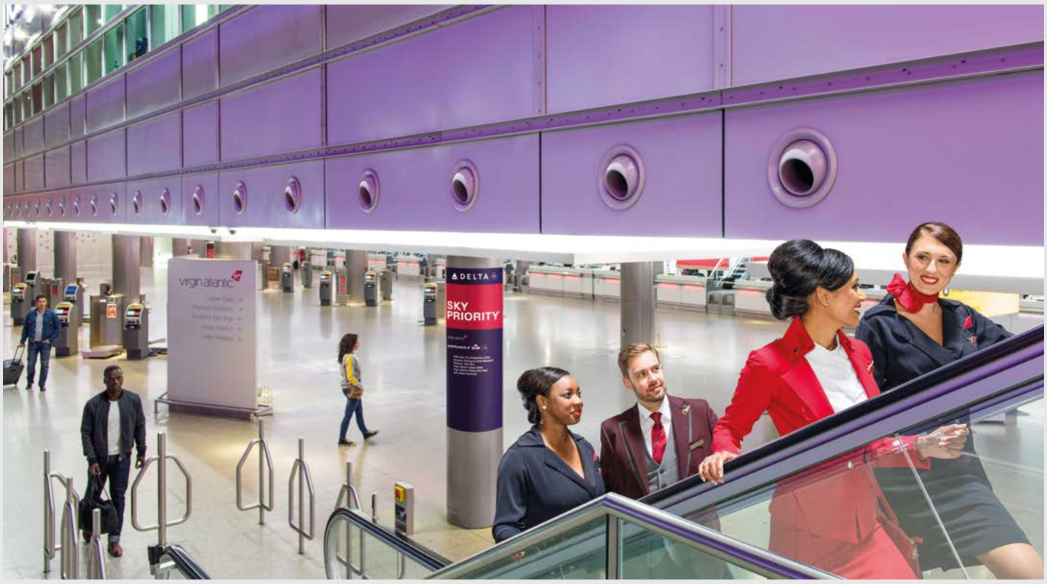
Our limo offer has been revised to ensure we can be more competitive. We now offer a great value transfer service that has been exclusively developed with our partners for all customers.

Investing in what customers value

Our focus on investing in what customers really value and not in what they don't has realised significant savings that can be re-invested into new ground and air products and experiences. Working with new partners we have overhauled our inflight entertainment with a new magazine and content, and have become the first European airline to offer Wi-Fi across our entire fleet.

Our Customer Centre will become more unique as it focuses on being the sales and service channel of choice to surprise and delight our customers, especially during the infrequent occasions when things go wrong. A new more proactive service is being developed as we reduce the number of calls that customers need to make, following improvements in our online ability to help customers self-serve.

Performance – Delivering the Goods



Key developments

Realising the full potential of our Joint Venture with Delta

Our Delta Joint Venture enabled us to connect 35,000 passengers per month to and from Delta domestic flights, an 18% increase since the start of the Joint Venture. Virgin Atlantic and Delta maintained the #1 and #2 spots in customer satisfaction rankings for UK-US traffic. By optimising the benefits of our Joint Venture, Virgin Atlantic grew traffic from the US by 4.4pts to 30%[1], while Delta grew traffic from the US by 7.1pts to 63% compared to 2016.

Overall, this year we have seen 20% more US based travellers onboard Virgin Atlantic flights.

We continue to optimise our relationship with Delta and established cross functional focus group tracking. This proved to be a success as Delta's UK revenue grew by 10.4% and UK familiarisation increased by 6pts compared to 2016. In addition Delta maintained its number one position for on-time performance across the Atlantic at London Heathrow.

We continued leveraging the shared technology platform of AIR4 to innovate for all our customers and we are delighted that the new US head office for Virgin Atlantic opened in Delta's HQ in Atlanta has enabled stronger communication and efficiency.

Realising the potential from closer co-operation between Virgin Holidays and Virgin Atlantic

We continued to focus on delivering further revenue and cost synergies between the two brands, with Virgin Holidays investing in new v-room retail stores, digital experience enhancements and the Experiences product launch. Because of our continued investment in the digital experience, in 2017, 34% of our holiday passengers booked online, up from 30% in 2016.

Partnerships

Our Flybe codeshare expanded to include their new Heathrow-Scotland services and we expanded our Jet Airways partnership to cover US-India flying as well as ten new destinations in India and South East Asia. We also announced a codeshare with Virgin Australia, creating all-Virgin travel experiences between the UK and Australia, due to start in March 2018.

1. The ratio for US to UK originating traffic.

Shifting gears – Building the Platform

Key developments

Platform to Serve

Platform to Serve has the power to make our customer experience stand out from the pack. Through the combination of a new Customer Relationship Management (CRM) tool, crew mobile devices and a new Campaign Management tool, we delivered a much more personalised service to our customers, gathering knowledge, always with their consent, so we can offer a seamless, human experience pre-flight and onboard. It will also help us make our marketing campaigns even more effective.

In 2017, we continued investing in the platform, laying the foundations for a single customer view – a secure, 360-degree repository of information that comprises approximately 2.5m customers, primarily Flying Club members. Our total investment in Platform to Serve, both in capital expenditure and in operating expenses, over the last two years reached £9m.

By pairing CRM technology with our loyalty and reservations systems, Virgin Atlantic customer service centres can now more closely manage and tailor customer journeys – for example pre-informing crew that a couple are travelling on honeymoon, or that a customer is a nervous flyer.

In addition to our customer centre teams, we continued to equip our front-line staff with mobile devices, which present relevant information about our customers to enable meaningful personalisation of their travel experiences, including a further 800 tablets to our Onboard Managers.

These devices have also allowed us to roll out a new Performance Management system that stores employee performance data and upwards and downwards feedback from colleagues, helping everyone deliver that unique Virgin Atlantic experience.

Key onboard catering processes have also now been digitised, resulting in quicker feedback loops when we deploy new menus and improved turnaround times for customers requiring a special dietary meal on their next trip.

AIR4 Roadmap

Through our Joint Venture, we share technological benefits as Delta has a seat at the table to help determine AIR4's future roadmap.

Delta funds more than $1bn into its technology estate every year, with a significant percentage building capability and enhancements into Deltamatic and therefore AIR4, which over the past year has delivered 99.95% uptime.

In 2017, our operations teams saw significant benefit in the use of new AIR4 tools to re-accommodate our customers during times of schedule disruption (e.g. weather events and aircraft equipment changes). This allowed our customers far faster and simpler rebookings onto new onward journeys. Furthermore, airports teams have more streamlined processes for improved customer service through combining multiple functions (e.g. kerb side check in, bag drops, lobby check in, boarding and departure) into a unified service platform. Finally, and most importantly, our customers have access to a significantly improved mobile app. Our investment in capital expenditure over the last three years in AIR4 reached £55m.

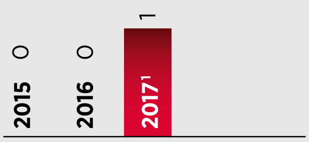
How we're measuring up

Virgin Atlantic

We have outlined the key performance indicators to measure our performance and align the Group's operational and financial performance with the future strategic priorities for the business. The financial indicators are not stated at constant currency.

Safety

Number of incidents

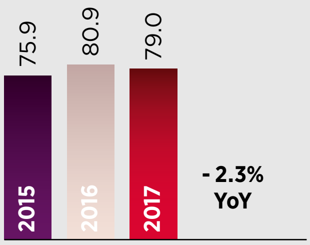


The safety, security and wellbeing of our customers and our people is our top priority.

Incidents subject to review by external body (e.g. AAIB, NTSB) are considered as significant incidents.

Passengers

On-time performance (A15) (%)

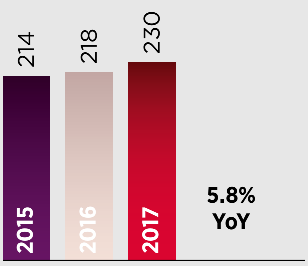


Best in class operational excellence for our customers is one of our key objectives.

A15 measures the percentage of flights that arrived within 15 minutes of our scheduled arrival time.

Cargo

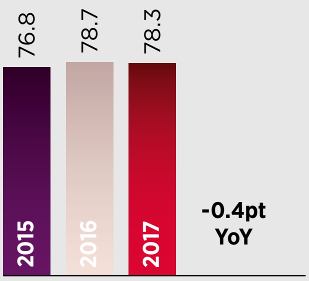
Cargo tonnage (kg) (m)



Cargo tonnage showing growth in volume.

Passengers

Load factor (%)

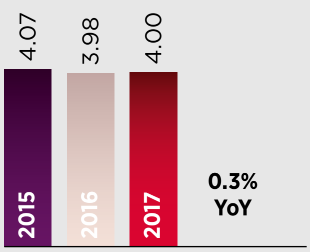


Load factor measures how efficiently we fill our seats.

Number of passengers as a percentage of number of seats flown adjusted by sector distance (calculated by dividing RPK by ASK).

Passengers

PRASK (p)

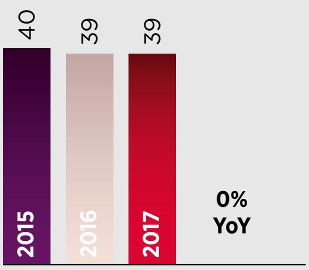


Passenger revenue divided by available seat kilometres.

1. On 27 November 2017, an EgyptAir B777-300ER and a Virgin Atlantic A330-300 were taxiing for takeoff at New York JFK Airport when their wings clipped each other as the EgyptAir aircraft tried to pass the stationary Virgin Atlantic aircraft. This incident is currently under review by the NTSB.

Capacity

Number of aircraft

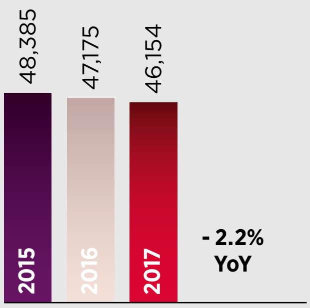


We take a disciplined approach to managing our capacity to deliver our performance results.

Number of aircraft at year end.

Capacity

Available seat kilometres (ASK) (m)

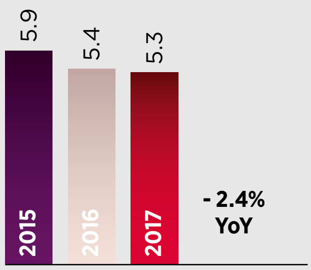


ASK is a measure of our passenger carrying capacity.

Number of seats available multiplied by distance flown.

Number of passengers

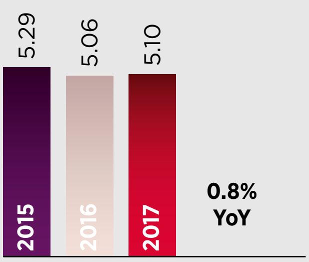
(m)



The number of passengers carried on Virgin Atlantic flights.

Airline passenger revenue per RPK

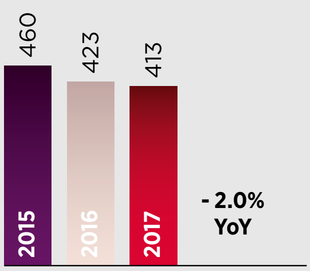
(p)



Our measure for yield, calculated as our total airline passenger revenue divided by the number of seats occupied by revenue customers multiplied by distance flown (calculated by dividing passenger revenue by ASK).

Fuel consumed

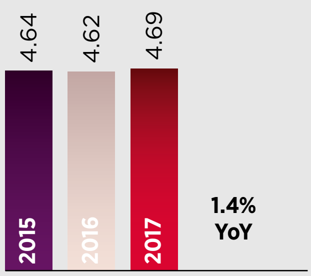
(USG) (m)



Fuel usage.

CASK

(p)

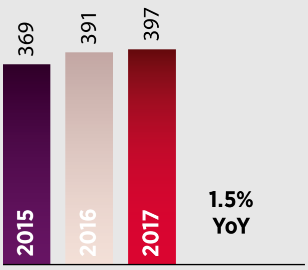


Controlling our operating costs is key. This is how much each seat on a flight costs us for every kilometre it operates (calculated by dividing Airline Operating Costs by ASK).

Virgin Holidays

Customers

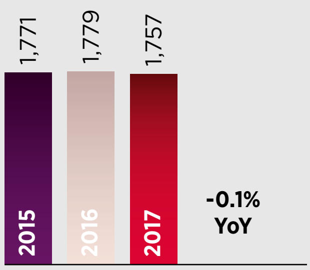
Total customers (000)



The total number of customers served by Virgin Holidays in the year – includes flight-inclusive packages, component-only and travel agency sales.

Revenue

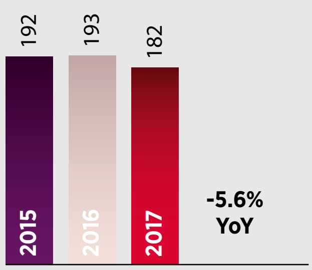
Tour operator revenue per passenger (£)



Revenue per passenger reflects the average price paid by our customers. It is a function of product mix, cost of sale inflation, currency exchange movements and commercial trading performance.

Financial

Cost per booked passenger (£)

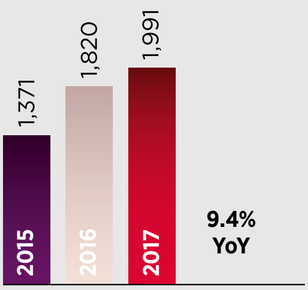


Cost per booked passenger is total operational and selling costs recognised in the period divided by inclusive tour and flight only passengers that booked in the period.

This is a measure of cost controlling and productivity.

Distribution

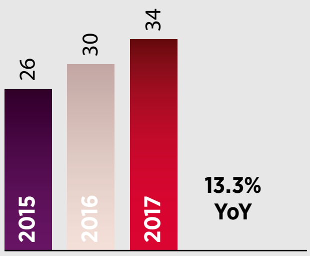
Booked passengers per retail store



This measures the number of booked passengers per retail store.

Distribution

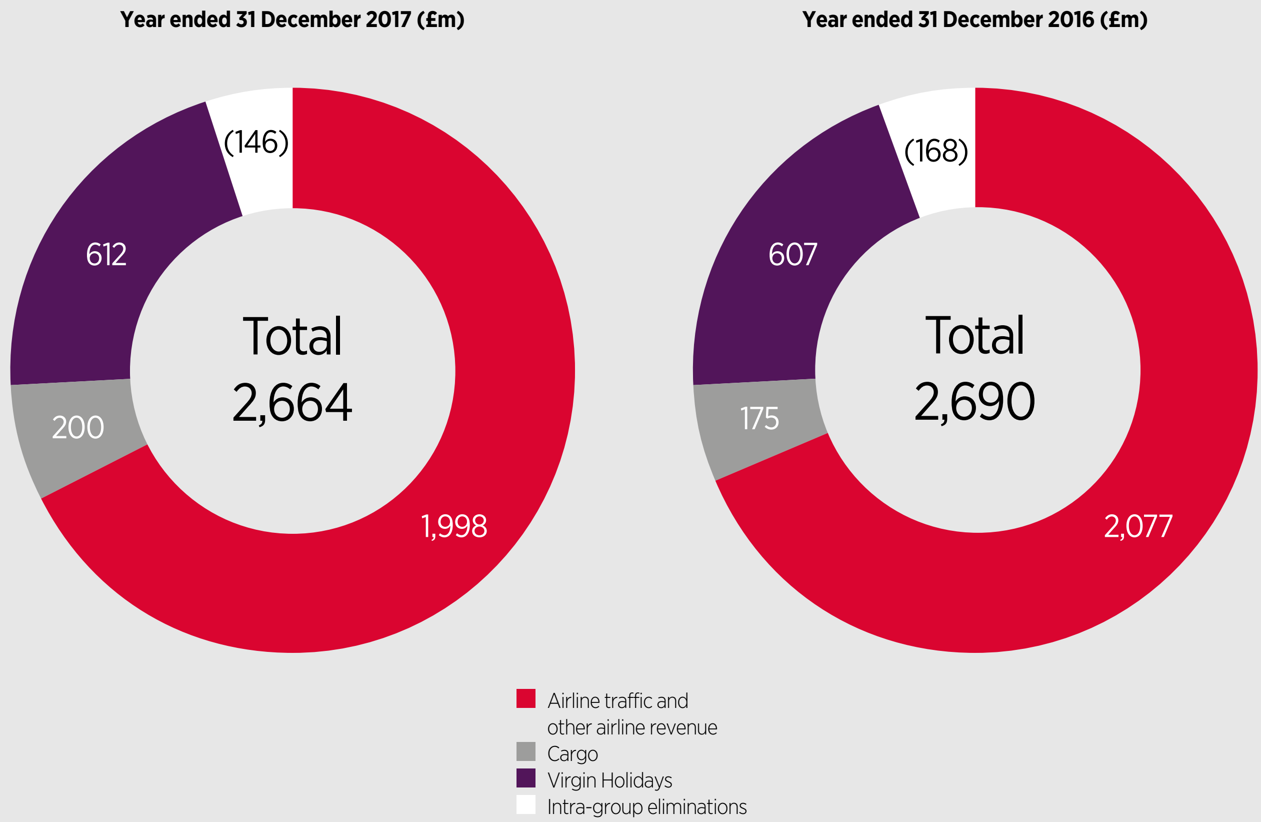
Online distribution (%)



This measures online distribution as % of total inclusive tour passengers booked in the year.

Group summary

Turnover by activity



Change is in the Air

That's because for us, sustainability means changing things for the better by working to improve the lives of people around the world, in the areas where we can have the most impact. This includes our environmental and supply chain activities and our non-profit partnerships.

While our Leadership Team is responsible for driving our Change is in the Air programme, it is not a top down strategy. People join our Company because of Virgin Atlantic's people driven approach. And our people love to make a contribution. From making key business decisions to reduce our emissions, to working with suppliers on responsible supply chain practices, through to the simple act of stepping up to help a community, an ethos of trying to do the right thing flows through our whole business – with our values lying at its heart.

A decade of improvement

Established in 2007, our Change is in the Air programme has made many real, measurable improvements to our business and our impacts. In 2016, we recorded our highest single-year carbon reductions, helping us to achieve a further improved CDP rating of A- (Leadership) in 2017.

Although it is what we do day in and day out that really counts, it's a great reflection on our team and their approach that in 2017, we were shortlisted for four industry awards: Carbon Management, and Employee Engagement and Behaviour Change at the edie Sustainability Leaders Awards; Best Corporate Social Responsibility Programme at the Business Travel Awards; and the World Travel and Tourism Council's Tourism for Tomorrow award for our sustainable onboard food and drink programme. Our collaborative partnership with LanzaTech, on the development of low carbon aviation fuel, was also recognised at the beginning of 2017, when we won the edie Sustainability Leaders Award for Sustainable Transport and Travel.

A clear focus

The focus of our programme is on areas where we think we can have the biggest effect overall. With the airline, we're clear that fuel and carbon efficiency is our number one environmental priority. But it doesn't stop there. We work across many other areas that are important to our customers and our people, like considering the people, animal and environmental impacts of our supply chains – what we buy and how it's designed – along with delivering more efficient ground operations, waste reduction and recycling, and working with communities around the world to make changes for good.

We want to share our successes and where we can do even better, so we'll be publishing our annual Change is in the Air sustainability report shortly. Before then, here are some of our 2017 programme highlights. You can keep up to date with our reports and news on our website too: www.virginatlantic.com/changeisintheair.

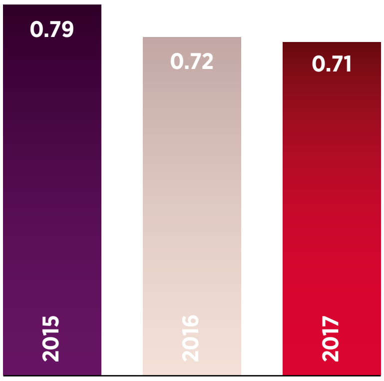
Addressing our biggest impact

Aircraft fuel use accounts for more than 99% of our operational (Scope 1 and 2) carbon emissions. If we consider both airline and holidays' supply chains (Scope 3) too, aircraft fuel still accounts for more than 80% of our carbon footprint. It's also the single biggest cost to our business, so it's a clear double win to address it.

The biggest difference we can make right now is through the aircraft themselves. We've continued to upgrade our fleet, bringing new, more efficient aircraft into service and retiring older, less-efficient ones. In 2017, we brought another Boeing 787 into service, taking our total to 14. Over the next four years, we plan to switch in three more 787s and 12 A350s. And through a combination of aircraft and engine efficiencies and network planning to optimise passenger numbers and cargo loads, each aircraft is around 30% more fuel efficient per trip than the aircraft it is replacing.

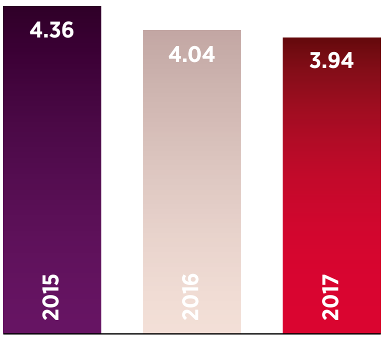
At the beginning of 2017 we won the edie Sustainability Leaders Award for Sustainable Transport and Travel.

CO_2 (kg) per revenue tonne kilometre



Total aircraft CO_2 emissions

(tonnes) (m)



In 2007, we set a target to reduce our CO_2 per revenue tonne kilometre (CO_2/RTK) by 30% by 2020. CO_2/RTK is an efficiency measure which accounts for the amount of CO_2 emitted in relation to the people, luggage and cargo we carry. Thanks to our new aircraft, we're working our way towards this target. Our efficiency improved again in 2017, with an in-year reduction of 1.8% in our CO_2/RTK and an 18.2% reduction overall since our 2007 baseline.

2017 also saw a continuing reduction in total CO_2 emissions from our fleet. The chart shows total CO_2 emissions of 3.94m tonnes, a 2.5% reduction since 2016, and a 23.7% reduction since 2007. We also reduced CO_2 per passenger km by 0.9% to 78.2g (down by 22.7% since 2007).

Slimming for success

Operational issues affect how much fuel we use in flight. For example, throughout 2017 we've been reviewing what we carry onboard using crew feedback and trend analysis. We've made some changes and have reduced overstocking for night flights, when most of our passengers are snoozing, not supping. On average we've reduced the weight of each aircraft by 75kg, which will save around 1,100 tonnes of CO_2 and £170,000 in fuel per annum across the fleet.

We've continued to upgrade our fleet, bringing new, more efficient aircraft into service and retiring older, less-efficient ones.

18.2%

Reduction in CO_2 emissions per revenue tonne km since 2007

22.4%

Per passenger kilometre reduction in CO_2 since 2007


Sir Richard Branson with LanzaTech CEO Dr Jennifer Holmgren

Fuelled by innovation

The next big opportunity to reduce aircraft carbon emissions will come from sustainable aviation fuels (SAF). We've been working with the cleantech company LanzaTech since 2011, actively supporting the scale up of their process to convert industrial waste gases into various low carbon products, including jet fuel. Following production of their first significant batch of SAF in 2016 (4,000 US gallons), we're going all out to secure the necessary permissions to fly with this advanced new fuel, as well as lock in government policy support to build the world's first LanzaTech, low-carbon, commercially viable jet fuel plant in the UK. Talks are going well and there's been encouraging progress, but we're now at a tipping point where we're critically dependent on government help to get this huge breakthrough over the line.

It's clear that international aviation will also need to take further steps to limit carbon growth from our sector. For this reason, we've been a longtime supporter of an industry-wide market-based measure and were pleased when the new UN-led Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) was agreed in October 2016. In 2017, we've been mapping out what this means in terms of costs and opportunities, and the carbon reduction projects we can support to best global effect.

Coming together

At the end of 2016, we completed our move to our new office, The VHQ. Because it was designed from the ground up with efficiency in mind, we're already seeing impressive energy savings. Compared to last year, our energy emissions from our main buildings have reduced by an impressive 28% to ~6,000 tonnes.

We're also moving to a fully hybrid and electric car fleet. We're 47% through this replacement programme with 44 petrol-electric hybrids and two fully electric vehicles.

Supply chain engagement

Together, Virgin Atlantic and Virgin Holidays have thousands of suppliers worldwide. Our goal is to work with them to improve the people, environment and animal welfare standards of the products and services we design, buy and contract. Our comprehensive Responsible Supplier Policy emphasises these expectations to our suppliers, and is based on international standards of basic human rights, as well as the UK's Modern Slavery Act. In 2017 we published our first statement under this Act, which can be viewed on our website. We've continued working on this important issue throughout 2017 and will publish a new statement in the spring.

Our commitment is based on ensuring our teams understand our responsible supply chain goals and are given practical ways to ensure we fulfil them. For example, to embed sustainable design and buying practices, this year we held a series of cross-departmental workshops for our senior design, buying and contracting leads and regional managers. We used these workshops to highlight key human rights, environmental and animal welfare issues and to work together on improving our principles and practices. We'll be working with key departments to develop further tools, training and resources in 2018.

Refining our focus

To increase our positive impacts, we've been taking steps to sharpen our focus, for example:

- Since partnering with the Sustainable Restaurant Association (SRA) in 2012, we've made considerable progress on the sustainability of our onboard food and drink. Together, we've been asking our suppliers to meet a number of challenging criteria: sourcing fair trade products, ensuring employment rights for workers, promoting higher animal welfare standards, and sourcing sustainable certified fish, seafood, beef, soy and palm oil (or finding better alternatives). All our caterers worldwide are required to work towards these criteria and confirm compliance through an annual statement of assurance and an SRA audit.
- Animal welfare is an important issue for our customers and our people. We introduced a new commitment in 2017: we won't sign up any new attractions that feature captive cetaceans for human entertainment purposes; to audit existing facilities against recognised animal welfare standards and promote best practice; to support the creation of sanctuaries for animals currently in captivity; and to support the development of more responsible wild whale and dolphin watching experiences.

We used these workshops to highlight key human rights, environmental and animal welfare issues and work together on improving our principles and practices.

Credit: Aniqa Rahman

Our non-profit work

We have a number of much-loved charity and other non-profit partnerships which support and enhance our Change is in the Air programme. In 2017, we distributed a total equivalent to £1,562,426 in our people's time, money and other things to charity.

Through the Virgin Atlantic Foundation, we continued our longstanding airline partnership with WE, a charity that seeks to bring people together and give them the tools to change the world. In addition, our business also supported a number of other charities close to our people's hearts. And through our onboard Change for Children appeal, our generous customers raised a total of £680,000. Through staff fundraising, we were also able to donate an additional £169,849, £100,000 of which will now be invested into a WE community in rural China to support teachers and school children, with the remaining funds for other charities and WE projects.

For more than a decade, £1 per adult and 50p per child has been included in every holiday sold by Virgin Holidays to raise money for our non-profit partners. With these funds, in 2017 we contributed £200,000 to the Caribbean Branson Centre for Entrepreneurship. By providing networking, training and mentoring, the Centre empowers young entrepreneurs to develop and scale their businesses and ultimately create jobs. We also supported sustainable tourism projects in different parts of the world with a £48,000 contribution to the Travel Foundation and sponsored The World Whale Conference in South Africa to promote responsible whale and dolphin watching tours.

Emergency support and appeals

During times of humanitarian crisis, onboard our flights we run emergency Change for Children appeals to support Save The Children relief efforts.

In March 2017 we raised £9,323 to support their East Africa Food Crisis appeal. In September, Hurricane Irma ripped through the Caribbean causing unprecedented damage, including to a number of Virgin Atlantic and Virgin Holidays destinations. This time our onboard emergency appeal raised £23,114 for Save the Children. We also arranged relief flights, transported in excess of eight tonnes worth of aid, building materials, blankets and bottled water, and provided travel for aid workers.

Empowering the change

Through the Virgin Atlantic Foundation, we primarily support two main programmes with WE.

— In the UK, we fund the 'Be The Change' WE Schools programme which provides free educational resources and support to approximately 4,500 students aged 7 to 18 years, empowering them to discover, and take action in, the causes they care about.

— Outside the UK, we support WE Villages (WE's international development programme), which focuses on delivering long-term change to communities in poor, remote and rural areas – empowering these communities to be self-sustaining.

Rewarding the change

In 2017 we launched a new Change is in the Air award, inviting UK pupils to share their project ideas for making their local or global communities more sustainable, with the five winning applicants awarded up to £1,200 towards developing their sustainability initiative.

Our five winners included:

— a tree planting project

— a river clean up campaign

— a social enterprise selling marula soap and oil (local to a village in Botswana) in Scotland, and reinvesting the profits back into Botswana.

We fund the 'Be The Change' WE Schools programme which provides free educational resources and support to 4,500 students aged 7 to 18 years.

Principal risks and uncertainties

The highly regulated and commercially competitive aviation environment, together with operational complexity, leaves us exposed to a number of significant risks.

Our focus remains on mitigating these risks at all levels of the business, although many remain outside of our control such as government regulation, taxes, terrorism, adverse weather, pandemics and the economic conditions in the markets in which we operate.

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

Business and operational

Risk	Impact and mitigation
Brand reputation	The strong reputation and loyalty engendered by the Virgin Atlantic brands is a core part of the value of our business. Any damage to the brands caused by any single event, or series of events, could materially impact customer loyalty and propensity of customers to travel and so adversely affect our business. We regularly monitor customer satisfaction through monthly customer surveys, alongside ongoing research and development of our product and services, in order to mitigate this risk. We allocate substantial resources to safety, operational integrity, onboard product and new aircraft to maintain our strong brand position.
Economic conditions	Our operations are particularly sensitive to economic conditions in the markets in which we operate and, following the outcome of the UK referendum to leave the EU, there remains uncertainty as to how this will affect the UK economy. A global or UK economic slowdown may adversely affect the demand for business and leisure travel, and cargo services, which could result in a material adverse impact on our financial performance. We produce a regular trading revenue forecast, which is reviewed by the Executive Management Team and appropriate actions are taken.
Government intervention	Regulation of the aviation and tour operator industries is increasing and covers many of our activities, including safety, security, route flying rights, airport slot access, data protection, environmental controls and government taxes and levies. The ability both to comply with and influence any changes in these regulations is critical to maintaining our operational and financial performance. The UK's withdrawal from the European Union is expected to take place on 29 March 2019, although both the UK Government and EU are seeking to agree an implementation period of approximately two years, most likely mirroring the UK's existing terms of membership. While there is a risk that no transition period is agreed, this is mitigated through our support for UK Government's negotiations to agree new bi-lateral Open Skies agreements with our existing markets such as the US, to take immediate effect upon the UK's withdrawal, either in 2019 or post-transition in 2020 / 21. We expect the UK Government to make further announcements on their progress in H1 2018.

Business and operational

Risk	Impact and mitigation
Government intervention	Virgin Atlantic has also identified additional risks arising from the UK's withdrawal from the EU. This includes the status of the UK's membership of the European Air Safety Agency (EASA), tariff and non-tariff barriers impacting upon our customs operations and procurement and the legal status of EU nationals currently employed in the UK by Virgin Atlantic. We continue to engage the UK Government to understand how its negotiating objectives are expected to impact upon the risks identified and to shape their understanding of these impacts upon Virgin Atlantic. The agreement between the UK Government and EU in December 2017 on the terms of withdrawal, and the current negotiating objectives of both the UK and EU, indicates that these risks are likely to reduce over time, subject to final agreement on the terms of withdrawal in H2 2018. We are however preparing strategies to mitigate these risks should the negotiating objectives of the UK Government or EU change. Globally, we continue to assess political risk and work with governments across the world to limit any potential regulatory impact on our operations.
Safety, terrorism and security incidents	The threat of terrorism on the aviation and tour operating industries has an impact on us. As a result, we ensure that the safety of customers, crew and staff is at the heart of our business. Failure to respond to terrorism or security incidents may adversely impact our operations and financial performance. We adopt a holistic approach to security, with the Corporate Security team having overall responsibility for security matters linked to aviation, border security, cargo, facilities, IT, personnel and asset protection. To ensure the robustness of our security regime, we operate a self-inspection and test programme. Joint audits and inspections are also conducted with regulators. Regulated compliance performance is monitored by way of a dedicated scorecard which is reviewed at the Safety and Security Review Board. In view of the ongoing terrorist targeting of civil aviation and the potential impacts of global geopolitical events, much focus is placed on threat monitoring and assessment to ensure that we have the most current and accurate data to make informed judgements about the security of our human and physical assets.
Failure of a critical IT system	We are dependent on IT systems for most of our principal business processes. The failure of a key system through an internal or external threat (including a cyber attack) or event may cause significant disruption to operations or result in lost revenue. System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.
Key supplier risk	We are dependent on suppliers for some principal business processes. The failure of a key supplier to deliver contractual obligations could have a significant impact on operational performance and customer delivery. In light of an industry-wide shortage of Rolls-Royce Trent 1000 engines, used on our Boeing 787 aircraft, we plan to take delivery of three Airbus A330s in 2018 to add resilience to our fleet. To further mitigate this risk, a close relationship is maintained with key suppliers in order to ensure we are aware of any potential supply chain disruption.

Business and operational

Risk	Impact and mitigation
Industrial Relations	Industrial action by key groups of our employees, or by the employees of key third party service providers, could have potentially adverse operational and / or financial impacts on the Group. We have an ongoing trade dispute with the PPU who are seeking recognition at Virgin Atlantic. We recognise the unions Unite the Union and BALPA and emphasis has been placed on ongoing dialogue and resolving issues early at a departmental level thereby attempting to avoid escalation.
Financial risk management	The Directors are responsible for setting financial risk management policies and objectives, and for approving the parameters within which the various aspects of financial risk management are operated. The Directors have delegated powers to the Financial Risk Committee to ensure that the policies and objectives are fully implemented in line with the Board approved policy. The financial risk management policies outline our approach to market risk (including foreign currency risk, interest rate risk and fuel price risk), counterparty credit risk and liquidity risk. Group Treasury carries out financial risk management within the parameters of the Board approved policies and controls are in place to maintain operational compliance with key reporting requirements in respect of the Group's financing arrangements.
Liquidity risk	Our working capital is financed by retained profit and sales in advance of carriage. The major risks to liquidity are driven by business performance, capital investment and associated timing of cash flows. These risks are managed by taking corrective actions in the form of amendments to fleet, network and the cost base in response to changing external factors and ensuring that suitable lines of credit are available to provide capital as required.
Interest rate risk	The Company is exposed to the risk of increased costs as a result of movements in interest rates on floating rate debt and cash investments. The net exposure to movements in interest rates is calculated and managed with a view to reducing the impact of any potential rate increase. The mix of fixed and floating rate products are managed to reduce exposure and where necessary the Company will utilise financial instruments approved under the financial risk management policies.
Foreign currency risk	Exposure to USD denominated costs including aviation fuel, aircraft rentals, hotel costs and other USD financing arrangements result in a short US Dollar position. In addition, there is a net exposure to a number of other currencies due to the local currency revenues exceeding costs. Exposure is reduced through the matching of receipts and payments in individual currencies and utilising natural hedges that exist within the business. Where a significant exposure in foreign currency holdings remains, the Company will utilise financial instruments approved under the financial risk management policies. Repatriation may be constrained in countries where exchange controls are imposed to regulate the flow of money either because it is not permitted by the authorities in the overseas country or because it is difficult to obtain the foreign currency required. Exposure to these countries and currencies are closely monitored to identify any issues at an early stage and to take remedial action both operational and financial to minimise the value of these funds.

Business and operational

Risk	Impact and mitigation
Fuel price risk	There is a considerable exposure to adverse movements in the price of jet fuel. The Company aims to protect the business from significant near term adverse movements in the jet fuel price, while maintaining an element of price participation when fuel prices are favourable. This is managed with a combination of fixed price supplier contracts and financial instruments approved under the financial risk management policies.
Counterparty credit risk	Exposure to counterparty credit risk arises from the non-performance of counterparties in respect of financial assets receivable. The Company aims to reduce the risk of loss from non-performance by diversifying exposure and adhering to set limits on credit exposure to counterparties based on their respective credit ratings. Counterparty credit quality is verified before creating actual or potential exposures to counterparties. Actual exposures are regularly reviewed and if outside of the acceptable tolerances, management will take a decision on any remedial action.
Derivative financial instruments	Derivative financial instruments are used selectively for financial risk management purposes. The Company does not speculatively trade and use these instruments to manage the underlying physical exposures of the business. 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 and appropriate counterparty agreements, which either don't have a margin requirement, or which only require cash margins over an agreed mark-to-market threshold.

Compliance and regulatory

Risk	Impact and mitigation
Compliance with competition, anti-bribery and corruption law	We are exposed to the risk of unethical behaviour by individual employees or groups of employees resulting in fines or losses to Virgin Atlantic. To mitigate this risk we have comprehensive training schemes and controls in place to both prevent and detect non-compliance.
Compliance with regulatory authorities	We are exposed to regulation across our network, including the Civil Aviation Authority (CAA). The CAA authorises Virgin Atlantic to continue its activities following assessments of safety, ownership and control, and financial fitness criteria, the broad framework of which is available via the CAA website (www.caa.co.uk).

The Strategic Report was approved by the Board of Directors on 14 March 2018 and signed by order of the Board by

Ian de Sousa
Company Secretary

Delivering long-term success

The Board of Directors comprises seven Non-Executive Directors and two Executive Directors. Four of the Non-Executive Directors are appointed by Virgin Group, which holds 51% of the Company's shares, and the other three Non-Executive Directors are appointed by Delta which holds of 49% of the Company's shares. The two Executive Directors are the Chief Executive Officer and the Chief Commercial Officer, who are full-time employees of the Group. In addition, the Chief Financial Officer has been appointed as alternate Director to the two Executive Directors and is also a full-time employee of the Group.

The Executive Directors have regular meetings with representatives of both shareholders as well as with their Board representatives.

The Board is responsible for the long-term success of the Group. To achieve this the Board leads and provides direction for the Executive Management Team by setting our strategy. Its role includes overseeing strategic decisions, scrutinising the performance of its management in meeting the goals set by the Board, and taking a pro-active role in monitoring the performance of the Group as a whole.

The Board convenes in person regularly and there are additional calls for Management to update the Board on the Group's performance.

For the year ended 31 December 2017 the members of the Board were:

Sir Richard Branson

President and Non-Executive Director

Conceived in 1970 by Sir Richard Branson, the Virgin Group has gone on to grow successful businesses in sectors including mobile telephony, travel and transportation, financial services, leisure and entertainment and health and wellness. Virgin is a leading international investment group and one of the world's most recognised and respected brands.

Since starting youth culture magazine "Student" at aged 16, Richard has found entrepreneurial ways to drive positive change in the world. In 2004 Richard established Virgin Unite, the non-profit foundation of the Virgin Group, which unites people and entrepreneurial ideas to create opportunities for a better world. Most of his time is now spent building businesses that will make a positive difference in the world and working with Virgin Unite and organisations it has incubated, such as The Elders, The Carbon War Room, The B Team and Ocean Unite. He also serves on the Global Commission on Drug Policy and supports ocean conservation with the Ocean Elders.

Peter Norris

Chairman and Non-Executive Director

Peter is the Chairman of the Virgin Group, a position he took up in 2009. Prior to this he acted as an adviser to the Virgin Group from 1996 and had chaired Virgin Active from 2002 to 2007.

When he took up this position, Peter had over 35 years' experience in investment banking and business management having worked at both Barings and Goldman Sachs, before establishing a corporate finance business which, in 2007, he merged with AIM listed merchant bank Quayle Munro Holdings Plc. Peter served as CEO of the combined entity until 2009, when he resigned to take on the role of Chairman of Virgin Group, and remains a senior adviser to Quayle Munro.

Gordon McCallum

Non-Executive Director

Gordon is a Non-Executive Director appointed by Virgin Group.

Gordon has extensive board, financial and management experience from a range of sectors including media, telecommunications, financial services and aviation.

Gordon joined Virgin in 1998, and led the strategic development of the Virgin Group from 1998 to 2012. During this time, he was heavily involved in the establishment of the Group's banking and mobile phone businesses and in Virgin Money's acquisition of Northern Rock.

In addition to serving as a Non-Executive Director at Virgin Atlantic Limited, Gordon is also a Director of a number of non-Virgin companies, including John Swire & Sons Limited and Hunter Boot Limited, where he serves as Chairman. Gordon is a Senior Advisor to private equity firm, Searchlight Capital.

Prior to joining Virgin, Gordon spent several years working as a management consultant at McKinsey & Co. in the US, and as an investment banker for Baring Brothers in London and Asia.

Ian Woods

Non-Executive Director

Ian is the General Counsel and Chief Operating Officer (COO) at Virgin Group.

Ian has been with Virgin since 2005 and has responsibility for various functions within Virgin Management including Legal, People, Company Secretariat, Facilities and IT as well as for advising Virgin companies on a broad spectrum of legal issues across different business sectors and jurisdictions. Ian sits on the Board of various group companies including Virgin Management, Virgin Atlantic, Virgin Limited Edition and Virgin Enterprises (the owner of the Virgin trademark).

Ian previously worked as a corporate lawyer for leading international law firm Slaughter and May. Ian holds an LLB from Sheffield University.

Ed Bastian

Non-Executive Director

Ed became Chief Executive Officer of Delta Air Lines on 2 May 2016 after nearly 18 years with the airline.

In his previous role as President, Ed focused on leading Delta's commercial and international functions and strengthening Delta's financial foundation through innovation, debt reduction, revenue growth and bolstering the airline's global network.

Ed was a central part of the team that led the airline from bankruptcy to its current position as the industry's leader. Named Delta's CEO in May 2016, Ed is committed to putting Delta's shared values of honesty, integrity, respect, perseverance and servant leadership at the core of every decision.

Under Ed's leadership, Delta is focused on operating the nation's most reliable and customer-centric airline; expanding its global footprint; and striving to become the airline of choice for the next generation of travellers.

Prior to joining Delta, Ed held senior finance positions at Frito-Lay International and Pepsi-Cola International. Ed started his career with Price Waterhouse where he became an audit partner in its New York practice.

Glen Hauenstein

Non-Executive Director

Glen Hauenstein is President of Delta Air Lines, a position he assumed on 2 May 2016. Glen was previously Executive Vice President and Chief Revenue Officer.

Glen oversees a team responsible for Delta's marketing, network, revenue management, reservation sales, customer care, customer engagement and loyalty strategies. Glen also oversees Delta's community engagement campaign, which inspires and enables thousands of employees to become more involved in the communities where they live and work.

Since joining Delta in 2005, Glen has masterminded the transformation of the airline's network from a primarily domestic operation to a nearly even mix of international and domestic service. He led a team in building a network that includes Delta flights to six continents and extended reach through a leading transatlantic Joint Venture with Air France-KLM and Alitalia, and a transatlantic Joint Venture with Virgin Atlantic Airways. During this time, Delta substantially improved its revenue performance compared to its competitors. Additionally, Glen has directed significant enhancements to Delta's product both on the ground and in the air. Under his leadership, Delta has also implemented significant enhancements to its technology and eCommerce capabilities, including the introduction of the popular Fly Delta app.

Before joining Delta, Glen served as Vice General Director for Alitalia, serving in the dual role of Chief Commercial Officer and Chief Operating Officer where he led a major restructuring of Alitalia's route network. Prior to joining Alitalia in 2003, Glen was Senior Vice President – Network for Continental Airlines.

Nathaniel Pieper

Non-Executive Director (resigned on 1 August 2017)

Nathaniel (Nat) Pieper served as Senior Vice President - Europe, Middle East and Africa for Delta Air Lines. Nat resigned on 1 August 2017 having been promoted to Senior Vice President-Alliances for Delta Air Lines. In his role as Senior Vice President-Europe, Middle East, Africa and India he oversaw all commercial activities in the region. Delta achieved its highest-ever customer and employee satisfaction ratings in the region in 2015 and 2016 under Nat's leadership, translating into the two best years of EMEAI profitability in the company's history.

Prior to moving to Europe, Nat served as Vice President – Fleet Strategy and Transactions, where he was responsible for all activities related to Delta's 1,300 aircraft, including strategy, analysis, acquisition, disposition, and fleet capital investments. Major fleet accomplishments in Nat's career include execution of eight distinct multi-billion dollar aircraft analysis and acquisition campaigns.

Cornelis Koster

Non-Executive Director (appointed on 1 August 2017)

Cornelis (Corneel) Koster serves as Senior Vice President – Europe, Middle East, Africa and India for Delta Air Lines, and was appointed to the Board on 1 August 2017. Based in the UK, Corneel oversees Delta's sales in the region while also coordinating operational aspects and service delivery to Delta's customers, all in close partnership with Delta's partner airlines including Air France-KLM, Alitalia, Virgin Atlantic Airways and Jet Airways.

Corneel has a wealth of international leadership experience in the airline industry in senior operational as well as commercial roles held at Aeromexico, Virgin Atlantic, Air France-KLM, KLM and KLM Cargo. Before joining Delta, Corneel was Chief Operating Officer for Aeromexico, overseeing the operations, maintenance and performance of Mexico's leading airline group that runs over 650 services a day as well as the company's cargo and ground-handling subsidiaries. He previously served as Virgin Atlantic's Director of Operations, Safety and Security, leading all operational workforces in the air and on the ground, while also overseeing Corporate Safety and Security. Prior to that Corneel held several commercial leadership roles in the passenger, ground handling and cargo businesses of Air France-KLM, and before that KLM.

Corneel is a Dutch national and has worked extensively in Europe, Africa, the Middle East, Asia and the Americas.

Craig Kreeger

Executive Director (Chief Executive Officer)

Craig was appointed Chief Executive Officer of Virgin Atlantic on 1 February 2013. Craig initiated and delivered the Company's successful Two Year Recovery Plan, returning it to profitability in 2014 while improving both customer service ratings and team engagement scores. Craig has led the implementation of Virgin Atlantic's transatlantic Joint Venture with Delta, rationalised the route network and dramatically shored up the balance sheet as the Company now focuses on delivering its Plan to Win.

Craig joined from American Airlines, where he had a 27-year career spanning commercial, financial and strategic roles in the US and around the globe.

Craig joined AA in 1985 as an analyst and was appointed Senior Vice President, Customer in 2012. He spent six years in London as Senior Vice President, International and was responsible for AA operations and sales throughout Europe, the Middle East, Africa and the Pacific. He has worked on AA joint ventures with British Airways and Iberia across the Atlantic, as well as its partnership with Japan Airlines in the Pacific.

Shai Weiss

Executive Director (Chief Commercial Officer)

Shai joined the Virgin Atlantic Board in summer 2012 as a Non-Executive director from Virgin Management Ltd, where he had been an Investment Partner and was a Founding Partner of Virgin Green Fund. In July 2014 he became an Executive Director when he accepted a position as Executive Vice President and Chief Financial Officer in July 2014

Shai became Chief Commercial Officer from 1 January 2017. Shai now oversees a team responsible for Virgin Atlantic's international marketing, network and alliances, revenue management, sales and loyalty. Shai is also responsible for developing the airline's long-term strategy as well as the Company's transformation programme aimed at becoming an even more agile and nimble carrier. Together with the leadership team, Shai is focused on achieving profitable growth by translating Virgin Atlantic's unique assets into a Virgin experience to delight our guests.

Shai has extensive financial and operational expertise. Prior to joining Virgin Group, he held several senior management positions at ntl:Telewest (now Virgin Media), the UK and Europe's largest cable operator. Shai was part of the turn-around of ntl with roles including Managing Director of Consumer Products, Director of Operations, and Director of Financial Planning for the Consumer division. Shai was also behind the merger of Virgin Mobile UK and ntl:Telewest and the re-brand to Virgin Media. Prior to ntl, Shai established the European office of early-stage technology venture fund JVP and was a senior associate with Morgan Stanley.

Dwight James

Alternate Non-Executive Director

Dwight James is appointed to the Board as alternate Director for Ed Bastian, Glen Hauenstein and Corneel Koster. Dwight serves as Senior Vice President – Transatlantic at Delta Air Lines, leading the Network and Pricing and Revenue Management functions of the Europe, Middle East, Africa and India regions. Dwight works closely with Joint Venture partners Air France-KLM and Alitalia, and Virgin Atlantic on all commercial activities to optimise revenue and profitability.

Prior roles at Delta include serving as Vice President of Pricing and Revenue Management, Chief Economist and Director of Corporate Strategy & Business Development.

Prior to Delta, Dwight was an entrepreneur, serving as Managing Partner with James-Lewis, a Management Consulting and Principal Investment firm. During that period, he was the interim Chief Operating Officer (COO) of one of their portfolio companies, a top 50 U.S. home remodeling firm. He also spent five years with The Home Depot in several roles, including Corporate Strategy, Finance-Mergers & Acquisitions and as a senior commercial leader within a Home Depot national subsidiary.

Earlier in his career, Dwight held various roles in Management Consulting and Private Equity.

Tom Mackay

Alternate Executive Director (Chief Financial Officer)

Tom Mackay was appointed Virgin Atlantic's Chief Financial Officer and Senior Vice President on 1 January 2017 and was appointed to the Board as alternate director for Craig Kreeger and Shai Weiss on 1 March 2017.

Tom is responsible for the financial operations of the business and is focused on achieving profitable growth combined with a healthy return on capital deployed. Legal, External Affairs, Sustainability and Fleet Planning also form part of Tom's activities.

Tom has a 20 year career in finance, bringing a wealth of financial experience from roles spanning a number of different industries. Prior to joining Virgin Atlantic in September 2015, Tom served as Head of Finance for the Food business at Marks and Spencer PLC, and had previously held the role of International Head of Finance, responsible for all areas of finance within the M&S international business.

Previously he held roles at Logica PLC the FTSE 100 IT and outsourcing group (now part of The CGI Group) as CFO for their International and Global Operations covering the Americas and Asia and prior to that Group Financial Controller, having begun his career at Ernst and Young, now EY.

Ian de Sousa

Group Company Secretary

Ian de Sousa is the Group Company Secretary and in this role, is responsible for ensuring that the Company and its subsidiary undertakings comply with standard financial and legal practice and maintain standards of corporate governance. In addition to Secretariat responsibilities, Ian has direct responsibility for the Group Data Protection and Insurance teams. Ian is a Fellow of the Institute of Chartered Accountants in England and Wales and holds a BSc in Economics.

Leadership team

Craig Kreeger

Chief Executive

Appointed
February 2013

Previous experience
See Board of Directors section.

Shai Weiss

Executive Vice President and Chief Commercial Officer

Appointed
January 2017

Previous experience
See Board of Directors section.

Tom Mackay

Chief Financial Officer and Senior Vice President

Appointed
January 2017

Previous experience
See Board of Directors section.

Nikki Humphrey

Senior Vice President, People

Appointed
March 2017

Previous experience
Nikki has over 20 years' HR leadership experience across many sectors including rail, media, food manufacturing with the majority of her career, 15 years, in Financial Services. She joined Virgin Atlantic from Lloyds Banking Group in 2017. Her last role at Lloyds was Group Talent and Development Director having previously been HR Director for three years at Scottish Widows and prior to that, HR Director for Scottish Widows Investment Partnership, its asset management business and was part of the leadership team which divested the business to Aberdeen Asset Management.

Nikki holds a Bachelor of Science degree in Psychology & Politics from Aston University and is a corporate member of the Chartered Institute of Personnel & Development.

Phil Maher

Executive Vice President, Operations

Appointed
March 2013

Previous experience
Phil joined Virgin Atlantic from British Airways in 2004. He has held senior roles in Operations, Engineering and Safety and Security Management. He delivered significant improvements in operational performance and reliability, delivering substantial results in customer satisfaction. These have been driven through new aircraft, innovative cabin products, airport customer service improvements and new digital products onboard existing and new fleets. Phil is Virgin Atlantic's Accountable Manager for all regulatory approvals and certificates for Operations, Engineering, Safety and Security. He started his aviation career in the Army Air Corps in Dublin.

Phil holds a Masters Degree in Business from Henley and is a fellow of the Chartered Management Institute and the Royal Aeronautical Society.

Mark Anderson

Executive Vice President, Customer

Appointed
January 2017

Previous experience
Before his appointment, Mark was Senior Vice President and Managing Director of Virgin Holidays. In less than three years, he developed a high performing team that achieved record people engagement scores and operating profits with strong customer advocacy. He has over 25 years of senior management experience in retailing and travel including at C&A, the BAA and at Virgin Holidays since 2005.

Mark holds a Bachelor of Arts degree in English Language & Literature from the University of Southampton and studied at TIAS Business School in the Netherlands for a Masters in Retail Management.

Joe Thompson

Senior Vice President and Managing Director, Virgin Holidays

Appointed
January 2017

Previous experience
Joe joined Virgin Atlantic in 2003 and has built a wealth of experience in a number of leadership roles, most recently as Senior Vice President for Sales & Distribution. As part of this brief, Joe was responsible for the transatlantic Joint Venture relationship with Delta Air Lines as well as the global sales team.

Joe spent two years as General Manager – Airport Operations, where he led great progress in operational performance and customer service across the network. He became Director of Short Haul and Joint Venture Performance in spring 2013, before taking on the role of SVP Network and Alliances in 2014. Earlier in his Virgin Atlantic career, Joe led country teams in both Hong Kong and India with responsibility for all Virgin Atlantic's passenger activities in those territories.

Joe has a MA in Natural Sciences and a PhD in Materials Science from the University of Cambridge.

Don Langford

Senior Vice President, Technology

Appointed
September 2015

Previous experience
Don joined Virgin Atlantic from American Airlines (AA) and has over 30 years' experience in the airline industry. In his prior role at AA, Don was Vice President-Customer Care, responsible for 12 contact centres and 81 airports where he led over 8,000 employees across the globe. Don spent over a decade working for AA in the UK. He was Managing Director for Customer Service, Europe and India, and before that he was Managing Director of AA's operations at Heathrow.

Don graduated from the University of Minnesota.

Committees of the Board

Audit Committee

Role of the Committee

The role of the Audit Committee is to review the appropriateness of accounting policies, compliance with accounting standards, and assess the appropriateness of estimates and judgements made by management; monitor the adequacy and effectiveness of internal reporting and control systems; agree the scope of the external and internal audit plans and monitor the actions required as a result of the auditors' findings; agree the external auditors' remuneration; and consider the reappointment or replacement of the external auditors.

Key responsibilities

The Committee is responsible for the integrity of the financial statements, the effectiveness and adequacy of internal controls, and the effectiveness and independence of the internal and external auditors. It receives regular updates on the audit programme from the Group Head of Internal Audit. It meets with the Group Head of Internal Audit and the External Audit Partner without Management present at least once a year.

Members of the Committee

The Audit Committee is made up of two Virgin-appointed Non-Executive Directors and two Delta-appointed Non-Executive Directors. As at 31 December 2017 the Committee members were Gordon McCallum (Chairman), Peter Norris, Glen Hauenstein and Cornelis Koster. The Committee meets three times a year or more often if required.

Remuneration Committee

Role of the Committee

The Remuneration Committee is responsible for making recommendations to the Board on the terms of appointment or dismissal, as well as the remuneration and other employment benefits, of senior management employed by the Company. The Committee also oversees the introduction and amendment of any long or short term incentive plans.

Key responsibilities

In carrying out its responsibilities the Committee seeks to fulfil the following aims:

- To set and monitor fair and appropriate remuneration policy and the application thereof for the populations in its scope and to ensure that policies and reward decisions align with business strategy and support sustainable business performance
- To balance the needs of Executive and shareholder interest and ensure alignment of reward policies with Executive talent management strategy

Members of the Committee

The Remuneration Committee is made up of two Virgin-appointed Non-Executive Directors and two Delta-appointed Non-Executive Directors. As at 31 December 2017 the Committee members were Peter Norris (Chairman), Ian Woods, Edward Bastian and Glen Hauenstein.

Safety Governance

Role of the Committee

The Virgin Atlantic Safety & Security Review Board (VASSRB) is owned and led by Virgin Atlantic's Accountable Manager and Duty Holder and chaired by an independent third party advisor to the Board. It is supported by Virgin Atlantic's Nominated Post Holders and Safety and Security specialists. The VASSRB is strategic and deals with high-level issues in relation to policies, resource allocation and safety and security performance monitoring. Proactively reviewing data and encouraging continuous improvement, the VASSRB assures the safety and security of its people and customers. The VASSRB also monitors the effectiveness of the safety supervision and has oversight of sub-contracted operations.

The VASSRB promotes an open and honest reporting and discussion forum, enabling the airline to learn from both internal and industry incidents. Virgin Atlantic adopts and makes use of industry-recognised risk management principles, allowing the VASSRB to evaluate safety and security risks though a transparent risk management framework. The VASSRB also ensures the organisation develops, maintains, reviews and tests its emergency response, threat management and resilience plans.

The Board receives regular updates and reports from the Safety and Security Review Board and Independent Chair.

Key responsibilities

The VASSRB was established to monitor, improve and constantly enhance safety and security management across the airline.

Joint Venture Steering Committee

Role of the Committee

The Joint Venture Steering Committee (JVSC) meets quarterly and is formed of equal numbers of senior managers from each party to the Joint Venture with at least one representative of each party at Senior Vice President or Chief Officer authority. In addition, Virgin Group has the right to appoint an observer who can attend and address all JVSC meetings and report back to the Board. The Board receives regular updates and reports from the JVSC.

In the past 12 months, the JVSC has taken an increasingly strategic role, having been involved in a greater level of detail during the initial years. The introduction of a monthly Joint Venture Leadership meeting has aided this transition.

Key responsibilities

The transatlantic Joint Venture with Delta is managed through the JVSC. This approach enables the Joint Venture to offer customers a wider range of travel options at competitive prices and to compete more effectively with the air transportation services of other airlines and other global airline alliances. The relationship fosters commercial cooperation between the parties, facilitates actions that will result in cost efficiencies, and expands service benefits for the travelling and shipping public. The JVSC has no independent authority to act for either party, but has the delegated authority to resolve most issues.

Members of the Committee

The members appointed by Virgin Atlantic are Craig Kreeger, Shai Weiss, Mark Anderson and the members appointed by Delta are Glen Hauenstein, Steve Sear, Bill Carroll.

Directors' report

The Directors present their annual report and the audited financial statements for Virgin Atlantic Limited and subsidiary companies for the year ended 31 December 2017. The comparative amounts are stated for the year ended 31 December 2016.

Pages 1 to 52, inclusive, of this annual report comprise the Directors' report that has been drawn up and presented in accordance with English Company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

The Company was incorporated on 29 January 2014 as Virgin Atlantic (Holdings) Limited, and changed its name to Virgin Atlantic Limited on 30 May 2014. The Company acquired the Group as part of a group reorganisation in March 2014. The consolidated financial statements have been prepared using the principles of merger accounting and present the results for the Group headed by the immediate subsidiary Company, Virgin Atlantic Two Limited (formerly Virgin Atlantic Limited) prior to March 2014.

Directors and Directors' interests

The Directors who held office during the year were as follows:

Sir Richard Branson (President)

Peter Norris (Chairman)

Gordon McCallum

Ian Woods

Edward Bastian

Glen Hauenstein

Nathaniel Pieper (resigned on 1 August 2017)

Cornelis Koster (appointed on 1 August 2017)

Craig Kreeger

Shai Weiss

Dwight James (appointed on 1 January 2016 as alternate for Edward Bastian, Glen Hauenstein and Nathaniel Pieper and on 1 August 2017 as alternate for Cornelis Koster)

Tom Mackay (appointed on 1 March 2017 as alternate for Craig Kreeger and Shai Weiss)

Share based payments: long-term incentive plan

Virgin Atlantic has a Long-Term Incentive Scheme for Executive Directors and other invited participants to incentivise and recognise execution of our Plan to Win. The details of this share appreciation rights (cash settled) scheme can be found in note 8.

Results, business review and future developments

The results of the Group for the period are set out on page 55 and are commented on within the Strategic report. The Strategic report also contains a review of the business and the future developments.

Employees

In considering applications for employment from disabled people in the UK, Virgin Atlantic seeks to ensure that full and fair consideration is given to the abilities and aptitudes of the applicant against the requirements of the job for which he or she has applied. Employees who become temporarily or permanently disabled are given individual consideration, and where possible equal opportunities for training, career development and promotions are given to disabled persons.

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

Dividends

The Company did not pay a preference dividend during the year (2016: paid £nil). The Directors did not declare or pay interim ordinary dividends in respect of the year ended 31 December 2017 (2016: paid £nil).

The Directors recommend that no final ordinary dividend be paid in respect of the year ended 31 December 2017 (2016: £nil).

Overseas branches

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

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year (2016: £90,000).

Going concern

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

Auditors

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

Disclosure of information to Auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Ian de Sousa
Company Secretary

Company Secretariat
The VHQ
Fleming Way
Crawley
West Sussex
RH10 9DF

14 March 2018

Registered number: 08867781

Directors' responsibility statement

Statement of Directors' responsibilities in respect of the Annual report, Strategic report, the Directors' report and the financial statements

The Directors are responsible for preparing the Annual report, Strategic report, the Directors' report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU) and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

— select suitable accounting policies and then apply them consistently;

— make judgements and estimates that are reasonable, relevant, reliable and prudent;

— for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;

— for the Parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

— assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and

— use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

Opinion

We have audited the financial statements of Virgin Atlantic Limited ("the Company") for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position and Company Statement of Financial Position, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows and related notes, including the accounting policies in note 3.

In our opinion:

— the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;

— the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;

— the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and

— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The Directors are responsible for the other information, which comprises the Strategic report, the Directors' report and financial information included in the Annual Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

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

— we have not identified material misstatements in the other information;

— in our opinion the information given in the Strategic report and the Directors' report for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

— the Parent Company financial statements are not in agreement with the accounting records and returns; or

— certain disclosures of Directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 52, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

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

15 Canada Square
London

15 March 2018

Financial statements

Consolidated statement of comprehensive income

for the year ended 31 December 2017

	Note	For the year ended 31 December 2017 Ordinary activities before exceptional items £m	Exceptional items and fair value movements (Note 7) £m	Total £m	For the year ended 31 December 2016 Ordinary activities before exceptional items £m	Exceptional items and fair value movements (Note 7) £m	Total £m
Total revenue	5	**2,663.7**	**–**	**2,663.7**	2,689.9	–	2,689.9
Physical fuel		**(548.6)**	**–**	**(548.6)**	(435.2)	–	(435.2)
Fuel hedging		**4.4**	**(4.4)**	**–**	(179.2)	179.2	–
Airline traffic direct operating costs		**(533.7)**	**–**	**(533.7)**	(518.8)	–	(518.8)
Aircraft costs		**(276.7)**	**(7.7)**	**(284.4)**	(268.0)	(25.6)	(293.6)
Tour and other marketing costs		**(521.5)**	**(6.6)**	**(528.1)**	(497.6)	(19.8)	(517.4)
Employee remuneration	8	**(378.1)**	**–**	**(378.1)**	(364.5)	–	(364.5)
Other operating and overhead costs		**(229.1)**	**(1.7)**	**(230.8)**	(196.2)	(20.4)	(216.6)
Engineering and maintenance costs		**(139.5)**	**–**	**(139.5)**	(140.6)	–	(140.6)
Other depreciation and amortisation		**(54.6)**	**–**	**(54.6)**	(51.9)	–	(51.9)
Other income		**1.6**	**–**	**1.6**	1.9	–	1.9
Operating (loss) / profit		**(12.1)**	**(20.4)**	**(32.5)**	39.8	113.4	153.2
Profit on disposal of property, plant and equipment		**0.8**	**11.7**	**12.5**	1.5	23.2	24.7
Restructuring		**–**	**(6.6)**	**(6.6)**	–	(2.7)	(2.7)
		0.8	**5.1**	**5.9**	1.5	20.5	22.0
Finance income		**5.1**	**–**	**5.1**	3.7	–	3.7
Finance expense		**(22.2)**	**–**	**(22.2)**	(22.0)	–	(22.0)
Net finance costs	9	**(17.1)**	**–**	**(17.1)**	(18.3)	–	(18.3)
Fair value (losses) / gains on derivative contracts		**–**	**(15.3)**	**(15.3)**	–	74.7	74.7
(Loss) / profit before tax	6	**(28.4)**	**(30.6)**	**(59.0)**	23.0	208.6	231.6
Tax credit / (charge)	10			**10.5**			(44.3)
(Loss) / profit for the year				**(48.5)**			187.3

Other comprehensive income (items that will not be reclassified to the income statement):

Exchange translation differences	**0.2**	(0.9)
Total comprehensive (loss) / income for the year	**(48.3)**	186.4

The loss for the year for the Company is £0.2m (2016: £0.2m loss).

All amounts relate to continuing operations.

The notes on pages 60 to 86 form part of these financial statements.

Consolidated statement of financial position
as at 31 December 2017

	Note	As at 31 December 2017 £m	As at 31 December 2016 £m
Non-current assets			
Intangible assets and goodwill	11	**170.1**	164.2
Property, plant and equipment	12	**702.8**	672.1
Investments	14	**0.0**	0.0
Derivative financial instruments	15	**5.1**	8.5
Trade and other receivables	16	**16.9**	31.1
		894.9	875.9
Current assets			
Inventory	17	**31.3**	30.2
Trade and other receivables	16	**273.5**	250.1
Derivative financial instruments	15	**30.2**	47.0
Cash and cash equivalents	18	**444.8**	525.9
Restricted cash	18	**49.1**	42.5
		828.9	895.7
Total assets		**1,723.8**	1,771.6
Current liabilities			
Borrowings	19	**(17.6)**	(17.2)
Trade and other payables including deferred income	20	**(1,125.8)**	(1,050.5)
Provisions	21	**(35.8)**	(47.6)
Derivative financial instruments	15	**(20.8)**	(8.5)
		(1,200.0)	(1,123.8)
Net current (liabilities)		**(371.1)**	(228.1)
Total assets less current liabilities		**523.8**	647.8
Non-current liabilities			
Borrowings	19	**(453.8)**	(462.8)
Deferred tax	13	**(12.9)**	(23.9)
Trade and other payables including deferred income	20	**(10.4)**	(50.0)
Provisions	21	**(68.3)**	(83.6)
Derivative financial instruments	15	**(3.4)**	(4.2)
		(548.8)	(624.5)
Net (liabilities) / assets		**(25.0)**	23.3
Equity			
Ordinary share capital		**100.0**	100.0
Preference share capital		**50.0**	50.0
Other reserves		**(232.7)**	(230.3)
Retained earnings		**57.7**	103.6
Total equity		**(25.0)**	23.3

These financial statements were approved by the Board of Directors on 14 March 2018 and were signed on its behalf by:

Tom Mackay
Director
Registered number: 08867781

The notes on pages 60 to 86 form part of these financial statements.

Company statement of financial position
as at 31 December 2017

	Note	As at 31 December 2017 £m	As at 31 December 2016 £m
Non-current assets			
Investments	14	**289.4**	289.4
		289.4	289.4
Current assets			
Trade and other receivables	16	**–**	–
		–	–
Total assets		**289.4**	289.4
Current liabilities			
Trade and other payables	20	**(0.8)**	(0.6)
		(0.8)	(0.6)
Net current assets / (liabilities)		**(0.8)**	(0.6)
Net assets / (liabilities)		**288.6**	288.8
Equity			
Ordinary share capital		**100.0**	100.0
Preference share capital		**50.0**	50.0
Other reserves		**139.4**	139.4
Retained earnings		**(0.8)**	(0.6)
Total equity		**288.6**	288.8

These financial statements were approved by the Board of Directors on 14 March 2018 and were signed on its behalf by:

Tom Mackay
Director
Registered number: 08867781

The notes on pages 60 to 86 form part of these financial statements.

Consolidated statement of changes in equity

as at 31 December 2017

	Ordinary Share Capital £m	Preference Share Capital £m	Share Premium £m	Other Reserves £m	Retained Earnings £m	Total £m
Balance at 1 January 2016	100.0	50.0	(0.0)	(236.3)	(77.7)	(164.0)
Profit for the year	–	–	–	–	187.3	187.3
Reclassifications	–	–	–	6.0	(6.0)	–
Balance at 31 December 2016	**100.0**	**50.0**	**(0.0)**	**(230.3)**	**103.6**	**23.3**
Balance at 1 January 2017	100.0	50.0	(0.0)	(230.3)	103.6	23.3
Loss for the year	–	–	–	–	(48.5)	(48.5)
Exchange translation differences	–	–	–	0.2	–	0.2
Adjustment arising from transfer of trade and assets	–	–	–	(2.6)	2.6	–
Balance at 31 December 2017	**100.0**	**50.0**	**(0.0)**	**(232.7)**	**57.7**	**(25.0)**

In 2016, a project was undertaken to simplify the Virgin Atlantic Limited Group structure. As a result a number of entities within the VAA Group were placed into voluntary liquidation (note 22), and the trade and assets of Bug Leasing Limited were transferred to Fit Leasing Limited at historic cost. Whilst no adjustment arose at Group level, the transaction led to the reclassification of £6.0m to the capital contribution reserve. In 2017, a true up of the tax liability in Bug Leasing Limited led to the reclassification of £2.6m to the capital contribution reserve.

Company statement of changes in equity

as at 31 December 2017

	Ordinary Share Capital £m	Preference Share Capital £m	Other Reserves £m	Retained Earnings £m	Total £m
Balance at 1 January 2016	100.0	50.0	139.4	(0.4)	289.0
Loss for the year	–	–	–	(0.2)	(0.2)
Balance at 31 December 2016	**100.0**	**50.0**	**139.4**	**(0.6)**	**288.8**
Balance at 1 January 2017	100.0	50.0	139.4	(0.6)	288.8
Loss for the year	–	–	–	(0.2)	(0.2)
Balance at 31 December 2017	**100.0**	**50.0**	**139.4**	**(0.8)**	**288.6**

Allotted, called up and fully paid share capital includes 100,000,000 (2016: 100,000,000) ordinary shares of £1 each and 50,000 (2016: 50,000) preference shares of £1,000 each, linked to LIBOR plus 2.5%.

The Company was incorporated on 29 January 2014 following a Group reorganisation, with a share capital of £2 consisting of 2 ordinary shares of £1 each. On 13 March 2014 the share capital of the Company was increased to £150,000,000 by the creation of a further 99,999,998 ordinary shares of £1 each and a further 50,000 preference shares of £1,000. These shares were issued as part of a share for share exchange to acquire the group of companies headed by Virgin Atlantic Two Limited (formerly Virgin Atlantic Limited). The rights of each class of share are set out in the Company's Articles of Association.

The terms and conditions of the preference shares do not create the automatic right of the holders to receive cumulative dividends. Instead, preference dividends may only be paid at the discretion of the Company and are based on the total capital outstanding.

The preference shares carry no entitlement to vote at meetings. On a winding up of the Company, the preference shareholders have a right to receive, in preference to payments to ordinary shareholders, the amount paid up on any share including any amount paid up by way of share premium plus any arrears or accruals of dividend declared but not paid on the due date.

The notes on pages 60 to 86 form part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2017

	Note	For the year ended 31 December 2017 £m	For year ended 31 December 2016* £m
Net cash from operating activities before exceptional items	28	**90.9**	128.4
Adjustments for exceptional items	28	**(10.6)**	(2.6)
Net cash from operating activities	28	**80.3**	125.8
Purchase of property, plant and equipment		**(220.3)**	(292.2)
Purchase of intangible assets		**(19.4)**	(60.4)
Proceeds from sale of property, plant and equipment and intangible assets		**104.5**	181.3
Interest received		**5.1**	3.7
Net cash used in investing activities		**(130.1)**	(167.6)
Payment of long term borrowings		**(5.8)**	(42.4)
Proceeds from issue of new bonds		**31.4**	–
Payment of finance lease instalments		**(12.9)**	(10.3)
Net cash from / (used in) financing activities		**12.7**	(52.7)
Net decrease in cash and cash equivalents		**(37.1)**	(94.5)
Cash and cash equivalents at beginning of year (including restricted cash)	18	**568.4**	595.6
Effect of foreign exchange rate changes		**(37.4)**	67.3
Cash and cash equivalents at end of year (including restricted cash)	18	**493.9**	568.4

* The presentation of certain items within the cash flow statement has been restated for the prior year ended 31 December 2016. See note 28.

The notes on pages 60 to 86 form part of these financial statements.

Notes forming part of the financial statements

1 General information

Virgin Atlantic Limited, (the 'Company') and its subsidiaries (the 'Group') is principally a passenger airline with a significant tour operations component, operating primarily from the United Kingdom. Further details on the nature of the Group's operations and its principal activities can be found within the Strategic Report on pages 12 to 41.

The Company is a private limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The address of its registered office is given on page 51.

2 Statement of compliance with IFRSs

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

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 ('FRS 100') issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2017 the Company has prepared its individual entity accounts under FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

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

3 Accounting policies

Basis of preparation

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

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

The Company financial statements have been prepared under the historical cost convention and in accordance with applicable UK Accounting Standards. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"), with a transition date of 1 January 2016. The Company has taken advantage of section 408 of the Companies Act 2006 and has not published a separate income statement and related notes for the Company. The result for the year attributable to the Company is disclosed in the company statement of changes in equity. In addition, the Company has taken advantage of the disclosure exemptions permitted under FRS 101 to present a cash flow statement and related notes. In the transition to FRS 101 from adopted IFRS, the Company has made no measurement and recognition adjustments. The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

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

The financial statements consolidate Virgin Atlantic Limited ("the Company") and its subsidiaries (together "the Group").

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

The financial statements of subsidiaries are deconsolidated from the date that control ceases. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

For business combinations for which the acquisition date is on or after 1 January 2015, the Group is required to use the acquisition method of accounting. Under this method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group has the option to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. The excess of the consideration transferred over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Acquisition-related costs incurred are expensed as incurred. Transactions that do not result in a loss of control are treated as equity transactions with non-controlling interests.

Merger accounting and the merger reserve

Prior to 1 January 2015, certain significant business combinations were accounted for using the 'pooling of interests method' (or merger accounting), which treats the merged groups as if they had been combined throughout the current and comparative accounting periods. Merger accounting principles for these combinations gave rise to a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of new shares issued by the Parent Company for the acquisition of the shares of the subsidiary and the subsidiary's own share capital and share premium account.

These transactions have not been restated, as permitted by the IFRS 1 transitional arrangements. The merger reserve is also used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under the Companies Act 1985 and, from 1 October 2009, the Companies Act 2006.

3 Accounting policies (continued)

Transitional impact of merger accounting

During the year ended 31 December 2014 Virgin Atlantic Limited (formerly Virgin Atlantic (Holdings) Limited (VA(H)L)), acquired the Group formerly headed by Virgin Atlantic Two Limited (formerly Virgin Atlantic Limited). VA(H)L was incorporated on 29 January 2014, with Bluebottle Investments (UK) Limited ('BIUK') and Delta subscribing for 51% and 49%, respectively, of the Company's share capital, at par. VA(H)L subsequently acquired Virgin Atlantic Limited ('VAL') in a share-for-share exchange.

The Group applied merger accounting in accordance with paragraph 13 of FRS 6, as the respective net assets remained unchanged following the share-for-share exchange.

The Group presented the consolidated results of Virgin Atlantic Limited as if it has always existed, as the Group applied the exemption available under paragraph 22 of FRS6.

The consolidated financial statements have been prepared using the principles of merger accounting for the inclusion of Virgin Travel Group Limited since 1993, although it did not meet all of the conditions of the Companies Act 1985 for merger accounting. The Companies Act 1985, now superseded by the Companies Act 2006, was overridden at the time to give a true and fair view. The Group arose through a reconstruction of a former group which did not alter the relative rights of the ultimate shareholders of the Company's subsidiaries and hence it was considered inappropriate to account for the transaction using acquisition accounting principles, which would have been the required treatment if the Companies Act had not been overridden.

Virgin Atlantic Limited consolidated the results of Air Nigeria Development Limited (formerly Virgin Nigeria Airways Limited) from the time it was set up in 2005 to 31 August 2007 on the grounds that it had a 49% equity shareholding and exercised control over the operating and financial activities of Air Nigeria Development Limited. Since 1 September 2007, Virgin Atlantic Limited's equity investment in Air Nigeria Development Limited has been accounted for as a non-current investment with a net book value of £nil (note 22).

The remaining subsidiaries have been accounted for using the principles of acquisition accounting.

Revenue and revenue recognition

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

Passenger revenue

Passenger ticket sales, net of passenger taxes and discounts, are recorded within deferred income, until recognised as revenue when transportation occurs.

Unused tickets are recognised as revenue when the right to travel has expired, which is determined by the terms and conditions of the associated ticket.

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

Tour operations revenue

Sale of holiday packages and travel insurance is recognised on the basis of departure dates in the accounting period. Agency commission for the sale of third party holiday products is recognised when earned, typically at date of booking.

The Group receives grants from local authorities and in accordance with IAS 20, has accounted for these as a deduction to expenses over the period of the performance obligation.

Frequent flyer programme revenue

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

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

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

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

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

Compensation payments

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

Translation of foreign currencies

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

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

3 Accounting policies (continued)

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

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

All other profits or losses arising on translation are dealt with through the income statement. Any gains or losses arising on the re-translation of foreign currency cash balances held in the short-term to meet future trading obligations are reported as part of 'Other operating income / (expense)' in the income statement.

Employee benefits

Pension

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

Share based payments: Long-term incentive scheme

The Group accrues for any element of foreseeable future awards for employees and directors under LTIPs which have been agreed by the Board of Directors, and which are deemed to have been earned in the current period.

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

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

Intangible assets

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

Landing rights

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

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

Goodwill

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

Software

The cost of purchase or development of computer software that is separable from an item of related hardware is capitalised separately. Core system assets are amortised over a period of twelve years; other software is amortised over a period not exceeding six years on a straight-line basis. Computer software and systems are carried at cost less accumulated amortisation. Development expenditure on activities is capitalised if the product or process is technically and commercially feasible and the Group intends to, and has the technical ability and sufficient resources to, complete development and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials and direct labour. Other development expenditure is recognised in the income statement as an expense as incurred.

3 Accounting policies (continued)

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

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

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

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

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

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

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

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

Aircraft and engine spares acquired on the introduction or expansion of the fleet as well as rotable spares purchased separately are carried as PPE and are generally depreciated in line with the fleet to which they relate. The Group depreciates such spares on a straight-line basis so as to reduce the cost or valuation to estimated residual value at the end of their useful lives. The effective depreciation rate per annum in respect of rotable spares is 7.25% or 12.5% dependent on type.

Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over six to eight years.

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

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

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

Expenditure incurred on modifications to aircraft under operating leases, is depreciated on a straight-line basis to a nil residual value over a period not exceeding the remaining lease period.

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

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

Fixtures and fittings	20% – 25% on cost
Plant and equipment	10% – 33% on cost
Computer equipment and software	8% – 33% on cost
Motor vehicles	25% on cost
Leasehold improvements	lower of useful economic life or period of lease

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

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

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

3 Accounting policies (continued)

Leases

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

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

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

Inventories

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

Provisions

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

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

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

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

– No charge is recorded during the initial period of lease agreements where no compensation or maintenance is required prior to hand-back.

– After a component or maintenance interval has passed the trigger point such that the Group is contractually obliged to carry out the specified work (in order to meet the return conditions), a full provision for the cost of work is recorded. To the extent that this provision represents an increase to any provision accrued for usage up to the trigger point, a maintenance asset is recorded within property, plant, and equipment. The asset is depreciated over the expected period to the next half-life compensation point, or the end of the lease, whichever is sooner.

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

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

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

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

Property provisions
Leasehold dilapidations and onerous lease provisions are discounted only when the interest rate has a material impact on the provision. Any associated unwinding of the discount is taken to the income statement.

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

3 Accounting policies (continued)

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

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

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

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

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

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

Cash and cash equivalents
Cash, for the purposes of the cash flow statement, comprises cash held in bank accounts and money market deposits repayable on demand with no access restrictions, less overdrafts payable on demand.

Cash equivalents are current asset investments which are readily convertible into known amounts of cash at, or close to, their carrying values or traded in an active market, without curtailing or disrupting the business.

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

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

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

Non-derivative financial liabilities
Non-derivative financial liabilities are initially recorded at fair value less directly attributable transaction costs, and subsequently at amortised cost, and include trade and other payables, borrowings and provisions. Interest expense on borrowings is recognised using the effective interest method. Borrowings are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Certain leases contain interest rate swaps that are closely related to the underlying financing and, as such, are not accounted for as an embedded derivative.

De-recognition of non-derivative financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts are recognised in the income statement.

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

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

Impact of new International Financial Reporting Standards and interpretations
The following standards and interpretations issued by the International Accounting Standards Board have been implemented for the year ended 31 December 2017; however the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

IFRS 15 Revenue from contracts with customers – effective for the year ending 31 December 2018.

The Group adopted IFRS 15 on 1 January 2018 and will apply the fully retrospective transition method.

The standard provides a single model for measuring and recognising revenue arising from contracts with customers. It supersedes all existing revenue requirements in IFRS, including IAS18 Revenue, IAS11 Construction Contracts and IFRC13 Customer Loyalty Programmes. Under IFRS 15, revenue is recognised when customers obtain control of goods or services and so are able to direct the use, and obtain the benefits, of those goods or services.

3 Accounting policies (continued)

The Group has reviewed all revenue streams as part of its IFRS 15 impact assessment. Whilst the majority of revenues are already recognised in line with the requirements of the new standard, revenue recognition from the Frequent Flyer Programme 'Flying Club' is impacted due to the way in which the fair value of a mile is calculated. As a consequence, this also impacts the amount of revenue deferred on to the balance sheet. On adoption, the Group expects an increase in the deferred revenue liability of between £6m and £12m due to an increase in the fair value of a mile.

Revenue on change and booking fees will also be deferred from service date to departure date resulting in an increase in the amount of revenue deferred at the end of 2017. This impact is not expected to be material.

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

The Group is expecting to adopt IFRS 16 on 1 January 2019 and based on current modelling, is likely to apply a modified transition method.

The standard provides a single lessee accounting model, specifying how leases are recognised, measured, presented and disclosed. Under IFRS 16, the Group will capitalise all aircraft and properties currently held under operating leases. Operating lease expenses will be replaced by a depreciation expense on right of use assets recognised and an interest expense as the interest rate implicit in the lease liabilities unwind.

The full impact of adoption of the standard is still being evaluated, but is likely to have a material impact to both the balance sheet net liability position, and the income statement, particularly as for future reporting periods after adoption, foreign exchange movements on lease obligations, which are predominantly denominated in US dollars, will be measured at each balance sheet date, however the right of use asset will be recognised at the historic exchange rate. This will create volatility in the income statement.

IFRS 9 Financial Instruments – effective for the year ending 31 December 2018

The Virgin Atlantic Group adopted IFRS 9 on 1 January 2018 and will apply the standard prospectively with no retrospective adjustments required.

The Group does not anticipate any material change in the classification or measurement of its financial instruments or in its hedging activities on adoption of the standard.

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

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS12
- Disclosure Initiative – Amendments to IAS7

4 Significant judgements, estimates and critical accounting policies

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

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The following accounting policies are considered critical accounting policies as they require a significant amount of management judgement and the results are material to the Group's financial statements.

Leased aircraft maintenance provisions (note 21)
For aircraft held under operating leases, the Group has a commitment to return the aircraft in a specific maintenance condition at the end of the lease term. Estimating the provision for maintenance costs requires judgement as to the cost and timing of future maintenance events. This estimate is based on planned usage of the aircraft, contractual obligations under lease agreements, industry experience, manufacturers' guidance and regulations. Any change in these assumptions could potentially result in a significant change to the maintenance provisions and costs in future periods.

Revenue recognition – frequent flyer programme (note 20)
For the Group's frequent flyer loyalty programme, the fair value attributed to awarded miles is deferred as a liability and is recognised as revenue on redemption of the miles and provision of service to the participants to whom the miles are issued.

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

Residual value and useful economic lives of assets (note 12)
The Group exercises judgement to determine useful lives and residual values of property, plant and equipment. The assets are depreciated to their residual values over their estimated useful lives.

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

5 Analysis of revenue, operating (loss) / profit and net (liabilities) / assets

	Group	
Revenue	**For year ended 31 December 2017 £m**	For year ended 31 December 2016 £m
Airline traffic and cargo operations	**2,186.1**	2,240.6
Holiday tour operations	**611.7**	606.7
Other revenue	**11.1**	9.9
Intra-group revenue	**(145.2)**	(167.3)
	2,663.7	2,689.9
Operating (loss) / profit		
Airline traffic and cargo operations	**(40.4)**	154.8
Holiday tour operations	**8.0**	(1.5)
Other and intra-group eliminations	**(0.1)**	(0.1)
	(32.5)	153.2
Net (liabilities) / assets		
Airline traffic and cargo operations	**47.8**	91.7
Holiday tour operations	**53.9**	58.6
Other and intra-group eliminations	**(126.7)**	(127.0)
	(25.0)	23.3

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

	Group	
	For year ended 31 December 2017 £m	For year ended 31 December 2016 £m
Revenue by source		
United Kingdom	**1,838.6**	1,942.6
North America and the Caribbean	**640.3**	621.8
Far East	**91.6**	107.4
Africa	**66.4**	59.9
Other	**172.0**	125.5
Intra-group revenue	**(145.2)**	(167.3)
	2,663.7	2,689.9
Revenue by destination		
North America	**1,810.9**	1,891.9
Caribbean	**379.1**	402.8
Far East	**267.5**	304.6
Africa	**161.1**	142.0
Other	**190.3**	115.9
Intra-group revenue	**(145.2)**	(167.3)
	2,663.7	2,689.9

The Company had no income in the current year (2016: £nil).

The geographical analysis of revenue by source is derived by allocating revenue to the area in which the sale is made, whilst the geographical analysis of revenue by destination is derived by allocating revenue from inbound and outbound services between the United Kingdom and overseas points to the geographical area in which the relevant overseas point lies.

A geographical analysis of the Group operating profit is not disclosed as it is neither practical nor meaningful to allocate the Group's operating expenditure on a geographical basis. Since the aircraft fleet (which is the major revenue-earning asset of the Group) is employed flexibly across a worldwide route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments and accordingly no geographical analysis of assets or net liabilities is disclosed.

6 Loss before tax

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

	Group		Company	
	For year ended 31 December 2017 £m	For year ended 31 December 2016 £m	For year ended 31 December 2017 £m	For year ended 31 December 2016 £m
Depreciation of property, plant and equipment (note 12)	**(83.4)**	(96.2)	**–**	–
Amortisation of intangible assets (note 11)	**(21.8)**	(20.4)	**–**	–
Rentals under operating leases:				
Aircraft and related equipment	**(225.3)**	(215.1)	**–**	–
Plant and machinery	**(12.8)**	(11.7)	**–**	–
Land, buildings and retail space	**(29.0)**	(29.8)	**–**	–
Contribution to pension schemes	**(28.4)**	(26.5)	**–**	–
Remuneration of the auditors and their associates:				
Audit services	**(0.5)**	(0.5)	**(0.1)**	(0.1)
Other services	**(0.9)**	(1.0)	**–**	–

Fees payable to the Company's auditor and its associates for audit services are £97,000 (2016: £101,000). Fees payable to the Group's auditor and its associates for services other than the statutory audit of the company and subsidiaries are as follows:

	Group	
Fees payable for:	For year ended 31 December 2017 £m	For year ended 31 December 2016 £m
Tax compliance	**(0.1)**	(0.2)
Tax advice	**(0.1)**	(0.4)
Other non-audit services	**(0.1)**	(0.1)
Other assurance services	**(0.2)**	(0.0)
Customer analysis	**(0.4)**	(0.3)
Total fees for other services	**(0.9)**	(1.0)

7 Exceptional items

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

	Group	
	For year ended 31 December 2017 £m	For year ended 31 December 2016 £m
Aircraft costs	**(7.7)**	(25.6)
Accelerated depreciation on aircraft equipment (i)	**(3.1)**	(14.9)
Impairment of aircraft rotables stocks (ii)	**–**	(10.7)
Onerous lease (vi)	**(4.6)**	–
Fuel hedging reclassified to fair value (gains) / losses on derivatives (iii)	**(4.4)**	179.2
Forex derivative (gains) / losses reclassified to fair value (gains) / losses on derivatives (iii)	**(8.3)**	(40.2)
Reclassified from other operating income / expense	**(1.7)**	(20.4)
Reclassified from tour and other marketing costs	**(6.6)**	(19.8)
Profit on disposal of aircraft equipment (iv)	**11.7**	23.2
Restructuring costs (v)	**(6.6)**	(2.7)
Fair value (losses) / gains on derivatives (iii)	**(15.3)**	74.7
	(30.6)	208.6
The fair value (losses) / gains on derivatives can be analysed as follows:		
(Loss) / gain on fair value movements	**(28.0)**	213.7
(Loss) / gain on fuel derivatives settled during the year (reclassified – see above)	**4.4**	(179.2)
Gain on forex derivatives settled during the year (reclassified – see above)	**8.3**	40.2
	(15.3)	74.7

7 Exceptional items (continued)

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

(i) During the year the Group incurred accelerated depreciation of £3.1m (2016: £14.9m) on its A330-300 fleet. The acceleration relates to cabin components which are scheduled to exit the fleet earlier than anticipated and replaced with a new cabin interior.

(ii) During the prior year the Group revised its accounting convention in relation to aircraft consumable spares; to better reflect the economic consumption of benefit across fleet life. As a result, the Group recognised a loss of £10.7m in 2016.

(iii) Fuel costs include gains of £4.4m (2016: losses of £179.2m) recognised on maturity of fuel derivative contracts. Other operating and overhead costs includes gains of £1.7m (2016: gains of £20.4m) and tour and other marketing costs include £6.6m (2016: £19.8m) relating to movements on maturity of foreign currency derivative contracts. Fair value movements in relation to the Group's fuel and foreign currency derivatives are reclassified as an exceptional item through fair value gains / (losses) on derivative contracts, to ensure that the operating costs of the Group can be reflected at an unhedged rate as the Group does not apply hedge accounting.

The Group discloses specific IAS 39 mark-to-market movements separately within the statement of comprehensive income as an exceptional item.

(iv) The Group purchased and subsequently entered into a sale and operating leaseback of one (2016: two) Boeing 787 aircraft. Profits on sale and leaseback amounted to £11.7m (2016: profits of £23.2m). The profits arising from the sale and operating leaseback of the aircraft have been reclassified and are shown net of any supplier compensation received. See note 12 for further details.

(v) Restructuring costs of £6.6m (2016: £2.7m) have been recognised during the year and relate to the Group's change programme – fit.nimble. Costs incurred relate to employee restructuring costs as well as incremental costs associated with the implementation of the programme. This programme has involved a fundamental appraisal of how the business operates in both front and back office functions over a number of years; it is expected to be completed in 2018.

(vi) Onerous lease costs of £4.6m (2016: £nil) have been recognised in the year relating to rentals incurred on an A346 aircraft which was parked for a portion of the year as it was surplus to requirements.

8 Employee remuneration

(i) Head count and total remuneration

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

	Group	
	2017 Number	2016 Number
Management and administration	**1,294**	1,325
Flight crew	**812**	781
Cabin crew	**3,130**	3,244
Reservations and sales	**2,104**	2,163
Engineering, cargo and production	**963**	961
	8,303	8,474

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

	Group	
	2017 £m	2016 £m
Wages and salaries	**324.8**	316.8
Social security costs	**34.4**	30.9
Other pension costs	**28.7**	27.9
	387.9	375.6

Included in the above are amounts included within tour and other marketing costs within the Statement of Comprehensive Income (2017: £9.9m, 2016: £11.1m) which relate to retail staff costs.

The Virgin Atlantic Limited Group operates a defined contribution pension scheme. The pension cost charged to the income statement for the year represents contributions payable by the Group to the scheme. The assets of the schemes are held separately from those of the Group in independently administered funds. There were outstanding contributions of £3.7m at 31 December 2017 (2016: £3.8m).

The Company has no salaried employees (2016: nil).

8 Employee remuneration (continued)

(ii) Aggregate directors' remuneration

During the year / period of their service, the emoluments of the directors (2017: 3, 2016: 2) of the Group and Company were:

	Group	
	For year ended 31 December 2017 £m	For year ended 31 December 2016* £m
Total emoluments		
Aggregate emoluments	**2.3**	1.8
Company contributions to money purchase pension schemes	**0.2**	0.1
	2.5	1.9
Highest paid director		
Aggregate emoluments and other benefits	**1.1**	1.0
Company contributions to money purchase pension schemes	**0.1**	0.1
	1.2	1.1

* The 2016 comparatives have been restated to include amounts for services rendered in 2016.

Retirement benefits are accruing to 3 (2016: 2) directors under money purchase pension schemes.

During the year an amount of £0.2m (2016: £0.2m) was paid to shareholders in respect of the services of certain shareholder-appointed non-executive directors of the Company.

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

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

In May 2015, the Group granted 108,561 (38,420 A1 shares of £1 each and 70,141 A2 shares of £0.01 each) Share Appreciation Rights ("SARs") within Virgin Atlantic Two Limited, to employees that entitle them to a cash payment after four years of service. The SARs expire at the end of the four-year period after grant date. The amount of the cash payment is determined based on the increase in the earnings valuation of the Group between the grant date and the time of exercise. The valuation of the SARs is made on an annual basis using external third parties. The fair value of the SARs is £nil as at 31 December 2017 (2016: £nil).

9 Net finance costs

		Group	
	Note	**For year ended 31 December 2017 £m**	For year ended 31 December 2016 £m
Finance income			
Bank deposits		**4.6**	3.5
Unlisted investments	14	**0.5**	0.2
		5.1	3.7
Finance expense			
Finance leases and hire purchase contracts	19	**(13.8)**	(12.1)
Unwinding of discount on provisions	21	**(0.3)**	(0.9)
External loans	19	**(10.3)**	(9.2)
		(24.4)	(22.2)
Interest capitalised on aircraft progress payments	12	**2.2**	0.2
		(22.2)	(22.0)
Net finance costs		**(17.1)**	(18.3)

10 Tax

Analysis of the tax expense during the period:

	Group For year ended 31 December 2017 £m	Group For year ended 31 December 2016 £m
Current tax		
Adjustments in respect of prior periods	**(0.3)**	1.9
Non – UK current tax	**(0.2)**	(0.3)
Total current tax (charge) / credit	**(0.5)**	1.6
Deferred tax		
Origination and reversal of timing differences	**9.0**	(48.5)
Adjustments in respect of prior periods	**2.0**	(1.6)
Effect of decrease in tax rate	**–**	4.2
Total deferred tax credit / (charge)	**11.0**	(45.9)
Tax credit / (charge)	**10.5**	(44.3)

The standard rate of UK corporation tax for the period is 19.25% (2016: 20%). The total tax credit of 17.80% for the period is lower than the standard rate of corporation tax. This is driven by UK government reliefs and other permanent differences.

The actual current tax credit / (charge) for the period differs from that computed by applying the standard tax rate to the profit before tax as reconciled below:

	Group For year ended 31 December 2017 £m	Group For year ended 31 December 2016 £m
(Loss) / Profit before taxation	**(59.0)**	231.6
Tax at the standard rate at 19.25% (2016: 20%)	**11.4**	(46.3)
Factors affecting the credit / (charge) for the year:		
Income not taxable	**0.2**	1.4
Expenses not deductible for tax purposes	**(2.3)**	(0.9)
Effect of reduction in deferred tax rate	**(1.2)**	4.2
Fixed asset differences	**(0.3)**	1.2
Adjustments in respect of prior periods	**1.6**	0.3
Impairment not deductible for tax purposes	**–**	(1.1)
UK government reliefs	**5.0**	4.7
Permanent differences	**(1.4)**	(2.9)
Holdover relief	**(2.5)**	(4.9)
Total current tax credit / (charge)	**10.5**	(44.3)

A reduction in the UK corporation tax rate to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. The deferred tax liability at 31 December 2017 has been calculated based on this rate. This will reduce the Group's future current tax charge accordingly.

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

11 Intangible assets and goodwill

	Group				
	Goodwill £m	Landing Slots £m	Other intangibles £m	Assets under construction £m	Total £m
Cost					
At 1 January 2017	8.7	91.1	190.9	–	290.7
Additions	–	–	–	19.5	19.5
Disposals	–	–	(0.9)	–	(0.9)
Transfers from property, plant and equipment	–	–	–	8.3	8.3
Reclassifications	–	–	18.5	(18.5)	–
At 31 December 2017	8.7	91.1	208.5	9.3	317.6
Amortisation					
At 1 January 2017	3.7	10.6	112.2	–	126.5
Amortisation	–	–	21.8	–	21.8
Disposals	–	–	(0.8)	–	(0.8)
At 31 December 2017	3.7	10.6	133.2	–	147.5
Carrying amount					
At 31 December 2017	5.0	80.5	75.3	9.3	170.1
Carrying amount					
At 31 December 2016	5.0	80.5	78.7	–	164.2

An annual impairment review is conducted on all intangible assets that have an indefinite economic life. Landing rights based within the EU are considered to have an indefinite economic life. The Group also tests the carrying amount of goodwill for impairment annually and whenever events or circumstances change.

The impairment review is carried out at the level of a 'cash-generating unit' (CGU), defined as the smallest identifiable group of assets, liabilities and associated intangible assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. Impairment testing is performed by comparing the carrying value of each cash-generating unit (CGU) to the recoverable amount, determined on the basis of the CGU's value in use. The value in use is based on the net present value of future cash flow projections discounted at post-tax rates appropriate for each CGU.

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

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

Goodwill
At 31 December 2017 the goodwill balance was attributable to Virgin Vacations Inc. (purchased 13 April 2011), Bales Worldwide Limited (purchased 14 December 2009) and Virgin Holidays Cruises Limited (purchased 8 October 2007).

Impairment testing is performed by comparing the carrying value of each CGU unit to the recoverable amount, determined on the basis of the CGU's value in use. The value in use is based on the net present value of future cash flow projections discounted at post-tax rates appropriate for each CGU. The Group's CGUs for goodwill are determined by product and consist of the Touring and Cruising divisions.

The future cash flow projections used to determine the value in use are based on the most recent annual budgets and strategic plans for the CGU. The key assumptions used to determine the business' budget and strategic plans relate to capacity and the pricing of product. Capacity is based on management's view of market demand. Product pricing is primarily determined by ongoing dialogue with suppliers, and local cost inflation.

Impairment review
A sensitivity analysis has not been disclosed as management believe that any reasonable change in assumptions would not cause the carrying value of the CGU to exceed their recoverable amount. The impairment review of both landing rights and goodwill has not resulted in an impairment charge during the year (prior year: no impairment).

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

The Company did not have any intangible assets (2016: £nil).

12 Property, plant and equipment

	Group			
	Aircraft, rotable spares and ancillary equipment £m	Other £m	Assets under construction £m	Total £m
Cost				
At 1 January 2017	**953.3**	**188.6**	**40.1**	**1,182.0**
Additions	**194.3**	**3.1**	**28.3**	**225.7**
Disposals	**(156.8)**	**(7.1)**	**–**	**(163.9)**
Transfers to intangible assets	**–**	**–**	**(8.3)**	**(8.3)**
Reclassifications	**8.3**	**12.3**	**(20.6)**	**–**
At 31 December 2017	**999.1**	**196.9**	**39.5**	**1,235.5**
Accumulated depreciation				
At 1 January 2017	**395.1**	**114.8**	**–**	**509.9**
Depreciation for the year	**69.4**	**14.0**	**–**	**83.4**
Disposals	**(53.7)**	**(6.9)**	**–**	**(60.6)**
At 31 December 2017	**410.8**	**121.9**	**–**	**532.7**
Carrying amount				
At 31 December 2017	**588.3**	**75.0**	**39.5**	**702.8**
Carrying amount				
At 31 December 2016	558.2	73.8	40.1	672.1

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

	Group	
	2017 £m	2016 £m
Carrying amount		
Aircraft, rotable spares and ancillary equipment	**171.6**	181.8
Depreciation charged for the year		
Aircraft, rotable spares and ancillary equipment	**11.9**	11.8

Freehold land with a cost of £4.4m (2016: £4.4m) has not been depreciated. Included in aircraft, rotable spares and ancillary equipment are progress payments of £122.1m (2016: £34.3m). These amounts are not depreciated. Interest capitalised by the Group on aircraft progress payments included in additions during the year amounted to £2.2m (2016: £0.2m).

During the year, the Group purchased, and subsequently, entered into a sale and operating leaseback of one Boeing 787 aircraft, and also purchased one Airbus A340 aircraft.

The net book value of assets held under finance leases includes maintenance events and modifications to the asset which have been incurred in periods following the lease inception. For finance lease obligations, see note 19.

No impairments arose on the disposal of any aircraft. The total profit on the disposal of aircraft above (excluding supplier settlements – see note 7 for further details) was £0.8m (2016: £1.2m).

The Company did not have any property, plant and equipment (2016: £nil).

13 Deferred tax

The following are the material deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior year. Deferred taxation is provided for at 17% (2016: 17%):

	Group	
	2017 £m	2016 £m
Accelerated capital allowances	**0.6**	(12.3)
Other timing differences	**(1.1)**	(3.9)
UK tax losses	**4.4**	6.9
Holdover relief	**(16.8)**	(14.6)
	(12.9)	(23.9)

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

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

Movement in deferred tax asset / (liability)	
Balance as at 1 January 2016	21.6
Charged to statement of comprehensive income	(45.9)
Charged to other comprehensive income	0.4
Balance as at 1 January 2017	**(23.9)**
Charged to statement of comprehensive income	**11.0**
Balance as at 31 December 2017	**(12.9)**

The Company did not have any deferred tax (2016: £nil).

14 Investments

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Non-current				
Investment in Airline Group Limited	**0.0**	0.0	**–**	–
Interest in subsidiaries	**–**	–	**289.4**	289.4
	0.0	0.0	**289.4**	289.4

The unlisted investment represents the Group and Company's investment in Airline Group Limited which consists of equity held at cost of £1,575 (2016: £1,575).

For further information on the subsidiaries of the Group, see note 22.

Investments in subsidiaries are carried at cost.

15 Derivative financial instruments

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

	Group	
	2017 £m	2016 £m
Non-current assets		
Foreign currency	0.1	2.6
Fuel	5.0	5.9
	5.1	8.5
Current assets		
Foreign currency	6.8	31.5
Fuel	23.4	15.5
	30.2	47.0
Current liabilities		
Foreign currency	(19.3)	(3.1)
Fuel	(1.5)	(5.4)
	(20.8)	(8.5)
Non-current liabilities		
Foreign currency	(1.1)	(0.8)
Fuel	(2.3)	(3.4)
	(3.4)	(4.2)
	11.1	42.8

	Group	
	2017 Quantity (million)	2016 Quantity (million)
Nominal amounts		
Foreign currency (USD)	539.8	492.4
Foreign currency (Other, represented in GBP)	11.0	13.5
Fuel (Barrels)	4.9	5.9

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

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

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

15 Derivative financial instruments (continued)

	Group		
	Gross amount £m	Amount not set off £m	Net amount £m
For the year ended 31 December 2017:			
Derivative financial instruments			
Assets	**35.3**	**(19.0)**	**16.3**
Liabilities	**(24.2)**	**19.0**	**(5.2)**
	11.1	**–**	**11.1**

	Group		
	Gross amount £m	Amount not set off £m	Net Amount £m
For the year ended 31 December 2016:			
Derivative financial instruments			
Assets	55.5	(12.3)	43.2
Liabilities	(12.7)	12.3	(0.4)
	42.8	–	42.8

The Company did not hold any derivative financial instruments (2016: £nil).

16 Trade and other receivables

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Non-current				
Other receivables	**16.9**	31.1	**–**	–
	16.9	31.1	**–**	–
Current				
Trade receivables	**149.2**	143.1	**–**	–
Provision for doubtful receivables	**(0.8)**	(5.8)	**–**	–
Net trade receivables	**148.4**	137.3	**–**	–
Other receivables	**72.1**	54.0	**–**	–
Prepayments and accrued income	**53.0**	58.8	**–**	–
	273.5	250.1	**–**	–

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

	2017 £m	2016 £m
Ageing of past due but not impaired receivables		
1-30 days	**14.6**	13.6
31-60 days	**0.8**	0.9
61-90 days	**0.2**	0.0
91-120 days	**0.0**	0.0
120+ days	**0.7**	1.6
Total	**16.3**	16.1

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

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

17 Inventories

	Group 2017 £m	2016 £m
Aircraft consumable spares	**26.3**	22.9
Inflight stock	**4.8**	7.1
Fuel	**0.2**	0.2
	31.3	30.2

During the year, the inventories of £17.4m (2016: £10.7m) were recognised as an expense and included within engineering and maintenance costs.

The Company did not have any inventories (2016: £nil).

18 Cash, cash equivalents and restricted cash

	Group 2017 £m	2016 £m
Cash at bank and in hand	**445.0**	530.1
Bank overdrafts	**(0.2)**	(4.2)
Cash and cash equivalents	**444.8**	525.9
Restricted cash	**49.1**	42.5
	493.9	568.4

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

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

The Company did not have any cash and cash equivalents (2016: £nil).

19 Borrowings

	Group 2017 £m	2016 £m
Non-current		
Obligations under finance leases (i)	**(222.8)**	(257.4)
Senior Bonds – A-1 (ii)	**(175.5)**	(178.9)
Senior Bonds – A-2 (ii)	**(25.1)**	(26.5)
Senior Bonds – A-3 (ii)	**(30.4)**	–
	(453.8)	(462.8)
Current		
Obligations under finance leases (i)	**(12.1)**	(12.6)
Senior Bonds – A-1 (ii)	**(3.3)**	(3.2)
Senior Bonds – A-2 (ii)	**(1.4)**	(1.4)
Senior Bonds – A-3 (ii)	**(0.8)**	–
	(17.6)	(17.2)

(i) See note 25 for a full breakdown of all commitments under finance leasing and hire purchase agreements.

(ii) In December 2015, the Group issued £220m of Senior Bonds to bond investors (£190m Class A-1 bonds and £30m of Class A-2 bonds). The terms are such that repayment of the principal will occur in part over the life of the bonds such that £112m (£100m Class A-1 bonds and £12m of Class A-2 bonds) is only payable on the maturity of the bonds after 15 years. In January 2017, the Group issued an additional £32m of Senior Bonds to investors (Class A-3). The maturation date of the bonds matches that of the A-1 and A-2 bonds, with repayment of the principal occurring in part over the life of the bonds and £16m payable after 14 years. The value of the bonds is stated after transaction costs.

19 Borrowings (continued)

	Group		
	Sterling £m	US dollars £m	Total £m
Analysis of borrowings by currency as at 31 December 2017:			
Obligations under finance leases and hire purchase agreements (i)	**–**	**(234.9)**	**(234.9)**
Senior Bonds – A-1 (ii)	**(178.8)**	**–**	**(178.8)**
Senior Bonds – A-2 (ii)	**(26.5)**	**–**	**(26.5)**
Senior Bonds – A-3 (ii)	**(31.2)**		**(31.2)**
	(236.5)	**(234.9)**	**(471.4)**
Analysis of borrowings by currency as at 31 December 2016:			
Obligations under finance leases and hire purchase agreements (i)	–	(270.0)	(270.0)
Senior Bonds – A-1 (ii)	(182.1)	–	(182.1)
Senior Bonds – A-2 (ii)	(27.9)	–	(27.9)
	(210.0)	(270.0)	(480.0)

The maturity profile of borrowings is disclosed in note 27.

The Company did not have any borrowings (2016: £nil).

20 Trade and other payables including deferred income

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Non-current				
Forward sales of passenger carriage and holidays	**(0.9)**	–	**–**	–
Accruals	**(0.0)**	(2.3)	**–**	–
Other revenue received in advance	**(9.5)**	(47.7)	**–**	–
	(10.4)	(50.0)	**–**	–
Current				
Trade payables	**(64.0)**	(36.8)	**–**	–
Forward sales of passenger carriage and holidays	**(503.6)**	(472.1)	**–**	–
Unredeemed revenue: customer loyalty programme	**(148.2)**	(146.9)	**–**	–
Other revenue received in advance	**(44.3)**	(16.7)	**–**	–
Flight and airport charges	**(99.1)**	(86.1)	**–**	–
Amounts owed to other Group companies	**(4.3)**	(4.4)	**(0.8)**	(0.5)
Corporate tax payable	**0.0**	(0.1)	**–**	–
Other taxes and social security	**(12.3)**	(12.5)	**–**	–
Other payables	**(2.8)**	(4.4)	**–**	–
Accruals	**(247.2)**	(270.5)	**–**	(0.1)
	(1,125.8)	(1,050.5)	**(0.8)**	(0.6)

Included within current other payables is an amount of £nil (2016: £2.3m) relating to margin calls on fuel and foreign currency derivative positions.

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

The Company did not have any deferred income (2016: £nil).

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

21 Provisions

	Group 2017 £m	Group 2016 £m
Non-current		
Maintenance	**(61.4)**	(81.7)
Leasehold dilapidation	**(6.9)**	(1.9)
	(68.3)	(83.6)
Current		
Maintenance	**(19.1)**	(22.3)
Onerous leases	**(1.8)**	(6.9)
Leasehold dilapidation	**(1.1)**	(6.9)
Legal claims	**(12.2)**	(11.5)
Restructuring costs	**(1.6)**	–
	(35.8)	(47.6)

	Group					
	Maintenance £m	Onerous leases £m	Leasehold dilapidations £m	Legal claims £m	Restructuring costs £m	Total £m
As at 1 January 2017	**(104.0)**	**(6.9)**	**(8.8)**	**(11.5)**	**–**	**(131.2)**
Amounts (provided) / released in the year	**(8.4)**	**(4.6)**	**(1.7)**	**(8.3)**	**(1.6)**	**(24.6)**
Amounts utilised in the year	**22.3**	**9.7**	**2.8**	**8.0**	**–**	**42.8**
Other movements	**9.6**	**–**	**–**	**(0.4)**	**–**	**9.2**
Unwinding of discount	**–**	**–**	**(0.3)**	**–**	**–**	**(0.3)**
At 31 December 2017	**(80.5)**	**(1.8)**	**(8.0)**	**(12.2)**	**(1.6)**	**(104.1)**

Maintenance included in provisions, relates to the costs to meet the contractual return conditions on aircraft held under operating leases. Cash outflows on aircraft and engine maintenance occur when the maintenance events take place on future dates not exceeding June 2032.

The Group operates from a number of properties where the costs involved with fulfilling the terms and conditions of the lease are higher than the amount of economic benefit received. Such provisions represent the rent and occupancy related expenses which will be incurred after these properties have been vacated until the end of the lease term. In the current year, a provision was also created (and subsequently utilised and released) for a parked aircraft which was surplus to requirement for part of the year (for further details, see note 7).

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

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

The Company did not have any provisions (2016: £nil).

22 Interest in subsidiaries

The Group consists of a Parent Company, Virgin Atlantic Limited, incorporated in the UK and a number of subsidiaries which operate and are incorporated around the world. The subsidiaries of the Group as at 31 December 2017 are:

	Country of incorporation or registration	% Ordinary issued shares	Principal activity
Subsidiaries			
Virgin Atlantic Two Limited	England and Wales	100	Holding company
Virgin Travel Group Limited	England and Wales	100	Holding company
Virgin Atlantic Airways Limited	England and Wales	100	Airline operations
Virgin Holidays Limited	England and Wales	100	Tour operations
Barbados Enterprises plc	England and Wales	0	Investment company
Bug Leasing Limited	Jersey	100	Leasing of aircraft
Fit Leasing Limited	Jersey	100	Leasing of aircraft
VA Cargo Limited	England and Wales	100	Cargo management
VAA Holdings Jersey Limited	Jersey	100	Holding company
VAA Holdings UK Limited	England and Wales	100	Holding company
Virgin Atlantic International Limited	England and Wales	100	Trading
Virgin Incoming Services Incorporated	United States of America	100	Tour Operator
Virglease (3) Limited	England and Wales	100	Leasing of aircraft
Virgin Vacations Incorporated	United States of America	100	Travel Agency
Junopart Limited	England and Wales	100	In liquidation
Virglease Limited	England and Wales	100	In liquidation
Public Eye Promotions Limited	England and Wales	100	In liquidation*
Threesixty Aerospace Limited	England and Wales	100	In liquidation
Virgair Limited	England and Wales	100	In liquidation
Virgin Atlantic Consol Limited	England and Wales	100	In liquidation*
Virgin Atlantic Engineering Limited	England and Wales	100	In liquidation*
Virgin Aviation Services Limited	England and Wales	100	In liquidation*
Virgin Freeway Limited	England and Wales	100	In liquidation*
Virglease (2) Limited	England and Wales	100	In liquidation*
Worldwide Travel of East Anglia Limited	England and Wales	100	In liquidation
Significant holdings			
Air Nigeria Development Limited (formerly Virgin Nigeria Airways Limited)	Nigeria	49	Non-trading company

Subsidiary Registered Office Addresses	
Entity	Registered office address:
Fit Leasing Limited, Bug Leasing Limited, VAA Holdings Jersey Limited	47 Esplanade, St Helier, Jersey, JE1 0BD.
Virgin Vacations Inc, Virgin Incoming Services Inc.	5787 Vineland Road, Suite 204, Orlando, Florida, 32819.
All other trading subsidiaries	The VHQ, Manor Royal, Crawley, West Sussex, RH10 9DF.
All companies in liquidation	9th Floor, 25 Farringdon Street, London EC4A 4AB

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

All subsidiaries other than Virgin Atlantic Two Limited are indirectly held. The proportion of voting rights held by the Group in each of its subsidiaries is the same as the proportion of ordinary issued shares held. All subsidiaries have been included in the consolidation. All entities included in the consolidation have the same accounting reference date.

Air Nigeria Development Limited was excluded from the consolidation with effect from 1 September 2007 on the grounds that the Company experienced severe restrictions in its ability to enforce the rights that had previously allowed the Company to exercise dominant influence over the operational and financial policies of Air Nigeria Development Limited. These restrictions have continued to prevent the Company from exercising either dominant or significant influence over Air Nigeria Development Limited.

* Companies in liquidation that were dissolved on 7 February 2018.

23 Related party transactions

The Group had transactions in the ordinary course of business during the year ended 31 December 2017 and 31 December 2016 with related parties.

	Group		Company	
	For year ended 31 December 2017 £m	For year ended 31 December 2016* £m	**For year ended 31 December 2017 £m**	For year ended 31 December 2016* £m
Parent				
Purchases from parent	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Related parties under common control				
Sales to related parties	**1.4**	1.3	**–**	–
Purchases from related parties	**(19.7)**	(18.5)	**–**	–
Amounts owed by related parties	**0.1**	0.1	**–**	–
Amounts owed to related parties	**(4.6)**	(4.5)	**–**	–
Subsidiaries				
Amounts owed to subsidiaries	**–**	–	**(0.8)**	(0.6)

* Transactions and balances with related parties have been restated for the prior year ended 31 December 2016.

The Group has trademark licenses for the use of the Virgin name and logo from VAL TM Limited. The licenses are for an initial period ending on 30 March 2041 extendable by mutual agreement for up to ten years in relation to the Group's Airline and Holiday tour operation businesses, for which royalties are determined on an arms-length basis. Prior to the group reorganisation in March 2014 the Group had licenses from Virgin Enterprises Limited that were without term limit, mostly royalty free and exclusive subject to licences granted to Virgin America Incorporated and Virgin Australia Airlines PTY Ltd. All transactions have been concluded at arm's length.

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

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

On 31 December 2017 the Group owed Delta Air Lines Inc. £38.4m (2016: £40.5m) with respect to the joint operation agreement. Costs incurred in relation to the joint arrangement are presented within other operating and overhead costs. Total sales to Delta Air Lines Inc. during the year amounted to £7.2m (2016: £6.0m); total purchases were £94.5m (2016: £91.4m). Outstanding receivable balances amounted to £1.2m (2016: £1.7m) and outstanding payables (excluding amounts owed under the joint arrangement) were £0.6m (2016: £1.8m).

As at 31 December 2017, the directors consider the ultimate holding company to be Virgin Group Holdings Limited, a company registered in the British Virgin Islands. The sole shareholder of Virgin Group Holdings is Sir Richard Branson. Sir Richard Branson has interests directly or indirectly in certain other companies, which are considered to give rise to related party disclosures under IAS 24.

24 Ultimate holding

The Directors consider that the Group's ultimate and immediate parent company and its controlling party is Virgin Group Holdings Limited, a company incorporated in the British Virgin Islands, the accounts of which are neither consolidated nor publicly available. The Directors consider that Sir Richard Branson is the ultimate controlling party of the Company. The results of the Company are not consolidated into any higher group whose financial statements are publicly available.

In July 2017, the Directors announced that subject to regulatory approval, 31% of shares in Virgin Atlantic Limited would be sold to Air France-KLM S.A, a company registered in France. As at the balance sheet date, the agreement had not been finalised.

25 Commitments

(i) Commitments under finance leases

The capital element of the future minimum lease payments to which the Group is committed at 31 December 2017 under finance lease and hire purchase contract obligations incurred in the acquisition of aircraft, engines, spares and other equipment are as follows:

	Group	
	2017 £m	2016 £m
Future minimum lease payments		
Not later than one year	**12.1**	12.6
Later than one year and not later than five years	**55.6**	57.7
Later than five years	**167.2**	199.7
	234.9	270.0

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

25 Commitments (continued)

(ii) Commitments under operating leases

As at 31 December 2017, the Group had annual commitments under non-cancellable operating leases as set out below:

	Group			
	2017		2016*	
	Land and buildings £m	Aircraft and other £m	Land and buildings £m	Aircraft and other £m
Commitments under non-cancellable operating leases				
Not later than one year	**24.2**	**199.7**	24.2	230.9
Later than one year and not later than five years	**54.0**	**608.8**	60.1	608.8
Later than five years	**60.9**	**513.7**	69.1	575.8
	139.1	**1,322.2**	153.4	1,415.5

* The 2016 comparatives have been restated to be consistent with 2017 presentation.

(iii) Capital commitments

	Group	
	2017 £m	2016 £m
Capital commitments at the balance sheet date for which no provision has been made:	**2,902.3**	3,405.5

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

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

26 Financial instruments

(i) Financial instruments by category

	Group	
	2017 £m	2016 £m
Financial assets		
Cash and bank balances	**444.8**	525.9
Restricted cash	**49.1**	42.5
Fair value through profit and loss:		
Derivative financial instruments	**35.3**	55.5
Loans and receivables at amortised cost:		
Investments	**0.0**	0.0
Trade and other receivables (excl. prepayments and accrued income)	**237.4**	222.4
	766.6	846.3
Financial liabilities		
Fair value through profit and loss:		
Derivative financial instruments	**(24.2)**	(12.7)
Financial liabilities at amortised cost:		
Borrowings	**(471.4)**	(480.0)
Trade and other payables (excl. deferred income)	**(429.7)**	(414.8)
	(925.3)	(907.5)

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

The Company holds £0.8m (2016: £0.5m) of financial instruments that consist of amounts owed to Group companies. These are carried at amortised cost.

26 Financial instruments (continued)

(ii) Fair values of financial assets and liabilities

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

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

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

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

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

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

There were no transfers between levels during the year.

27 Financial risk management

The Group is exposed to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and fuel price risk), credit risk, capital risk and liquidity risk. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

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

(i) Fuel price risk

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

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

	Group	
	2017 £m	2016 £m
Increase in fuel price by a fixed percentage	**30%**	30%
Increase in profit before tax	**60.9**	63.5
Decrease in fuel price by a fixed percentage	**(30%)**	(30%)
Decrease in profit before tax	**(31.7)**	(35.7)

27 Financial risk management (continued)

(ii) Foreign currency risk

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

Currency risk is reduced through the matching of receipts and payments in individual currencies and holding foreign currency balances to meet future obligations. Any exposure that cannot be naturally hedged is managed through application of the foreign exchange hedging policy.

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

The Group has substantial liabilities denominated in US dollars.

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

	Group	
	2017 £m	2016 £m
Strengthening in currency exchange rate by a fixed percentage	**10%**	10%
Decrease in profit before tax	**(35.4)**	(41.5)
Weakening in currency exchange rate by a fixed percentage	**(10%)**	(10%)
Increase in profit before tax	**42.9**	53.4

(iii) Interest rate risk

Interest rate cash flow risk arises on floating rate borrowings and cash investments. The interest rate risk management policy objective is to lower the cost of capital by maintaining a targeted optimal range of net floating rate debt instruments while at the same time, not over-exposing the company to interest rate fluctuations.

Interest rate exposure is managed on net basis i.e. after taking into consideration the natural hedge available due to cash invested in the short term at floating interest rates.

Aircraft leases are a mix of fixed and floating rates. Of the 37 leases in place at 31 December 2017 (2016: 36), 62% were based on fixed interest rates and 38% were based on floating interest rates (2016: 64% fixed, 36% floating). This includes three operating leases on A330-200 aircraft signed in December 2017 and due to enter service in 2018.

(iv) Credit risk

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

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

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

Disclosure relating to the credit quality of trade and other receivables is given in note 26. As at 31 December 2017 the Group held £nil (2016: £2.3m) of collateral to mitigate this exposure (see note 20).

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

27 Financial risk management (continued)

(v) Liquidity risk

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

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

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

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

	2017			
Group	Within 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
Trade and other payables (excl. deferred income)	(429.7)	–	–	–
Derivative financial instruments	(20.8)	(3.4)	–	–
Borrowings:				
Obligations under finance leases & hire purchase agreements	(12.1)	(12.8)	(42.8)	(167.2)
Senior Bonds – A-1	(3.3)	(3.5)	(17.0)	(155.0)
Senior Bonds – A-2	(1.4)	(1.5)	(4.3)	(19.4)
Senior Bonds – A-3	(0.8)	(0.8)	(3.2)	(26.4)
	(468.1)	(22.0)	(67.1)	(368.0)

	2016			
Group	Within 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
Trade and other payables (excl. deferred income)*	(414.8)	(2.3)	–	–
Derivative financial instruments	(8.5)	(4.2)	–	–
Borrowings:				
Obligations under finance leases & hire purchase agreements	(12.6)	(13.3)	(44.4)	(199.7)
Senior Bonds – A-1	(3.2)	(3.3)	(13.7)	(161.9)
Senior Bonds – A-2	(1.4)	(1.4)	(4.4)	(20.7)
	(440.5)	(24.5)	(62.5)	(382.3)

* The comparatives for 2016 have been restated to include flight and airport charges.

(vi) Capital risk

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

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

28 Reconciliation between (loss) / profit for the year and cash generated by operations

	Group	
	2017 £m	2016* £m
(Loss) / profit for the year	**(48.5)**	187.3
Adjustments for:		
Depreciation	**83.4**	96.2
Amortisation	**21.8**	20.4
(Gain) / loss on unrealised forex	**(2.4)**	2.8
Profit on disposal of property, plant and equipment and intangible assets	**(12.5)**	(24.7)
Taxation	**(10.5)**	44.3
Movement in provision for bad debts	**(5.0)**	0.4
Unrealised fair value movement in derivatives	**31.6**	(214.4)
Net finance costs	**17.1**	18.3
Other exceptional items (i)	**0.6**	10.8
Working capital changes		
Inventory	**(1.1)**	(2.1)
Trade and other receivables	**(9.2)**	70.6
Trade and other payables	**51.5**	(69.4)
Provisions	**(13.5)**	(3.4)
Interest paid	**(22.5)**	(18.0)
Income taxes (paid) / recovered	**(0.5)**	6.7
Net cash from operating activities	**80.3**	125.8
Adjustments for other exceptional items (i)	**10.6**	2.6
Net cash from operating activities before exceptional items	**90.9**	128.4

* The presentation of certain items within the cash flow statement has been restated for the prior year ended 31 December 2016 to better reflect the operating cash flows of the Group.

(i) Other exceptional items consists of the following (see note 7):

	2017		
Group	**Cash £m**	**Non cash £m**	**Total £m**
Restructuring costs	**(6.4)**	**(0.2)**	**(6.6)**
Onerous lease	**(4.2)**	**(0.4)**	**(4.6)**
	(10.6)	**(0.6)**	**(11.2)**

	2016		
Group	Cash £m	Non cash £m	Total £m
Impairment of aircraft rotables stocks	–	(10.7)	(10.7)
Restructuring costs	(2.6)	(0.1)	(2.7)
	(2.6)	(10.8)	(13.4)

29 Subsequent events

As part of the Group's management of liquidity risk (see note 27), on 17 January 2018, the Group entered into a multicurrency revolving credit facility of $150m with a number of financial institutions. At the date of this report, nothing was drawn down against the facility. The facility will be secured against the Group's unencumbered aircraft and engines prior to drawdown.

Corporate structure

- Virgin Atlantic Limited
  - Virgin Atlantic Two Limited
    - Virgin Travel Group Limited
      - Virgin Holidays Limited
        - Virgin Incoming Services Inc.
        - Virgin Vacations Inc.
      - Virgin Atlantic Airways Limited
        - Bug Leasing Limited
        - Fit Leasing Limited
        - Junopart Limited**
        - Public Eye Promotions Limited***
        - Threesixty Aerospace Limited**
        - VA Cargo Limited
        - VAA Holdings UK Limited
          - VAA Holdings Jersey Limited
            - Virgin Atlantic International Limited
        - Virgair Limited**
        - Virgin Atlantic Consol Limited***
        - Virgin Atlantic Engineering Limited***
        - Virgin Aviation Services Limited***
        - Virgin Freeway Limited***
        - Virglease Limited**
        - Virglease (2) Limited***
        - Virglease (3) Limited
        - Worldwide Travel of East Anglia Limited (Trading as Virgin Flightstore)**

Notes:
All companies are wholly owned by Virgin Atlantic Limited unless otherwise indicated.
** Companies in liquidation.
*** Companies in liquidation that were dissolved on 7 February 2018.

Glossary

Airline Passenger unit revenue (PRASK)	Our total airline Passenger Revenue divided by the number of Available Seat Kilometres.
Airline Passenger Revenue per RPK or Yield	Our measure for yield, calculated as our total airline passenger revenue divided by the number of seats occupied by revenue customers multiplied by distance flown.
Available Seat Kilometre (ASK)	Our passenger carrying capacity, calculated by seats available multiplied by distance flown.
Change for Children	Our onboard charity appeal.
Constant currency	The restatement of our prior year revenue and cost at the average IATA five-day exchange rate for the current year.
Cost per Available Seat Kilometre (CASK)	This is how much each seat on a flight costs us for every kilometre it operates.
Departed passenger volumes	The number of customers who started a Virgin Holidays experience. They may have completed their experience after the end of the financial year.
Earnings Before Interest and Taxes (EBIT)	A measure of a company's operating income, equal to earnings before the deduction of net finance costs and taxes and before Exceptional Items.
Earnings Before Interest, Taxes, Depreciation, Amortisation and Rentals (EBITDAR)	A measure of a company's operating cash flow, equal to earnings before the deduction of depreciation, amortisation, rentals, net finance costs and taxes and before Exceptional Items.
European Aviation Safety Agency (EASA)	The European Aviation Safety Agency is an agency of the European Union (EU) whose mission is to ensure the highest levels of safety for EU citizens and environmental protection. It provides a single regulatory and certification process among member states to facilitate the internal EU aviation single market and level playing field.
Exceptional items	One off events that do not form part of business as usual activities. They include the reclassification of gains or losses on hedging, restructuring costs and some gains or losses on the disposal of property, plant and machinery.
fit.nimble	Our change programme fit.nimble to drive efficiency and simplicity throughout all areas of the business, while keeping the safety and security of our customers first and foremost, and delivering an even better customer experience.
Flying Club	Our customer reward proposition.
Future Flyers	Our pilot recruitment scheme, which aims to make a flying career accessible to all through an innovative funding solution.
IATA Operational Safety Audit (IOSA)	The IATA Operational Safety Audit (IOSA) is an internationally recognised and accepted evaluation system designed to assess the operational management and control systems of an airline.
International Civil Aviation Organization (ICAO)	A specialised agency of the United Nations, the International Civil Aviation Organisation was created in 1944 to promote the safe and orderly development of international civil aviation throughout the world. It sets standards and regulations necessary for aviation safety, security, efficiency and regularity, as well as for aviation environmental protection.
JOLCO	Japanese Operating Lease with Call Option. A special purpose vehicle is established with a 100% ownership by a Japanese entity, some of the equity is provided by investors and the remainder comes from lenders (banks).
Load factor	The proportion of seats filled by revenue passengers, weighted by distance flown.
Metal swaps	The transfer of a route from one joint venture partner to the other so that although the flights continue to be offered by both airlines it is operated by the other joint venture partner.
Non-fuel unit costs	This is how much each seat on a flight costs us for every kilometre it operates once the effect of fuel price and hedging is removed.

Passenger Service System (PSS)	A Passenger Service System is the industry term for an airline booking system. AIR4 is the system Virgin Atlantic has chosen to replace several older software products, which support business processes as varied as customer relationship management, ticket sales, the e-commerce engine behind our website and our limo booking tool.
PBT	Profit before tax.
Profit Before Tax and Exceptional Items (PBTEI)	Our measure of profit, profit before tax and exceptional items. Used as it excludes Exceptional Items (see above) thereby providing a better view of underlying performance.
Platform to Serve	Our new Customer Relationship Management programme which will help our people deliver a more personalised service.
Plan to Win	Our long-term plan to be consistently profitable through the economic cycles; to maintain an appropriate return on capital; and to have the most engaged and effective work force in the industry delivering the unique Virgin Atlantic experience to customers.
Reporting year	1 January to 31 December.
Revenue Passenger Kilometre (RPK)	Our passenger revenue measure weighted for distance, calculated by seats occupied by revenue customers x distance flown.
Virgin Holidays Experiences	A collection of bespoke adventures, attractions, experience days and tours that let the customer create truly personal, tailor-made holidays that are all but guaranteed to become best-ever memories.
WE	WE, formerly known as 'Free The Children' is a charity supported by VAF that has evolved from a group fighting child labour into a powerful movement dedicated to change: at home, abroad and within each and every one of us.
Wonderlist	A collection designed to showcase unique, once-in-a-lifetime holidays to premium customers.
Year on year (YoY)	Comparing two financial years.
Yield	A measure of financial return.

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Virgin Atlantic Ltd
The VHQ, Fleming Way,
Crawley, RH10 9DF,
United Kingdom

www.virginatlantic.com