

virgin atlantic 

more to love

Annual Report 2018



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more reasons to love us

We strive to create unique and irresistible experiences that our customers love – it's at the heart of everything we do. And that's why our customers choose us, knowing that they can expect more from us than any other travel company.

Combining the strengths of Virgin Atlantic and Virgin Holidays gives us the opportunity to offer our customers more benefits than ever before. Together we aspire to be the world's most loved travel company.

We have reimagined our Economy offering, expanded our flight network and opened the world's first Departure Beach in Barbados. Together we have unrivalled expertise to create an unforgettable experience for people's travel and holidays and we love what we do.

Learn more

For more information please visit:
www.virginatlantic.com



Our purpose is *to embrace the human spirit and let it fly*. We have a simple goal. By being uniquely Virgin Atlantic, we want to become the airline most loved by our customers. We are achieving this by realising the full potential of our transatlantic joint venture with Delta Air Lines, maximising opportunities with Virgin Holidays, as well as empowering our people with the right skills and tools to deliver that unique Virgin Atlantic experience.



Our international cargo division is committed to delivering unrivalled consistency and reliability for customers across the globe. The offering spans general freight, express courier, automotive, pets, perishables and pharmaceuticals to over 500 destinations.



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

By offering a differentiated experience and a brand that's known and trusted as a consumer champion, Virgin Holidays continues to be a leading tour operator to the US and Caribbean, as well as offering holidays to other popular longhaul destinations.

Our vision

to be the most loved travel company

Our values

Be amazing

From the basics to the brilliant, we'll make amazing our art. We'll set standards, create memories and take pride in meeting the soaring expectations of a Virgin brand. Life may be short but we embrace our power to make it meaningful, adding accents of green to our signature red and thinking sustainably about our planet – for amazing people, amazing experiences and amazing love.

Think red

Red is the colour of the true Virgin spirit. It's bold, joyful and stylish. It's not afraid to change the game, champion the customer and strive for the things that exist only in the imagination. We need to feel and act at our best and red is the passion, the positivity and the innovation that takes us all the way.

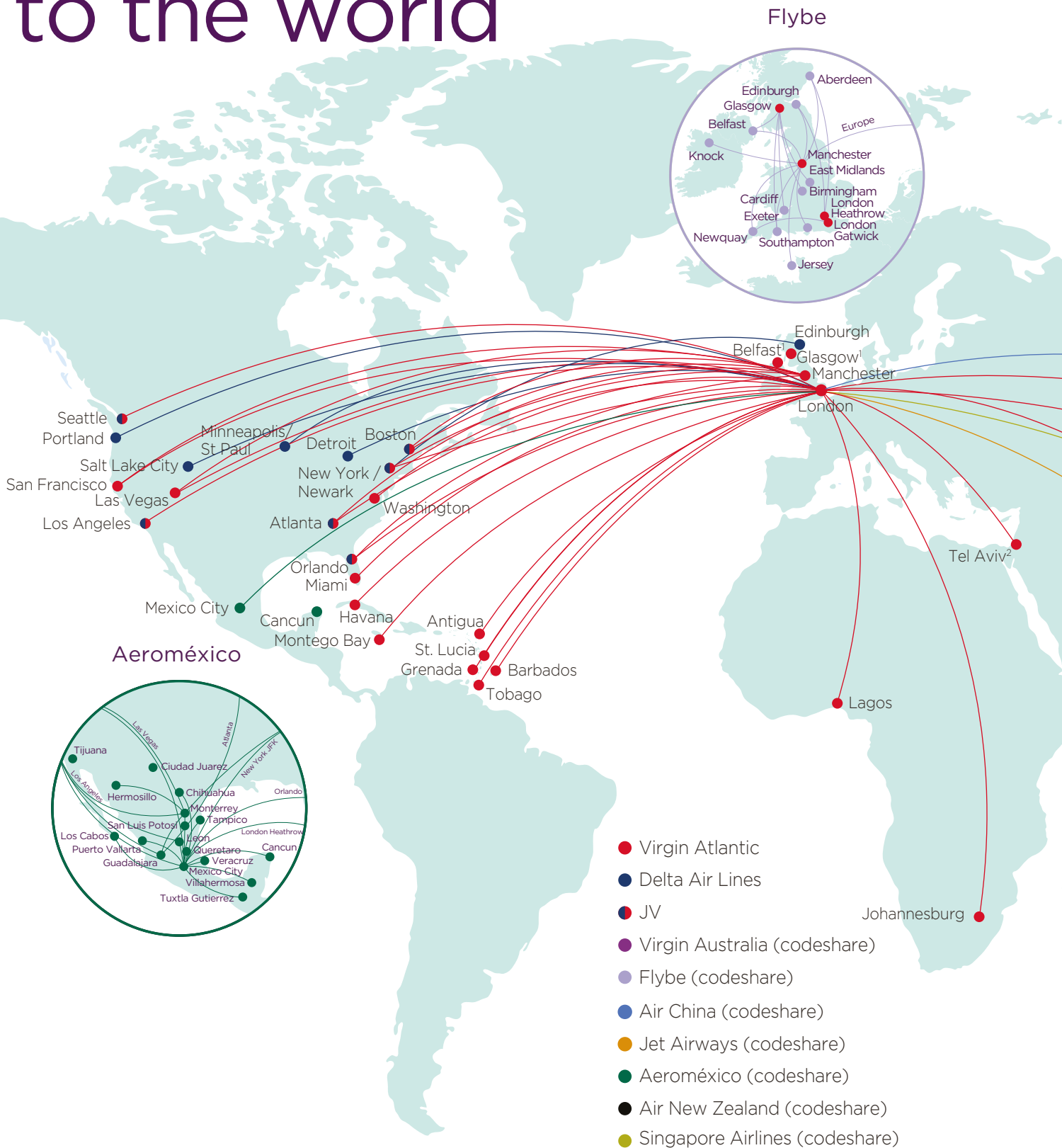
Make friends

People are our beating heart. They enliven our teams, connect with our customers and make every partnership flourish with colour and creativity. As the future takes us higher, friendship becomes our secret weapon – helping us to stand up for diversity and inclusion while opening minds to a more socially responsible, culturally aware world.

Learn more

Learn more about our strengths; see our business model on pg 18 and find out about our new *Velocity* plan on pg 29.

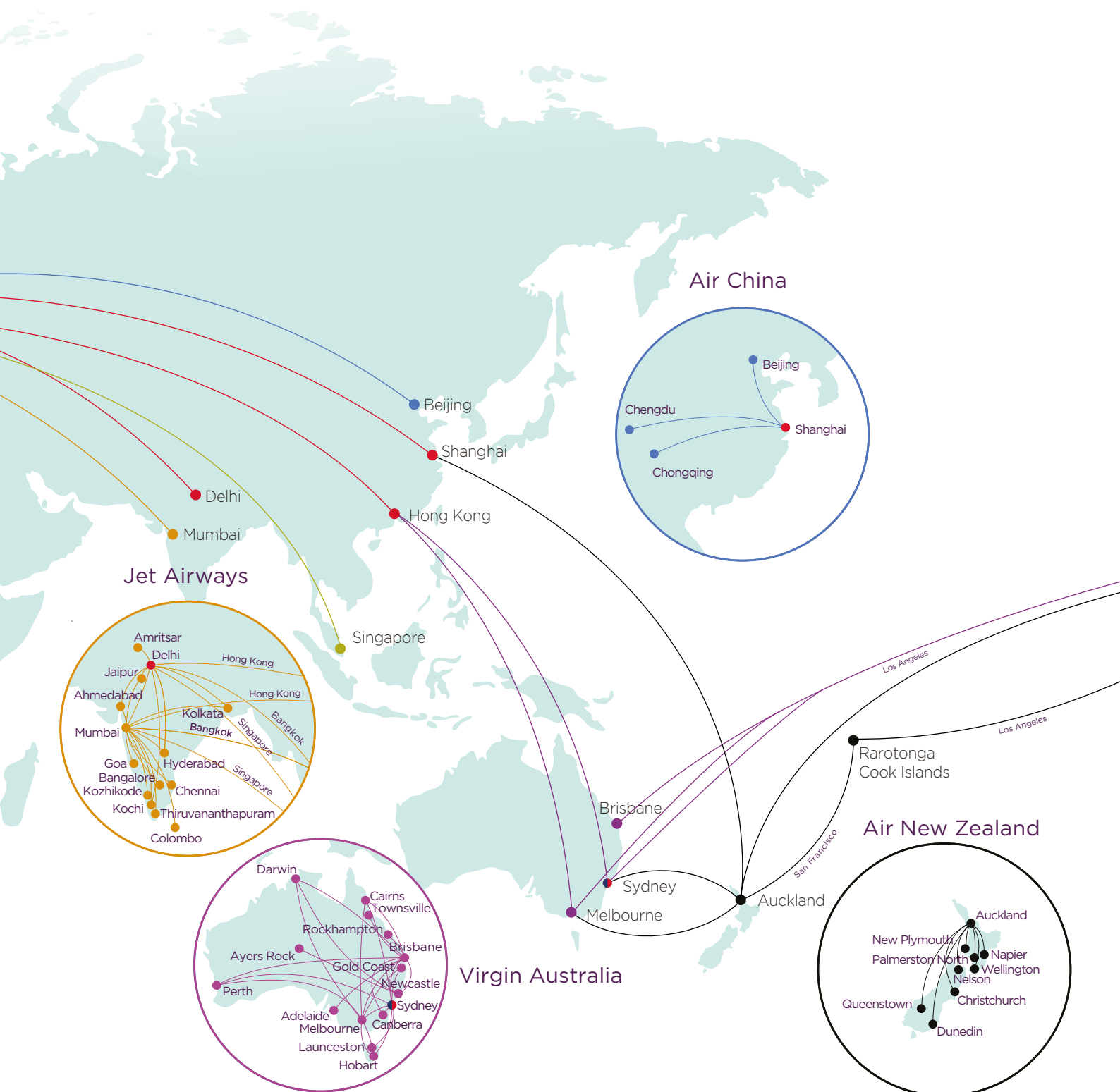
connecting Britain to the world



1. Flights operate seasonally from these locations.
2. LHR-TLV route starts September 2019.

We launched new services and enhanced our partnership network in 2018. Boston and Johannesburg are now served twice daily and travellers to New York JFK can choose a sixth daily Virgin Atlantic departure.

Virgin Australia and Aeroméxico joined our family of codeshare partners and we expanded our codeshare destinations with Flybe in the UK and Delta in the Caribbean.



More to love



more opportunities to travel

Connecting our customers

Our joint venture partnership with Delta Air Lines (Delta) has expanded our flight network, giving customers more ways to travel with us. With 39 flights across the Atlantic each day and over 230 onward destinations, together we served over five million passengers in 2018.

We continue to outperform all other airlines that operate transatlantic flights from Heathrow for on time performance and customer satisfaction. For the fourth consecutive year the joint venture dominated the industry Airs@t customer satisfaction ratings.¹

As we celebrate the fifth anniversary of our partnership in 2019, we look forward to implementing our expanded joint venture with Delta, Air France and KLM. This growing synergy will build on a strong foundation, enabling us to provide more than 150 daily nonstop flights each way and serve approximately 340 destinations between the UK, Europe and North America.

A global network

We announced exciting network growth, adding second daily services to Boston and Johannesburg and a sixth daily flight to New York JFK. We also added new Caribbean codeshare points within our joint venture to provide customers with even more choice.

In April, we launched our all Virgin travel experience to Australia with a new Virgin Australia codeshare. This added 13 new destinations through onward connections via Hong Kong and Los Angeles.

Our Flybe codeshare partnership continued to grow, offering greater choice and reward to around 30,000 customers through the year. And in December, we launched a new codeshare partnership with Aeroméxico, adding 15 new destinations to our network across Mexico.

In late 2019, we plan to offer brand new Virgin travel experiences on an expanded domestic and European network, flown by the new Connect Airways consortium of Flybe and Stobart Air.



Our successful joint venture with Delta will expand in 2019 to include Air France and KLM, creating more opportunities for customers to connect to the world.

1. IATA Airs@t Transatlantic 2018.

More to love



more choice to delight customers

A flight for everyone

We have reimagined our Economy offering to introduce three new products to provide more choice, extra features and lower fares than ever before. Our three new ways to fly recognise that customers wanting to fly Economy are not all the same. From stretching out in comfort to fabulous fares, we've got a product to satisfy everyone.

- **Economy Delight** is the leading economy product of any UK airline. It's designed for those customers seeking more space and loads of extra perks. We include a checked bag, advanced seat assignment, use of Premium Check In at the airport and priority boarding, enabling customers to settle into their 34 inch extra legroom seat all the sooner.
- **Economy Classic** is the product that our customers already know and love which includes a checked bag, but now it comes with the added benefit of free advanced seat assignment. Perfect for families and groups who want to guarantee that they sit together without having to pay for the privilege.
- **Economy Light** was created for those customers who are happy to pack less and travel light to get the lowest fares. Our hand luggage only product allows passengers to glide through security and straight to departures. Proof that low fares don't have to mean no frills, Economy Light customers still get to enjoy our complimentary award winning entertainment, a generous food and beverage menu, fleet wide Wi-Fi and access to a personal USB charger in every seat.

Spot the difference

We launched our three new ways to fly in Economy in conjunction with Delta to provide a seamless customer experience. Delight, Classic and Light neatly align with their new three Economy products of Comfort+, Main Cabin and Basic. We are the first and only joint venture to achieve this level of alignment across three branded Economy products, testament to the relationship we have built over the last five years.

Working together we innovated to create the Delight/Delta Comfort+ product offer. We are the only carriers that offer an additional legroom branded Economy product from the UK.



By offering three new ways to fly in Economy, customers can choose Virgin Atlantic however they like to travel and whatever their budget.

More to love



more experiences to love

Trips to remember

Our people are passionate about delivering irresistible, effortless and great value experiences. From creating bespoke afternoon teas with master pâtissiers to hosting flight simulators at Heathrow check in, our aim is to surprise and delight to truly stand out from the crowd.

Some customers like to help themselves and we love to provide them with the tools to do that. We launched self service Bag Drop at Gatwick which allows customers to weigh, tag and drop their bags off without visiting a desk. This new technology frees up our people to provide a more personalised service where customers need it most.

Struggling with luggage is one of the least enjoyable aspects of travel for some of our customers. To take the hassle out of getting to the airport we've partnered with AirPortr to launch a new baggage collection service for flights from Heathrow and Gatwick. Customers can wave goodbye to their bags at home and collect them at their arrival airport.

Using technology to improve our onboard experience is also a major focus. In November, we launched a new service for Manchester departures which enables our customers in Upper Class to preselect their main meal in advance from the comfort of their sofa. The service will expand to Heathrow and Gatwick, as well as to our Premium cabin and inbound flights in 2019.

Sharing the love

Our customers tell us they love to fly with us and we are constantly striving to find new ways to reward that devotion. In 2018, we integrated our loyalty programme into a new Virgin Group Loyalty Programme to enable customers to earn loyalty currency even quicker and redeem it against more Virgin products and partners.

Our new cobranded credit card with Virgin Money was launched in April. Enticing customers with the offer of bonus miles, upgrades, and free seats, 100k cardholders were attracted to sign up within the first year and spent £1bn in less than 12 months.



High tea designed by master pâtissier Eric Lanlard – one of the many bespoke experiences available to our customers.

More to love



more together

Getting more from your holiday

Our world first Departure Beach in Barbados opened to customers in the summer and our new V-hub lounges at Universal Orlando Resort's brand new Aventura hotel and Atlantis the Palm, Dubai, are designed to ensure our customers get the most from their holiday.

Our retail channel exceeded expectations in 2018. The partnership we formed with NEXT is a more natural fit and consequently much deeper than our legacy partnerships. We opened 22 NEXT concessions at a rate of one per week in the second half of the year.

Virgin Holidays continues to create compelling and engaging ways to inspire customers, with pioneering retail innovations such as the virtual reality rollercoaster and the addition of a Clubhouse Spa in our newest v-room store in Milton Keynes. Our new app provides access to everything you need for a seamless experience in advance of your trip and access to expert reps in resort so customers can reach us easily if they need support or advice.

A more seamless experience

Virgin Atlantic and Virgin Holidays have joined forces in pursuit of our shared mission to be the most loved travel company.

We built more brand love through our first coordinated brand campaign and our second successful partnership with ITV's Saturday Night Takeaway in 2018. We launched a programme of work to further enhance the customer proposition for our joint customers booking through Virgin Holidays and flying on Virgin Atlantic. Our closer working also enabled us to grow Flight+Hotel bookings by 250% year on year.

With initiatives like these it's no surprise that Virgin Holidays customer satisfaction levels increased to their highest recorded level in 2018 and that customers who booked through Virgin Holidays also report the highest satisfaction with the Virgin Atlantic flight experience.



From when you step in store, to when you step onboard, Virgin Holidays and Virgin Atlantic are working together to deliver seamless holidays and unforgettable memories.

delivering more for our customers



Highlights

5.4

million
passengers
flown

2.8

£bn in
revenue

46

aircraft in
our fleet

1st

commercial
flight using
LanzaTech's
sustainable
aviation fuel

We overcame significant macroeconomic and operational challenges to deliver more for more customers in 2018.

2018 was the concluding year of our four year *Plan to Win*. We delivered most of our core financial and operational objectives. Over the last four years we have strengthened our finances and balance sheet while achieving a material uplift in operating performance. On virtually every measure be it on time performance, liquidity, customer Net Promoter Scores or costs, Virgin Atlantic has become a stronger and more resilient business.

Some key events beyond our control ultimately compromised the profit targets of *Plan to Win*. The most important were the devaluation of Sterling, our main operating currency, after the EU referendum result and the continuing Rolls-Royce engine supply issues affecting our 787-9 aircraft.

Our new plan, *Velocity*, starts in 2019 and will run for three years to 2021. The ambition of this plan is simple: *to become the most loved travel company*. We will continue with operating improvements, unit cost reductions, fleet transformation and network enhancements. Our expanded transatlantic joint venture adds Air France and KLM to our existing partnership with Delta and we will also welcome Air France-KLM Group into our share capital. Increased profits and continuing reinforcement of our financial position are at the heart of *Velocity*. With one enormous caveat, we look forward to the next few years with great confidence and enthusiasm.

The caveat, of course, is the chaotic process of Brexit and the unpredictable consequences which will follow. To have to write these words less than three weeks before the planned leave date is both astonishing and intolerable, but it is reality. At this point we are confident in our ability to operate our full flying programme in the immediate aftermath of a no deal exit. We have also made contingency plans to mitigate other concerns such as a further depreciation of Sterling and delays within our supply chain. As to the longer term, one prediction is obvious: if the UK should leave the EU with no deal there's only a significant downside for our business and for the economy of the UK as a whole.

This year

We overcame significant macroeconomic and operational challenges to deliver more for more customers in 2018. We flew over 5.4m passengers, an increase of 4.8% on the prior year.

The ongoing weakness of Sterling coupled with a higher fuel price environment provided a difficult market environment. The 787-9 Rolls-Royce Trent 1000 engine supply issue also continued throughout the year. But we performed strongly on the factors within our control – customer experience, operational excellence, unit revenue generation and cost management – which meant that we offset much of the worst effects and managed to beat our 2017 financial result by £23m.¹

Leadership

After six years as Chief Executive, Craig Kreeger retired on 31 December 2018. I had the privilege of working with Craig throughout his tenure. He and his senior team have transformed our business without compromising what makes it special. Craig oversaw positive reform in virtually every aspect of our business; significant network changes, the renewal of our fleet, the successful implementation of our joint venture with Delta and the replacement of our passenger service systems. On behalf of the Board, I would like to express our great thanks to Craig for all that he has done for Virgin Atlantic and our people.

Shai Weiss assumed the position of Chief Executive on 1 January 2019. Shai is Craig's natural successor having served since 2014 as Chief Financial Officer and more recently as Chief Commercial Officer. Shai brings a deep experience of Virgin Atlantic, a strong passion for our people and a clear vision for our future. I have tremendous confidence in his ability to deliver an outstanding performance for Virgin Atlantic.

More to come

Brexit and politics aside, 2019 will be an exciting year for our people, our customers and our business.

We will welcome the A350-1000 to the fleet, boasting a totally transformed onboard experience for our customers and staff to enjoy. We anticipate receiving full regulatory approval for our expanded transatlantic joint venture, enabling us to provide more choice and connectivity, stronger competition and an enhanced loyalty proposition. We will significantly enhance our ability to pair up flight and hotel bookings by working even more effectively between Virgin Atlantic and Virgin Holidays.

On virtually every measure, Virgin Atlantic has become a stronger and more resilient business.

1. The Group has initially applied IFRS 15 at 1 January 2018, resulting in restatement of comparative information. See note 5 in Financial Statements.

We will continue to enhance our other airline partnerships, including completing the acquisition of Flybe and Stobart Air in partnership with Stobart Group and Cyrus Capital Partners. The combination of Flybe and Stobart Air in a deep partnership with Virgin Atlantic will create a fully fledged UK network carrier under the aegis of the Virgin Atlantic brand. This exciting combination will offer significant consumer benefits, a comprehensive regional network in the UK and Ireland, as well as an enhanced European footprint. Because of this, we will provide greater connectivity and choice for customers right across the country to travel to destinations all over the world, especially via Heathrow and Manchester.

Looking further ahead, Heathrow expansion remains a priority. Our ambition is clear; to become the second global network carrier at the nation's hub airport, providing more effective competition on more longhaul routes and introducing significant new competition on domestic and shorthaul routes. This will require a unique reform of the slot allocation rules for Heathrow expansion. We are pleased that the Government's Aviation Strategy Green Paper in December recognised the need for this reform and will continue to make the case for change in 2019.

Doing business for good

We continue to enhance our customer experience and address our environmental impact by welcoming the final three Boeing 787-9 aircraft, bringing our total fleet to 17. Unfortunately, the ongoing industry wide engine supply issue meant we could not operate all of our 787-9s at the same time and therefore retire the aircraft they were set to replace. We introduced four additional A330-200s to operate our full flying programme and to protect our customers from disruption. This was the right thing to do, but as a result our carbon efficiency result is almost the same as last year. We should return to further efficiency improvements in 2019 as we begin taking delivery of our A350-1000 aircraft and as the engine supply issue improves.

2018 was a landmark year in our seven year partnership with cleantech company LanzaTech. Their groundbreaking sustainable aviation fuel made by recycling carbon from industrial waste gases was qualified for use in commercial aircraft early in the year. We operated the world's first commercial flight using this innovative fuel in October between Orlando and Gatwick, demonstrating its potential to governments and investors.

The generosity of our customers and our people in supporting our charity and non profit partnerships is a source of great pride. Virgin Atlantic Foundation's onboard Change for Children appeal raised almost £690k and our annual employee fundraising campaign raised just over £135k for our much loved partner WE. Our sincere thanks to Virgin Holidays customers who contribute £1 per adult and 50p per child for every holiday sold. We've continued to support the Branson Centre for Entrepreneurship in Jamaica with a £200k donation, supporting local entrepreneurs and the regional economy. The Virgin Holidays staff fundraising campaign is supporting UK charity Dreams Come True and has already raised £27k of their £30k April 2019 target.

Board

I want to thank my colleagues who have made a huge contribution to the Board and its Committees during the year. I would also like to welcome Mark Anderson, EVP Customer, to the Board, replacing Craig.

Our people

On behalf of the Board and shareholders, I thank everyone at Virgin Atlantic and Virgin Holidays for their dedication and commitment. 2018 has presented challenges that have affected just about every part of the business. And as ever, our people rose to the occasion. Achieving a final result ahead of 2017 is testament to their hard work, skill and desire to deliver for our customers every time.

Peter Norris

Chairman

20 March 2019

sharing the love

Our customers tell us that our people are the reason why they love to travel with us.

Customer relations

"Thank you for your immediate response. In today's technological environment when person to person communication sometimes feels as if it were a lost art, the sensitivity to the human condition which you extended on behalf of Virgin Atlantic is a renewed hope in understanding people who represent and oversee the corporate environment. I was glad to read that your manager has had the opportunity to receive my impressions and compliments of your exemplary professionalism and diligence. Thank you again for everything you've extended to my family and wishes to you for continued success in all your endeavours on behalf of the airline which we look forward to happily use for our travel needs in the coming year and beyond."

Flight service manager

"Wow. Just wow...I travel a lot for work, and decided to let a colleague arrange this travel and they swear by Virgin. So we board and we meet Paul, the Flight Service Manager. Now this gentleman is just an asset. He is polite, friendly and made the flight so comfortable. Nothing was too much - nothing. Absolutely stunned that at last a company knows what service is. Paul was phenomenal, so were the rest of the team, but he stood out. He also speaks so highly of the brand, something which is rare. Like I said an asset, but more importantly a brand ambassador. Please pass my wishes on as he absolutely deserves them."

Airports team

"We would like to thank everyone from Virgin at Gatwick and T3 Heathrow for liaising with BA and lost property at Heathrow T5 when our passports were lost before our flight to Barbados. Everyone involved went way above what would be normally expected from them. We checked in with literally seconds to spare, but we wouldn't have done it without their assistance. We literally can't thank them enough."

Customer relations

"I cannot thank you and Charlotte enough for being so kind. I am in tears with how much passion you have put in for me and my children. Charlotte has been my rock through this journey. To know she may be meeting us at check in. It's reduced me to sobbing...you and Charlotte have given me so much strength to know I can do this. I would never have done this without you all. May god bless you all for everything. I can say from today, I would never travel with no one but Virgin airlines. You all are amazing. Thank you again."

Cabin crew

"I would just like to say a massive thank you to the crew on board our flight home from Orlando. We hit unexpected turbulence which was truly terrifying...The professionalism of the crew helped calm people and the kindness shown to my 34 week pregnant daughter will never be forgotten. She was checked out as soon as we landed and everything's fine but I'm certain it was the crew's helpfulness that got us through the flight. Once again, thank you."

Customer relations

"Thank you for your email which shows that Virgin Atlantic do take ownership of diverse management of problems that arise around their flights. I say this because given the various failures around my two flights and the management of my heart-felt complaints. I can see that Virgin Atlantic does have high complaint management standards which impact positively on their name and organisation. Again thank you for your complaint management skills that have quenched a raging fire."

shaping the business for the future

The resources that make us stronger

Our assets make us competitive and position us to win in the marketplace

People and customer proposition

We have 10,020 employees. Our front line people are a clear differentiator and excellent service, combined with other aspects of our customer proposition, continues to drive our customer satisfaction scores ahead of our peers since 2014.

#1

for LHR-transatlantic customer satisfaction

Brand

Two powerful brands loved by our customers that provide extensive benefits and a support our competitive position.

250%

year on year growth for Flight + Hotel bookings online

Partnerships

We will be a founding member of a \$13bn combined transatlantic joint venture with Delta, Air France and KLM.

340+

destinations to be served through our new expanded joint venture

Slots

We are the second largest individual slot holder at one of the world's most capacity constrained airports.

27

daily slot pairs at London Heathrow Airport

Fleet

Long term investment in new, twin engine aircraft. We increased ownership¹ in 2018 from 23% to 26% and the number of aircraft in our fleet from 40 to 46. We own and operate two 787-9s, three A340-600s and three 747-400s.

12

new A350-1000s entering our fleet between 2019 and 2021

Shareholders

Our shareholders provide financial strength, security and a platform for our future growth.

49%

ownership by Delta Air Lines²

Safety and security underpins everything we do

1. Includes finance leases.

2. Current ownerships 51% Virgin Group, 49% Delta Air Lines.

What we do



Virgin Atlantic Airways carries 5.4 million customers annually and was recently named the UK's favourite longhaul carrier by Skytrax, Best Transatlantic Airline at the British Travel Awards 2017 and one of the Top 5 Airlines in the World by Airline Ratings.

Headquartered in Crawley in the UK, Virgin Atlantic employs over 10,000 people worldwide and operates a fleet of 46 aircraft serving 27 destinations across four continents. We operate alongside our joint venture partner Delta. Together we operate a leading transatlantic network, offering up to 39 flights per day between the UK and US with onward connections to over 230 US and international cities.



Virgin Atlantic's international cargo division offers general freight, express courier, automotive, pets, perishables and pharmaceutical transport services to over 500 destinations. It could be described as a business within a business, focused on trading and optimising the residual bellyhold capacity of our fleet.

It delivers more than £200m in revenue by connecting retailers, manufacturers, farmers and growers with their consumers worldwide. We've built a reputation for excellence and best in class service delivery within the sector and across the globe.



Virgin Holidays is the UK's most loved longhaul holiday company. Founded in 1985 on the Virgin principles of excellent customer service, value, reliability, responsibility and a sense of fun, it has used its entrepreneurial heritage and passion for innovation to benefit customers and communities around the world.

The brand is particularly known for the 'magic touches' it has brought to market. From the world's first Departure Beach to its partnership with children's charity Dreams Come True, Virgin Holidays puts its customers and the communities it works with at the heart of its commitment to do things differently. In 2018, it won ten awards including Best Large Holiday Company to the US, Canada, the Caribbean and the Middle East at the prestigious, consumer voted, British Travel Awards.

Creating value

...for our people

We provide an inspirational and innovative people experience that connects us all and inspires us to be our best. It's no coincidence that 71% of employees have been with the business for more than five years.

We invest in developing skills and challenge our leaders to cultivate an environment of trust, empowerment and creativity. By considering the attitude and attributes of people we bring into the business, we support a key differentiator for Virgin.

...for our customers

We are building on the £300m invested in customer experience during our *Plan to Win* in areas such as delivering differentiated service through personalisation, innovation through new amenities, food and beverage and entertainment. We invest in our customer service centres to give a more personalised service, and in creating a hassle free airport experience. We have launched a new Virgin wide loyalty programme across Virgin branded companies to give customers new ways to earn and spend miles across the Group.

...for our partners

We leverage existing relationships with other airlines and grow our partnership portfolio to provide more value to our customers. Our expanded joint venture with Delta, Air France and KLM will provide a truly global network to our customers and a compelling journey proposition for worldwide travel.

Virgin Holidays reinforces its leading position in its core markets through a continued focus on customer experience, while seeking to grow further UK market share by broadening brand appeal to more experiential types of holidays.

responding to an ever changing market place

Changes in the UK, EU, US, as well as the global economic and regulatory environment can have a direct impact on our performance. The transformation of our business through delivery of our *Plan to Win* means we are better able to respond to recent challenges and to take advantage of the opportunities that arise.

GDP

We operate in countries with large economies and large, mature aviation markets like the UK and US. We also operate in high growth economies and aviation markets like China and India.

GDP growth is a known and accepted driver of air passenger traffic. Trends remain favourable in our core markets and support passenger growth. Despite geopolitical uncertainty around issues such as Brexit and US-China trade relations, we still expect positive GDP growth in our key markets in 2019 barring any significant economic shocks.

GDP 2018 vs 2017	%
UK	1.4
Eurozone	1.8
US	2.9

Source: Bloomberg

Foreign exchange

A significant proportion of our transactions are in foreign currency (primarily US Dollars), therefore we are exposed to foreign exchange rate movements which we partly mitigate through hedging. Refer to page 50 for more.

Sterling strengthened in the first half of 2018. It reached a high of 1.44 against the US Dollar in April, before an increasing risk of a no deal Brexit started to weigh on its strength. Rates fell below 1.30 later in the year.

A weaker currency increases fuel, aircraft financing and maintenance costs, as well as costs at our overseas locations. Approximately 60% of our costs are non Sterling. There is also an impact on UK demand, with the overall cost of holidays increasing for our customers when Sterling is weak. This is partially offset by an increased demand from the US due to the reduced total cost of visiting the UK. And by connecting to US customers through our joint venture with Delta, we are well placed to take advantage of this opportunity.

Growing our US Dollar revenues reduces the amount of Dollars we have to buy, providing a natural hedge against any further currency devaluation.

Fuel

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

The average price of Brent Crude in 2018 was \$72/bbl. This was 31% higher than the prior year average of \$55/bbl. Higher prices contributed to a £149.3m increase in our fuel cost compared to the prior year. This reduced to £114.9m after the impact of gains from fuel hedging contracts.

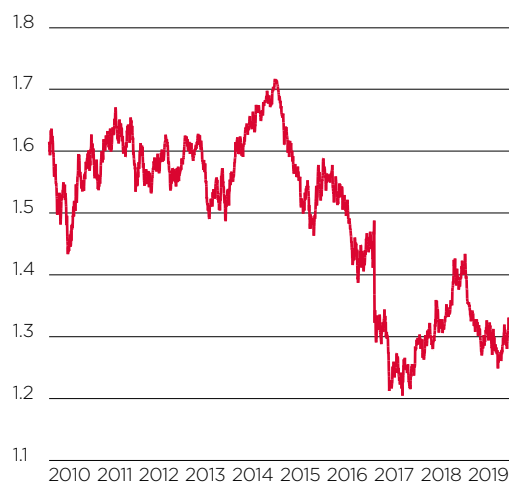
Growing fuel inventories due to a surplus supply resulted in a price drop during Q4 of 2018, from a high of \$86/bbl to a low of \$50/bbl. Expected cuts from OPEC caused prices to recover in January 2019 to \$60/bbl.

Brexit

UK-EU negotiations dominated the political agenda in 2018. A withdrawal agreement and a political declaration on the future relationship were endorsed by the UK Government and European Council in November.

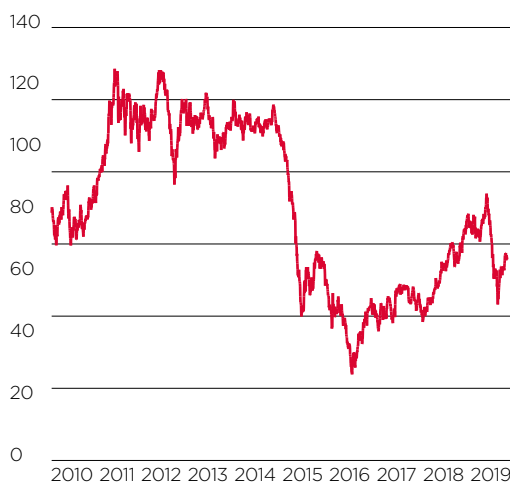
We operate in countries with large economies and large, mature aviation markets like the UK and US.

GBP/USD



Brent

Brent spot price \$/bbl



The agreement provides for a transition period that would maintain the existing regulatory arrangements and current market access, including UK access to the EU-US Open Skies Air Service Agreement (ASA), until the end of 2020 while negotiations on the future relationship take place. At the time of writing, the UK Government was seeking parliamentary approval for the Agreement. We have made our views public that leaving the EU without a deal would damage the UK economy and should be avoided.

Given the nature of our operations our focus remained on retaining US market access in the event of a no deal exit or at the end of the transition period. We liaised closely with the UK Government to inform their negotiations with the US. A new bilateral ASA was signed by both parties in November, effective if and when the UK no longer has access to the EU-US agreement. It ensures transatlantic flying will be undisturbed by Brexit. Provisions in the ASA regarding ownership and control, as well as the accompanying Memorandum of Consultation, give us confidence that our US market access will be unaffected by Air France-KLM Group acquiring their 31% stake in 2019. Market access to our other overseas destinations will also be unaffected by Brexit.

Political preparations for a no deal Brexit have intensified. The European Commission published draft regulations to maintain existing safety arrangements until the end of 2019 and maintain point to point flying between the UK and EU for a 12 month period. The CAA will recognise European Aviation Safety Agency certificates, approvals and licences for use in the UK aviation system and on UK registered aircraft, at least for a period of two years following Brexit. We have undertaken detailed contingency planning and do not expect any significant operational disruption to our flying programme in the event of no deal. We are liaising with our key suppliers to mitigate the risk of disruption at the Channel ports.

Aviation Strategy & Heathrow expansion

The UK Government published a public consultation on a new Aviation Strategy. We welcome the Government's support for sustainable growth and its focus on encouraging competitive markets. We are pleased that the Government intends to reform the allocation of slots where significant new capacity is released at a highly constrained airport, such as Heathrow. We share the Competition and Market Authority's view that the existing allocation system could weaken airline competition and the Government's conclusion that the current regulations are unlikely to produce the best outcome for consumers if applied at an expanded Heathrow.

Heathrow expansion is a once in a generation opportunity to significantly enhance airline competition to the benefit of consumers. Our ambition is to become the second global network carrier at the airport, providing stronger competition on more longhaul routes and introducing new competition and choice to domestic and shorthaul routes. A unique reform to slot allocation for Heathrow expansion to enable significant growth by small incumbents like Virgin Atlantic, as well as market entry at scale from potential new entrants, will best deliver the desired passenger benefits of expansion in terms of lower fares, more choice and more destinations.

We continued to engage with Heathrow Airport Limited (HAL) on its expansion plans, particularly the creation of its final Masterplan. We responded to a series of CAA consultations on its emerging proposals for the economic regulatory framework to support expansion. Our priorities remain unchanged, which are protecting our customers from higher charges and the risk of cost overruns. We also want to ensure that the scheme design enables the significant increase in competition we want to provide. This will require a strong application of regulation by the CAA and continued constructive engagement by HAL in 2019.

Heathrow expansion is a once in a generation opportunity to significantly enhance airline competition to the benefit of consumers.

building the most loved travel company



Velocity: our new plan



Red on
the inside



Red on
the outside



Best in
partnering

Virgin Atlantic reached the end of its four year *Plan to Win* and made a transition in leadership in 2018. New CEO Shai Weiss explains how the business is ready to deliver its new three year *Velocity* plan with its focus on growth and the ambition to become the most loved travel company.

What does it feel like to become CEO of Virgin Atlantic and Virgin Holidays?

In a word – amazing. Despite the external environment, I've never entered a new year so excited. I cannot wait to see what we'll achieve as a team in 2019 – united by one desire: *to become the most loved travel company*.

I feel privileged to take over the leadership of this business with its unique assets: brilliant people, iconic brands and fantastic partners. Our team is now ready for growth and greater success. We have developed *Velocity* with the singular vision to become the most loved travel company, translating the preference for Virgin Atlantic and Virgin Holidays into purchase. I know our people have the creativity, the passion and the determination to succeed. I feel proud to be a part of the team leading the way.

What did the *Plan to Win* achieve?

Our *Plan to Win*, launched in 2015, focused on positioning the company to fulfil its potential and be able to seize new opportunities. In simple terms the plan was to fix the business fundamentals while retaining the Virgin Atlantic and Virgin Holidays magic. Looking back our people can feel proud of what they achieved over the last four years.

We reconfigured our route network towards North America while maintaining a strong global presence. We implemented our transatlantic joint venture with Delta, opening up hundreds of new connections for customers. Together we've built an industry leading partnership occupying the number one and two spots in IATA's passenger satisfaction ratings for transatlantic airlines. We're now connecting 35,000 customers between us each month.

We transformed our fleet, replacing older, less efficient aircraft with 17 new 787-9s. We refreshed our existing ten A330-300 aircraft and placed an order for 12 A350-1000s that

will offer a whole new customer experience and reduce further our environmental impact from 2019. We undertook the biggest business and technological transformation in our history, the move to new technology platform AIR4, revolutionising our passenger service systems.

Virgin Holidays got much closer to its customers by becoming direct sale only and much closer to Virgin Atlantic when we co-located in our shared head office, the VHQ. Wider transformational work included a rationalisation of the hotel portfolio to drive the quality of our properties even higher, the launch of Virgin Holidays Experiences for customers to create bespoke adventures and significant investment to transform our retail estate, including opening up to 14 new standalone stores and 22 NEXT concession stores by the end of 2019.

Our change programme, *fit.nimble*, right sized our business and led to more agile decision making as leaders got closer to their teams and our customers. We reduced our non fuel costs by over £100m.

While all this and much more was happening, we invested £300m in our customer experience. From our Clubhouses and onboard catering to our website and new technology, we have significantly improved the end to end journeys of our passengers. Our customer satisfaction scores show we are starting to realise the returns on this investment.

How would you describe performance in 2018?

Despite the significant macroeconomic and operational challenges, 2018 was a hugely positive year. Our incredible team pulled together in a uniquely Virgin way. Financially, we exceeded last year's performance thanks to an outstanding job generating revenue and controlling costs.

We exceeded last year's performance thanks to an outstanding job generating revenue and controlling costs.

Chief Executive Officer's Q&A *continued*

Our strong commercial performance saw us end 2018 with a year on year unit revenue increase of 1.7% (PRASK on constant exchange basis), the first year of positive PRASK growth since 2014. Our joint venture routes performed very well, including strong single digit increases in both US West Coast and East Coast PRASK.

Our cargo division enjoyed a record year, generating over £222m in revenue and achieving an 11 point increase in its Net Promoter Score.

The tour operator market was tougher, with some softening in UK leisure demand leading to lower margins due to increased competition. Despite this, Virgin Holidays maintained 2017 booking levels and grew booked sectors on Virgin Atlantic and Delta by 1%.

Careful cost control means that our non fuel costs declined by 1.2%, offsetting some of the impact of rising fuel costs and the continuing weakness of Sterling. Virgin Holidays maintained its focus on cost efficiency with cost per booked passenger flat versus 2017.

Operationally, we exceeded our targets and achieved our highest arrival performance since 1997. We did so while introducing four A330-200s in lightning quick time and bringing back some A340-600s into service

to support our customers through the Trent 1000 supply situation. Yet again our partnership with Delta helped us to protect customers from disruption as they flew around 540 flights for us during the year.

Most importantly, we delivered a host of new initiatives to delight our customers, helping Virgin Atlantic to remain number one in customer satisfaction across the Atlantic and Virgin Holidays to increase its NPS score to its highest ever level.

All of this was achieved by our fantastic people coming together in service of our customers, while working collaboratively with our partners. As always, everything was underpinned by a relentless focus on safety and security.

You mention new initiatives. What were the highlights for you in 2018?

That's a tough one as 2018 was filled with many achievements. As always I'll start with our people. We delivered new training and development opportunities to help them be at their best, including the *Springboard* programme for women in junior roles and *Flourish* for all our people leaders. We also reaffirmed our commitment to diversity and inclusion through the launch of our Be Yourself programme and support for Pride events in the UK and overseas.



In the spring we launched the biggest change to our Economy cabin in over a decade. Economy Delight, Economy Classic and Economy Light enable our customers to choose the product that suits their budget and travel style – without compromising on food and drink, inflight entertainment and our renowned customer service.

Economy Delight offers the best economy product of any UK airline. Economy Classic is the service that our customers know and love, but now includes advanced seat allocation. Economy Light is our lowest fare, hand luggage only option that enables us to compete on price with no frills operators. The offer neatly aligns with Delta's economy proposition, so our shared customers enjoy a streamlined experience.

In August, we announced plans to work with the Virgin Group to launch a new Virgin wide loyalty programme, with unique and differentiated opportunities to reward customer loyalty across Virgin branded companies. Offering more ways to earn and spend miles across a range of partners will give customers more reasons to earn miles and fly with us and help us to win new customers and revenue. Virgin Group Loyalty Company (VGLC) has been established as a new subsidiary company of Virgin Atlantic to own and manage this exciting loyalty programme.

Finally, it's been a while since we have hit everyone's TV screens, so it was particularly exciting to launch two new brand campaigns in September. The ads bring to life the magic of travelling with Virgin Atlantic and Virgin Holidays through our amazing people, experience and destinations. For the first time we worked together to create distinctive but complementary marketing strategies that we'll use consistently to significantly increase consumer awareness of our brands over time.

You have launched your new three year plan, *Velocity*. How would you summarise the plan?

Velocity has at its heart a clear vision: to become the most loved travel company. This vision is built on a simple premise: creating love makes us preferred and being preferred means customers choose us. The more they choose us, the higher our load factors and the more we grow. This concept is a fundamental force that is unique to us thanks to our people. We – Virgin Atlantic and Virgin Holidays – can create this love where our competitors cannot. Only we can become most loved.

Our customers have told us that all things being equal they prefer to travel with Virgin Atlantic and Virgin Holidays. However, we haven't always given them what they've needed from us: whether it was reliability and connectivity, seamless and differentiated services, or a robust loyalty programme. By removing these impediments that prevent more customers from flying with us today, we can translate this preference to purchase, into more people flying to more places on our planes. And by giving customers more choice, improving our network and capitalising on our assets, we intend to grow by around 10% by 2021.

So our strategy is simple; remove these impediments and translate customer preference and partner enabled feed into a material increase in load factors while maintaining yield, which will enable profitable growth and economies of scale. With highly engaged and high performing people delivering a differentiated experience, as well as competitive propositions across all price points, we will give customers every reason to love us and choose us over our competitors.

How important is safety and security to *Velocity*?

Safety and security is where our journey to become the most loved travel company begins. It underpins everything we do. It always has and it always will do. When our people and our customers feel safe and secure unconditionally that paves the way for trust. With trust, preference comes to life and our most loved ambition becomes a reality.

Velocity includes a number of exciting new initiatives which will contribute to keeping us safe, secure and most loved by our customers. In early 2019, we published our new three year safety and security plan, setting out how we will deliver a safe and secure operation – day in, day out. We'll be welcoming the new Airbus A350-1000 to our fleet, one of the most technologically advanced aircraft in the skies. The cargo team will launch their new cargo management system to transform operational and customer support. Our engineering and maintenance team will commence its largest software implementation in 15 years, replacing our aircraft asset management system. Each of these crucial steps is underpinned by our safety management system.

How does the recent acquisition of Flybe fit into *Velocity*?

One of the three *Velocity* pillars is Best in Partnering, which is about leveraging our strength in partnerships to expand our network reach and grow our connecting traffic. We plan to build on existing relationships with other airlines and expand our partnership portfolio to drive load factor growth.

We've enjoyed a successful codeshare partnership with Flybe since April 2016, connecting 45,000 passengers across the UK and Europe with our longhaul flights via Manchester, Glasgow, Gatwick and Heathrow in 2018, worth over £10m in revenue. So when the opportunity came along to make an offer to acquire Flybe and Stobart Air in partnership with Stobart Group and Cyrus Capital Partners, it was the logical extension of our existing relationship and *Velocity* plans.

Combining Flybe and Stobart Air's regional and European network under a Virgin Atlantic brand, while improving its connectivity to our longhaul network, particularly at Manchester and Heathrow, is a compelling proposition for customers that will increase connections and improve load factors. In the longer term, our vision is for a sustainable regional airline, providing an important foundation for our ambitions at an expanded Heathrow, as well as further growth at Manchester.

How will success be defined for *Velocity*?

Velocity is a plan underpinned by a growth mindset coupled with clear operational and financial objectives, including a return to profitability. As always in aviation, external factors will play a part, not least the outcome of Brexit and the price of fuel. But we are determined to achieve this.

I've explained how customer preference and partnership enabled feed at competitive price points will increase load factor without diluting yields. A higher load factor, combined with the growth I've described and the implementation of our expanded joint venture with Delta, Air France and KLM, will drive improved PRASK. With increased scale and an optimised fleet mix set to drive an improvement in non fuel CASK, together this will enable profitable growth.

None of the above would be possible without our amazing people. At the heart of our 'most loved' vision is a commitment to create a culture of inclusion, a place of work where everyone can be at their best. For a company to be loved, it needs to love – and that starts with our people. As we embark on *Velocity*, it's never been more important for us to ensure our team, like our customers, can proudly be themselves, no matter their gender, background, their beliefs, the colour of their skin, their physical ability or who they choose to love.





Do you have the right team in place to deliver?

I am really excited to be working with my leadership team as we begin delivering against *Velocity* in 2019. The team is complete, full of energy, experienced and shares the purpose of making us the most loved travel company.

I am thrilled that Juha Jarvinen replaced me as EVP Commercial in January 2019. Juha has over 20 years of aviation experience and joins us from Finnair where he was Chief Commercial Officer. He has a strong belief that although product and planes can be copied, service, culture and attitudes cannot, which resonates strongly with our values. I also had the pleasure of welcoming Ash Jokhoo as our SVP Technology in February 2019. Ash has over a decade of senior executive technology leadership across different sectors and joins us from Centrica. With a mindset of deep collaboration, Ash brings a wealth of technology experience as he leads us in our ongoing transformation to being a more agile technology organisation.

What are you most looking forward to in 2019?

It's going to be an amazing year. We'll assume our role as a founding member of a \$13bn combined transatlantic joint venture with our friends at Delta, Air France and KLM. We'll start taking delivery of our new A350-1000 aircraft, introducing our customers to a completely new experience in Upper Class, Premium and across Economy. I can't wait to see the reaction of our customers and our people as we raise the bar for longhaul travel yet again, as well as reducing our carbon and noise impacts. We'll also overhaul our ability to pair up flight and hotel bookings with even closer working between Virgin Atlantic and Virgin Holidays.

For all those reasons and more, I started this year excited and restless to get stuck into my new role. I can't wait to see where we'll go and what we'll achieve. The future is red. 100% loving. Bring it on!

Shai Weiss

Chief Executive Officer

20 March 2019

plan to win

2018 was the final year of our *Plan to Win* that focused on fixing the business fundamentals and positioning the company to fulfil its potential. Our new plan, *Velocity*, builds on these solid foundations.



Strategic pillars	What we did
People – us at our best	<ul style="list-style-type: none"> Strong focus on training and development, including <i>Flourish</i> for leaders and our online <i>Learning Flightpath</i> for all giving equal access to training irrespective of location. We've invested in the physical, mental and financial wellbeing of our people in an environment that consciously embraces diversity.
Customer – loved for service	<ul style="list-style-type: none"> £300m invested into our customer experience, including catering, Clubhouses and retrofitting the Upper Class cabin across our A330-300 fleet. Rated number one airline across the Atlantic by IATA for customer satisfaction. Virgin Holidays launched a range of Experiences to enable bespoke holidays, supported by a series of initiatives like the world's first Departure Beach in Barbados.
Shifting gears – building the platform	<ul style="list-style-type: none"> Significant fleet renewal with improved ownership structure, including delivery of 17 new 787-9s. Transformation of technology platforms with new AIR4 passenger service system at centre. Cost reduction programme <i>fit.nimble</i> created a simplified and efficient operating model, delivering £100m in cost savings.
Performance – delivering the goods	<ul style="list-style-type: none"> Implemented our joint venture with Delta, creating a seamless customer experience with the best on time performance across the Atlantic from Heathrow. Established new strategic airline partnerships, including relationships with Flybe, Jet Airways and Virgin Australia. Virgin Holidays and Virgin Atlantic worked much closer together, including the creation of Flight + Hotel offering bespoke adventures. Significant increase in operational resilience, with our key on time performance target reaching 81.1%¹, a 4.8% improvement since 2014.

£300m

invested in customer experience

81.1%

on time performance¹

£100m

cost savings

1. Arrivals within 15 minutes.

velocity



Velocity is our new three year plan to achieve our ambition to become the most loved travel company. We will translate customer preference and partner enabled feed into a material increase in load factors, which will enable profitable growth and economies of scale.

Our new strategic pillars to drive profitable growth

Red on the inside



Creating an inspirational and innovative people experience that is inclusive and enables everyone to be at their best.

We will develop strong leaders who put their people at the heart of what they do. With amazing leadership, we will win the battle for talent, increasing the mobility of our people around the business while attracting the strongest external talent. We will fuel a culture of innovation, building the skills and the mindset needed to compete in an increasingly digital world.

Red on the outside



Driving preference by giving customers every reason to choose us over the competition by addressing three key drivers of choice: experience, price, and an enhanced loyalty programme.

With continued investment in innovation and personalisation, we will build on our strengths in customer experience that drives underlying preference today.

We will use our five cabin proposition to compete effectively on both price and product.

Our loyalty programme, Flying Club, is becoming more rewarding across the wider Virgin Group and will create a unique, game changing loyalty proposition.

Best in partnering



We will implement our expanded transatlantic joint venture with Delta, Air France and KLM, providing 150 daily nonstop flights between North America and Europe and thousands of one stop options.

We will expand our network and schedule to improve scale and increase customer choice. We will build on existing relationships with other airlines and expand our partnership portfolio to drive load factor growth. Our joint acquisition of Flybe and Stobart Air through the Connect Airways consortium will support greater connectivity between their regional services and our longhaul network at Heathrow and Manchester.

Virgin Holidays will grow through Flight + Hotel, a continued focus on our core UK package product and expansion into growth markets. Our cargo division will focus on driving simplicity, transforming digitally and leveraging partnerships to increase its Net Promoter Score and grow revenue.

Safety and security underpins everything we do

fuelling our future



Highlights

5.8%

increase
in revenue

1.2%

reduction
in non fuel
unit cost

489

£m cash
position

This year we increased our overall revenue by 5.8% with growth in Virgin Atlantic, Virgin Holidays and our cargo division. We leveraged our combined strength as a Group to weather adverse macroeconomic conditions while enhancing our customer experience. We served 5.4m passengers, a 4.8% increase year on year translating into strong growth in passenger unit revenue. We outperformed our objectives, reduced non fuel unit costs and invested in our next generation of fleet.

Result highlights¹:

- Total revenue increased by 5.8% to £2.8bn for the year, including airline passenger unit revenue increase of 1.7%.
- Airline direct operating costs increased by £133.6m year on year, driven by higher fuel prices and 3.5% capacity growth.
- Non fuel unit costs decreased by 1.2% year on year.
- Group loss before tax and exceptional items of £26.1m, significantly reduced from £49.0m loss in 2017.
- Virgin Holidays made a profit before tax and exceptional items of £6m. This is £9.5m lower year on year due to softer consumer demand caused by the weakness of Sterling, economic uncertainty and competition.
- Cargo tonnage increased by 6%, driving revenues up by 13% to £222m.
- Cash position of £489m at year end versus £494m in 2017 and undrawn credit facilities of \$237.5m.
- Statutory loss of £38.4m versus £65.6m loss in 2017.

£m	2018	2017 ²
Revenue	2,781	2,629
EBITDAR ³	307	295
EBIT ³	(12.8)	(32.0)
Yield	5.10p	5.03p
PBTEI	(26.1)	(49.0)
Leverage	5.1x	5.3x
Net Debt	1,553	1,554
Liquidity	17.6%	18.8%

Airline

Our airline revenue including cargo reached £2.3bn⁴, a £140.5m year on year increase on a capacity increase of 3.5%. This was driven by strong passenger revenue growth, achieved through strategic initiatives resulting in load factor increase of 0.4% and yield increase of 1.3%.

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

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

Fuel costs

On a unit basis, fuel costs increased by 21.9%, driven primarily by a 31% increase in average Brent Oil but partially offset by our fuel hedging policy. The cost of Brent increased to \$72/bbl in 2018 from \$55/bbl in 2017.

Non fuel costs

Non fuel unit costs were 1.2% lower than in 2017, due to strong cost control and continued optimisation of our cost base.

We are proud to have removed over £100m of costs from the business over the four year period of the Plan to Win through cost cutting initiatives.

1. Comparatives to 2017 are made on a constant currency basis, with the exception of profit before tax and exceptional items.
2. The Group has initially applied IFRS 15 at 1 January 2018, resulting in restatement of comparative information. See note 5 in Financial Statements.
3. Before exceptional items.
4. Includes intra-group revenue.



Aircraft costs

We leased four A330-200s during 2018 and we purchased three A340-600s outright to support operational resilience and protect our network and passengers as we experienced ongoing significant disruption from the industry wide issues affecting the Rolls-Royce Trent 1000 engines fitted to our 787-9s.

Cargo

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

We saw improved demand across all of our major markets. In our key transatlantic business, we saw an 8% year on year revenue improvement to £115m, driven by closer collaboration with our partners Delta and aided by the weak Sterling and strong US economic output.

Our Asia, Middle East and African markets grew 2.7% to £39.6m despite unprecedented volatility in crucial demand from China due in part to geopolitical events.

Our Pacific programme operated in conjunction with our partner Virgin Australia outperformed expectations growing 48% to £34m. We saw a 15% improvement from our Australia to US routes (now in their tenth year), and our new route to Hong Kong has made a great start.

Our performance generally has been underpinned by steady improvements in price, growth in high unit value segments such as pharmaceuticals, currently seeing 80% year on year volume growth rates, as well as improving customer sentiment. We ended the year with our best ever NPS scores which helped to push load factors up by two points despite an 8% increase in sectors flown.

Looking at the wider market context, while air cargo volumes globally grew by 3.5%⁵ in 2018, slightly slower than prior years and two percentage points slower than market capacity growth. Our volume and unit revenue improvements significantly outpaced the market in our key points of sale.

We outperformed our objectives, reduced non fuel unit costs and invested in our next generation of fleet.

5. IATA reported global cargo FTK growth 2018.

Virgin Holidays

Virgin Holidays revenue increased by £8m to £620m. This was a positive year where closer working with Virgin Atlantic continued to deliver results, such as the impressive increase in a Flight+Hotel bookings of 250% year on year. Virgin Holidays also focused on expanding its customer experiential holiday packages offering and in collaboration with NEXT opened 22 new concessions this year within their existing store portfolio.

Profit before tax and exceptional items was £6m, a £9.5m decrease year on year. This decline was due to the impact of a weak Sterling, lower consumer sentiment and strong competition impacting margins.

Profit before tax and exceptional items

Group loss before tax and exceptional items at £26.1m improved £23m versus 2017. This was an encouraging result considering that the £153m additional revenue generated year on year through our revenue initiatives and our strong cost discipline was significantly offset by the £149m higher fuel costs and the negative headwinds from macro uncertainty surrounding Brexit, as well as the disruptions as a result of the continuing Trent 1000 engine issues.

Cash flow and financing

Our total cash position at the end of 2018 remains robust at £489m. Total cash (including restricted cash) decreased by £5m compared to last year, mainly due to our higher investment programme in advance of our A350-1000s deliveries. Our undrawn revolving credit facility which was extended by one year to three years currently stands at \$237.5m.

We continue to hold 27 daily slot pairs at Heathrow which are key assets to our business.

Net cash generated from operations reached £83m, an increase of 5.6% year on year.

Net cash used in investing activities was £182m, which increased by £52m year on year as a result of our fleet investments of £141m, including pre-delivery payments for four A350-1000s and the purchase of one 787-9. Further fleet investments were the five cabin Economy seats offering and retrofits to our leased A330-200s.

Net cash from financing activities posted a £62m inflow driven by a new finance lease of £84m related to the purchase of one 787-9.

Our net debt is flat versus last year despite a higher capex programme while we increased the percentage of owned aircraft to 26%.

Outlook

2019 is an exciting year for Virgin Atlantic as we will undertake several transformative projects to drive our future. Despite this we expect to have another challenging year. This is mainly due to the continuation of the unstable macroeconomic conditions; Brexit related uncertainty, continued volatility in fuel prices, inflationary pressures, the weakness of Sterling and continuation of the Rolls-Royce Trent 1000 engine issues.

£m	2018	2017
Net cash from operating activities	83	80
Net cash used in investing activities	(182)	(130)
Net cash from financing activities	62	13
Net decrease in cash	(37)	(37)
Cash position at the beginning of the period	494	568
Effects of exchange rate differences	32	(37)
Cash at the end of the year	489	494
Restricted cash	97	49
Free cash	392	445

Chief Financial Officer's review *continued*

Fleet Plan

Fleet at year end	2017	2018	2019
787-9	14	17	17
A350-1000	0	0	4
A330-300	10	10	10
747-400	8	8	8
A340-600	8	7	3
A330-200	0	4	4
Total	40	46	46
Ownership % ⁶	23%	26%	35%
Average age (years)	8.2	9.3	9.2

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

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

Our revenue growth initiatives will be underpinned by continued strong cost control and expected increased efficiencies resulting in a below inflation movement in non fuel unit cost. Our cash position is expected to remain strong despite our large investment programme by focusing on our working capital management. We have also recently extended the term of our revolving credit facility.

The divestment of our frequent flyer programme (Flying Club) is on track and expected to be completed during the first half of the year.

2019 will be one of our highest ever capital expenditure years, with a spend in excess of £500m due to the on balance sheet acquisition of four A350-1000s which

commence delivery during the year and pre-delivery payments of the remaining eight aircraft to be delivered in 2020 and 2021.

Virgin Holidays and Virgin Atlantic will continue to work together to provide the best offering for our joint customers and maximise our contribution to group revenue and profit. In 2019, Virgin Holidays are investing in initiatives to grow market share including digital platforms, while continuing to evolve our retail estate and experiential travel.

Looking further ahead, we have launched our three year *Velocity* plan that is focused on profitable growth by driving customer preference, competitive pricing, and expanded network reach. Through our partnership with Delta, the new transatlantic expanded joint venture with Air France and KLM and improved connectivity between Flybe's domestic and European network and our longhaul services, we expect to drive further growth in PRASK. In conjunction with a younger, modern and fuel efficient fleet, we are well placed to be make further progress.

We expect to achieve regulatory clearance for our joint acquisition of Flybe in conjunction with Stobart Group PLC and Cyrus Capital in the third quarter of 2019.

I am really excited for the years to come and confident that Virgin Atlantic will become the "most loved travel company" by our customers. The best is yet to come.

Tom Mackay

Chief Financial Officer

20 March 2019

6. Includes finance leases.

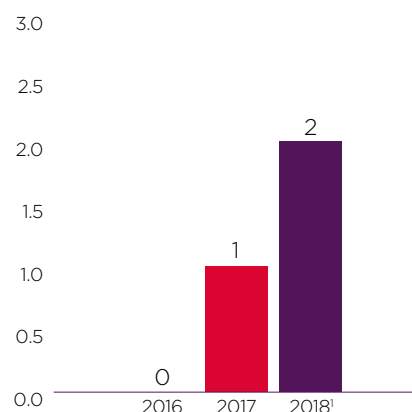
Our key performance indicators

Virgin Atlantic

We outline the key performance indicators that measure our performance and align the Group's operational and financial performance with the future strategic priorities of the business. The financial indicators are stated at constant currency.

safety

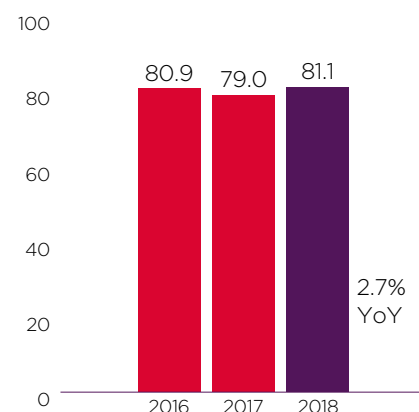
number of significant incidents



The safety, security and wellbeing of our customers and our people is our top priority. Incidents subject to review by an external body (e.g. AAIB, NTSB) are considered as significant incidents.

operating performance

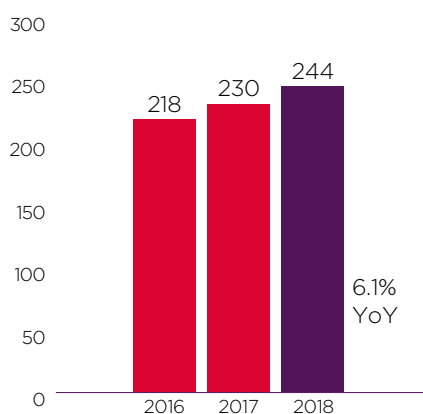
on time performance (A15) (%)



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 their scheduled arrival time.

cargo

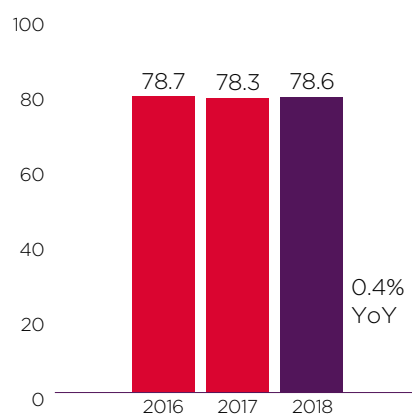
cargo tonnage (kg) (m)



Utilisation of cargo capacity on our aircraft is improving and helps to drive overall profitability of the airline. Cargo tonnage measures the total cargo carried by weight in kg on Virgin Atlantic aircraft.

load factor

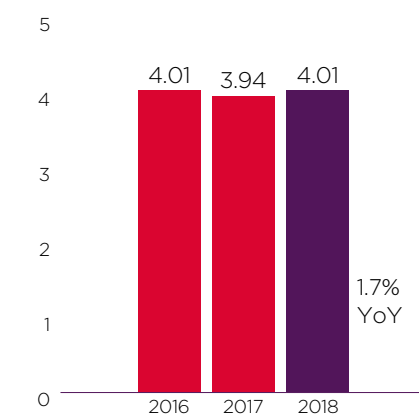
(%)



Load factor measures how efficiently we fill the seats on our aircraft which is key to generating revenue. Calculated by dividing revenue passenger kms by available seat kms. By increasing our load factor we are attracting more customers onto Virgin Atlantic flights and improving the revenue potential from each flight.

unit revenue

PRASK (p)

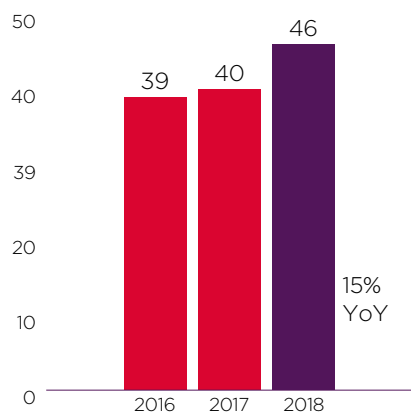


PRASK is a measure of operational efficiency. Calculated by dividing passenger revenue by available seat kilometres.

1. Incident 1 – G-VLNM – report of smoke in AFT galley – PAN declared and diversion to CYHZ.
Incident 2 – G-VLUV – smoke/acid smell in the flight deck – diversion to SNN.

Virgin Atlantic *continued*

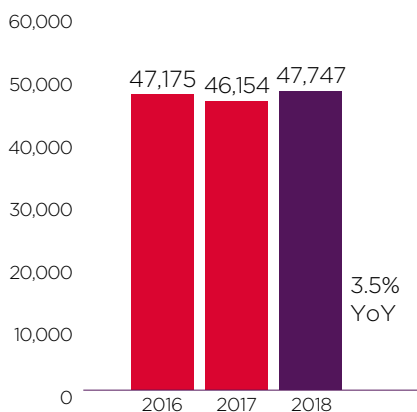
number of aircraft



The number of aircraft in our fleet has increased as we protect customers from the impact of the industry engine supply issues affecting our 787-9s.

capacity

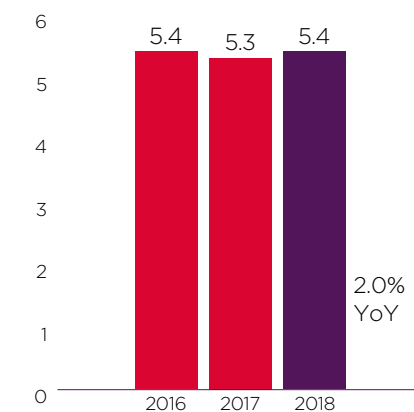
available seat kms (ASK) (m)



Optimising our network and capacity are key to managing the airline. ASK is a measure of our passenger seat capacity. Calculated by multiplying the number of seats available by distance flown.

number of passengers

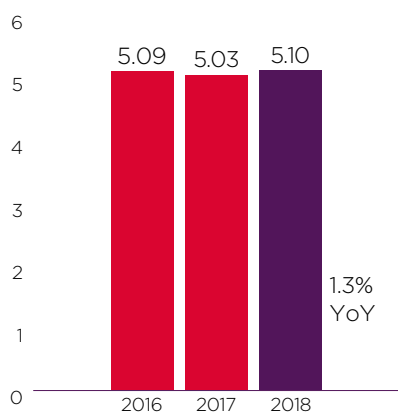
(m)



Passenger numbers are closely linked to capacity and are a key driver of revenue and cost.

yield

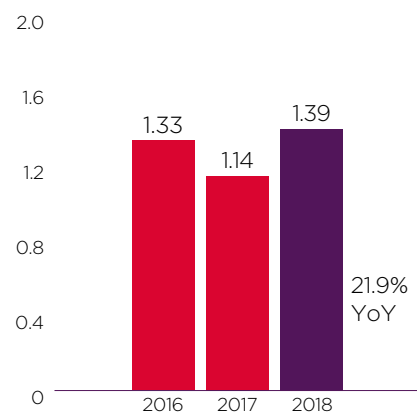
passenger revenue per RPK (p)



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

fuel CASK

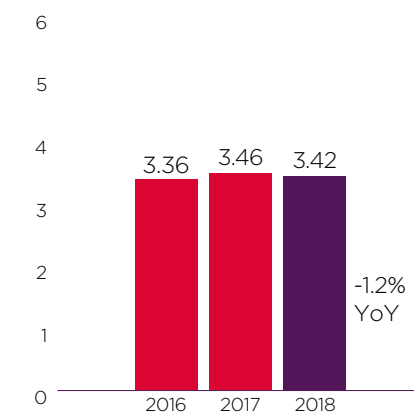
fuel unit cost per ASK (p)



We closely monitor our fuel usage to understand the cost of our flying and our impact on the environment. This metric measures how much we spend on fuel for every available seat kilometre flown. It is calculated by dividing total fuel costs by ASK.

non fuel CASK

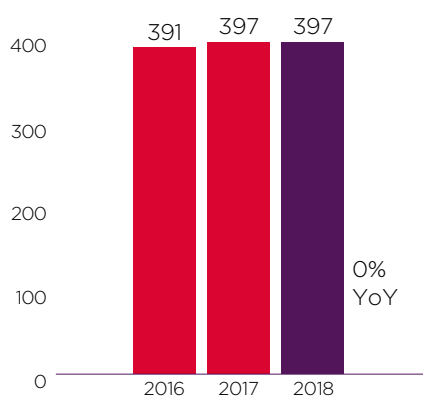
non fuel unit cost per ASK (p)



Controlling our operating costs is a key priority. This metric measures how much each seat on a flight costs us for every kilometre it is flown. It is calculated by dividing airline operating costs by ASK.

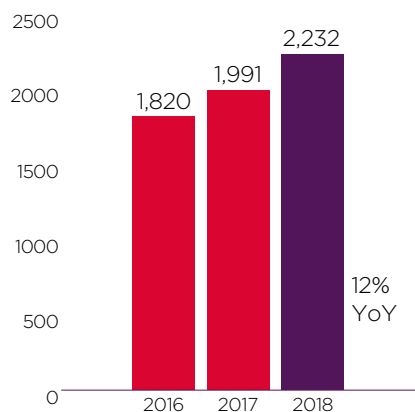
Virgin Holidays

total customers
(000)



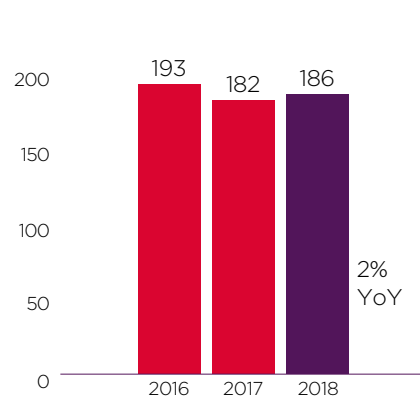
The total number of customers served by Virgin Holidays in the year. Includes flight inclusive packages, component only and travel agency sales.

booked customers per retail store



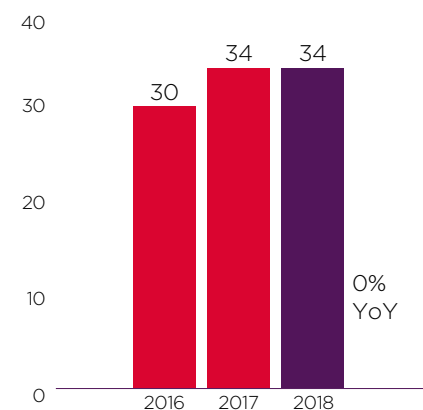
The number of booked customers per retail store is a measure of our retail store productivity.

cost per booked customer
(£)



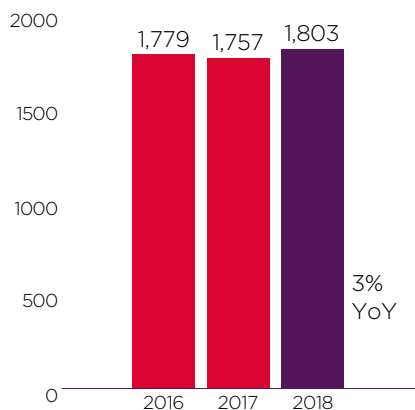
Cost per booked passenger is total operational and selling costs recognised in the period divided by inclusive tour and flight only customers that booked in the period. This is a measure of cost controlling and productivity.

online distribution mix
(%)



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

total revenue per customer
(£)



Revenue per customer 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.

awesome A350

When the A350-1000 joins our fleet it will transform our customer experience, reduce our environmental impact and improve our route economics. It's time to fall in love with flying all over again.

Reimagining our wow factor

We are excited to be welcoming the A350-1000 into our fleet in 2019. This state of the art new aircraft has allowed us to reimagine the service and comfort we provide our customers and will play a key role in our ambition to be the most loved travel company.

Our 12 A350-1000s are part of a long term fleet investment. By 2021, all Virgin Atlantic aircraft will be twin engine, saving fuel, increasing carbon efficiency, reducing noise and enabling us to become even more sustainable in our operations.

Amazing on the inside...

The aircraft will offer our customers a whole new experience in Upper Class, Premium and across Economy. The interiors are custom designed and draw on valuable insights provided by our frequent flyers.

Upper Class Suites have been redesigned with a brand new exclusive product, offering the ability to recline to a fully flat bed while maintaining direct aisle access.

Customers will experience the largest entertainment screens in the fleet, faster WiFi and cutting edge entertainment options. Advanced technology onboard will help our crew provide a more personalised service to our customers.

...while looking great on the outside

It wouldn't be Virgin Atlantic if we hadn't also paid great attention to detail on the outside. The unique fuselage will include a celebration of diversity.

Our A350-1000s will first operate on flights between London Heathrow, New York JFK and Atlanta creating more capacity in Upper Class and more choice for customers. We're providing a seamless customer journey across our joint venture, aligning closely with Delta who introduced a three cabin configuration with their first A350 last year.



change is in the air

For us, sustainability means changing things for the better to improve the lives of people around the world. We focus on our biggest environmental and social priorities. And as we strive to become the most loved travel company, we want to play our part in tackling global and local issues that are important to our customers and our people.



We launched our *Change is in the air* programme in 2007. Because of the inherent nature of our airline operations, we've always been clear about our role in addressing climate change and reducing carbon emissions. We also know we can make a significant positive impact by working with our suppliers to promote human rights and good labour standards, encourage resource efficiencies, waste reductions, environmental stewardship and animal welfare improvements. To ensure we're on the right track we work with a number of respected non profit partners on these activities, as well as directly through our community investment programme.

Tracking our progress and independent reviews of our performance are just a few ways to show we're making a difference. We have our carbon footprint independently verified and each year we ask CDP¹ to evaluate our environmental strategy and results. We're pleased to have been awarded an A- (Leader) in our 2018 assessment.

The hard work of our teams across the business was recognised by award bodies in 2018.

- We received an edie Sustainability Leaders Award for employee engagement and behaviour change.
- Our partnership with LanzaTech on sustainable aviation fuel was shortlisted by the 2019 edie awards for the low carbon product innovation of the year.
- We won the World Travel and Tourism Council's tourism for tomorrow award for our sustainable onboard food and drink programme.

Here we explore some of our 2018 programme highlights. You can learn more in our annual *Change is in the air* sustainability report and you can keep up to date with our reports, videos and news on our website at www.virginatlantic.com/changeisintheair.

In January, we won an edie Sustainability Leaders Award for employee engagement and behaviour change.



Collecting our edie Sustainability Leaders Award.

1. Formerly known as the Carbon Disclosure Project www.cdp.net

Environment

Because of our airline operations, fuel and carbon efficiency is our number one environmental priority. The aircraft we operate make the biggest difference to our fuel use and carbon emissions. Because of that we're continuing our ten year fleet renewal programme to invest in new, fuel efficient aircraft. In 2018, we welcomed three Boeing 787-9s into our fleet, taking the total to 17. In 2019, we'll start the introduction of 12 Airbus A350-1000s. Through a combination of aircraft and engine efficiencies, as well as network planning to optimise passenger numbers and cargo

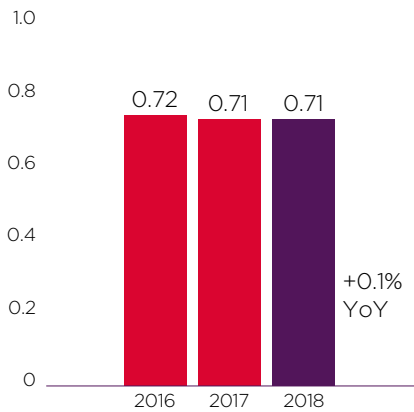
loads, these aircraft are around 30% more fuel efficient per trip than the aircraft they replace.

Unfortunately, during 2018 we experienced challenges in our operations that affected our operational fuel efficiency. Due to the industry supply issues with the Rolls-Royce Trent 1000 engine we had to make changes to our fleet planning programme. Additional engine maintenance activity meant that on average, two of our most fuel efficient planes were parked each month. To ensure continuity for our customers we delayed the retirement of older, less efficient aircraft and introduced four A330-200s into our fleet.

We flew the world's first commercial flight using LanzaTech's pioneering sustainable aviation fuel made by recycling carbon from industrial waste streams.

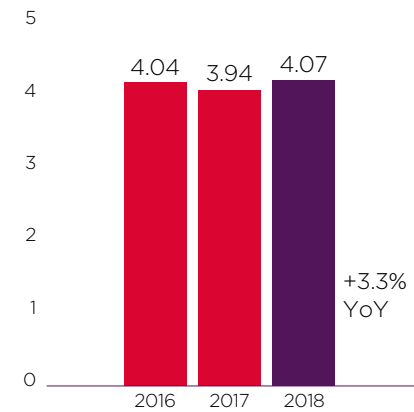
aircraft efficiency

CO₂ (kg) per revenue tonne kilometre



aircraft emissions

Total aircraft CO₂ emissions (tonnes) (m)



As a result our CO₂ per revenue tonne kilometre² (CO₂/RTK) efficiency result is very similar to our 2017 value. And for the same reasons we've seen our total aircraft CO₂ emissions increase in 2018. Nonetheless, our fleet and operational improvements since 2007 have reduced our CO₂/RTK by 18.1% overall.

How much fuel we use is affected by the weight of our aircraft, including the products we load. We weigh every single item before it gets onboard, from teapots to toothpicks. We need one for every passenger so it soon adds up. With plastics and other single use items, we've been removing and reducing their use for a long time.

In some cases lightweight items are still the right choice, as heavier reusable items (like crockery) would disproportionately increase our weight, fuel use and carbon emissions. It's not always easy but our teams consider this whole life cycle in the choices we make. Through careful galley planning we've been able to reduce our loaded product weight onboard by 8% since 2016. That's 275kg per aircraft on average which saves 4,260 tonnes of carbon and more than £650k in fuel costs per year across the fleet.

As we reach the limits of current efficient airframe and engine technologies, the next big breakthrough in aviation carbon reduction is in new sustainable aviation fuels. We've partnered with cleantech company LanzaTech, which uses a ground breaking approach to make fuels by recycling carbon from industrial waste gases and other sustainable waste streams. After ten years of rigorous development the technology is now close to jet fuel production at a commercial scale. In 2018, this fuel was qualified for use in commercial aircraft and in October we flew the world's first ever commercial flight using this pioneering new fuel. We're now seeking UK Government and investor commitment to making this fuel a commercial reality in the UK.

International aviation agreed to steps to limit carbon growth as far back as 2009. As well as sustainable fuel and fleet technologies, it's clear that an industry wide carbon market based measure is also needed. Having been a long time supporter of this approach we were delighted when the UN led Carbon

Offsetting and Reduction Scheme for International Aviation (CORSIA) was agreed in October 2016. CORSIA aims to address the industry agreed target of carbon neutral growth from 2020. In 2018, we submitted our CORSIA monitoring plan to the UK Government and will be measuring our baseline in 2019-2020. Looking ahead, we'll continue mapping out the costs and opportunities for our business while exploring carbon reduction projects we can support to make the best global impact.



Visiting LanzaTech in Georgia, US.

The future of fuel

LanzaTech's fuel has a fantastic sustainability profile with a saving of at least 70% across the product's carbon life cycle compared to fossil jet fuel. There are no land, food or water competition issues, attracting a gold standard Roundtable on Sustainable Biomaterials certification. Crucially, because it's made from plentiful, affordable waste streams, the fuel could realistically be available at a price comparable with current fossil fuel prices. This would be a truly groundbreaking move that would enable airlines like us to buy significant volumes and achieve considerable carbon savings. With inclusion in existing low carbon fuel incentive schemes and first plant derisking support from the UK Government, LanzaTech predicts it could have three UK plants running by 2025 producing up to 125m gallons of sustainable fuel per year. That's enough to fly all our UK outbound flights (as a 50:50 mix with fossil jet fuel) while bringing multiple benefits to the UK like jobs and fuel security and saving nearly one million tonnes of life cycle carbon.

2. CO₂/RTK is an efficiency metric which accounts for the amount of CO₂ emitted in relation to the people, luggage and cargo we carry.

Supply chain engagement

Together Virgin Atlantic and Virgin Holidays have thousands of suppliers worldwide. Our goal is to work with them to improve the human, environmental and animal welfare standards of the products and services we design, buy and contract. Partnerships are a cornerstone to delivering these improvements. They can take many forms, from working with suppliers directly to introduce product innovations, to working with trusted partners and experts to focus on critical areas of our supply chain.

Supplier assessments

In 2018, we began working with EcoVadis who offer a collaborative platform and service to assess and encourage suppliers' sustainability performance. Suppliers submit questionnaires describing their policies and actions together with supporting evidence. The analysis by EcoVadis creates a scorecard which allows us to recognise best practice and potential improvement areas then discuss these with our suppliers. The approach aligns well with our Responsible Supplier Policy while supporting our efforts to better understand environmental performance and tackle slavery and human rights risks in our supply chain. More information on these activities can be found in our annual Modern Slavery Statement on our website.

Thoughtful food

We serve around 12 million meals onboard every year so it's important to us that we provide the best experience, while ensuring our meals are sourced responsibly. We like to think of it as Thoughtful Food. Through our long standing partnership with the Sustainable Restaurant Association we ask our suppliers to meet a number of challenging criteria, including sourcing fairly traded products, promoting higher animal welfare standards and sourcing sustainable certified fish, seafood, beef, soy and palm oil (or finding better alternatives). 63% of our flights worldwide now meet all our standards and we're continuing to work with our caterers to ensure all meet our criteria.



Training partnership with CHTA Education Foundation.

Hotel sustainability

For our holiday customers the accommodation we provide is the second biggest sustainability impact after our flights. Throughout 2018 we've been mapping our hotel partners' performance against our Responsible Supplier Policy. We'll be working with our hotels to continue to improve against all areas of our policy, including tackling slavery, carbon, water and waste management, responsible food sourcing and diversity and inclusion. And we'll encourage hotels to seek independent sustainability certification where this is not already in place.

Whales and dolphins

Through our holiday operations we've been working to change the way tourists interact with whales and dolphins. As part of this initiative we're investing \$300k in a world first dolphin sanctuary to be based in North America and led by the US National Aquarium in Baltimore. In a related programme we're partnering with the World Cetacean Alliance to roll out responsible whale and dolphin watching guidelines to all Virgin Holidays' providers. Finally, we've audited key captive cetacean facilities we work with against ABTA animal welfare guidelines and ceased working with those that don't meet these minimum requirements. Our website www.virginholidays.co.uk/cetaceans provides more information about our commitment and progress.

Nurturing diversity and inclusion

In 2018, we conducted a successful pilot of customer service and diversity training in partnership with the Caribbean Hotel and Tourism Association (CHTA) Education Foundation. 188 hotel staff and hospitality students in Barbados were trained on delivering the best guest care possible focusing on a range of areas such as gender, LGBTQ, race, disability, and religion. We also partnered with local gay rights group B-GLAD (Barbados Gays and Lesbians Against Discrimination) and the Royal Commonwealth Society to organise a roundtable on LGBTQ inclusion. The meeting created a forum for discussion between tourism experts and business leaders. Topics ranged from the benefits of diversity and inclusion in tourism, to hiring the brightest and best and attracting the widest range of customers.

Our people

Our vision is to be the most loved travel company. Love is ultimately about the power of human connection – between our people and between us and our customers. This is what fuels our company, drives our sales and helps position us for growth.

We want Virgin Atlantic and Virgin Holidays to be a place where people love to work. Part of this is about building a consciously inclusive environment in which everyone can thrive.

Be yourself

We want our colleagues to proudly be themselves no matter their gender, their background, their beliefs, the colour of their skin, their physical ability or who they choose to love. Our *Be Yourself* manifesto outlines a number of initiatives to ensure we're an inclusive place to work.

In 2018, we became signatories of the Women in Aviation and Aerospace Charter, issued our second gender pay report³ and launched *Springboard* training for women in non senior roles. Future plans include creating an inclusive hiring toolkit, supporting our employee networks and working with other businesses and government to effect industry change. These initiatives will help us build a culture where diversity is not just accepted, but embraced, championed and celebrated.

Working well, living better

For people to thrive they need to be well and feel at their best. We take a holistic view of wellbeing and have invested in the physical, mental and financial wellbeing of our people. Our goal is a highly motivated, resilient and vibrant workplace where our people feel valued, listened to and supported.

In 2018, a significant area of focus was mental health. We signed the Time to Change pledge and opened up the public conversation about mental health to reduce stigma and discrimination within the workplace. We launched mental health first aid training and awareness sessions across the business and tailored peer to peer support for Cabin Crew.

Flourish

In 2018, we launched *Flourish*, a journey which saw 1,600 of our people leaders develop the mindset and techniques they need to be at their best in order to lead and inspire their teams. We believe that by enhancing the capacity and capability of our leaders we can enhance the experience of all our people, ultimately leading to stronger engagement.

All these initiatives contribute to the long term happiness of our people and therefore to the long term health of our business.



3. Our 2018 Gender Pay results are available on our website at www.virginatlantic/gb/en/media-centre.html

Our communities

Giving back to the communities we serve has long been an important part of our sustainability programme and an area that our teams love to get involved in. Across Virgin Atlantic and Virgin Holidays we distributed the equivalent of over £1.6m for charities close to our people's hearts in 2018.

These funds were generated through a variety of activities. Our people are passionate about fundraising and have organised lots of different events, including 'have fun, do good' adventures, climbing mountains and cycling long distances to raise money for charity. Our customers generously donate their spare currency through our onboard Change for Children appeal which raised approximately £690k in 2018. And at Virgin Holidays, £1 per adult and 50p per child has been included in every holiday sold for more than a decade.

Virgin Atlantic's main airline charity partner since 2010 has been WE. We support the WE Schools programme in the UK and US and their international development programme WE Villages. Our 2018 staff fundraising campaign focused on

encouraging 50 new schools from our UK hubs into the WE Schools programme. The 2018 WE Villages project was to install solar power as the primary source of energy for heating schools in two communities in rural China.

During specific humanitarian crises we run emergency Change for Children appeals onboard our flights. In 2018, we ran two ten day emergency appeals raising £50,375 for Save the Children's Emergency Fund.

Our Virgin Holidays purpose 'Everyone can take on the world' runs through our holiday community engagement activities. We've continued to support the Branson Centre for Entrepreneurship in Jamaica with a £200k donation, helping over 1,000 entrepreneurs since 2011 to scale up their businesses, generate jobs and boost the Caribbean economy. Our 2018 staff poll resulted in our people choosing the Dreams Come True charity for their staff fundraising campaign. Our people have already raised £27k towards our £30k April 2019 target to provide memorable holidays for children with life limiting conditions.



UK school children celebrating their achievements at WE Day.

connecting cargo

We may be famous for the way we look after our passengers, but the same customer focused mindset drives Virgin Atlantic Cargo to deliver exceptional service to its customers across the world. Enjoying a record year in 2018, here's an insight into how this was achieved and what's in store in 2019.

Our cargo business enjoyed increased, sustained growth throughout the year across almost all of its markets, points of sale and sectors. Full year revenue reached £222m, 13% higher than the prior year. This was driven by a 10% increase in traffic and a 10% improvement in capacity. Unit revenues grew by 6%.

The transatlantic UK to China and Pacific Rim based markets were the standout highlights. UK-US markets performed better in price after prior years of sustained downward pressure. 2018 saw a rebound in demand driven in part by weak Sterling, high US economic output and closer collaboration with Delta. Traffic grew by 3% year on year (around 1.5% faster than market), coupled with 6% unit revenue growth. In total, revenue improved 9%.

What's happened?

We delivered a number of key customer orientated projects and established the framework for positioning Virgin Atlantic Cargo as best in class for years to come.

We did this by setting new standards in customer satisfaction and preference, achieving a full year NPS score that was 11 points better than in 2017. We also established the key tenets of *Velocity* by:

- replacing our entire cargo technology estate and enabling truly industry leading digital connectivity to our customers;
- preparing for our expanded transatlantic joint venture with Delta, Air France and KLM, leaders within the cargo industry. This will help us to provide a proposition of significant scale and capability; and
- relocating our Heathrow based hub operation, doubling capacity and providing the scope to create and innovate in how we interface between our customers and frontline operation.

What can we look forward to?

The coming year is expected to be another strong one driven by double digit revenue growth and capacity growth. A significant advantage is our ability to grow quickly through the expansion of our network. Coupled with further emphasis on price, utilisation and delivering industry leading customer satisfaction, these factors will help set us even further apart from our competitors.

This year Virgin Atlantic Cargo embarks on becoming the most loved airline cargo operation.



principal risks and uncertainties

Roles and responsibilities in risk management

The Board of Directors is responsible for setting the overall risk appetite of the organisation in line with our strategic priorities and for ensuring an appropriate risk management framework is in place to manage risks within this appetite.

The Virgin Atlantic Leadership Team, under the leadership of the Chief Executive Officer, is responsible for ensuring that appropriate resources are allocated to implementing the strategy, culture, processes and structures on behalf of the Board.

It is the responsibility of business Heads and Vice Presidents to ensure that all staff under their line management help the business to manage risk within acceptable levels.

Risk management policy and processes

We have a Corporate Risk Management policy which has been reviewed and adopted by the Audit Committee. This policy sets out our processes and methodology for risk management activity.

Risks are assessed for likelihood of occurrence and impact to corporate objectives and strategy across four categories: operations, brand, compliance and financial.

Risks are identified, assessed and tracked within divisions, projects and processes. The most significant risks (based on materiality, cross functional impact or those which have common themes across the business) are prioritised and included on our Top Risk Register.

Our risk processes are dynamic and allow for risk escalation and de-escalation from divisional, project and process risk registers into the Top Risk Register. New and emerging risks can also be flagged by Senior Management for assessment and potential inclusion on the Group Top Risk Register.

Key controls and mitigations for Top Risks are identified and tracked by our Corporate Risk team. On at least a biannual basis the Top Risks facing the organisation are presented at Senior Leadership Team risk sessions and at Audit Committee meetings.

Status key:



Risk profile increased from 2017



Risk profile unchanged from 2017



Risk profile decreased from 2017




Principal operational and business risks

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. However, many risks 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.

Principal operational and business risks


Risk	Direction of travel	Risk context	Main controls and mitigations
Brand reputation		<p>The strong reputation and loyalty engendered by the Virgin Atlantic brands is a core part of the value of our business.</p> <p>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.</p>	<p>We track brand health monthly and monitor customer satisfaction via monthly customer surveys, alongside ongoing research and development of our product and services to mitigate this risk.</p> <p>We allocate substantial resources to safety, operational integrity, onboard products and new aircraft to maintain our strong brand position.</p>
Brexit		<p>Our operations are sensitive to economic conditions in the markets in which we operate and, following the UK referendum decision to leave the EU in 2016, there remains uncertainty as to how Brexit will be delivered and how this will affect the UK economy.</p> <p>The primary ways in which Brexit may impact us is if it resulted in (i) significant Sterling currency devaluation affecting our cost base, (ii) weaker demand from UK point of sale, or (iii) disruption to our supply chain.</p>	<p>A working group tracks Brexit related developments, including working closely with the UK Government and regulatory bodies, to provide analysis and strategic options to the Leadership Team and Board for approval.</p> <p>We expect to operate the full flying programme post Brexit. The UK has Air Service Agreements in place with all our destinations and a new US agreement will come into effect on the day the UK leaves the EU.</p> <p>The CAA has confirmed they will adopt and follow EASA regulations, and the EU's draft bare bones safety regulation enables certificates issued by EASA to UK companies to be valid for nine months after Brexit.</p> <p>We continue to actively manage our foreign exchange risk – see foreign currency risk section. We are also liaising closely with key suppliers to minimise potential disruption to our supply chain.</p> <p>We have sensitised our three year <i>Velocity</i> plan against a no deal Brexit and defined longer term options for this eventuality. In the short to medium term, a number of other tactical actions are being taken.</p>
Government intervention		<p>Regulation of the aviation and tour operator industries is increasing and covers many of our activities, including safety, security, route flying rights, airport slot access, data protection, environmental controls, government taxes and levies.</p> <p>The ability to both comply with and influence any changes in these regulations is critical to maintaining our operational and financial performance.</p>	<p>We continue to engage with the UK Government to understand how its objectives are expected to impact Virgin Atlantic and to constructively drive debate and effective policy formulation.</p> <p>We regularly assess the impacts of UK Government policy and objectives on our business and take action as is required and appropriate.</p> <p>We have liaised closely with the Government and CAA ever since the EU referendum result to influence policy and inform our contingency planning.</p> <p>Globally, we continue to assess political risk and work with governments across the world to limit any potential regulatory impact on our operations.</p>

Principal risks and uncertainties *continued*

Principal operational and business risks *continued*

Risk	Direction of travel	Risk context	Main controls and mitigations
Safety, terrorism and security incidents	→	<p>The threat of terrorism in 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.</p> <p>Failure to respond to terrorism or security incidents may adversely impact our operations and financial performance.</p>	<p>Safety is our number one priority. It is the cornerstone of our corporate strategy and underpins everything that we do. An independently chaired Safety and Security Review Board comprising Executives and Senior Managers from across the business reports directly and regularly to our Board of Directors on our safety and security position.</p> <p>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.</p> <p>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.</p> <p>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.</p>
Failure of a critical IT system, including from cyber-security threats	→	<p>We are dependent on IT systems for most of our principal business processes.</p> <p>The failure of a key system through an internal or external threat (including a cyber attack) or event may cause significant disruption to operations or result in loss of revenue.</p>	<p>We have an Organisational Resilience Board with oversight of this risk. They meet regularly to assess the events, controls and actions linked to this risk.</p> <p>System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.</p> <p>We deploy a wide range of preventative and detective controls, including technical solutions, to minimise the threat to our systems from cyber attacks. Ongoing investment and efforts are directed to this risk to reflect the evolving nature of the threat landscape.</p> <p>In addition, our technology team works closely and diligently with our key system suppliers to ensure that we are operating our critical systems in a risk appropriate manner.</p>
Key supplier risk	↑	<p>We are dependent on suppliers for some principal business processes.</p> <p>The failure of a key supplier to deliver contractual obligations could have a significant impact on operational performance and customer delivery.</p>	<p>Our Organisational Resilience Board has oversight of this risk and meets regularly to assess the events, controls and actions linked to our key supplier risk.</p> <p>A key supplier working group tracks the risk of supplier failure and the adequacy of existing controls using a number of risk metrics. The working group reports progress and any concerns to the Organisational Resilience Board on a regular basis.</p> <p>We assess the adequacy and resilience of our supply chain carefully when entering into new contractual agreements and maintain close relationships with existing key suppliers to ensure we are aware of any potential supply chain disruption.</p> <p>In light of an industry wide shortage of engines used on our Boeing 787 aircraft, we took delivery of additional aircraft to add resilience to our fleet.</p>

Principal operational and business risks *continued*

Risk	Direction of travel	Risk Context	Main controls and mitigations
Industrial relations		<p>We have a large unionised workforce that are represented by a number of different trade unions.</p> <p>Industrial action by key groups of employees or by the employees of key third party service providers could have potentially adverse operational and/or financial impacts on the Group.</p>	<p>We recognise the unions Unite the Union and BALPA. Emphasis has been placed on maintaining ongoing dialogue and resolving issues early at a departmental level in order to avoid escalation.</p> <p>A significant level of negotiation takes place during collective bargaining with unions prior to the adoption of any new policies which may impact our people and their work environment. We have an ongoing trade dispute with the PPU who are seeking recognition at Virgin Atlantic.</p>



Principal financial risks

The Directors are responsible for setting financial risk management policies and objectives, as well as 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 and other financial risks. Group Treasury carries out financial risk management within the parameters of the Board approved policies. Controls are in place to maintain operational compliance with key reporting requirements in respect of the Group's financing arrangements.

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

Principal financial risks

Risk	Direction of travel	Risk Context	Main controls and mitigations
Liquidity and financing risk		<p>Our working capital is financed by retained profit and sales in advance of carriage.</p> <p>The major risks to liquidity are therefore driven by business performance, capital investment and the timing of associated cash flows.</p>	<p>We take corrective actions in the form of amendments to fleet, network and the cost base in response to changing external factors. We also ensure that suitable lines of credit are available to provide capital as required.</p> <p>To the extent necessary we will enter into hedging arrangements in line with our financial risk management policies to provide a degree of certainty for future financing costs and to reduce volatility of cash flows.</p>
Interest rate risk		<p>We are exposed to the risk of increased costs as a result of movements in interest rates on floating rate debt and cash investments.</p>	<p>The net exposure to movements in interest rates is calculated and managed with a view to reducing the impact of any potential rate increase.</p> <p>The mix of fixed and floating rate products is managed to reduce exposure and, where necessary, we will utilise financial instruments approved under the financial risk management policies.</p>

Principal risks and uncertainties *continued*

Principal financial risks *continued*

Risk	Direction of travel	Risk Context	Main controls and mitigations
Foreign currency risk	↑	<p>We have significant exposure to US Dollar denominated costs, including aviation fuel, aircraft rentals, hotel costs and other US Dollar financing arrangements.</p> <p>Following the outcome of the UK referendum to leave the EU there remains significant uncertainty as to how Brexit may be delivered and how this will affect the UK economy. During this period of uncertainty we have seen more volatility in the value of Sterling to the US Dollar.</p> <p>In addition, we have a net exposure to a number of other currencies due to the local currency revenues exceeding costs.</p> <p>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.</p>	<p>Where possible we reduce our exposure through the matching of receipts and payments in individual currencies, as well as utilising natural hedges that exist within the business.</p> <p>Where a significant exposure in foreign currency holdings remains we utilise financial instruments approved under the financial risk management policies.</p> <p>A working group carefully tracks the development of the Brexit situation and provides analysis and strategic options for developing scenarios to the Leadership Team and Board for approval. Where appropriate these recommendations can include seeking Board approval for additional currency hedging activity.</p> <p>For countries with remittance challenges and risks we closely monitor our currency exposure to identify any issues at an early stage and to take remedial action, both operational and financial, to minimise the value of these funds.</p>
Fuel price risk	→	<p>A significant and material element of our cost base is jet fuel. As such we have considerable exposure to significant adverse movements in the price of jet fuel.</p>	<p>We aim 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.</p> <p>This is managed with a combination of fixed price supplier contracts and financial instruments approved under the financial risk management policies.</p> <p>Our fuel hedging policy allows for the use of derivatives available on the over the counter (OTC) markets with approved counterparties.</p>
Counterparty credit risk	→	<p>Exposure to counterparty credit risk arises from the non performance of counterparties in respect of financial assets receivable.</p>	<p>We aim to reduce the risk of loss from non performance by diversifying exposure and adhering to set limits on credit exposure to counterparties, dependent on their respective credit ratings.</p> <p>Counterparty credit quality is verified before creating actual or potential exposures to counterparties. Actual exposures are regularly reviewed and if these fall outside of the acceptable tolerances management will take a decision on any remedial action.</p>

Principal financial risks

Risk	Direction of travel	Risk Context	Main controls and mitigations
Derivative financial instruments	→	Derivative financial instruments are used selectively for financial risk management purposes. The timing difference between derivative maturity date and current mark to market value can give rise to cash margin exposure.	We do not speculatively trade and use these instruments to manage the underlying physical exposures of the business. In addition, the risk is managed through a choice of instruments and appropriate counterparty agreements which either do not have a margin requirement or which only require cash margins over an agreed mark to market threshold.

Principal Compliance and Regulatory Risks

The airline industry is highly regulated and subject to many laws and regulations. The Board of Directors, through the Audit Committee, General Counsel Office and certain other business units, ensures that we comply with all legislation and regulations relevant to our business and promotes a strong compliance culture. The Directors believe that the risks and uncertainties described below are the key compliance and regulatory risks which may have the most significant impact on our long term performance.

Principal Compliance and Regulatory Risks

Risk	Direction of travel	Risk Context	Main controls and mitigations
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 our business. Legislation allows for potentially significant fines to be levied for cases of serious breach or non compliance.	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 from the Civil Aviation Authority (CAA).	The CAA authorises us to continue our activities following assessments of safety, ownership and control as well as financial fitness criteria. The broad framework of which is available via the CAA website (www.caa.co.uk).
Compliance with data protection regulations	↓	The Data Protection Act 2018, commonly referred to as General Data Protection Regulations (GDPR), became law in May 2018. Legislation allows for potentially significant fines to be levied for cases of serious breach or non compliance.	We have a Data Privacy Team in place reporting to the Company Secretary, who is also the Data Protection Officer. The Data Protection Officer has oversight and the remit of ensuring compliance with data protection regulations. Key deliverables have been achieved for high risk processing activities during the year and there is an ongoing programme for the 2019 financial year.

The Strategic Report was approved by the Board of Directors on 20 March 2019 and signed 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. For 2018, the two Executive Directors were the Chief Executive Officer and the Chief Commercial Officer, who were full time employees of the Group. In addition the Chief Financial Officer, also a full time employee of the Group, had been appointed as alternate Director to the two Executive Directors.

As mentioned in the Chairman's report, Craig Kreeger, the Group's Chief Executive Officer, retired on 31 December 2018. Craig was succeeded as Chief Executive Officer by Shai Weiss who was the Chief Commercial Officer in 2018. Mark Anderson, Executive Vice President, Customer was appointed to the Board on 1 January 2019 as the second Executive Director. Tom Mackay, Chief Financial Officer has been reappointed as Alternate Director to the two Executive Directors.



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 is 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.

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 proactive 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.

The Board is aware that it will be required to include a statement on its corporate governance in its Directors' report for 2019 and is reviewing the Wates Principles approach to corporate governance as it would apply to the VAL Group.

For the year ended 31 December 2018 the members of the Board comprised:



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. He remains a senior adviser to Quayle Munro.



Ian Woods

Non Executive Director

Ian has been with Virgin since 2005 and has responsibility for various functions within Virgin Management including Legal, People, Company Secretarial, 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.



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.



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. 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 US' most reliable and customer centric airline, expanding its global footprint and striving to become the airline of choice for the next generation of travellers.

Ed joined Delta in 1998 as Vice President, Finance and Controller and was promoted to Senior Vice President in 2000. He left Delta in early 2004 and became Senior Vice President and Chief Financial Officer of Acuity Brands.

He returned to Delta six months later to become Chief Financial Officer and lead Delta through its restructuring. In 2007, Ed was appointed to serve as Delta's President.

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.

Board of Directors *continued*



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 services. 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, as well as a joint venture with Virgin Atlantic. 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.



Cornelis Koster

Non Executive Director

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 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 Aeroméxico, Virgin Atlantic, Air France-KLM Group,

KLM and KLM Cargo. Before joining Delta, Corneel was Chief Operating Officer for Aeroméxico, 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 Group, and before that KLM.

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



Shai Weiss

Executive Director

(Chief Commercial Officer until appointed as Chief Executive Officer on 1 January 2019)

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.

Shai became Chief Commercial Officer from 1 January 2017. In this role Shai led the team responsible for Virgin Atlantic's international marketing, network and alliances, revenue management, sales and loyalty. Shai was 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.

In his role as Chief Executive Officer, together with the leadership team, Shai is keenly focused on Virgin Atlantic and Virgin Holidays together becoming the most loved travel company, 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 turnaround 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 between Virgin Mobile UK and ntl:Telewest and the rebrand 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.



Mark Anderson

**Executive Director
(Executive Vice President, Customer)
(appointed on 1 January 2019)**

Mark joined the Virgin Atlantic Board on 1 January 2019 following the retirement of Craig Kreeger. Mark is part of the leadership team of Virgin Atlantic being Executive Vice President, Customer responsible for all customer facing teams, including Customer Experience Insight, Product and Design, Contact Centres, Airports, Clubhouses, Inflight Services and Crew. Mark also leads our strategy team and has been instrumental in putting the customer at the heart of our goal to be the most loved travel company.

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.



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 – International Pricing & Revenue Management for Delta Air Lines, overseeing the revenue and profit & loss performance of Delta's international portfolio. Prior roles at Delta include serving as Senior Vice President – Transatlantic, Vice President of Pricing and Revenue Management, Chief Economist and Director of Corporate Strategy & Business Development.

Prior to Delta, Dwight was a Managing Partner with a middle market Management Consulting and Principal Investment firm. He also worked 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. From 1 January 2019 Tom will act as alternate director for Shai Weiss and Mark Anderson.

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



Shai Weiss

Chief Executive Officer

Appointed January 2019

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 and Development.

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

See Board of Directors section.



Juha Jarvinen

Executive Vice President, Commercial

Appointed January 2019

Previous experience

Juha joined Virgin Atlantic from Finnair Plc where he had been Chief Commercial Officer and Executive Board Member since 2014 and also Managing Director of Finnair Cargo from 2012 to 2016. During this period Juha led the airline's commercial function into oneworld JVs on North Atlantic and Japan traffic, making Finnair the largest European carrier in Japan, as well as driving major growth in Greater China and other Asian regions.

Prior to Finnair Juha held a number of senior commercial and operations positions at SAS Scandinavian Airlines in Sweden, Estonia and Finland, after originally joining the airline's UK call centre operations team in 1998.

Juha is currently President of the Airline Passenger Experience Association (APEX), a US based non profit association representing the global airline, technology and entertainment industry to look at ways to continue to improve customer experience, something that links in very well with our *Velocity* strategy.

Juha holds an MBA from Danube University in Austria and a BA Honours from London Metropolitan University Business School.



Tom Mackay

Chief Financial Officer and Senior Vice President

Appointed January 2017

Previous experience

See Board of Directors section.



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



Claire Topping
Senior Vice President, Marketing
Appointed June 2017

Previous experience

Claire has global accountability for Marketing and Public Relations.

Claire graduated from Warwick University in 2001 with a Law degree and enrolled on the Barclays Leadership Programme. After ten years in financial services, she was headhunted by NetJets, the largest private aviation company in the world. During her three year tenure at NetJets, she was promoted to the board with dual accountability for Customer Service and Marketing.

In 2014, she moved out of the luxury sector to become the Marketing and Customer Experience Director for Virgin Holidays and in 2015 was appointed as a Non Executive Director on the Branson Centre of Entrepreneurship board.

In her spare time Claire is an advisory board member for Beyond Analytics and she is a mentor for the Marketing Academy Programme.



Joe Thompson
Senior Vice President and Managing Director, Virgin Holidays
Appointed January 2017

Previous experience

Joe is responsible for all aspects of Virgin Holidays' performance, ensuring it continues to be an industry leader in serving and delighting customers.

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 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 Shorthaul 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.



Dave Geer
Senior Vice President, Revenue Management, Digital & Distribution
Appointed September 2017

Previous experience

Dave is responsible for pricing and revenue management, achieving Virgin Atlantic's revenue targets, improving the digital customer experience and Virgin Atlantic's distribution capabilities.

Dave joined Virgin Atlantic from Virgin Holidays, where he was Interim Managing Director. Prior to that role, Dave was responsible for revenue management, product, corporate strategy and business development. He led the development of Virgin Holidays' strategic plans, the development of new differentiated product concepts, the transformation of how product was assessed and improved revenue management capabilities. Dave was a key member of the leadership team that led the turnaround of Virgin Holiday's profitability, customer satisfaction and employee engagement.

Dave began his career as a management consultant at L.E.K. where he spent over six years advising companies on mergers, acquisitions and a variety of strategies across heavy industry, retail and financial services.

Dave lives in London. He is originally from Adelaide, Australia and studied Chemical Engineering at the University of New South Wales.



Oli Byers
Senior Vice President, Sales and Customer Loyalty
Appointed June 2017

Previous experience

Oli is responsible for worldwide sales and our frequent flyer programme, Flying Club. Since joining Virgin Atlantic, Oli has held a number of leadership roles

including Senior Vice President, Revenue Management and Chief of Staff to the CEO. He currently sits on the board of Virgin Group Loyalty Company.

Oli joined Virgin Atlantic in early 2013 from the Virgin Group where he supported the overall implementation and delivery of the Group's strategic agenda and advised Virgin branded businesses, including the successful growth then IPO of Virgin America, formation of Virgin Atlantic's industry leading joint venture with Delta and the strategic development of Virgin Galactic.

Oliver began his career as an investment banker at UBS, working in UK mergers and acquisitions and raising equity from capital markets.

Oliver lives in London having previously lived in San Francisco and Geneva. Oliver studied Aeronautical Engineering at Durham University and represented the university in both golf and skeleton.



Ash Jokhoo
Senior Vice President, Technology
Appointed February 2019

Previous experience

Ash is responsible for the technology strategy that will make us the most loved travel company.

Ash is driven by beautifully resolved, customer driven tech and has spent the last decade transforming and helping customer centric organisations.

Ash joins us from Centrica - British Gas, where Ash held a number of technology transformation roles, helping the company modernise over the last six years. Prior to this Ash drove digital service transformations in roles across the FTSE at telecommunications companies TalkTalk, Tiscali and British Telecom.

Ash is passionate about building capabilities and teams that drive technology so customers have well designed amazing experiences, making him a perfect fit with the Virgin ethos.

Ash holds a BSc Hons in Engineering Product Design from Southbank University London.

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. It also monitors the adequacy and effectiveness of internal reporting and control systems, agrees the scope of the external and internal audit plans and monitors the actions required as a result of the auditors' findings, agrees the external auditors' remuneration and considers 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 2018 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 the 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 2018 the Committee members were Peter Norris (Chairman), Ian Woods, Ed 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 subcontracted 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 through 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.

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

For 2018 the members appointed by Virgin Atlantic were Craig Kreeger, Shai Weiss and Mark Anderson and the members appointed by Delta were Glen Hauenstein, Steve Sear and 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 2018. The comparative amounts are stated for the year ended 31 December 2017.

Pages one to 62 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

Cornelis Koster

Craig Kreeger (retired on 31 December 2018)

Shai Weiss

Mark Anderson (appointed on 1 January 2019)

Dwight James (appointed as alternate for Edward Bastian, Glen Hauenstein and Cornelis Koster)

Tom Mackay (appointed as alternate for Craig Kreeger and Shai Weiss. Resigned as alternate for Craig Kreeger on 31 December 2018 and appointed on 1 January 2019 as alternate for Mark Anderson)

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 9. Following the completion of *Plan to Win* at the end of 2018 the current scheme is being wound up to be replaced by a new cash settled scheme to recognise the execution of *Velocity*.

Results, business review and future developments

The results of the Group for the period are set out on page 66 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 (2017 paid £nil). The Directors did not declare or pay interim ordinary dividends in respect of the year ended 31 December 2018 (2017: paid £nil).

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

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 Auditor

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

By order of the Board

Ian de Sousa

Company Secretary

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

20 March 2019

Registered number: 08867781

statement of Directors' responsibilities

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 (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;

- for the Parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

Opinion

We have audited the financial statements of Virgin Atlantic Limited ("the Company") for the year ended 31 December 2018 which comprise the Consolidated statement of comprehensive income, Consolidated statement of financial position and Company statement of financial position, Consolidated statement of changes in equity, Company statement of changes in equity, Consolidated statement of cash flows and related notes, including the accounting policies in note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Brexit other matter

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

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

Going concern

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

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

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

Strategic report and Directors' report

The Directors are responsible for the Strategic report, the Directors' report and financial information included in the Annual report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 62, 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

20 March 2019

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	Note	For the year ended 31 December 2018			For the year ended 31 December 2017 Restated*		
		Ordinary activities before exceptional items £m	Exceptional items and fair value movements (Note 8) £m	Total £m	Ordinary activities before exceptional items £m	Exceptional items and fair value movements (Note 8) £m	Total £m
Total revenue	6	2,780.6	-	2,780.6	2,629.3	-	2,629.3
Physical fuel		(697.9)	-	(697.9)	(548.6)	-	(548.6)
Fuel hedging		38.8	(38.8)	-	4.4	(4.4)	-
Airline traffic direct operating costs		(553.3)	-	(553.3)	(524.9)	-	(524.9)
Aircraft costs		(267.0)	-	(267.0)	(276.7)	(7.7)	(284.4)
Tour and other marketing costs		(543.6)	0.4	(543.2)	(516.5)	(6.6)	(523.1)
Employee remuneration	9	(397.3)	-	(397.3)	(378.1)	-	(378.1)
Other operating and overhead costs		(202.3)	5.1	(197.2)	(229.1)	(1.7)	(230.8)
Engineering and maintenance costs		(159.8)	-	(159.8)	(139.5)	-	(139.5)
Other depreciation and amortisation		(55.7)	(0.5)	(56.2)	(54.6)	-	(54.6)
Other income		46.0	-	46.0	1.6	-	1.6
Operating (loss) / profit		(11.5)	(33.8)	(45.3)	(32.7)	(20.4)	(53.1)
Profit on disposal of property, plant and equipment		(1.3)	23.2	21.9	0.8	11.7	12.5
Restructuring		-	(8.1)	(8.1)	-	(6.6)	(6.6)
		(1.3)	15.1	13.8	0.8	5.1	5.9
Finance income		8.6	-	8.6	5.1	-	5.1
Finance expense		(21.9)	-	(21.9)	(22.2)	-	(22.2)
Net finance costs	10	(13.3)	-	(13.3)	(17.1)	-	(17.1)
Fair value (losses) / gains on derivative contracts		-	(15.2)	(15.2)	-	(15.3)	(15.3)
(Loss) / profit before tax	7	(26.1)	(33.9)	(60.0)	(49.0)	(30.6)	(79.6)
Tax credit / (charge)	11			21.6			14.0
(Loss) / profit for the year				(38.4)			(65.6)
Other comprehensive income (items that will not be reclassified to the income statement):							
Exchange translation differences				0.2			0.2
Other comprehensive income (items that may be reclassified subsequently to the income statement):							
(Losses) / gains arising during the year on cash flow hedges				(0.1)			-
Total comprehensive (loss) / income for the year				(38.3)			(65.4)
(Loss) / profits attributable to:							
Owners of the company				(38.4)			
Non-controlling interests	25			0.1			
Total profits				(38.3)			

The profit for the year for the Company is £nil (2017: £0.2m loss).

All amounts relate to continuing operations.

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

The notes on pages 72 to 107 form part of these financial statements.

Consolidated statement of financial position

as at 31 December 2018

	Note	As at 31 December 2018 £m	As at 31 December 2017 Restated* £m	As at 1 January 2017 Restated* £m
Non-current assets				
Intangible assets and goodwill	12	172.7	170.1	164.2
Property, plant and equipment	13	804.8	702.8	672.1
Investments	15	0.0	0.0	0.0
Derivative financial instruments	16	3.2	5.1	8.5
Trade and other receivables	17	25.3	16.9	31.1
		1006.0	894.9	875.9
Current assets				
Inventory	18	33.6	31.3	30.2
Trade and other receivables	17	310.3	272.2	248.8
Derivative financial instruments	16	47.6	30.2	47.0
Cash and cash equivalents	19	391.6	444.8	525.9
Restricted cash	19	97.3	49.1	42.5
		880.4	827.6	894.4
Total assets		1,886.4	1,722.5	1,770.3
Current liabilities				
Borrowings	20	(24.2)	(17.6)	(17.2)
Trade and other payables	21	(512.7)	(474.1)	(431.5)
Deferred revenue on air travel and tour operations	22	(618.5)	(598.3)	(544.9)
Provisions	23	(36.5)	(35.8)	(47.6)
Derivative financial instruments	16	(66.2)	(20.8)	(8.5)
		(1,258.1)	(1,146.6)	(1,049.7)
Net current (liabilities)		(377.7)	(319.0)	(155.3)
Total assets less current liabilities		628.3	575.9	720.6
Non-current liabilities				
Borrowings	20	(532.3)	(453.8)	(462.8)
Deferred tax	14	(0.1)	(21.8)	(36.3)
Trade and other payables	21	(4.7)	(9.4)	(50.0)
Deferred revenue on air travel and tour operations	22	(1.0)	(1.0)	-
Provisions	23	(93.3)	(68.3)	(83.6)
Derivative financial instruments	16	(17.0)	(3.4)	(4.2)
		(648.4)	(557.7)	(636.9)
Net (liabilities) / assets		(20.1)	18.2	83.7
Equity				
Ordinary share capital		100.0	100.0	100.0
Preference share capital		50.0	50.0	50.0
Hedging reserve		(0.1)	-	-
Other reserves		(232.5)	(232.7)	(230.3)
Retained earnings		61.6	100.9	164.0
Equity attributable to owners of the Company		(21.0)	18.2	83.7
Non-controlling interests	25	0.9	-	-
Total equity		(20.1)	18.2	83.7

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

The notes on pages 72 to 107 form part of these financial statements.

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

Shai Weiss

Director

Registered number 08867781

Company statement of financial position

for the year ended 31 December 2018

	Note	As at 31 December 2018 £m	As at 31 December 2017 £m
Non-current assets			
Investments	15	289.4	289.4
		289.4	289.4
Current assets			
Trade and other receivables	17	-	-
		-	-
Total assets		289.4	289.4
Current liabilities			
Trade and other payables	21	(0.8)	(0.8)
		(0.8)	(0.8)
Net current assets / (liabilities)		(0.8)	(0.8)
Net assets / (liabilities)		288.6	288.6
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)	(0.8)
		288.6	288.6

The notes on pages 72 to 107 form part of these financial statements.

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

Shai Weiss

Director
Registered number 08867781

Consolidated statement of changes in equity

as at 31 December 2018

	Ordinary Share Capital £m	Preference Share Capital £m	Share Premium £m	Hedging Reserve £m	Other Reserves £m	Retained Earnings £m	Total £m	Non- controlling interest £m	Total Equity £m
Balance at 1 January 2017	100.0	50.0	(0.0)	-	(230.3)	103.6	23.3	-	23.3
Adjustment on initial application of IFRS 15, net of tax (note 5)						60.4	60.4	-	60.4
Restated balance at 1 January 2017	100.0	50.0	(0.0)	-	(230.3)	164.0	83.7	-	83.7
Loss for the year	-	-	-	-	-	(65.7)	(65.7)	-	(65.7)
Exchange translation differences	-	-	-	-	0.2		0.2	-	0.2
Reclassifications	-	-	-	-	(2.6)	2.6	-	-	-
Balance at 31 December 2017	100.0	50.0	(0.0)	-	(232.7)	100.9	18.2	-	18.2
Balance at 1 January 2018	100.0	50.0	(0.0)	-	(232.7)	100.9	18.2	-	18.2
Adjustment on initial application of IFRS 9, net of tax (note 5)	-	-	-	-	-	(0.9)	(0.9)	-	(0.9)
Adjusted balance at 1 January 2018	100.0	50.0	(0.0)	-	(232.7)	100.0	17.3	-	17.3
Transfer of opening assets (note 25)	-	-	-	-	-	-	-	0.8	0.8
Loss for the year	-	-	-	-	-	(38.4)	(38.4)	0.1	(38.3)
Exchange translation differences	-	-	-	-	0.2	-	0.2	-	0.2
Other comprehensive income / (expense) for the year	-	-	-	(0.1)	-	-	(0.1)	-	(0.1)
Total comprehensive income / (expense) for the year	-	-	-	(0.1)	0.2	(38.4)	(38.3)	0.1	(38.2)
Balance at 31 December 2018	100.0	50.0	(0.0)	(0.1)	(232.5)	61.6	(21.0)	0.9	(20.1)

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 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, an adjustment of the tax liability in Bug Leasing Limited led to the reclassification of £2.6m to the capital contribution reserve.

During the year a new subsidiary, Virgin Group Loyalty Company Limited, was established. A wholly owned subsidiary of Virgin Atlantic Limited owns 93.5% of the share capital, which has resulted in a non-controlling interest in the entity. See note 25 for further information.

The notes on pages 72 to 107 form part of these financial statements.

Company statement of changes in equity

as at 31 December 2018

	Ordinary Share Capital £m	Preference Share Capital £m	Other Reserves £m	Retained Earnings £m	Total £m
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
Balance at 1 January 2018	100.0	50.0	139.4	(0.8)	288.6
Loss for the year	–	–	–	–	–
Balance at 31 December 2018	100.0	50.0	139.4	(0.8)	288.6

Allotted, called up and fully paid share capital includes 100,000,000 (2017: 100,000,000) ordinary shares of £1 each and 50,000 (2017: 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 72 to 107 form part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2018

	Note	For the year ended 31 December 2018 £m	For year ended 31 December 2017* £m
Net cash from operating activities before exceptional items	31	88.6	90.9
Adjustments for exceptional items	31	(5.4)	(10.6)
Net cash from operating activities	31	83.2	80.3
Purchase of property, plant and equipment		(357.6)	(220.3)
Purchase of intangible assets		(24.9)	(19.4)
Proceeds from sale of property, plant and equipment and intangible assets		192.1	104.5
Interest received		8.6	5.1
Net cash used in investing activities		(181.8)	(130.1)
Payment of long term borrowings		(6.1)	(5.8)
Proceeds from issue of new bonds		-	31.4
Payment of finance lease instalments		(16.3)	(12.9)
Proceeds from new finance lease		83.9	-
Net cash from / (used in) financing activities		61.5	12.7
Net decrease in cash and cash equivalents		(37.1)	(37.1)
Cash and cash equivalents at beginning of year (including restricted cash)	19	493.9	568.4
Effect of foreign exchange rate changes		32.1	(37.4)
Cash and cash equivalents at end of year (including restricted cash)	19	488.9	493.9

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

The notes on pages 72 to 107 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 14 to 51.

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 61.

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 2018 the Company has prepared its individual entity accounts under FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

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

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

The Company financial statements have been prepared under the historical cost convention and in accordance with applicable UK Accounting Standards. These financial statements were prepared in accordance with Financial Reporting Standard 101

3 Accounting policies (continued)

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 not 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 with the exception of IFRS 9 and IFRS 15 (see note 5).

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.

The merger reserve is presented within other reserves on the statement of changes in equity.

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 FRS 6.

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.

3 Accounting policies (continued)

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 24).

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 performance obligation is fulfilled, typically the date of transportation.

Tour operations revenue

The Group records revenue on a net basis after deducting customer discounts and value added tax. For revenue relating to travel services arranged by the Group's travel providers, the performance

obligation is the provision of a holiday package; this is treated as a single performance obligation which is delivered over the duration of the holiday. Revenue is taken to the income statement on the date of holiday and flight departure, this is deemed to materially reflect recognition over the duration of the holiday. Where the Group's role in the transaction is that of an Agent, revenue is recognised on a net basis with revenue representing the margin earned. The revenue is recognised on the date of booking.

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

Frequent flyer programme revenue

For miles earned by members of the Group's Frequent Flyer Programme 'Flying Club', an element of revenue representing the value of the miles issued is deferred until the miles are utilised. The amount of the deferral is based on the redemption value method permitted under IFRS 15. The Group's frequent flyer programme 'Flying Club' allows customers to earn mileage credits by flying on Virgin Atlantic (and selected partner airlines) as well as through participating companies such as credit card issuers. Flying Club members can redeem miles for various rewards; primarily, for redemption on Virgin Atlantic flights or selected partner airlines and other partners such as hotels and car rental companies.

In accordance with IFRS 15 Revenue from contracts with customers, the apportioned standalone selling price of the awarded Flying Club mile is deferred as a liability and recognised as revenue at the point the performance obligation has been satisfied by the Group (typically flight date).

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

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 netted against applicable lines in the

3 Accounting policies (continued)

income statement. 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 pounds Sterling, which is the Company's functional currency and the Group's presentation currency. Certain subsidiaries have operations that are primarily influenced by a currency other than Sterling.

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

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

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

All other profits or losses arising on translation are dealt with through the income statement. Any gains or losses arising on the re-translation of foreign currency cash balances held in the short-term to meet future trading obligations are reported 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.

3 Accounting policies (continued)

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. When the UK leaves the EU the Group does not expect this to change.

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.

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.

3 Accounting policies (continued)

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

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

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

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

Advance payments and option payments made in respect of aircraft and engine purchase commitments and options to acquire aircraft where the balance is expected to be funded by lease financing or outright purchase are recorded at cost in current or non-current aircraft deposits.

On acquisition of the related aircraft, these payments are included as part of the cost of aircraft and are depreciated from that date.

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

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

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

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

Fixtures and fittings	20% – 25% on cost
Plant and equipment	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

3 Accounting policies (continued)

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. Claims are recognised as a deduction in income.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument. In accordance with IFRS 9 Financial Instruments, financial instruments are recorded initially at fair value. Subsequent measurement of those instruments at the balance sheet date reflects the designation of the financial instrument. The Group determines the classification at initial recognition and re-evaluates this designation

at each period end except for those financial instruments measured at fair value through the income statement.

Derivative financial instruments and hedging

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

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

Non-derivative financial assets

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

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

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

Cash and cash equivalents

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

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

Restricted cash

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

3 Accounting policies (continued)

Impairment of non-derivative financial assets

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

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

De-recognition of non-derivative financial assets

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

Non-derivative financial liabilities

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

De-recognition of non-derivative financial liabilities

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the costs of those assets, until such time as the assets are substantially ready for

their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Impact of new International Financial Reporting Standards and interpretations not yet adopted

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

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

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

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

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

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

Foreign exchange movements on lease liabilities, which are predominantly denominated in US Dollars, will be measured at each balance sheet date; however the right-of-use asset will be recognised at the historic exchange rate. This will create volatility in the income statement which the Group plans to

3 Accounting policies (continued)

mitigate using cash flow hedge accounting. Gains and losses will be recognised through other comprehensive income, and subsequently reclassified to the income statement when offsetting cash flows are received.

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

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

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

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of £1,438.4m as at 1 January 2019.

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

IFRIC 23 – effective for the year ending 31 December 2019

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

4 Significant judgements, estimates and critical accounting policies

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

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following accounting policies are considered critical accounting policies as they require a significant amount of management judgement and the results are material to the Group's financial statements.

Leased aircraft maintenance provisions (note 23)

For aircraft 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 22)

For the Group's frequent flyer loyalty programme, the revenue attributed to the awarded miles is deferred as a liability and recognised as revenue at the point the performance obligation has been satisfied by the Group. The Group exercises its judgement in determining the assumptions to be adopted in respect of the number of miles not expected to be redeemed through the use of statistical modelling and historical trends (breakage).

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

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

Lease classification

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 Changes in significant accounting policies

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

A. IFRS 15 Revenue from Contracts with Customers.

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

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

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

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

	Impact of adopting IFRS 15 at 1 January 2018 £m
Retained earnings	
Impact of issuance and change fees	2.5
Impact of Frequent Flyer programme mile valuation	(54.5)
Related tax	8.8
Impact at 1 January 2018	(43.2)

B. IFRS 9 Financial Instruments

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

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

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

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

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

5 Changes in significant accounting policies (continued)

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

	1 January 2017 as originally presented £m	IFRS 15 £m	1 January 2017 restated £m	31 December 2017 as originally presented £m	IFRS 15 £m	31 December 2017 restated £m	IFRS 9 £m	1 January 2018 restated £m
Non-current assets								
Intangible assets	164.2	–	164.2	170.1	–	170.1	–	170.1
Property, plant and equipment	672.1	–	672.1	702.8	–	702.8	–	702.8
Investments	0.0	–	0.0	0.0	–	0.0	–	0.0
Derivative financial instruments	8.5	–	8.5	5.1	–	5.1	–	5.1
Trade and other receivables	31.1	–	31.1	16.9	–	16.9	–	16.9
	875.9	–	875.9	894.9	–	894.9	–	894.9
Current assets								
Inventory	30.2	–	30.2	31.3	–	31.3	–	31.3
Trade and other receivables	250.1	(1.3)	248.8	273.5	(1.3)	272.2	(1.0)	271.2
Derivative financial instruments	47.0	–	47.0	30.2	–	30.2	–	30.2
Cash and cash equivalents	525.9	–	525.9	444.8	–	444.8	–	444.8
Restricted cash	42.5	–	42.5	49.1	–	49.1	–	49.1
	895.7	(1.3)	894.4	828.9	(1.3)	827.6	(1.0)	826.6
Total assets	1,771.6	(1.3)	1,770.3	1,723.8	(1.3)	1,722.5	(1.0)	1,721.6
Current liabilities								
Borrowings	(17.2)	–	(17.2)	(17.6)	–	(17.6)	–	(17.6)
Trade and other payables (previously including deferred income)	(1,050.5)	619.0	(431.5)	(1,125.8)	651.7	(474.1)	–	(474.1)
Deferred revenue on air travel and tour operations	–	(544.9)	(544.9)	–	(598.3)	(598.3)	–	(598.3)
Provisions	(47.6)	–	(47.6)	(35.8)	–	(35.8)	–	(35.8)
Derivative financial instruments	(8.5)	–	(8.5)	(20.8)	–	(20.8)	–	(20.8)
	(1,123.8)	74.1	(1,049.7)	(1,200.0)	53.4	(1,146.6)	–	(1,146.6)
Net current assets / (liabilities)	(228.1)	72.8	(155.3)	(371.1)	52.1	(319.0)	(1.0)	(320.0)
Total assets less current liabilities	647.8	72.8	720.6	523.8	52.1	575.9	(1.0)	574.9
Non-current liabilities								
Borrowings	(462.8)	–	(462.8)	(453.8)	–	(453.8)	–	(453.8)
Deferred tax	(23.9)	(12.4)	(36.3)	(12.9)	(8.9)	(21.8)	0.1	(21.7)
Trade and other payables (previously including deferred income)	(50.0)	–	(50.0)	(10.4)	1.0	(9.4)	–	(9.4)
Deferred revenue on air travel and tour operations	–	–	–	–	(1.0)	(1.0)	–	(1.0)
Provisions	(83.6)	–	(83.6)	(68.3)	–	(68.3)	–	(68.3)
Derivative financial instruments	(4.2)	–	(4.2)	(3.4)	–	(3.4)	–	(3.4)
	(624.5)	(12.4)	(636.9)	(548.8)	(8.9)	(557.7)	0.1	(557.6)
Net assets / (liabilities)	23.3	60.4	83.7	(25.0)	43.2	18.2	(0.9)	17.3
Equity								
Ordinary share capital	100.0	–	100.0	100.0	–	100.0	–	100.0
Preference share capital	50.0	–	50.0	50.0	–	50.0	–	50.0
Other reserves	(230.3)	–	(230.3)	(232.7)	–	(232.7)	–	(232.7)
Retained earnings	103.6	60.4	164.0	57.7	43.2	100.9	(0.9)	100.0
	23.3	60.4	83.7	(25.0)	43.2	18.2	(0.9)	17.3

5 Changes in significant accounting policies (continued)

	2017 as originally reported		Total £m	IFRS 15 £m	2017 restated £m
	Ordinary activities before exceptional items £m	Exceptional items and fair value movements (Note 8) £m			
Total revenue	2,663.7	-	2,663.7	(34.4)	2,629.3
Physical fuel	(548.6)	-	(548.6)	-	(548.6)
Fuel hedging	4.4	(4.4)	-	-	-
Airline traffic direct operating costs	(533.7)	-	(533.7)	8.8	(524.9)
Aircraft costs	(276.7)	(7.7)	(284.4)	-	(284.4)
Distribution, marketing and selling costs	(521.5)	(6.6)	(528.1)	5.0	(523.1)
Employee remuneration	(378.1)	-	(378.1)	-	(378.1)
Other operating and overhead costs	(229.1)	(1.7)	(230.8)	-	(230.8)
Engineering and maintenance costs	(139.5)	-	(139.5)	-	(139.5)
Other depreciation and amortisation	(54.6)	-	(54.6)	-	(54.6)
Other income	1.6	-	1.6	-	1.6
Operating (loss) / profit	(12.1)	(20.4)	(32.5)	(20.6)	(53.1)
Profit on disposal of property, plant and equipment	0.8	11.7	12.5	-	12.5
Restructuring	-	(6.6)	(6.6)	-	(6.6)
	0.8	5.1	5.9	-	5.9
Finance income	5.1	-	5.1	-	5.1
Finance expense	(22.2)	-	(22.2)	-	(22.3)
Net finance costs	(17.1)	-	(17.1)	-	(17.1)
Fair value (losses) / gains on derivative contracts	-	(15.3)	(15.3)	-	(15.3)
(Loss) / profit before tax	(28.4)	(30.6)	(59.0)	(20.6)	(79.6)
Tax credit / (charge)			10.5	3.5	14.0
(Loss) / profit for the year			(48.5)	(17.1)	(65.6)
Other comprehensive income (items that will not be reclassified to the income statement):					
Exchange translation differences			0.2	-	0.2
Total comprehensive (loss) / income for the year			(48.3)	(17.1)	(65.4)

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

	Group	
	For year ended 31 December 2018 £m	For year ended 31 December 2017 Restated* £m
Revenue		
Airline traffic and cargo operations	2,292.2	2,151.7
Holiday tour operations	619.7	611.7
Other revenue	10.6	11.2
Intra-group revenue	(141.9)	(145.3)
	2,780.6	2,629.3
Operating (loss) / profit		
Airline traffic and cargo operations	(49.2)	(61.2)
Holiday tour operations	3.7	8.0
Other and intra-group eliminations	0.2	(0.1)
	(45.3)	(53.3)
Net (liabilities) / assets		
Airline traffic and cargo operations	35.8	92.1
Holiday tour operations	71.0	52.8
Other and intra-group eliminations	(126.9)	(126.7)
	(20.1)	18.2

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

	Group	
	For year ended 31 December 2018 £m	For year ended 31 December 2017 Restated* £m
Revenue by source		
United Kingdom	1,845.9	1,818.8
North America and the Caribbean	707.5	629.9
Far East	97.5	90.4
Africa	71.3	65.3
Other	200.3	170.2
Intra-group revenue	(141.9)	(145.3)
	2,780.6	2,629.3
Revenue by destination		
North America	1,939.4	1,810.9
Caribbean	343.8	379.2
Far East	258.7	230.0
Africa	176.3	198.3
Other	204.3	156.2
Intra-group revenue	(141.9)	(145.3)
	2,780.6	2,629.3

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

The Company had no income in the current year (2017: £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.

7 Loss before tax for the year

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

	Group		Company	
	For year ended 31 December 2018 £m	For year ended 31 December 2017 £m	For year ended 31 December 2018 £m	For year ended 31 December 2017 £m
Depreciation of property, plant and equipment (note 12)	(84.4)	(83.4)	-	-
Amortisation of intangible assets (note 11)	(22.9)	(21.8)	-	-
Rentals under operating leases:				
Aircraft and related equipment	(212.2)	(225.3)	-	-
Plant and machinery	(11.3)	(12.8)	-	-
Land, buildings and retail space	(29.5)	(29.0)	-	-
Contribution to pension schemes	(31.2)	(28.4)	-	-
Remuneration of the auditors and their associates:				
Audit services	(0.5)	(0.5)	(0.1)	(0.1)
Other services	(0.5)	(0.9)	-	-

Fees payable to the Company's auditor and its associates for audit services are £100,000 (2017: £97,000). 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	
	For year ended 31 December 2018 £m	For year ended 31 December 2017 £m
Fees payable for:		
Tax compliance	(0.1)	(0.1)
Tax advice	(0.1)	(0.1)
Other non-audit services	(0.1)	(0.1)
Other assurance services	(0.1)	(0.2)
Customer analysis	(0.1)	(0.4)
Total fees for other services	(0.5)	(0.9)

8 Exceptional items

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

	Group	
	For year ended 31 December 2018 £m	For year ended 31 December 2017 Restated* £m
Aircraft costs	-	(7.7)
Accelerated depreciation on aircraft equipment (i)	-	(3.1)
Onerous lease (ii)	-	(4.6)
Accelerated depreciation on retail stores (iii)	(0.5)	-
Fuel hedging reclassified to fair value (gains) / losses on derivatives (iv)	(38.8)	(4.4)
Forex derivative (gains) / losses reclassified to fair value (gains) / losses on derivatives (iv)	5.5	(8.3)
Reclassified from other operating income / expense	5.1	(1.7)
Reclassified from distribution, marketing and selling costs	0.4	(6.6)
Profit on disposal of aircraft equipment (v)	23.2	11.7
Restructuring costs (vi)	(8.1)	(6.6)
Fair value (losses) / gains on derivatives (iv)	(15.2)	(15.3)
	(33.9)	(30.6)
The fair value (losses) / gains on derivatives can be analysed as follows:		
(Loss) / gain on fair value movements	(48.5)	(28.0)
(Loss) / gain on fuel derivatives settled during the year (reclassified – see above)	38.8	4.4
Gain on forex derivatives settled during the year (reclassified – see above)	(5.5)	8.3
	(15.2)	(15.3)

The Group separately presents certain items as exceptional. These are items which in the judgment of the Directors, need to be disclosed separately by virtue of their size or incidence in order for the reader to obtain a proper understanding of the financial information. In addition, in order to assist the reader to understand the underlying business performance, the Group separately discloses within the income statement specific IFRS 9 mark to market movements:

- i. During the prior year the Group incurred accelerated depreciation £3.1m on its A330-300 fleet. The acceleration related to cabin components scheduled to exit the fleet earlier than anticipated and replaced with a new cabin interior.
- ii. Onerous lease costs of £4.6m were recognised in the prior year relating to aircraft rentals incurred for one aircraft which was surplus to requirements for a portion of the year.
- iii. During the year the Group incurred accelerated depreciation of £0.5m (2017: nil) on Virgin Holidays retail stores. The acceleration relates to a change in strategy on concessions and the closure of a number of stores.
- iv. Fuel costs include gains of £38.8m (2017: gains of £4.4m) recognised on maturity of fuel derivative contracts. Other income includes losses of £5.1m (2017: gains of £1.7m) relating to movements on maturity of foreign currency derivative contracts. Fair value movements in relation to the Group's fuel and foreign currency derivatives are reclassified as an exceptional item through fair value gains/(losses) on derivative contracts, to ensure that the operating costs of the Group can be reflected at an unhedged rate as the Group does not apply hedge accounting. The Group discloses specific IFRS 9 mark-to-market movements separately within the statement of comprehensive income as an exceptional item.
- v. The Group purchased and subsequently entered into a sale and operating leaseback of two Boeing 787 aircraft. Profits on sale and leaseback amounted to £23.2m (2017: profits of £11.7m on one sale and operating leaseback transaction). The profits arising from the sale and operating leaseback of the aircraft have been reclassified and are shown net of any supplier compensation received. See note 13 for further details.
- vi. Restructuring costs of £8.1m have been recognised in the year and include costs of enhancing the Group's customer loyalty offering £4.7m (2017: nil). Further restructuring costs of £2.7m (2017: £6.6m) were recognised relating to the Group's change programme – fit.nimble. The programme completed during the year.

9 Employee remuneration

(i) Head count and total remuneration

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

	Group	
	2018 Number	2017 Number
Management and administration	1,257	1,294
Flight crew	917	812
Cabin crew	3,343	3,130
Reservations and sales	2,057	2,104
Engineering, cargo and production	997	963
	8,571	8,303

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

	Group	
	2018 £m	2017 £m
Wages and salaries	340.6	324.8
Social security costs	35.7	34.4
Other pension costs	31.5	28.7
	407.8	387.9

Included within Tour and other marketing costs within the Statement of Comprehensive Income are employee costs amounting to £10.4m (2017: £9.9m) which relate to retail staff costs. These are in addition to the above 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 £4.1m at 31 December 2018 (2017: £3.7m).

The Company has no salaried employees (2017: nil).

(ii) Aggregate Directors' remuneration

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

	Group	
	For year ended 31 December 2018 £m	For year ended 31 December 2017 £m
Total emoluments		
Aggregate emoluments	2.3	2.3
Company contributions to money purchase pension schemes	0.1	0.2
	2.4	2.5
Highest paid Director		
Aggregate emoluments and other benefits	1.1	1.1
Company contributions to money purchase pension schemes	0.1	0.1
	1.2	1.2

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

During the year an amount of £0.2m (2017: £0.2m) was paid to shareholders in respect of the services of certain shareholder-appointed Non-Executive Directors of the Company.

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

(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 2018 (2017: £nil).

10 Net finance costs

	Group	
	For year ended 31 December 2018 £m	For year ended 31 December 2017 £m
Finance income		
Bank deposits	8.1	4.6
Unlisted investments (note 15)	0.5	0.5
	8.6	5.1
Finance expense		
Finance leases and hire purchase contracts (note 20)	(15.4)	(13.8)
Unwinding of discount on provisions (note 23)	0.1	(0.3)
Other loans (note 20)	(11.4)	(10.3)
	(26.7)	(24.4)
Interest capitalised on aircraft progress payments (note 13)	4.8	2.2
	(21.9)	(22.2)
Net finance costs	(13.3)	(17.1)

11 Tax

Analysis of the tax expense during the period:

	Group	
	For year ended 31 December 2018 £m	For year ended 31 December 2017 £m
Current tax		
Adjustments in respect of prior periods	0.1	(0.3)
Non-UK current tax	-	(0.2)
Total current tax charge	0.1	(0.5)
Deferred tax		
Origination and reversal of timing differences	22.7	12.5
Adjustments in respect of prior periods	(1.2)	2.0
Total deferred tax credit	21.5	14.5
Tax credit	21.6	14.0

The standard rate of UK corporation tax for the period is 19.00% (2017: 19.25%). The total tax credit of 19.10% for the period is lower than the standard rate of corporation tax. This is driven by UK Government reliefs and other permanent differences.

Financial statements *continued*

11 Tax (continued)

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 2018 £m	For year ended 31 December 2017 £m
(Loss) / Profit before taxation	(60.0)	(79.7)
Tax at the standard rate at 19% (2017: 19.25%)	11.4	15.3
Factors affecting the (charge) for the year:		
Income not taxable	0.4	5.0
Expenses not deductible for tax purposes	(1.0)	(8.8)
Effect of reduction in deferred tax rate	(1.2)	(1.2)
Fixed asset differences	(0.1)	(0.3)
Adjustments in respect of prior periods	(1.2)	1.7
UK Government reliefs	4.0	5.0
Permanent differences	(0.1)	(0.2)
Holdover relief	-	(2.5)
Recognition of previously unrecognised deferred tax	9.4	-
Total current tax credit / (charge)	21.6	14.0

A reduction in the UK corporation tax rate to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. The deferred tax liability at 31 December 2018 has been calculated based on this rate. This will reduce the Group's future current tax charge accordingly

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

12 Intangible assets and goodwill

	Group				
	Goodwill £m	Landing Rights £m	Other intangibles £m	Assets under construction £m	Total £m
Cost					
At 1 January 2018	8.7	91.1	208.5	9.3	317.6
Additions	-	-	2.0	24.5	26.5
Disposals	-	-	(0.1)	-	(0.1)
Transfers from property, plant and equipment	-	-	-	-	-
Reclassifications	-	-	15.1	(15.1)	-
At 31 December 2018	8.7	91.1	225.5	18.7	344.0
Amortisation					
At 1 January 2018	3.7	10.6	133.2	-	147.5
Additions	-	-	1.3	-	1.3
Amortisation	-	-	22.6	-	22.6
Disposals	-	-	(0.1)	-	(0.1)
At 31 December 2018	3.7	10.6	157.0	-	171.3
Carrying amount					
At 31 December 2018	5.0	80.5	68.5	18.7	172.7
Carrying amount					
At 31 December 2017	5.0	80.5	75.3	9.3	170.1

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

12 Intangible assets and goodwill (continued)

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 2018 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 (2017: £nil).

13 Property, plant and equipment

	Group			
	Aircraft, rotatable spares and ancillary equipment £m	Other £m	Assets under construction £m	Total £m
Cost				
At 1 January 2018	999.1	196.9	39.5	1,235.5
Additions	328.7	0.1	27.8	356.6
Disposals	(190.2)	(7.3)	-	(197.5)
Reclassifications	17.0	6.3	(23.3)	-
At 31 December 2018	1,154.6	196.0	44.0	1,394.6
Accumulated depreciation				
At 1 January 2017	410.8	121.9	-	532.7
Depreciation for the year	70.0	14.4	-	84.4
Disposals	(20.7)	(6.6)	-	(27.3)
At 31 December 2018	460.1	129.7	-	589.8
Carrying amount				
At 31 December 2018	694.5	66.3	44.0	804.8
Carrying amount				
At 31 December 2017	588.3	75.0	39.5	702.8

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

	Group	
	For year ended 31 December 2018 £m	For year ended 31 December 2017 £m
Carrying amount		
Aircraft, rotatable spares and ancillary equipment	233.3	171.6
Depreciation charged for the year		
Aircraft, rotatable spares and ancillary equipment	16.8	11.9

Freehold land with a cost of £4.4m (2017: £4.4m) has not been depreciated. Included in aircraft, rotatable spares and ancillary equipment are progress payments of £143.1m (2017: £122.1m). These amounts are not depreciated. Interest capitalised by the Group on aircraft progress payments included in additions during the year amounted to £4.8m (2017: £2.2m).

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

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

The Company did not have any property, plant and equipment (2017: £nil).

14 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% (2017: 17%):

	Group	
	For year ended 31 December 2018 £m	For year ended 31 December 2017* £m
Accelerated capital allowances	12.5	0.6
Other timing differences	4.8	(1.1)
UK tax losses	3.2	(4.4)
Holdover relief	(20.6)	(16.9)
	(0.1)	(21.8)

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 2017 Restated*	(36.3)
Charged to statement of comprehensive income	14.5
Balance at 1 January 2018	(21.8)
Adjustment on initial application of IFRS 9, net of tax	0.1
Adjusted balance at 1 January 2018 Restated*	(21.7)
Charged to statement of comprehensive income	21.6
Balance as at 31 December 2018	(0.1)

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

The Company did not have any deferred tax (2017: £nil).

15 Investments

	Group		Company	
	For year ended 31 December 2018 £m	For year ended 31 December 2017 £m	For year ended 31 December 2018 £m	For year ended 31 December 2017 £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's investment in Airline Group Limited which consists of equity held at cost of £1,575 (2017: £1,575).

For further information on the subsidiaries of the Group, see note 24.

Investments in subsidiaries are carried at cost.

16 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	
	For year ended 31 December 2018 £m	For year ended 31 December 2017 £m
Non-current assets		
Foreign currency	2.5	0.1
Fuel	0.7	5.0
	3.2	5.1
Current assets		
Foreign currency	44.7	6.8
Fuel	2.9	23.4
	47.6	30.2
Current liabilities		
Foreign currency	(13.0)	(19.3)
Fuel	(53.2)	(1.5)
	(66.2)	(20.8)
Non-current liabilities		
Foreign currency	(0.7)	(1.1)
Fuel	(16.3)	(2.3)
	(17.0)	(3.4)
	(32.4)	11.1
	Group	
	2018 Quantity (million)	2017 Quantity (million)
Nominal amounts		
Foreign currency (USD)	1,000.1	539.8
Foreign currency (Other, represented in GBP)	9.9	11.0
Fuel (Barrels)	7.0	4.9

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.

16 Derivative financial instruments (continued)

	Group		
	Gross amount £m	Amount not set off £m	Net amount £m
For the year ended 31 December 2018:			
Derivative financial instruments			
Assets	50.8	(42.1)	8.7
Liabilities	(83.2)	42.1	(41.1)
	(32.4)	-	(32.4)

	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

The Company did not hold any derivative financial instruments (2017: £nil).

17 Trade and other receivables

	Group		Company	
	For year ended 31 December 2018 £m	For year ended 31 December 2017* £m	For year ended 31 December 2018 £m	For year ended 31 December 2017 £m
Non-current				
Other receivables	25.3	16.9	-	-
	25.3	16.9	-	-
Current				
Trade receivables	169.2	148.9	-	-
Provision for doubtful receivables	(3.0)	(0.8)	-	-
Net trade receivables	166.2	148.1	-	-
Other receivables	93.0	72.1	-	-
Prepayments and accrued income	51.1	52.0	-	-
	310.3	272.2	-	-

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

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

17 Trade and other receivables (continued)

	2018 £m	2017 £m
Ageing of past due but not impaired receivables		
1-30 days	22.2	14.6
31-60 days	3.1	0.8
61-90 days	0.6	0.2
91-120 days	0.1	0.0
120+ days	0.4	0.7
Total	26.4	16.3

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.

18 Inventories

	Group	
	For year ended 31 December 2018 £m	For year ended 31 December 2017 £m
Aircraft consumable spares	29.5	26.3
Inflight stock	3.8	4.8
Fuel	0.3	0.2
	33.6	31.3

The Company did not have any inventories (2017: £nil).

19 Cash, cash equivalents and restricted cash

	Group	
	For year ended 31 December 2018 £m	For year ended 31 December 2017 £m
Cash at bank and in hand	391.6	445.0
Bank overdrafts	-	(0.2)
Cash and cash equivalents	391.6	444.8
Restricted cash	97.3	49.1
	488.9	493.9

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 Group's collateralised borrowings and cash collateral relating to a trade finance and merchant banking facilities.

The Company did not have any cash and cash equivalents (2017: £nil).

20 Borrowings

	Group	
	For year ended 31 December 2018 £m	For year ended 31 December 2017 £m
Non-current		
Obligations under finance leases (i)	(307.1)	(222.8)
Senior Bonds – A1 (ii)	(172.0)	(175.5)
Senior Bonds – A2 (ii)	(23.6)	(25.1)
Senior Bonds – A3 (ii)	(29.6)	(30.4)
	(532.3)	(453.8)
Current		
Obligations under finance leases (i)	(18.4)	(12.1)
Senior Bonds – A1 (ii)	(3.5)	(3.3)
Senior Bonds – A2 (ii)	(1.5)	(1.4)
Senior Bonds – A3 (ii)	(0.8)	(0.8)
	(24.2)	(17.6)

- i. See note 28 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 A1 bonds and £30m of Class A2 bonds). The terms are such that repayment of the principal will occur in part over the life of the bonds such that £112m (£100m Class A1 bonds and £12m of Class A2 bonds) is only payable on the maturity of the bonds after 15 years. In January 2017, the Group issued an additional £32m of Senior Bonds to investors (Class A3). The maturation date of the bonds matches that of the A1 and A2 bonds, with repayment of the principal occurring in part over the life of the bonds and £16m payable after 14 years.

The value of the bonds is stated after transaction costs.

	Group		
	Sterling £m	US dollars £m	Total £m
Analysis of borrowings by currency as at 31 December 2018:			
Obligations under finance leases and hire purchase agreements (i)	-	(325.5)	(325.5)
Senior Bonds – A1 (ii)	(175.5)	-	(175.5)
Senior Bonds – A2 (ii)	(25.1)	-	(25.1)
Senior Bonds – A3 (ii)	(30.4)	-	(30.4)
	(231.0)	(325.5)	(556.5)

Analysis of borrowings by currency as at 31 December 2017:

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

The maturity profile of borrowings is disclosed in note 30.

The Company did not have any borrowings (2017: £nil).

21 Trade and other payables

	Group		Company	
	For year ended 31 December 2018 £m	For year ended 31 December 2017* £m	For year ended 31 December 2018 £m	For year ended 31 December 2017* £m
Non-current				
Other revenue received in advance	(4.7)	(9.4)	-	-
	(4.7)	(9.4)	-	-
Current				
Trade payables	(78.3)	(64.0)	-	-
Other revenue received in advance	(21.7)	(44.3)	-	-
Flight and airport charges	(114.3)	(99.1)	-	-
Amounts owed to other Group companies	(4.9)	(4.3)	(0.8)	(0.8)
Other taxes and social security	(13.7)	(12.3)	-	-
Other payables	(9.2)	(2.9)	-	-
Accruals	(270.6)	(247.2)	-	-
	(512.7)	(474.1)	(0.8)	(0.8)

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

Included within current and other payables is an amount of £5.2m (2017: £nil) relating to margin calls on fuel and foreign currency derivative positions.

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

22 Deferred revenue on air travel and tour operations

	Group	
	For year ended 31 December 2018 £m	For year ended 31 December 2017 £m*
Non-current	(1.0)	(1.0)
Current	(618.5)	(598.3)
Total deferred revenue on air travel and tour operations	(619.5)	(599.3)

	Forward sales of passenger carriage and holidays	Customer Loyalty Programme	Total
Balance at 1 January 2018	(505.6)	(93.7)	(599.3)
Revenue recognised in income statement	2,727.0	38.8	2,765.8
Loyalty points issued to customers	-	(40.8)	(40.8)
Cash received from customers	(2,745.2)	-	(2,745.2)
Balance at 31 December 2018	(523.8)	(95.7)	(619.5)

	Forward sales of passenger carriage and holidays	Customer Loyalty Programme	Total
Restated balance at 1 January 2017	(473.1)	(72.8)	(545.9)
Revenue recognised in income statement	2,510.5	53.2	2,563.7
Loyalty points issued to customers	-	(74.1)	(74.1)
Cash received from customers	(2,543.0)	-	(2,543.0)
Balance at 31 December 2017	(505.6)	(93.7)	(599.3)

Deferred revenue relating to customer loyalty programmes consists primarily of revenue allocated to performance obligations associated with Flying Club points. Flying Club points are issued by the Group's airlines through their loyalty programmes. Active customer accounts do not have an expiry date and revenue may therefore be recognised at any time in the future.

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

Deferred revenue in respect of forward sales of holidays consists of revenue allocated to tour operations. These tickets can typically be purchased eighteen months from the date of travel.

The Company did not have any deferred income (2017: £nil).

23 Provisions

	Group	
	2018 £m	2017 £m
Non-current		
Maintenance	(85.4)	(61.4)
Onerous leases	(0.9)	-
Leasehold dilapidations	(7.0)	(6.9)
	(93.3)	(68.3)
Current		
Maintenance	(17.6)	(19.1)
Onerous leases	(0.6)	(1.8)
Leasehold dilapidations	-	(1.1)
Legal claims	(16.4)	(12.2)
Restructuring costs	(1.9)	(1.6)
	(36.5)	(35.8)

	Group					
	Maintenance £m	Onerous leases £m	Leasehold dilapidations £m	Legal claims £m	Restructuring costs £m	Total £m
As at 1 January 2018	(80.5)	(1.8)	(8.0)	(12.2)	(1.6)	(104.1)
Amounts (provided) / released in the year	(27.1)	-	0.8	(39.1)	(2.3)	(67.7)
Amounts utilised in the year	10.2	0.3	0.1	10.6	2.1	23.2
Other movements	(5.7)	-	-	24.3	-	18.6
Unwinding of discount	-	-	0.1	-	-	0.1
At 31 December 2018	(103.1)	(1.5)	(7.0)	(16.4)	(1.8)	(129.8)

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

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.

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 (2017: £nil).

24 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 2018 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
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
Virgin Group Loyalty Company Limited	England and Wales	93.5	Trading
Junopart Limited	England and Wales	100	In liquidation
Virglease Limited	England and Wales	100	In liquidation
Virgair Limited	England and Wales	100	In liquidation
Worldwide Travel of East Anglia Limited	England and Wales	100	In liquidation

Significant holdings

Air Nigeria Development Limited (formerly Virgin Nigeria Airways Limited)	Nigeria	49	Airline operations
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Subsidiary Registered Office Addresses

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

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.

25 Non-controlling interest

In November 2018 a new subsidiary, Virgin Group Loyalty Company Limited was established. The Group's loyalty offering, Flying Club, was transferred to the new company and the trade and assets of Virgin Red Limited, a wholly owned subsidiary of Virgin Group Holdings Limited, the Group's ultimate Parent Company was acquired in exchange for 67,626 shares of the total 1,035,626 share capital in Virgin Group Loyalty Company Limited. The following table summarises the assets acquired:

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

No liabilities were acquired on acquisition.

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

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

The following table summarises the information relating to the Group's subsidiary, Virgin Group Loyalty Company which has a non-controlling interest (NCI) before any intra-group eliminations.

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

26 Related party transactions

The Group had transactions in the ordinary course of business during the year ended 31 December 2018 and 31 December 2017 with related parties.

	Group		Company	
	For year ended 31 December 2018 £m	For year ended 31 December 2017 £m	For year ended 31 December 2018 £m	For year ended 31 December 2017 £m
Parent				
Purchases from parent	(0.1)	(0.1)	(0.1)	(0.1)
Related parties under common control				
Sales to related parties	10.6	1.4	-	-
Purchases from related parties	(19.8)	(19.7)	-	-
Amounts owed by related parties	-	0.1	-	-
Amounts owed to related parties	(5.1)	(4.6)	-	-
Subsidiaries				
Amounts owed to subsidiaries	-	-	(0.8)	(0.8)

26 Related party transactions (continued)

The Group has trademark licences for the use of the Virgin name and logo from VAL TM Limited. The licences 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 licences 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, co-ordinated pricing and revenue management, network planning and scheduling and other co-ordinated activities with respect to the parties' operations on joint arrangement routes.

On 31 December 2018 the Group owed Delta Air Lines Inc. £8.0m (2017: £38.4m) with respect to the joint operation agreement. Costs incurred in relation to the joint arrangement are presented within other operating and overhead costs. Total sales to Delta Air Lines Inc. during the year amounted to £6.4m (2017: £7.2m); total purchases were £72.2m (2017: £94.5m). Outstanding receivable balances amounted to £0.4m (2017: £1.2m) and outstanding payables (excluding amounts owed under the joint arrangement) were £2.8m (2017: £0.6m).

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

27 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.

28 Commitments

(i) Commitments under finance leases

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

	Group	
	2018 £m	2017 £m
Future minimum lease payments		
Not later than one year	18.5	12.6
Later than one year and not later than five years	83.9	57.7
Later than five years	223.1	199.7
	325.5	270.0

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

(ii) Commitments under operating leases

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

	Group			
	2018		2017	
	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	23.9	207.6	24.2	230.9
Later than one year and not later than five years	43.8	709.3	60.1	608.8
Later than five years	55.0	597.4	69.1	575.8
	122.7	1,514.2	153.4	1,415.5

28 Commitments (continued)

(iii) Capital commitments

	Group	
	2018 £m	2017 £m
Capital commitments at the balance sheet date for which no provision has been made:	2,568.2	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.

29 Financial instruments

(i) Financial instruments by category

	Group	
	2018 £m	2017 £m
Financial assets		
Cash and bank balances	391.6	444.8
Restricted cash	97.3	49.1
Fair value through profit and loss:		
Derivative financial instruments	50.8	35.3
Loans and receivables at amortised cost:		
Investments	-	0.0
Trade and other receivables (excl. prepayments and accrued income)	284.5	237.4
	824.2	766.6
Financial liabilities		
Fair value through profit and loss:		
Derivative financial instruments	(83.2)	(24.2)
Financial liabilities at amortised cost:		
Borrowings	(556.5)	(471.4)
Trade and other payables (excl. deferred income)	(486.3)	(429.7)
	(1,126.0)	(925.3)

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

The Company holds £0.8m (2017: £0.8m) of financial instruments that consist of amounts owed to Group companies. These are carried at amortised cost.

(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.

30 Financial risk management

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

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

(i) Fuel price risk

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

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

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

(ii) Foreign currency risk

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

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

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

The Group has designated certain US dollar Aircraft Lease payments to hedge exposure in highly probable forecast US dollar revenue. These are designated as cash flow hedges, and the hedge ratio applied is 1:1. The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the Aircraft Lease designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method. In these hedge relationships, the main sources of ineffectiveness are:

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

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

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

	Group	
	2018 £m	2017 £m
Strengthening in the USD to GBP currency exchange rate by a fixed percentage	10%	10%
Decrease in profit before tax	(62.0)	(35.4)
Weakening in currency exchange rate by a fixed percentage	(10%)	(10%)
Increase in profit before tax	87.2	42.9

30 Financial risk management (continued)

(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 ie. after taking into consideration the natural hedge available due to cash invested in the short term at floating interest rates.

Aircraft leases are a mix of fixed and floating rates. Of the 38 leases in place at 31 December 2018 (2017: 37), 66% were based on fixed interest rates and 34% were based on floating interest rates (2017: 62% fixed, 38% floating).

(iv) Credit risk

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

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

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

Disclosure relating to the credit quality of trade and other receivables is given in note 29.

As at 31 December 2018 the Group held £5.2m (2017: £nil) of collateral to mitigate this exposure (see note 21).

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

(v) Liquidity risk

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

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

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

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

Group	2018			
	Within 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
Trade and other payables (excl. deferred income)	(491.0)	-	-	-
Derivative financial instruments	(66.2)	(17.0)	-	-
Borrowings:				
Obligations under finance leases & hire purchase agreements	(18.4)	(19.4)	(64.5)	(223.2)
Senior Bonds – A1	(3.5)	(3.7)	(20.6)	(147.7)
Senior Bonds – A2	(1.5)	(1.5)	(4.1)	(17.8)
Senior Bonds – A3	(0.8)	(0.8)	(3.6)	(25.2)
	(581.4)	(42.4)	(92.8)	(413.9)
Group	2017			
	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 – A1	(3.3)	(3.5)	(17.0)	(155.0)
Senior Bonds – A2	(1.4)	(1.5)	(4.3)	(19.4)
Senior Bonds – A3	(0.8)	(0.8)	(3.2)	(26.4)
	(468.1)	(22.0)	(67.1)	(368.0)

30 Financial risk management (continued)**(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 ie. 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.

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

	Group	
	2018 £m	2017 Restated* £m
(Loss) / profit for the year	(38.4)	(65.6)
Adjustments for:		
Depreciation	84.5	83.4
Amortisation	22.9	21.8
(Gain) / loss on unrealised forex	1.0	(2.4)
Profit on disposal of property, plant and equipment and intangible assets	(21.9)	(12.5)
Taxation	(21.6)	(14.0)
Movement in provision for bad debts	2.2	(5.0)
Unrealised fair value movement in derivatives	48.7	31.6
Net finance costs	13.3	17.1
Other exceptional items (i)	2.7	0.6
Working capital changes		
Inventory	(2.3)	(1.1)
Trade and other receivables	(43.7)	(9.2)
Trade and other payables	16.8	17.8
Deferred revenue on air travel and tour operations	57.2	54.5
Provisions	(13.5)	(13.5)
Interest paid	(25.4)	(22.5)
Income taxes (paid) / recovered	0.7	(0.7)
Net cash from operating activities	83.2	80.3
Adjustments for other exceptional items	5.4	10.6
Net cash from operating activities before exceptional items	88.6	90.9

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

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

Group	2018		
	Cash £m	Non cash £m	Total £m
Restructuring costs	(5.4)	(2.7)	(8.1)
	(5.4)	(2.7)	(8.1)
Group	2017		
	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)

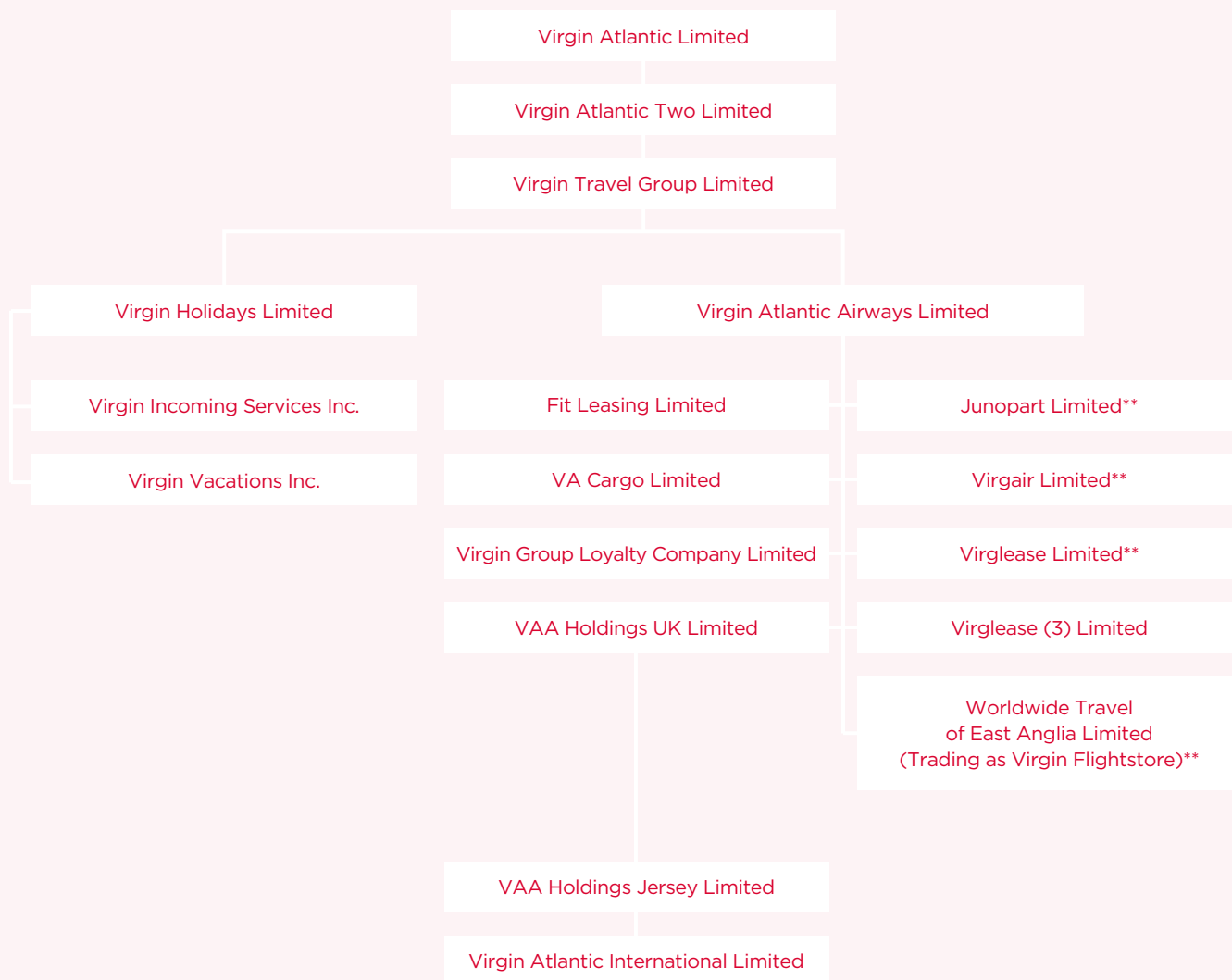
32 Subsequent events

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. In February 2019 Virgin Atlantic Limited received European Union merger control approval for Air France-KLM S.A. to obtain its equity interest in Virgin Atlantic Limited from the European Union commission. The transaction is expected to complete during 2019.

In January 2019, a wholly owned subsidiary of Virgin Atlantic Limited, Virgin Travel Group Limited, along with partners Stobart Aviation and Cyrus Capital established a separate entity named Connect Airways Limited, each of which has ownership of 30%, 30% and 40% respectively.

In February 2019 Connect Airways acquired Flybe Limited (Flybe's main trading company, including Flybe Aviation Services Limited) and Flybe.com Limited for consideration of £2.8m. As a part of the deal, the shareholders of Connect Airways ("the Consortium") have committed to providing funding to Flybe Limited of up to £135m, of which the Virgin Atlantic Group has committed up to £41m. The committed funding from the Consortium to Flybe is secured on certain fleet assets of Flybe Limited. The deal is subject to regulatory approval, and therefore the Consortium will only obtain joint control of Flybe Limited after such approval has been granted; this is the point at which the Group will be able to be able to exercise joint control of the entity's financial and operating policies and begin to consolidate its relevant share of earnings of Flybe Limited under the equity method.

Corporate structure



Notes:

All companies are wholly owned by Virgin Atlantic Limited unless otherwise indicated.

** Companies in liquidation.

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.

Glossary *continued*

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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