

Virgin Atlantic Limited
and subsidiary companies
Annual report and
consolidated financial
statements

For the year ended 31 December 2019
Registered number 08867781



Contents

Strategic report	04
Chairman's statement	06
CEO Review of 2019	10
Chief Financial Officer's review	14
Our Key Performance Indicators	18
Risk Management	20
Creating Value for our Stakeholders	34
Sustainability	36
Corporate Governance	37
Directors' Report	41
Directors' responsibilities statement	44
Corporate Structure	46
Independent Auditor's report	47
Financial statements	50
Consolidated statement of comprehensive income	50
Consolidated statement of financial position	51
Consolidated statement of changes in equity	53
Consolidated statement of cash flows	55
Notes	56

Strategic report

Virgin Atlantic has a vision to be recognised as the most loved travel company which is embedded in our unique culture and embraced by our passionate workforce.

Our long term ambitions are to grow into being the UK's second flag carrier, managing this growth responsibly as a sustainability leader in the industry.

Virgin Atlantic Limited comprises three principal lines of business: Virgin Atlantic Airlines, Virgin Atlantic Cargo and Virgin Holidays.

Virgin Atlantic Airlines uses a mixed fleet of Airbus and Boeing aircraft to carry passengers to destinations across North America, the Caribbean, Africa, the Middle East and Asia from its main bases in London and Manchester, with award winning clubhouses at 10 airports. Founded by Sir Richard Branson 36 years ago with innovation and customer service at its core, in 2019 it was voted Britain's only Global Five Star Airline by APEX for the third year running. From 2020 as part of the joint venture with Delta Airlines, Air France and KLM, it represents c.25% of transatlantic capacity.

Virgin Atlantic Cargo trades and retails the bellyhold capacity of Virgin Atlantic's 45-strong cargo-friendly fleet, connecting manufacturers, growers, retailers and consumers across the globe. It delivers to over 100 countries and offers daily services to Hong Kong, China, Australia, Africa and the Caribbean. Cargo has the ability to transport specialist and time-critical cargo ranging from the most temperature-sensitive pharmaceuticals and fresh produce to a beloved family pet. Cargo operates out of a new state-of-the-art facility at London Heathrow, opened in September 2019, as well as through a network of facilities and partners worldwide.

Virgin Holidays offers predominantly package holidays to some 46 destinations for customers principally in the UK. It has significant market position in holidays to major US destinations including Florida and to the Eastern Caribbean. The business offers holidays through online, call centres and retail stores

across the UK. Many offer unique customer experiences including virtual reality tours of holiday destinations and aircraft seats instore, helping the excitement build from the moment of booking. It also has dedicated airport leisure lounges and a dedicated departure beach in Barbados. Over 90% of Virgin Atlantic Holiday customers also fly on Virgin Atlantic planes.

For the year ended 31 December 2019, the Group returned a loss of £29.5m (2018 restated: loss of £9.0m) before tax and exceptional items. 2019 was the year in which we put in place the foundation building blocks of our three-year plan which will both return us to profitability and set us on the flight path to being recognised as Britain's 2nd flag carrier. Alongside the rest of the industry we have hit the significant headwinds of the Covid-19 pandemic however we believe our relentless focus on delivering long term benefits for our customers, people and the planet through sustainable growth will ultimately enable us to succeed in our aim to be Britain's most loved travel company.

Our response to Covid-19 and our recapitalisation plan is explained in more detail in the Chief Executive Officer's statement.

Result highlights

- Loss before tax and exceptional items is up by £20.5m to £29.5m (statutory loss before tax of £63.7m (2018 restated: loss before tax of £117.7m);
- Airline passenger unit revenue up 5% (at constant currency) with passengers up 6% to 5.9m;
- Load factor up 2.4pts to 81% and PRASK (passenger revenue per Available Seat Kilometre (ASK)) up 4.3%;
- Launched two new destinations in 2019 – Tel Aviv and Mumbai; and
- Our first four A350-1000s joined the fleet in 2019. We have one of the youngest fleets in the sky (average age of 9.2 years) and have reduced our CO2 emissions by over 20% since 2007.



Chairman's statement

I write at a time of extreme crisis caused by Covid-19. The impact on lives and livelihoods around the world has been devastating. The scale of the damage to the global travel and aviation industry is without precedent in peacetime. From February, demand for passenger services effectively ceased. Virgin Atlantic ceased all passenger operations on 21st April and resumed on only three routes on 20th July. The financial damage to our company has been extreme. Great uncertainty remains about when and at what pace passenger services will begin to recover and whether there will be significant long-term changes to international travel patterns. This makes forecasting a most uncertain exercise at this time.

We have taken decisive action to reduce costs, preserve cash and to save as many jobs as possible. On 5 May, we announced plans to reshape and resize Virgin Atlantic to ensure survival and to emerge from the crisis as a sustainably profitable company. On 14 July, we launched a solvent Restructuring Plan based on a new five-year Covid-response strategy. The restructuring is subject to the sanction of the Court, under the provisions of the recent Corporate Insolvency and Governance Act 2020. Our Restructuring Plan draws only on private sector capital and has the committed support of the Company's shareholders, Virgin Group and Delta Air Lines, new private investors and our largest existing creditors. The Court process is expected to conclude successfully in the first week of September.

Our ambition in 2019

Velocity

It has been said that the past is a foreign country, and never has this been more apposite. 2019 was the start of Velocity, our three-year plan to become the most loved travel company and Britain's second flag carrier. We put in place the key building blocks of Velocity, and prepared to launch our expanded transatlantic joint venture with Delta and Air-France KLM. These plans have been interrupted by the crisis, but the work done will stand us in good stead as and when the aviation markets recover.

Overall, 2019 was a truly exciting year for our people, our customers and our company. Despite continued uncertainty over Brexit in the UK and challenges to global trade, our total revenue increased by £147m from 2018 to £2.9bn and passenger load factors increased every month in 2019 (compared to the same month in the prior year) ending with an average of 81%, the second consecutive yearly improvement. At the same time, we increased capacity on our network with new routes to Tel Aviv and Mumbai, and increased unit revenue by 4.3%.

We played to win in Manchester, taking a leading role in the repatriation of Thomas Cook customers and overseas staff in October, and progressed our plans to make Manchester Airport our home in the North.

For our customers, we continued to deliver the exceptional service that passengers have come to expect of Virgin Atlantic. Customer satisfaction scores for the airline, holidays and cargo operations increased to record levels. We enhanced customer journeys, both in the air (four new A350s entered service in 2019) and on the ground (new Vrooms were opened by Virgin Holidays). Our A350s save 30% CO2 per flight compared to the four-engine aircraft they replace. We celebrated five years of our transatlantic joint venture with Delta and received regulatory approval to launch our expanded \$13bn joint venture adding Air France-KLM. In operation from early 2020 the partnership, once in full force, will offer a comprehensive route network between Europe, the UK and North America, bringing more choice, competitive fares and the ability to earn and redeem on all four airlines in the partnership. In parallel with the expanded joint venture, we also completed the preparations for an enhanced Virgin Group-wide loyalty programme, Virgin Red.

In our communities we launched Passport to Change, a programme aimed at encouraging mass participation by the people of Virgin Atlantic and Virgin Holidays to advance science, technology, engineering and math (STEM) studies in schools in the communities we serve. We started with schools in Crawley where our office is located, Atlanta where we partner with Delta and Swansea where our customer care teams are located. Onboard, our support for Change for Children raised a record

amount and brings the total raised since we began collecting in 2003 to over £9.3m.

Resetting our vision

A key objective of our long-term development plan is to develop enhanced connection options for customers at the main UK airports. The acquisition of Flybe in 2019 was intended to make a material contribution to our campaign to give passengers greater choice at an expanded London Heathrow.

Virgin Atlantic joined the Connect Airways consortium to acquire Flybe, thereby forestalling the financial collapse of Europe's largest regional airline. Following the acquisition, Connect Airways invested significant capital to turn Flybe around. However, despite the time, effort and capital invested, the business continued to face trading difficulties throughout the year. With the impact of Covid-19 from February, the turnaround plan was overwhelmed whilst it was still in its early stages, and Flybe entered administration in early March. This was a most disappointing setback; but we remain committed to connecting the UK regions to our bases at London Heathrow and Manchester, as well as London Gatwick as passenger demand returns.

There were also setbacks to the plans to expand Heathrow itself. Heathrow is the UK's only hub airport. It serves flights which are not viable from other UK airports. Expansion at Heathrow, with new capacity allocated in a way to enable effective competition, would bring lower prices and greater choice for millions of passengers. In February 2020, however, the Court of Appeal ruled against the expansion plan in a decision which Heathrow has subsequently been given leave to appeal to a higher Court.



Chairman's statement *continued*

There remains significant uncertainty about whether and when expansion at Heathrow will be finally approved.

Business as a force for good

We place the highest priority as a Board on our efforts to minimise our operational footprint as quickly as possible as part of the global campaign to combat climate change.

In 2019, we announced an order of 14 Airbus A330-900s, designed to be 13% more fuel and carbon efficient than the A330-300s they replace. The new aircraft will also deliver a 50% reduction in airport noise. We have in addition taken action to reduce waste. On our aircraft, we reduced the overall weight of single-use items by 20% and we have set further ambitious goals for improvements in 2020 and beyond.

Virgin Atlantic is a signatory of Sustainable Aviation's commitment to net-zero CO2 emissions by 2050 and a member of Her Majesty's Government's Jet Zero Council. Our future growth must be sustainable, and we are developing ambitious and transparent targets to achieve net-zero. In the longer term, we recognise that change will need to come through innovation in aircraft design and investment in sustainable aviation fuel. We remain committed to both.

Our people

I want to finish by thanking the Board, the leadership team and all the people who work for Virgin Atlantic and Virgin Holidays. In the face of the greatest challenge in Virgin Atlantic's history, its people continue to set it apart. The Company is on course to achieve a solvent recapitalisation in early September. This will be a massive achievement, given the context of Covid-19. Our leadership team, inspirationally led by our CEO Shai Weiss, has performed magnificently, working intensely and without a break while dealing with the most adverse conditions I have experienced. Through this desperate time, the support of all our people has been unwavering. Early in the crisis in April, we had to place many of our people on furlough, to preserve cash. Whether in work or on furlough, I am prouder than I can say of

the contribution each and every one of our people has made, both for Virgin Atlantic and for the national effort to deal with Covid-19. We have worked with the Foreign and Commonwealth Office to repatriate UK citizens. We have partnered with the Department of Health and Social Care and the NHS to bring crucial medical supplies to the UK. And whilst on furlough, more than 250 cabin crew volunteered at the NHS Nightingale Hospital in east London and many more have worked with organisations such as the London Ambulance Service and NHS Volunteer Responders. Despite the extraordinary challenges of the past six months, I am proud that we have a great team of people, amazing customers and the most loved travel brand. We look forward to returning to the skies and to welcoming our passengers back onboard.

Peter Norris
Chairman
14 August 2020



CEO Review of 2019

Responding to Covid-19

2019 was a foundational year for Virgin Atlantic. Through Velocity, our three-year plan, we set the trajectory to return to profitable growth in 2020, a year ahead of plan. But 2019 must now be viewed through the lens of Covid-19 and the devastating effect the pandemic has had on the lives of so many. For aviation and travel, the effects of Covid-19 will be felt for years to come.

Global aviation was one of the first industries impacted the Covid-19 crisis and will be one of the last to fully recover. We were first out of the blocks with our response to the crisis. However, on 1 February, when we suspended flying to Shanghai, few could have predicted the scale of the crisis we have witnessed. In Q2, flying fell by 98% and in the second half of 2020, capacity is expected to reduce by at least 60% compared to 2019, with pre-crisis levels of flying unlikely to return until 2023.

Throughout the crisis, and against a backdrop of continued uncertainty, we have taken bold decisions to radically adapt and to reshape the airline so that it can emerge sustainably profitable. Our vision, to be the most loved travel company and a sustainability leader remains but the path to achieving it must change. As we emerge from this crisis, we continue in pursuit of our values, to be amazing, think red and make friends. Looking to the recovery, the decisions we take must balance between survival while not sacrificing the future and always safeguarding the health, safety and security of our people and customers comes first.

We took immediate action to reduce our costs, introducing a recruitment freeze, deferring annual pay increases and reducing discretionary spend across the business. In March, I was one of the first CEO's of a major corporation in the UK to take a voluntary pay cut of 20%, alongside the Leadership Team at 15% and our Senior Leaders Group at 10%. Across the airline, our people stood side by side, electing to take eight weeks unpaid leave which was then replaced by Her Majesty's Government Coronavirus Job Retention Scheme. At the same time, our

workforce moved to working from home where operationally feasible and we temporarily closed our Head Office in Crawley.

During March we suspended 41% of our passenger flying as travel restrictions, including to the US, came into force. In April, this increased to 96%. With only a skeleton passenger service in place, our cargo operations became the revenue driver of the airline. On 20th April, we operated our last passenger service moving to a cargo operation only from 21st April. Between April and July our cargo team delivered £113m in revenue. Testament to the agility and execution of our customer, operational and commercial teams.

In May 2020, we announced plans to reshape and resize Virgin Atlantic, to ensure it is fit for the future. Consolidating our flying at London Heathrow alongside the closure of our line maintenance and hangar facilities at London Gatwick. We aim to retain our London Gatwick slot portfolio and the flexibility to restart operations as passenger demand returns. We planned for an optimised network and rationalised our fleet, including the retirement of seven 747-400s. By 2022 Virgin Atlantic plan to fly the same number of sectors as 2019 despite its smaller scale, demonstrating productivity and efficiency improvements. Sadly, we had to say goodbye to more than 3,500 of our people, undoubtedly the toughest decision taken in our history. The engagement, spirit and patience shown has been humbling. As we rebuild and as demand slowly returns, I truly hope we can welcome back as many of our former colleagues as possible.

Our actions allowed us to launch on 14th July 2020 a private-only, solvent Restructuring Plan. With the support of our shareholders and stakeholders the new five-year Covid-response business plan aims to achieve c.£280m in cost savings per year and c.£880m fleet saving through rephasing and financing of aircraft. The Restructuring Plan delivers a refinancing package worth c.£1.2bn in the next 18 months, including:

- Shareholder support of c.£600m over the life of the business plan including a £200m investment from Virgin Group and c.£400m of shareholder deferrals and waivers;

¹ Measured on sectors flown

- £170m of secured financing from Davidson Kempner Capital Management LP, a global institutional investment management firm;
- More than £450m of deferrals from creditors and the support of credit card acquirers (Merchant Service Providers) Lloyd's Cardnet, First Data and Amex.

The Restructuring Plan will go through a court-sanctioned process under the new Part 26A of the Companies Act 2006. With support already secured from the majority of stakeholders, it's expected that the recapitalisation will come into effect in September 2020.

2019 - Launching Velocity

2019 was the start of Velocity. Removing the impediments preventing customers from flying with us and translating preference for our brand and service into purchase. To see more people on our planes, more cargo in our holds, and more holiday makers choosing us. Velocity focused on returning to profitable growth through an expanded network, improving corporate relevance and continuing to delight our customers with the best in class end to end journey experience, whilst keeping our non-fuel cost base flat.

Expanding out network. In 2019 we introduced new destinations such as Tel Aviv and Mumbai from London Heathrow and increased our frequencies to Boston and Johannesburg. In Manchester we played to win, capturing leisure demand after the demise of Thomas Cook, increasing capacity to New York, frequency to Barbados and seasonal flying to Orlando.

Across the transatlantic, we celebrated five years of our joint venture with Delta and deepened our relationship with some of Delta's largest partners. Increasing North American destinations we serve through codeshares with AeroMexico and WestJet. In March our transatlantic codeshare with Air France-KLM went live, offering more European and UK departure and connection points to the US. Meaning our customers can buy tickets through Virgin Atlantic on 34 KLM routes via Amsterdam-Schiphol, 22 Air France KLM routes via Paris-CDG

and 22 Delta routes via Amsterdam and Paris. Part of a global family, but redder than ever, as you'd expect. In February 2020 we went further, as our expanded \$13 billion transatlantic joint venture with Delta and Air France KLM launched. Creating the transatlantic partnership of choice for millions of people and businesses.

Rewarding loyalty. Increased network coverage means our customers have greater opportunity to earn and burn across more of our partners. In June 2019 we launched a new expanded loyalty programme, BlueBiz, for our SME customers. From February 2020 our customers benefit from the ability to earn and redeem points across our transatlantic joint venture partners. In 2019 we committed resource and technology capability to spin out our Flying Club currency to Virgin Red, a Virgin Group lifestyle loyalty scheme rewarding customers who value the unique customer service that only Virgin companies create. The Virgin Red loyalty programme is due to launch by the end of 2020 and we cannot wait to open the programme up to our customers.

Improving the customer journey, in all cabins. We recognise that the journeys of our customers do not start and finish onboard. In 2019, we renewed our focus on listening to the Voice of the Customer (VOC) and moved to organise ourselves around customer journeys. Improving our collection and analysis of customer feedback and acting to personalise each experience. We now understand faster, in more detail and across the journey, how our customers interact with us and where we can close seams to elevate our service. Our aim is simple, to understand, improve and deliver a customer experience that is most loved.

Unrivalled onboard experience, with one of the youngest fleets in the sky. The next phase of our fleet renewal took shape with the long-awaited arrival of Red Velvet, our first A350-1000 in August 2019. By the end of the year we had introduced four A350s, each capable of carrying nine per cent more passengers than the A340s they replace with efficiency improvements of around 30% fuel burn per seat. Designed with love and built for the future, our A350s are packed with innovation, thoughtful

CEO Review of 2019 *continued*

features and unmistakable Virgin Atlantic flair. We raised the bar, introducing a new best in class, custom-made business seat and The Loft, a new social space for our Upper Class passengers.

Performance in 2019

In our first year of Velocity there were early signs of success. Our available seat kilometres (ASKs) increased by 2.3% and we carried over 340,000 additional passengers compared to 2018. As we increased our capacity, we also filled our planes more effectively. Load factor increased year on year in every single month of 2019, reaching a peak of 85% in August and September. The year ended with an average load factor of 81%, an improvement of 2.4% compared to 2018. Improved yield management, delivered higher unit revenues by 4.3% year on year (measured as PRASK or revenue per passenger kilometre flown) and outperformed our competitors on transatlantic routes – showing that as we remove the impediments to purchase, Virgin Atlantic is most loved. At a Group level, annual revenues increased by £147m to £2.9bn.

Operationally, we retained a laser focus on non-fuel cost control. Unit costs (excluding fuel) remained below 3.40p despite network growth and additional fleet costs due to the ongoing supply difficulties with the Rolls-Royce engines on our 787 aircraft and the launch of our new A350s.

Strong cargo contribution. Our cargo team finished the year with an industry leading Net Promoter Score (NPS) score of 66, carried more than 227m tonnes and contributed revenues of £214m. This was 4% less than in 2018, due to the ongoing uncertainty around Brexit, decline in the value of Sterling and softening of demand in Europe and Asia. We continue to differentiate ourselves by focussing on sectors and goods, such as perishables, where quality of service and punctuality are highly valued. In September, and with our partners at Delta, we moved into a new purpose-built cargo facility at London Heathrow. This state-of-the-art facility, provides a platform for our long-term growth, focused on the uniquely Virgin service at all levels of the supply chain. Delivering with style, safety and punctuality.

Virgin Holidays as a leading distribution channel. Customers who travel double red continue to rank us amongst the best in the industry. Compared to 2018, Virgin Holidays held revenues broadly flat at £627m and consolidated its position as the leading tour operator to US destinations and to the Eastern Caribbean. At a Group level, Virgin Holidays contributed £165m of flight revenue and £66m of hotel and ancillary margin. NPS scores for Virgin Atlantic Holiday were 55, an increase of 6 points from 2018.

Business as a force for good

As an airline we bring huge social and economic benefits to the economies and societies we serve. We embrace the need to go further, to serve not only our people and customers but also the communities in which we operate and the planet on which we all live.

In our communities, we launched our Passport to Change programme working with local schools to promote studies in Science, Technology, Engineering and Math (STEM) through mentoring, workshops and career talks. With over 100 active volunteers and many more who have registered their interest to support, our people are passionate about improving the opportunities for all our communities.

For the good of our planet. Pre-Covid 19, aviation accounted for 2% of global CO2 emissions and in 2014 UK Aviation contributed 7.4% of UK CO2 emissions. We recognise the scale of the challenge and the obstacles we face. That does not deter us from doing more, from holding ourselves to account and being transparent on the actions we are taking. The realisation of this ambition started in 2019 as we welcomed four A350s and placed our order for at least 14 A339-neos. The fleet action taken in response to Covid-19, means that by 2022 we will operate a simplified, greener fleet comprised of 37 twin engine aircraft reducing CO2/RTK emissions by an estimated further 10%, building on the 18% efficiency already achieved between 2007-2019. As we return to more normal operations post Covid-19 our commitment to leading industry innovation and change remains.

Diversity & collaboration in our people. Virgin Atlantic is committed to diversity, inclusion and equality of opportunity. We are focused on ensuring we hire, train and promote the right person for each role, regardless of background, gender or race. In some of our workforces, engineers, cabin crew and pilots for example, we know we have work to do. Our Diversity and inclusion strategies target a 50/50 balance of men and women in leadership roles and 12% BAME (Black, Asian and Minority Ethnic) representation across our workforce by 2022. Through the Women in Aviation and Aerospace Charter, we seek to improve female representation in our pilot cadet scheme and in our recruitment shortlists for engineering and pilot roles.

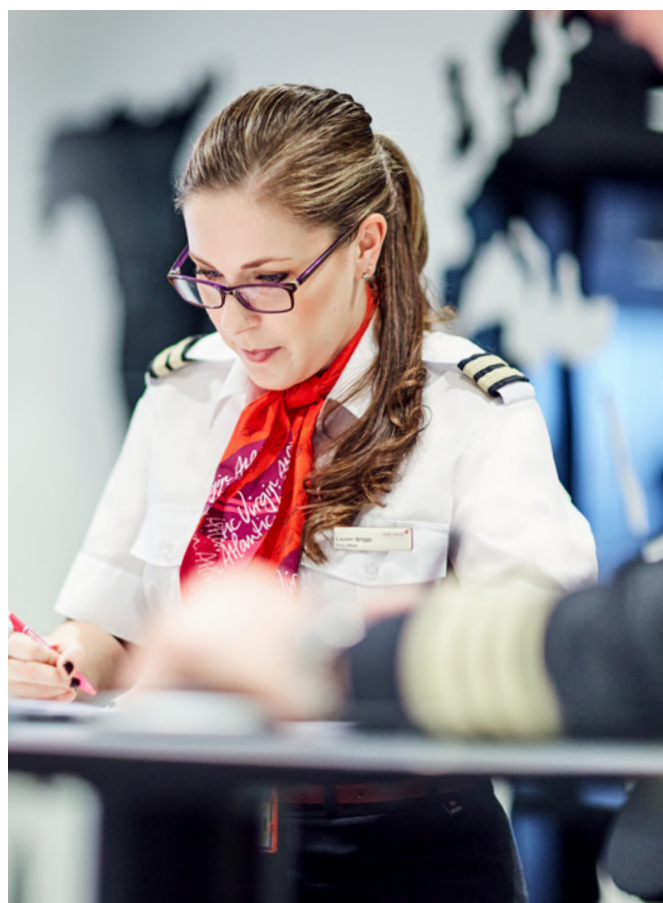
Returning to the skies and rebuilding trust

As passenger flying resumes the health, safety and security of our people and customers is the priority. Our airport, onboard and cleaning procedures lead the industry with touchless check in, spacing of passengers in-flight, onboard health packs for all customers and simplified in-flight service to reduce customer/crew touchpoints through the journey. Our aircraft are meticulously cleaned before flight, HEPA filters replace the cabin air every 2-3 minutes extracting 99.9% of air particles including bacteria and viruses and all our aircraft are treated with electrostatic disinfectant pre-flight. Relaxing global travel restrictions and giving consumers the confidence to fly, is imperative to global recovery. Virgin Atlantic is working with industry peers and Governments, to find a proportionate and scientifically backed testing solution.

Our focus now turns to rebuilding our brand and providing our customers with the award-winning service they have come to expect. Virgin Atlantic has a vital role to play in supporting the UK economy as it recovers from Covid-19. Our commitment to providing competition and connectivity to consumers and businesses in Britain and beyond is unchanged. More so than ever, I know that our people are what sets us apart. I have been humbled by your support and unwavering solidarity throughout.

Our mission is clear. To rebuild the airline, return to profitability from 2022 and to rekindle the trust and love of our customers.

Shai Weiss
Chief Executive
14 August 2020



Chief Financial Officer's Review

Total revenue of £2.93bn was up 5% on the year due to airline passenger growth of 6% and increasing passenger yield throughout the year. This was partially offset by Cargo which was impacted by macro-economic headwinds.

Fuel price volatility in the year was limited, while a continued strong cost focus kept non-fuel unit cost better than target, at 3.39p per ASK, but up 2.3% on the prior year, predominantly as a result of the purchase of a new fleet. Group loss before equity accounted investments, tax and exceptional items was £22m, compared to a loss at £9m in the prior year after restatement for IFRS 16; this reflects the divestment in the year of the flying club loyalty programme.

Net capital expenditure of £533m (2018: £378m) principally reflected the purchase of the four A350 aircraft; non-aircraft spend of £34m was principally on technology enhancements together with expanding capacity both in Cargo operations and in the Holidays retail stores. Financing activities in the year related to the transformation of the fleet with \$590m (£481m) of new aircraft financing. Net cash at the end of the year totalled £449m, with operating activities generating cash of £217m.

Financial Summary 2019

£m	2019	Restated 2018
Revenue	2,927	2,781
EBITDAR	339	321
PBTEI	(22)	(9)
Cash	449	489
Cash & available committed facilities	639	675
Debt	(2,215)	(1,950)
Net Debt	(1,766)	(1,462)

Airline passenger revenue

Airline revenue rose 6% to £2.2bn, with a stronger second half helped by new routes and new A350s flying. Total sectors flown increased 5% and capacity was up 2.3% for the year.

The attractiveness of the new A350 and refreshed A330 cabin offerings was supported by good inventory management, optimising capacity on key routes. This helped deliver PRASK growth of 4.3% and load factors increasing 2.4pts over the prior year.

JV transatlantic routes performed well, increasing 5% and codeshare partner revenue rose 23%, with 1.5m passengers connecting onto other flights. Revenue from direct channels including JV partners grew 15%, reflecting our focus on growing this higher margin opportunity. There was also a 15% increase in revenue from travel management companies and corporate accounts.

Across our cabins there was positive growth; unit revenue from the Upper Class & Premium cabins both increasing over 3%. The new three-product offering in the Economy cabin helped deliver significant benefits, with the Economy cabin showing its strongest unit revenue growth for a number of years, up over 3%.

The loyalty programme relating to the Virgin Atlantic Flying Club was demerged in April, removing £88m of liabilities from the balance sheet. It was acquired by the Virgin Group and Delta in advance of the launch of Virgin Red due in mid-2020 which significantly expands the reach of the loyalty programme and is expected to drive incremental airline and holiday revenue. Prior to the demerger, the programme made a post-tax contribution of £1.2m (2018: £17m).

Cargo revenue

Revenue of £214m was 4% lower than 2018, as cargo tonnage of 227mt was 7% below what had been a very strong 2018. This performance was significantly ahead of the cargo sector as a whole, which was impacted by both Brexit and global trade disputes. There was strong Q1 demand from stockpiling actions

in the run up to the March 2019 Brexit deadline, but a much softer second half in line with market conditions.

Despite these external challenges, Cargo achieved a 2% improvement in unit revenue, aided by an on-time delivery record of just below 90%. Fuel cost improvement, together with lower ground transport costs and overhead cost discipline, helped protect margin with EBITDAR down only 3%.

Demand from Cargo's key customers held up well, together with revenues via partner airlines. A strong foothold within some of the more trade and tariff resilient sectors such as pharma and agri-foods also helped mitigate some of the wider sector downturn.

Holidays

Revenue of £627m was up £7m from the prior year. Our strength of brand in key destinations such as Florida helped to mitigate continued broader market weakness for US-currency destinations. Holiday departures of 390,000 were down only 1.8% on 2018 levels, but were up 2% on the prior year when excluding destinations discontinued in the year. Virgin Holidays customers flying on Virgin Atlantic planes also increased by 5% through better alignment between the two brands.

Although there was some net margin compression, the cost of sales increase was kept to 1%, and with significant cost discipline on overheads, which allowed PBTEI to be maintained at over £5.5m, only £0.3m lower than 2018. This was despite c.£2m of one-off impacts from Hurricane Dorian, terrorism in Sri Lanka and FX hedging costs incurred in relation to an expected Brexit currency risk in March.

Over £7m of investment was focused on digital transformation and upgrading the retail presence and experience with the fitting out of 19 new retail locations. At year end there were 55 stores open, with a further two opening early in 2020.

Fuel costs

Total net fuel costs increased 2% over the prior year, when taking

hedging into account, due to a 5% increase in flown sectors, partially offset by lower jet fuel pricing and the introduction of more fuel-efficient planes during the year.

Non fuel costs

Non fuel CASK was 2.6% higher than the prior year. This reflected the airline being in a growth phase, carrying more passengers on more routes, plus additional costs for the entry into service of the A350s and ongoing engine challenges with the 787 fleet, which included extended use of the more maintenance intensive A340-600s. There was continued strong cost control across the company with overhead increases kept to below UK inflation.

Aircraft costs

The £11m decline in ordinary aircraft costs to £173m in 2019 reflects lower engineering and other costs incurred in relation to the Trent 1000 engine problems recognised in 2018. Under IFRS 16, aircraft costs exclude any financing component within aircraft operating lease costs, which are now reported in Finance costs.

Finance costs

The increase in net finance cost to £96m (2018: £91m, restated for IFRS 16) principally reflects the partial in-year cost of the A350s which arrived in August. Other finance costs were broadly flat on the prior year.

Result for the year

Group loss before tax, equity accounted investees, exceptional items and fair value movements totalled £22.4m due primarily to higher non fuel costs as a result of laying the foundation for future growth with the introduction of the new A350 fleet. (2018 restated: £9m loss). The impact of IFRS 16 relates principally to the restatement of aircraft financing leases on 34 aircraft in the Virgin Atlantic fleet. The impact on the 2018 financial result comprises a reduction in the loss before tax and exceptional items (2018 pre IFRS 16: £26m loss).

Chief Financial Officer's Review

continued

Impairments totalling £41m relate to Connect Airways, other exceptional items produced a £6m net benefit, and comprised certain restructuring costs and other items, including unrealised mark-to-market gains and losses from FX and fuel hedging (2018 restated: £109m charge, principally due to IFRS 16).

	2019	Restated 2018
Net cash from operating activities	217	256
Net cash used in investing activities	(558)	(201)
Net cash from/(used in) financing activities	317	(92)
Net decrease in cash	(25)	(37)
Effects of exchange rate differences	(15)	32
Cash at the end of the year	449	489
Restricted cash	97	97
Free cash	353	392

Balance sheet, Cash flow and financing

The 2018 balance sheet has been restated for IFRS 16 and primarily reflects a grossing up of the balance sheet for leased aircraft by £1.12bn recorded within PPE (Property, Plant & Equipment) and their related liabilities of £1.39bn.

Net cash at the end of the year totalled £449m, including £96.5m (2018: £97.3m) of restricted cash. The Group's committed secured revolving credit facility (RCF) was increased by \$42.5m to \$280m (£211m) and its maturity was extended to 2023. £51m was drawn down from the RCF at the year-end to assist with working capital around the timing of certain aircraft financing payments and was fully repaid in January 2020.

Investing activities of £558m comprised a net cash spend of £533m (2018: £377m) on a broad range of capital expenditure. This included £514m of aircraft-related expenditure on the four new A350 aircraft together with the cost of cabin retrofits on recently acquired A330s, plus deposits for newly ordered aircraft.

Net cash from operating activities was £217m (2018: £252m restated for IFRS 16, from £83m previously reported). The £37m reduction came principally from the change in treatment of hedging and other adjustments when adopting IFRS 16, together with £7m higher interest paid.

Cash inflow from financing activities in the year of £317m related principally to new aircraft acquisitions, with \$590m (£480m) of aircraft financing for the new A350 programme.

£43m of non-aircraft spend was principally on technology upgrade programmes across the company, and investment in Holidays' retail stores & airport v-rooms.

During the year we acquired a 30% interest in Connect Airways, the consortium which acquired Flybe, with an equity investment of £5.6m. The consortium subsequently issued shareholder loans and guarantees, of which Virgin Atlantic's share totalled £40m.

Flybe Limited entered administration in March 2020, and although we expect to recover material amounts from the administrator, the amount and likely timing of such recoveries are too uncertain to accurately quantify at the balance sheet date. Accordingly, we impaired the full investment value, both equity and loans/guarantees, within the 2019 financial year. The losses incurred on our investment are excluded from PBTEI in the P&L.

Outlook

The challenges of 2020 will be like no other we, or global aviation, has ever faced. Our Velocity plan and the achievements of 2019 mean we are ready to be bold, to innovate and to emerge stronger as the UK's second flag carrier.

Tom Mackay
Chief Financial Officer
14 August 2020



Our Key Performance Indicators

Key performance indicators

The directors have outlined below the key performance indicators that they rely on to manage the business. These key metrics focus on volume, efficiency and cost performance within our business operations. 2019 was a year of strong performance in mixed market conditions. The financial indicators are not stated at constant currency.

Virgin Atlantic

	2017	2018	2019	YoY
Passenger numbers (m)	5.3	5.5	5.9	+6.0%

A key volume measure used to assess volume growth and relative market share. Calculated as the total number of passengers who flew on Virgin Atlantic Aircraft.

	2017	2018	2019	YoY
ASK (km m)	46,154	47,747	48,832	+2.3%

An industry standard measure of passenger carrying capacity. Calculated as the number of available seats in each flown sector multiplied by the sector distance in km.

	2017	2018	2019	YoY
PRASK (p)	3.99	4.06	4.24	+4.3%

An industry measure of operational efficiency that encompasses both passenger yield and load factor performance. Calculated as the total passenger revenue divided by total ASKs.

	2017	2018	2019	YoY
Load factor (%)	78.3	78.7	81.1	+2.4pts

An industry standard capacity utilisation measure that assesses how efficiently we fill our aircraft seats. Calculated as the total number of passengers divided by total available seats.

	2017	2018	2019	YoY
Fuel CASK (p)	1.19	1.45	1.44	+0.3%

A key fuel metric, Fuel CASK (p) measures our unit fuel spend and assesses our aircraft fuel efficiency and fuel hedging effectiveness. Calculated as the total fuel spend divided by total ASKs.

	2017	2018	2019	YoY
Non-fuel CASK (p)	3.20	3.30	3.39	+2.6%

Our key volume-adjusted operational cost metric that indicates our cost control performance excluding fuel. Calculated as the total operational costs and overheads (ex-financing costs) divided by total ASKs.

Virgin Holidays

	2017	2018	2019	YoY
Total customers ('000)	397	397	390	-1.8%

A key measure of volume and activity which drives holiday revenues. Calculated as the total number of customers served in the year, across all holiday types.

	2017	2018	2019	YoY
Contribution (£m)	15.5	5.8	5.5	-5%

This represents the operating margin achieved by the Holiday business from its travel and tour operations. Calculated as the profit before tax and exceptional items (PBTEI) contribution.

Virgin Atlantic Cargo

	2017	2018	2019	YoY
Tonnage (m)	230.46	244.14	227.4	-7%

Utilisation of bellyhold cargo capacity helps drive overall profitability of the airline. Calculated as the revenue generating chargeable weight carried on VA Cargo's network measured in kg.

	2017	2018	2019	YoY
Flown as Booked (pts)	86.9	86.2	89.1	+3pts

Used to measure the percentage of shipments that flew on the same flight they were booked for. A measure of efficiency and a key driver of customer satisfaction.

Our values

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.

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.

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.

Risk management

Our Risk Management Philosophy

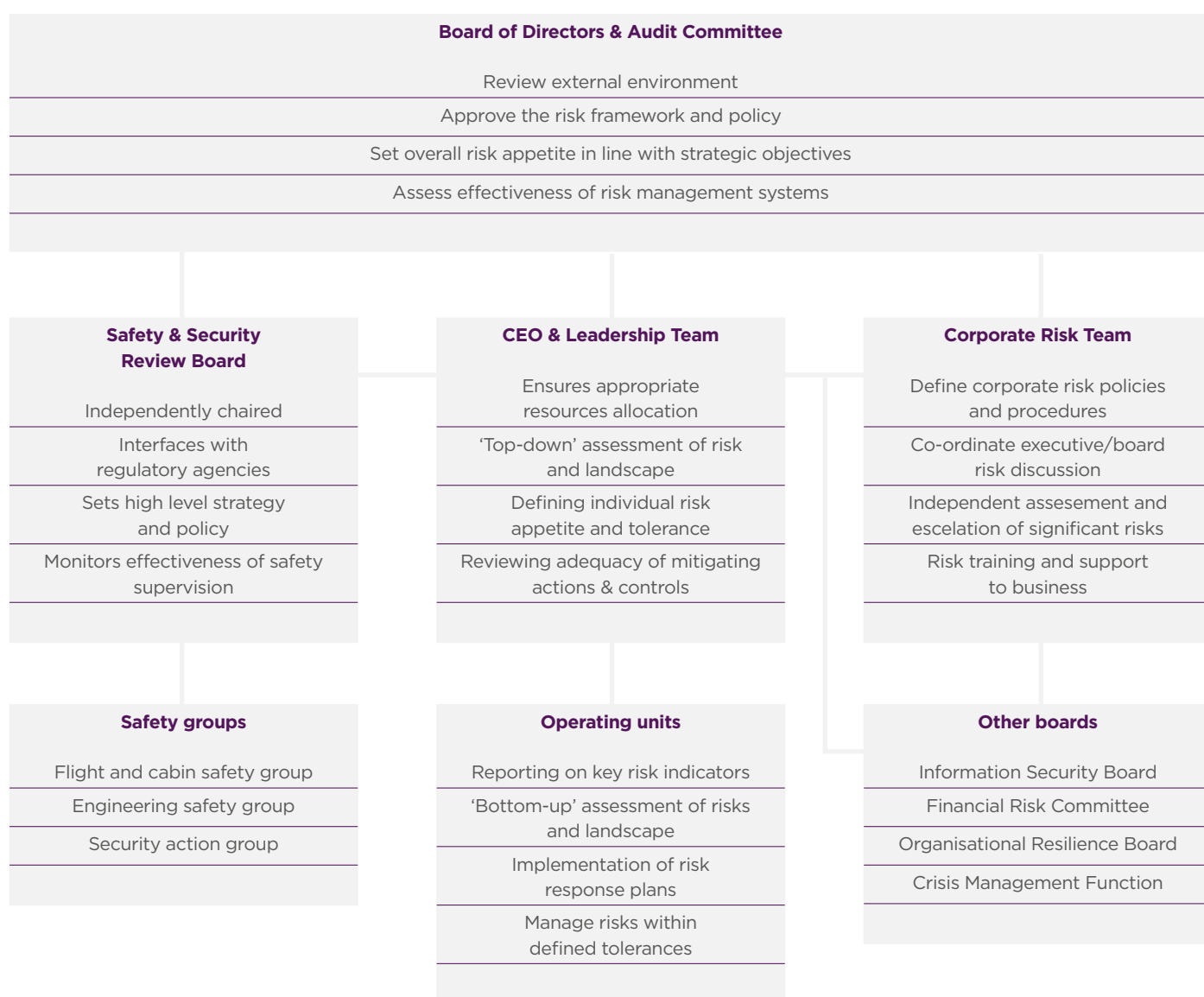
We believe corporate risk processes create and protect value to the organisation - by allowing us to be better prepared and more flexible, by providing oversight of opportunities, by helping us prioritise and deploy limited resources, and by minimising the impacts of risks that subsequently do materialise into issues.

Risk Management Processes:

Our risks processes are dynamic, allowing for risk escalation and de-escalation from divisional, project and process risk registers into a central Top Risk Register. Risks are assessed for likelihood of occurrence, and impact to corporate objectives and strategy using a number of lenses. They provide a consistent and comparative method to focus attention on the aspect of risk management that matters the most: identifying additional activity and investment needed to maintain our risk profile within appetite.

As **safety and security is our number one priority**, underpinning everything we do, this risk category has its own reporting structure and escalation procedures which integrate with our corporate risk processes through shared membership, aligned frameworks and a cadence of regular meetings.

A number of additional risk committees and working groups are established where needed to provide additional governance over Top Risks, such as Information Security or Crisis Management. Our risk governance model can be summarised as follows:



Risk management *continued*

Principal risks and uncertainties

In 2019 we defined our Top Risks within seven categories, being (i) Safety & Security (ii) Financial & Macro-Economic (iii) Sustainability (iv) Crisis Management & Business Continuity (v) Technology & Data Security (vi) People and (vii) Regulatory and Legislative.

Following the unprecedented impact to the aviation industry and the global economy as a result of the Covid-19 virus pandemic, in early 2020 we created an eighth material risk category, dedicated to this event.

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.

Risk Category 1: Covid Pandemic

Risk 1.1: Covid-19 Pandemic

Change in year: N/A - New Risk

Risk Context:

Virgin Atlantic, along with the rest of the airline industry, has faced and continues to face a severe and abrupt drop in traffic, and a corresponding drop in revenue, as a result of the Covid-19 pandemic, and the travel restrictions imposed by governments in all of our markets as a response to the virus. As a result of the pandemic, we reduced our flying capacity by 98% in Q2 2020. We continue to review and adjust our flying programme dynamically as the situation changes.

As we ramp our operations back up and markets re-open, we remain exposed to a number of risks and uncertainties associated with the pandemic, most pertinently:

- The risk that any of our customers or employees could be exposed to infection of the virus whilst in our care
- The risk that a second wave or multiple waves of the pandemic could affect our markets, leading to travel

restrictions being re-imposed with material financial impacts including but not limited to loss of revenue and increased refund demands

- The risk that our employees, or third party employees such as those of airports or suppliers, are unable or restricted in their ability to work leading to significant disruptions to our core operations
- The risk that critical elements of our supplier base could fail due to the financial repercussions of the pandemic.

Main Controls and Mitigations:

Health and Safety Risk during Covid-19:

The safety of our passengers and employees is, and always will be, our highest priority. The health and safety measures we have and will continue to implement are based on government, industry and public health guidance, and include but are not limited to:

- State-of-the-art filtration systems installed within all of our aircraft that keep cabin air clean and hygienic to HEPA standards
- Daily cleaning and disinfecting of our aircraft and between all rotations, to industry approved standards and procedures
- Requiring all our passengers and crew wear protective equipment and masks, and providing sanitiser and cleaning products, and socially spacing where load factors allow
- We have amended our onboard offering to allow for fewer touch points between crew and customers during the flight, and are also encouraging self-service activities by customers wherever possible, such as on-line check in and self-service bag drop
- Provision of protective equipment, sanitiser, guidance and social distancing measures at all of our other customer and employee touch points and our places of operation – on the ground, in the air, and in the offices

We have established a dedicated Covid operations restart committee with executive oversight, which is responsible for ensuring that comprehensive risk assessments are completed

before resuming operations to any destinations, and which ensures that we are compliant with all applicable guidance, legislation and operating procedures required to keep our customer and our people safe.

Financial and Liquidity Risk during Covid-19:

When the pandemic started, we initially relied on our operational disruption processes and the substantial cash reserves we held at year end to preserve as many functions as possible whilst we identified how the pandemic and the global response would evolve. It became clear in Q2 2020 that the pandemic would last longer than our working capital and resilience processes alone could support us, and that we were exposed to a material financial risk associated with our liquidity position. At this stage we launched a solvent recapitalisation plan to ensure the long-term financial viability of the business. This plan has been predicated on modelling of scenarios including extreme scenarios which see prolonged global closure of our markets until the end of 2020 and beyond. At the time of writing, this recapitalisation plan was still undergoing legal approval, but is broadly based on reaching agreement across the following key elements:

1. Securing the ongoing support of our existing shareholders, through deferrals of amounts due and injection of additional funding, with a combined value of over £600m
2. Securing the support of our finance and operating lease partners, in the form of lease reductions and deferrals, as well as support from other creditors, resulting in a £450m reduction in cash liabilities over the combined deferral period
3. Gaining the agreement of our card acquirers to provide continuity for our future revenues and working capital
4. Securing agreement from aircraft manufacturers to delay and rephase planned acquisition programmes
5. Securing £170m of new debt financing from Davidson Kempner Capital Management

As noted in our going concern disclosures, our modelling indicates that post completion of this recapitalisation plan we will be able to meet liquidity and slot covenant requirements and

continue to operate for the foreseeable future.

We have also taken a number of other measures to immediately preserve cash, reduce costs and generate liquidity within the business, including but not limited to the following:

- Accessing government support available through the Coronavirus Job Retention Scheme, allowing us to place employees on furlough and reduce payroll costs, with up to 80% of our staff furloughed between April and July 2020
- Rightsizing our fleet types down from six to four, and phasing out of older and less-fuel efficient airframes, which will also help us in our long term sustainability goals
- Completing a restructuring of the business, including a reduction of 3,450 roles across the business, in consultation with our people, unions and employee representatives, and reviewing and reducing all areas of discretionary spend across the business
- Reducing our CEO and Leadership Team salaries by 20% and 15% respectively (Apr-Dec 2020)
- Proactively focusing on customer incentives to achieve significant rebooking rates to offset refund liabilities

Covid-19 remains the biggest challenge we have faced to date, and we are intently focused on ensuring that not only do we survive the current crisis, but that we emerge from it in a better position: fit to meet the challenges of the future and deliver an outstanding and safe experience to all of our customers, employees and partners.

Risk 1.2: Brand and Reputational Damage

Change in year: Increasing

Risk Context:

Covid-19 has had an unprecedented impact on global aviation. Our vision to become the most loved travel company remains intact, but the path to achieving this has dramatically changed with a reduced network, fleet, and workforce.

To emerge from this crisis, against an uncertain backdrop, we

Risk management *continued*

must radically adapt, so that we can continue to thrive while always keeping our people and customers at the heart of everything we do. Throughout these changes we must also focus on retaining one powerful brand which stands out and inspires our customers to trust and transact with us.

We recognise that with the unprecedented impact of Covid-19, we have not always lived up to the high standards of service that we set ourselves. As passenger demand returns, we are focusing on a significant suite of actions designed to rebuild the love and trust with customers who have been impacted.

Main Controls and Mitigations:

We have taken immediate action to help manage the short term impact to our customer service and brand stemming from the significant level of refund requests received as a result of flight cancellations. This includes increasing the size of the team dedicated to processing refunds significantly. We recognise the importance of every single refund and anyone who has requested one for a cancelled flight or holiday will be paid in full.

We have announced that Virgin Holidays will become Virgin Atlantic Holidays, focusing on one powerful brand. Virgin Atlantic Holidays will continue to focus on its partnership with Next and digital distribution. Virgin Atlantic Cargo will continue to provide essential services during this crisis and beyond, keeping global supply chains running and continuing to bring crucial supplies into the UK.

During the Covid-19 period we have amended our flying program and service offering to keep our customers and crew safe at all times. We have implemented an extensive suite of health and safety measures that include changing our onboard service offer to temporarily reduce interaction between customers and crew and limit the risk of contamination, while giving every customer a Health Pack with medical masks, hand gel and alcohol wipes. At the time of writing we have restarted our passenger operation and we are receiving very positive feedback from our customers that they are confident to fly Virgin Atlantic. Demand will be slow to recover but as it does, we

will continue to ensure our customers always feel confident to fly with us - and we will continue to be industry leading in looking after the health, safety and security of our people and customers in a way that lets the Virgin Atlantic magic shine throughout.

The Board remains focused on ensuring the long term financial stability of the Group despite some adverse publicity received during the recapitalisation process. We expect to secure a solvent recapitalisation of the airline in early September 2020, delivering a refinancing package worth c.£1.2bn over the next 18 months, in addition to the self-help measures already taken. We have a fully funded business plan for the next five years and the support of our shareholders, new investors and largest creditors to deliver it, paving the way for us to rebuild our balance sheet and return to profitability from 2022.



Risk management *continued*

Risk Category 2: Safety and Security

Risk 2.1: Safety, terrorism and security incidents

Change in year: Materially Unchanged

Risk Context:

A major flight or ground safety event could have a significant impact on our ability to operate or attract customers. In addition, all aviation and tour operation businesses are generally exposed to security threats, including the threat of terrorism. A safety or terrorism related event would also have a significant impact on demand or operational ability.

Accordingly, the safety of customers, crew and staff is at the heart of all of our business processes and decisions.

Main Controls and Mitigations:

Safety and security is our number one priority. It is the cornerstone of our corporate strategy and underpins everything that we do.

The CAA authorises us to conduct our activities following assessments of safety, ownership and control. In addition to complying with all regulatory and airworthiness directives and processes, we have an independently chaired Safety and Security Review Board comprising Executives and Senior Managers from across the business, which reports directly and regularly to our Board of Directors on our safety and security position.

This monitoring and reporting structure integrates with our corporate risk processes through shared membership, aligned frameworks, and a cadence of regular meetings between the risk and safety and security teams.

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.

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, personnel and asset protection. In view of the ongoing 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.

Risk Category 3: Financial & Macro-Economic

Risk 3.1: Liquidity and financing risk

Change in year: Increasing

Risk Context:

The current Covid-19 crisis has put unprecedented financial pressure on all aviation and tour operator business globally. This risk on our liquidity and financing is covered in more detailed in the "Covid-19 Pandemic" risk.

Our working capital is financed by retained profit and sales in advance of carriage. The major risks to liquidity are therefore driven by business performance, capital investments, the financing structures we enter into, and the timing of associated cash flows. We are also exposed to the risk of increased finance costs as a result of movements in interest rates on floating rate debt. The yield generated from cash investments provides some compensation as interest rates rise.

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.

Main Controls and Mitigations:

We have taken a range of immediate short, mid and long term

actions designed to protect our liquidity and working capital position in the immediate response to the Covid-19 pandemic. For more on these measures, please refer to the “Covid-19 Pandemic” risk.

As well as maintaining cash holdings, we ensure that suitable lines of credit are available to provide capital as required, including through the use of a committed revolving credit facility. The net exposure to movements in interest rates is calculated and managed with a view to reducing the impact of any potential rate increase. A mix of fixed and floating rate products is used to reduce exposure and where necessary we utilise financial instruments approved under our risk management policies.

We hedge 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. 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.

Risk 3.2: Foreign currency and jet fuel risk

Change in year: Increasing

Risk Context:

We have significant exposure to US Dollar denominated costs, most significantly for jet fuel and aircraft rentals, but also for fleet maintenance and other US Dollar financing arrangements. Adverse movements in the US Dollar to Pound Sterling rate can therefore significantly impact our financial position. In addition, jet fuel comprises a significant and material element of our cost base, and we therefore have considerable exposure to adverse movements in the base price of oil and jet fuel, independently of the foreign exchange risk outline above.

We also have a net exposure to a number of other currencies

due to the local currency revenues exceeding costs. Repatriation may be constrained in countries where exchange controls are imposed to regulate the flow of money.

Main Controls and Mitigations:

Where possible we reduce our exposure through the matching of receipts and payments in individual currencies. 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. Where a significant exposure in foreign currency holdings remains we utilise financial instruments approved under the financial risk management policies.

We aim to protect the business from significant near term adverse movements in the jet fuel price. This is managed with financial instruments approved under the financial risk management policies. Our fuel hedging policy allows for the use of derivatives available on the over the counter (OTC) markets with approved counterparties. We do not speculatively trade and use these instruments to manage the underlying physical exposures of the business.

Risk Category 4: Sustainability

Risk 4.1: Consumer expectations and appeal

Change in year: Increasing

Risk Context:

Consumer expectations are changing, with social responsibility towards the environment playing an increasingly strong role in determining preference. As leaders in travel and aviation we have a vital role to play in addressing the climate crisis and we know that climate action is important to our customers, our people and the wider world.

Main Controls and Mitigations:

We have committed to net zero carbon emissions by 2050, together with a clear pathway and interim targets to monitor

Risk management *continued*

our progress. We continuously monitor the efficiency of our operations and have set a new interim target to reduce aircraft CO2 emissions by 20% per Revenue Tonne Kilometre (RTK) between 2019 and 2030.

We are transforming our fleet from four-engine to more efficient twin-engine aircraft through a ten-year, multibillion-dollar investment programme, which will yield a material reduction in CO2/RTK. We have been supporting the development of sustainable aviation fuels since 2011, and continue to lobby for regulatory changes needed to allow initiatives to be scaled at speed.

We have created a new Corporate Development team, integrating teams working on long term business strategy across sustainability, business growth and government affairs. To ensure our customers and stakeholders are aware of all our investments in sustainability we communicate this directly onboard and through our reporting and Change is in the Air newsletters. We seek independent assessment of our performance through organisations such as CDP.

Risk 4.2: Financial cost of carbon offset schemes

Change in year: Decreasing

Risk Context:

There are uncertain future costs and the financial impact of market based measures such as CORSIA (Carbon Offset and Reduction Scheme for International Aviation) could be material. Under CORSIA, airlines from participating states will be required to buy carbon offsets to compensate for the global growth in CO2 emissions. There are many unknowns associated with the future costs, and two of the largest which are outside our control are the cost of the offsets, and the pound to dollar exchange rate.

Main Controls and Mitigations:

We attend industry workshops (such as IATA and Sustainable Aviation) to keep abreast of the latest developments. We are also liaising with UK government departments to provide input

into the UK position, as participation is on a state (country) level.

We model the possible financial implications of CORSIA so we can effectively plan for its implementation. We are actively engaging with offset providers to develop our purchasing and investment strategy, to create a diverse portfolio and spread the financial risk. Our Leadership Team regularly review the strategy and approach to ensure visibility of expected near-term costs.

Longer term we intend to focus on investing in robust carbon reduction projects with strong community benefits. Wherever possible we will be looking for projects in Virgin Atlantic and Virgin Holidays destinations, and those that have additional benefits such as job creation, health and wellbeing, habitat protection and storm resilience.

Risk 4.3: Future legislative regimes

Change in year: Materially Unchanged

Risk Context:

There is the potential that future legislative changes lead to an uncoordinated array of climate policies and taxes. This could create competitive distortion and increase compliance costs without effectively managing aviation emissions.

Main Controls and Mitigations:

We engage with industry groups, government, stakeholders and peers to understand and influence future and existing policy, in support of a single global scheme for aviation: CORSIA. Industry groups such as IATA also actively monitor legislative activities and inform their membership of issues arising. Where appropriate, these are referred to our legal team for further investigations.

Risk Category 5: Crisis Management & Business Continuity

Risk 5.1: Key Supplier Failure Risk

Change in year: Increasing

Risk Context:

We are dependent on suppliers for some principal business processes. The failure of a key supplier to deliver contractual obligations could have a significant impact on operational performance and customer delivery. The ongoing Covid-19 pandemic has put further pressure on our supply chain, leading to a generally heightened risk for many businesses we deal and transact with on a daily basis.

Main Controls and Mitigations:

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. Our Organisational Resilience Board has oversight of this risk and meets regularly to assess the controls linked to our key suppliers' performance. We are carefully monitoring the impact of the Covid-19 pandemic on our supply chain to ensure the actions we are taking do not place any undue stress than possible on our valued counter-parties.

Risk 5.2: High impact/low likelihood adverse events

Change in year: Increasing

Risk Context:

Black swan and crisis management risk scenarios apply to all airline and tour operators, and include but are not limited to:

- Significant weather events which impact our ability to operate our flying plan or deliver on our holiday packages
- Terrorism events which lead to a pronounced reduction in consumer demand and confidence
- A critical safety event on a Virgin operated aircraft
- Worldwide fleet grounding events
- The unplanned and prolonged downtime of a critical computer system
- Future pandemics, or other World Health Organisation global events, which lead to widespread closure of airspace and/or territories for a short or medium term duration

If any of these crisis events were to transpire, the ability of our business to respond and survive depends on having well established crisis management and business continuity processes. There is a risk that despite taking precautions, in the actual event our preparations may not be sufficient to protect us from material damage.

Main Controls and Mitigations:

As the Covid-19 global crisis has demonstrated, despite the existence of resilience plans and functions, it is very difficult for any entity to realistically and adequately plan for a widespread global event that has the potential to stop all trading activity for a highly sustained period of time.

The processes we have established are designed to protect us from short and mid-term shocks, and briefly are as follows:

We have a dedicated crisis management and resilience function which constantly and consistently manages this risk from an operational perspective. We maintain a dedicated crisis management centre within our headquarters, which at an operational readiness state 24/7/365, with clearly established protocols for engaging, escalation and closure of potential crisis events. We also have a team of volunteers trained in crisis management situations who can be called upon for support activity at short notice.

We have conducted company-wide business impact analyses, and established Business Continuity Plans for all the critical areas of our operating and head office functions, which remain under continuous review. We test our crisis management processes regularly using a range of different and changing scenarios.

Our Organisational Resilience Board and Safety and Security Board meets regularly to assess the sub-risks associated with crisis management and business continuity. We have a number of additional domain-specific controls established for both Information Systems Disaster Recovery risks, and for Safety and Security risks – please refer to the relevant risk sections detailed elsewhere for more details on these.

Risk management *continued*

Risk Category 6: Technology and Data Security

Risk 6.1: Failure of a critical IT system, including from cyber-security threats

Change in year: Increasing

Risk Context:

We are dependent on IT systems for most of our principal business processes. The failure of a key system through an internal or external threat (including a cyber-attack) or event may cause significant disruption to operations or result in loss of revenue.

With the changing ways of working following the Covid-19 crisis, we also have a larger than usual home-based working force, who are reliant on a variety of technology solutions being seamlessly and effectively delivered to them remotely. This brings a separate and heightened consideration to resilience required, compared to previous reporting periods.

Main Controls and Mitigations:

We have an Information Security Board established with overall governance and management of our technology and information risk landscape. The board also provides oversight of the information security improvement programme.

System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure. We deploy a wide range of preventative and detective controls, including technical solutions, to minimise the threat to our systems from cyber-attacks. Ongoing investment and efforts are directed to this risk to reflect the evolving nature of the threat landscape.

We have carefully and systematically developed solutions that allow us to support home-based working at scale, and since the start of the Covid-19 crisis we have managed to support our changing workforce requirements effectively.

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.

Risk 6.2: Information security and compliance with data protection

Change in year: Materially Unchanged

Risk Context:

Unauthorised access or loss of customer or employee data could lead to significant reputation and financial damage. We have a duty and a requirement to ensure customer and employee data is only used within the legislative requirements of the Data Protection Act and for purposes to which they have consented.

The Data Protection Act 2018 became law in the U.K. in May 2018. This legislation works with the EU General Data Protection Regulations (GDPR) and allows for potentially significant fines to be levied for cases of serious data breach or non-compliance. Versions of the GDPR are now also being enacted in a number of non-EU destinations served by Virgin Atlantic.

Main Controls and Mitigations:

We have an Information Security Board established with overall governance and management of our technology and information risk landscape. The board also provides oversight of the information security improvement programme.

Our Information Security team, supported by a Security Operations Centre, conduct a range of information security measures, including but not limited to: network monitoring, vulnerability scanning, penetration testing and various other proactive hardening measures to keep our data safe and secure. We invest significantly in the information security sphere each year, and continuously keep our tooling, partnerships, operating models and processes under review.

Our Data Privacy Team and Data Protection Officer for Virgin Atlantic Airways and Virgin Holidays report to our General Counsel. The Data Protection Officer has oversight and the

remit of ensuring compliance with data protection regulations. The Privacy Team also support the business with processes, procedures, contracts, partnerships and campaigns that use personal data, along with supporting customer and employee privacy requests and handling complaints from data subjects.

To facilitate privacy regulation compliance, investment was made in 2019 to implement the One Trust privacy compliance system. We also continue to invest annually to ensure employee awareness of privacy matters. We are also PCI compliant, and we saw no enforcement action in 2019 from any Data Protection regulator.

Risk Category 7: People

Risk 7.1: Industrial Relations

Change in year: Materially Unchanged

Risk Context:

We have a large unionised workforce that are represented by a number of different trade unions. Industrial action by key groups of employees or by the employees of key third party service providers could have potentially adverse operational and/or financial impacts on the Group.

As part of the response to the Covid-19 crisis, we have had to take the difficult decision to undergo a large scale restructuring resulting in a material reduction of our workforce. We completed the consultation on this matter with the support of our unions.

Main Controls and Mitigations:

We recognise the unions Unite the Union and BALPA. Emphasis has been placed on maintaining ongoing dialogue and resolving issues early at a departmental level in order to avoid escalation. A significant level of negotiation takes place during collective bargaining with unions prior to the adoption of any new policies which may impact our people and their work environment.

We have engaged fully and properly with all unions throughout

the difficult decisions we have had to take on restructuring the business, and which have resulted in a materially decreased headcount going forward. As a result of the goodwill and openness demonstrated from both the company and the unions throughout these discussions, we feel confident that our working relationships with these critical groups remains one based on achieving mutual goals, underpinned by trust and respect.

Risk 7.2: Talent acquisition, management, development and retention

Change in year: Increasing

Risk Context:

We compete to attract the best talent globally. Without effective talent management and development processes we may have difficulty in attracting and retaining the people with the skills we need to deliver our strategy.

Failure to meet our ambitions to be an open, inclusive and representative company could also compromise our ability to attract and retain the best talent with critical skills and experience, ultimately impacting company performance.

Main Controls and Mitigations:

The strong reputation and loyalty engendered by the Virgin Atlantic brand is a core part of the value of our business, and one which continues to stand us in good stead when we compete for talent, coupled with our competitive reward packages.

We have ambitious BAME and gender targets, and a number of strategic initiatives are running internally to ensure we meet these.

We maintain a clear and equitable talent management process internally, linked to a variety of performance related pay mechanisms, which encourage and reward effective performance at both the individual and company level. We conduct succession planning to ensure that we have an effective view of our internal and external talent pipeline, to provide continuity, and to identify development opportunities for our staff.

Risk management *continued*

We also invest in a number of local and international efforts to increase the diversity and strength of the longer term talent pipeline. These includes, amongst others, initiatives designed to increase the representation of women in STEM subjects and careers; mentoring programmes to support local schools; and apprenticeships schemes which allow us to identify and attract the next generation of leaders.

Risk Category 8: Regulatory & Legislative

Risk 8.1: Compliance with competition, anti-bribery and corruption law

Change in year: Materially Unchanged

Risk Context:

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.

Main Controls and Mitigations:

To mitigate this risk we have comprehensive training schemes and controls in place to both prevent and detect non-compliance. E-learning courses have been established covering competition compliance, data protection and anti-bribery policy, which are mandatory for everyone across the organisation to complete on an annual basis, and immediately upon joining the company.

For specific areas of higher inherent risk for competition law, we provide additional annual specialized training courses, led by a legal compliance expert, to ensure that the relevant teams are very clear on legal requirements and remain stringently within the bounds of acceptable behaviour.

For our third party relationships, all our suppliers and general sales agents specifically agree in their written contracts with us to comply with all applicable laws and regulations, and to comply with our anti-bribery and ethical business policy.

We maintain right-to-audit clauses in all our key and critical supplier contracts, giving us the ability to inspect records and assure compliance where (or if) we have any concerns about supplier compliance with laws and regulations.

Risk 8.2: Compliance with other aviation regulatory authorities and government

Change in year: Materially Unchanged

Risk Context:

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

Main Controls and Mitigations:

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).

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. We regularly assess the impacts of UK Government policy and objectives on our business and take action as required and appropriate.

Globally, we continue to assess political risk and work with governments across the world to limit any potential regulatory impact on our operations. We retain legal counsel for all jurisdictions we operate in, as well as maintaining close relationships with our trading partners, government departments and through a network of trusted and professional advisors to ensure that our operations stay in compliance with all required legislation.

The Strategic Report is approved by the Board of Directors on 14 August 2020 and signed by order of the Board by:

Ian de Sousa
Company Secretary



Creating value for our stakeholders

Our people

At 31 December 2019 we had over 10,051 people based in 89 locations in the UK and in key destinations around the world. These include 1,021 pilots and 4,233 cabin crew.

How we engage: We promote a transparent two-way multimedia communication approach with our people, using a broad range of formal and informal channels, including a highly active 'Ask Shai' CEO Q&A intranet forum and regular town hall events. Formal engagement is through our checkin survey programme as well as through trade union representation.

Customers

Our customers are at the heart of everything we do. We served over 5.9m passengers and 390,000 holiday makers in 2019.

How we engage: Virgin Atlantic has built its reputation on unique and individual customer experience and engagement. As well as our people's direct personal engagement every day, we listen to our customers through a range of satisfaction and market research surveys, with NPS scores being a key measure of success used across the company.

JV Partners and other airline partners

Our airline partners include the expanded JV with Delta, Air France and KLM, together with 70 codeshare and interline partners.

How we engage: Our relationship with Delta is one-off partnership, active at every level in the organisation, with our JV now in its 6th year, in addition to Delta's shareholder role. We have been working ever closer with Air France and KLM, and ensure we have strong operational and strategic engagement with all of our airline partners.

Suppliers

Our key suppliers include airframe and engine manufacturers, airports and specialist airside support and critical technology suppliers, together with over 20,000 suppliers worldwide.

How we engage: We seek to have open and constructive relationships across our supplier network as they are integral to our ability to serve our customers. We have a structured supplier relationship framework, and identified relationship managers for key suppliers. Supplier's policies and standards are regularly reviewed to ensure they align with our supply chain sustainability criteria.

Industry peers on sustainability goals

We participate in a number of national and international associations developing industry-wide approaches to key issues such as sustainable aviation fuel and carbon offsetting.

How we engage: We seek to take an active and thought leadership role in the industry associations we participate in, including Sustainable Aviation, RoundTable on Sustainable Biomaterials, IATA, World Cetacean Alliance and The Sustainable Restaurant Association. We also work to embed best practice and responsible behaviour across our supply chain.

Communities

We engage with the local communities in each major location we operate from, including local business groups and community organisations.

How we engage: Our new Passport2Change programme focuses on outreach into schools near our main centres of operations in Crawley, Swansea and Atlanta to help inspire the next generation. We supplement this programme with charitable and business network activities in many of our locations and holiday destinations.

Finance Partners

We have close relationships with a range of finance capital providers and counterparties, including banking and credit card providers, aircraft financing and airport slot financing investors.

How we engage: Together with issuing press releases on key corporate news, our treasury team maintain regular contact with all of our finance partners and provide commentary and

information on specific issues and financial performance on request. We offer quarterly updates and undertake regular roadshows, alongside an annual investor event where the leadership team present on strategic progress.

Regulators and governments

We are regulated by the Civil Aviation Authority and engage with governments, policy makers, airline associations and tourism bodies.

How we engage: Both our regulatory affairs and our operations teams are in regular and close contact with relevant regulatory bodies. We also are highly active in engaging with governments and policy makers on issues which are important to us and our customers, including Heathrow expansion plans, where we seek to improve the competitiveness of the airline industry.



Sustainability

Change is in the air

Becoming the most loved travel company comes with responsibility – to the world we live in and the communities we serve. As leaders in travel and aviation we have a vital role to play in addressing the climate crisis and we know that climate action is important to our customers, our people and the wider world.

We undertook a fundamental review of our sustainability programme, working with our leadership team and informed by the latest climate science. Climate action and carbon reduction are a key business priority for us, supported by strong governance at executive and board level and performance based rewards. We have created a new Corporate Development team, integrating teams working on long term business strategy across sustainability, business growth and government affairs. Through our renewed strategy we have committed to net zero carbon emissions by 2050, and in February 2020 we signed the Sustainable Aviation Net Zero pledge alongside our industry peers and the Transport Secretary. We are developing a pathway and interim targets to monitor our progress.

In 2019 our total carbon footprint was 5.9m tonnes of CO₂e¹. This is made up of 5.65m tonnes from Virgin Atlantic, and 270,000 tonnes from Virgin Holidays. Carbon and fuel efficiency is clearly the number one environmental priority. Aircraft fuel use accounts for more than 99% of operational (Scope 1 and 2) carbon emissions, and 85% if we include Scope 3 emissions. Improving the carbon efficiency of our operations is a key part of our emissions reduction strategy, and we continue to strive for year on year improvements. With our commitment to net zero by 2050, it is also important that we harness current and future technologies to reduce our absolute carbon emissions as far as possible, as well as implementing a complementary offsetting strategy.

Our activities have centred on three key areas: fleet, sustainable fuels and CORSIA². We've been overhauling our fleet, through retiring four engine aircraft and replacing them with a more fuel and carbon efficient two engine aircraft. We're also working with government, our peers and partners to drive the next generation

energy breakthrough for aviation – advanced, waste based sustainable aviation fuels. We campaigned for internationally-agreed carbon targets and market based measures, and support the introduction of CORSIA as an environmentally and cost-effective way to support interim carbon reductions.

A short film describing our work in these areas entitled 'Three steps to tackle our footprint' can be viewed on our website, together with further details on our environmental performance and initiatives.

www.virginatlantic.com/changeisintheair/climateaction

Each year we are working across our business to encourage and implement ideas to reduce our impact, both in the air and on the ground. Some of our key initiatives involve improving our operational procedures and innovating to reduce weight and waste in our onboard products. Our facilities team is working on a range of measures across our ground operations too, reducing waste, product and energy consumption.

We also know we can have a significant, positive impact by working with our suppliers to promote human rights and good labour standards in our supply chains, as well as encouraging carbon and waste reductions, resource efficiencies, 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.

You can learn more about our activities and initiatives on our website where we have a collection of reports, videos, news and stories from across the business.

www.virginatlantic.com/changeisintheair/resources

¹CO₂e, or carbon dioxide equivalent, expresses the impact of each different greenhouse gas in terms of the amount of CO₂ that would create the same amount of warming

²Carbon Offsetting and Reduction Scheme for International Aviation

Corporate Governance

Overview

The Board is responsible for the long term success of the Group. To achieve this, the Board leads and provides direction for the Leadership Team by setting our strategy. Its role includes overseeing strategic decision, 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 conference calls where management update the Board on the Group's performance. In addition, the Executive Directors have

regular meetings with representatives of both shareholders as well as with their Board representatives.

Governance Code

For the year ended 31 December 2019, under The Companies (Miscellaneous Reporting) Regulations 2019, we have applied the Wates Corporate Governance Principles for Large Private Companies ("Wates Principles"). We have adopted the Wates Principles as an appropriate framework for our corporate governance arrangements which are set out in more detail in various sections of this Report. Its key principles are reviewed in the table below:

Purpose & Leadership, stakeholder engagement		Opportunities and Risks; Remuneration	
Purpose & Leadership	<p>Our Corporate vision, values and strategy are described throughout this Annual Report and set out in detail in the Chairman's statement and Chief Executive Officer's report.</p> <p>The business is reviewing its Purpose and following the greater integration between Virgin Atlantic and Virgin Holidays, intends to publish a revised purpose later in 2020.</p>	Strategy	The Board has provided support to the executive team in the development of the Velocity strategic plan, using their significant experience in key areas of relevance to provide constructive challenge and scrutiny.
Stakeholders	<p>The board is responsible for overseeing meaningful engagement with stakeholders including the workforce and having regard to their views when taking decisions.</p> <p>See page 34 for a summary of our stakeholder engagement.</p>	Risk	<p>The Board's role is to ensure the long term success of the Company, whilst establishing oversight for the identification and mitigation of risk which has been enhanced during 2019.</p> <p>The Board has approved the realigning of the key risk categories around key topics including Covid-19 and sustainability (see page 22)</p>
		Remuneration	The Board promotes executive remuneration structures aligned to the achievement of KPIs required to deliver the long term sustainable success of the Company. Metrics which define executive director remuneration are closely aligned to key milestones and performance relating to the pillars of the velocity strategy, and do not differ significantly from those of the wider leadership team.

Corporate Governance *continued*

Board Composition

The Board of Directors comprises seven Non Executive Directors and two Executive Directors. Four of the Non Executive Directors are appointed by Virgin Group (51% shareholder), and three Non Executive Directors are appointed by Delta (49% shareholder). As set out in the company's articles, identified Alternate Non Executive Directors act for certain Non-Executive Directors.

As at 31 December 2019, the two Executive Directors were the Chief Executive Officer and the Chief Financial Officer. In addition, the Chief Commercial Officer and Chief Customer Officer each act as Alternate Director to the two Executive Directors. All four are full-time employees of the Group.

Our Board composition reflects the concentrated shareholding structure of the company and does not include an identified independent director. The assessed skillset of the Board (see table below) is felt to be sufficiently broad and deep and encompasses senior experience from across a broad range of industries and disciplines. The Board believes that when combined with the Executive Leadership team, there is a membership which has diversity, varied and balanced experience and skills that are highly relevant to the Company's needs and challenges and serves us well in the development and scrutiny of our strategic decision making and performance.

Board Composition and Skills		Opportunities and Risks; Remuneration	
Composition	The composition of our Board is set out above and its sub-committees is set out on pages 38-40.	Director Responsibilities	The Board and individual directors have a clear understanding of their accountability and responsibilities (see page 44) underpinned by policies and procedures.
Skills	<p>The Board benefits from the significant experience of its members across a broad range of industries and disciplines.</p> <p>The board representation across five selected areas of particular importance, having identified those members who have held positions of significant relevant responsibility, is as follows: Strategy - 85%, Financial - 70%, Airlines - 90%, Customer - 75% and Technology - 40%.</p>	Areas of Focus	<p>The Board and its sub-committees have during 2019 provided review and challenge in a number of areas, in particular:</p> <ul style="list-style-type: none"> • Safety & Security programmes, including Cyber • Progress of Velocity strategic plan • M&A activity, particularly consortium acquisition of Flybe • Progress ahead of completion of Expanded Joint Venture • Sustainability & plans for Net Zero commitment • Fleet investment, including new A330-900s • Approach to potential LHR3 expansion • Brexit-related hedging strategies

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 2019 the Committee members were Gordon McCallum (Chairman), Peter Norris and Glen Hauenstein. Steve Sear was appointed as an additional Committee member on 1 February 2020. 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 2019 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

Corporate Governance *continued*

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. As we headed into 2020 our joint venture expanded to include Air-France & KLM, increasing our daily trans-Atlantic services up to 341, covering the top 10 routes on a nonstop basis, onward connections to 238 cities in North America, 98 in continental Europe and 16 in the UK and a choice of 110 nonstop trans-Atlantic routes.

Members of the Committee

For 2019 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.

Information Security

Role of the Committee

The Virgin Atlantic Information Security Board (VAISB) focuses on the confidentiality, integrity and availability of information and covers a number of disciplines including:

- Cyber security – the protection of technology infrastructure and applications;
- Data protection – the protection of sensitive, particularly personal, information; and
- Asset protection – the protection of physical assets used to process information.

The VAISB brings together key stakeholders that can provide oversight, governance and informed decision-making to ensure:

- Information security risks are effectively and strategically managed;
- Plans are in place to manage all aspects of a serious information security incident;
- Oversight of information security regulation, such as GDPR, PCI, NISD and CAP 1753; and
- Oversight of cyber incidents or risks which may have safety implications with potential impact to Corporate or Aviation Safe

Key responsibilities

The VAISB is responsible for information security oversight of Virgin Atlantic, Virgin Holidays and Cargo.

Directors' report

Registered number: 08867781

The Directors present their annual report and the audited financial statements for Virgin Atlantic Limited and subsidiary companies for the year ended 31 December 2019. The comparative amounts are stated for the year ended 31 December 2018.

Pages 1 to 46 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

Shai Weiss

Mark Anderson (appointed as Executive Director on 1 January 2019 and resigned on 1 July 2019)

Tom Mackay (appointed as alternate for Shai Weiss. Appointed on 1 January 2019 as alternate for Mark Anderson. Resigned as alternate for Shai Weiss and Mark Anderson on 1 July 2019 and appointed as Executive Director on 1 July 2019)

Dwight James (appointed as alternate for Edward Bastian, Glen Hauenstein and Cornelis Koster. Resigned as alternate to Cornelis Koster on 19 August 2019)

Cornelis Koster (resigned as Non Executive Director on 19 August 2019. Appointed on 19 August 2019 as alternate for Shai Weiss and Tom Mackay).

Juha Jarvinen (appointed on 1 July 2019 as alternate for Shai Weiss and Tom Mackay).

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 Velocity plan. The details of this share appreciation rights (cash settled) scheme can be found in note 9.

Results, business review and future developments

The results of the Group for the period are set out on page 50 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.

Directors' report

Registered number: 08867781 *continued*

Dividends

The Company did not pay a preference dividend during the year (2018 paid £nil). The Directors did not declare or pay interim ordinary dividends in respect of the year ended 31 December 2019 (2018: paid £nil).

The Directors recommend that no final ordinary dividend be paid in respect of the year ended 31 December 2019 (2018: £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 (2018: £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, although material uncertainties do exist that may cast significant doubt on the Group's ability to continue as a going concern as set out in Note 3 to the financial statements.

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.

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct, and
- need to act fairly as between members of the company.

The Directors understand that how we behave matters not only to our people but also to the many stakeholders who have an interest in our business. We believe that productive business relationships with our suppliers, customers and other key stakeholders are key to the success of the Group and that the interests of relevant parties should be considered when making decisions that may impact them. Though engagement is carried out by those most relevant to the stakeholder or issue in question, the Directors receive updates on the engagement that has been undertaken, the reoccurring questions, concerns raised and the feedback provided by the Group's key stakeholders.

When making decisions the Directors take the course of action that they consider best leads to the success of the Group over the long-term, and when doing so also consider the interests of the stakeholders that we interact with. The Directors acknowledge that every decision made will not necessarily result

in a positive outcome for all our stakeholders but by considering the Group's purpose and values together with its strategic priorities the Directors aim to make sure its decision is consistent and predictable.

We set out throughout the Strategic Report some examples of how the Directors have had regard to the matters set out in section 172(1)a to (f) when discharging their section 172 duty and the effect of that on certain of the decisions taken by them.

By considering these matters the Directors have had regard to the matters set out in section 172(1)a to (f) of the Companies Act 2006 when performing their duty under section 172.

By order of the Board

Ian de Sousa
Company Secretary

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

14 August 2020

Registered number: 08867781

Directors' report

Registered number: 08867781 *continued*

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.



Corporate Structure



Notes: All companies are wholly owned by Virgin Atlantic Limited and are registered in England and Wales unless otherwise indicated.

Independent Auditor's Report

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 2019 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 2019 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.

Material uncertainty related to going concern

We draw attention to note 3 to the financial statements which

indicates that, under certain severe but plausible downside scenarios as a result of COVID-19, and its associated impact on air travel and leisure industries, there is a risk of whether the group and parent company are able to meet liquidity requirements, such that they can continue to operate as a going concern. The scenarios modelled by the group assume a gradual return to passenger flying below historic levels, along with a recapitalisation plan, which requires a court-sanctioned approval process prior to implementation. Note 3 sets out the uncertainties regarding the successful completion of the group's recapitalisation plan and the directors' assumptions for the resumption of passenger flying. Even if the group's recapitalisation plan is successfully completed, if travel restrictions continue during 2021 in the group's key markets, the group may need to obtain additional funding in the future to maintain liquidity. These events and conditions, along with the other matters explained in note 3, constitute material uncertainties that may cast significant doubt on the group's and parent company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

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

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

Independent Auditor's Report *continued*

- 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 44, 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 [frc.org.uk/auditorsresponsibilities](https://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
E14 5GL

14 August 2020



Consolidated statement of comprehensive income

for the year ended 31 December 2019

		For the year ended 31 December 2019			For the year ended 31 December 2018		
		Ordinary activities before exceptional items	Exceptional items and fair value movements (Note 8)	Total £m	Ordinary activities before exceptional items	Exceptional items and fair value movements (Note 8)	Total £m
	Note	£m	£m		£m	£m	
Total revenue	6	2,927.1	-	2,927.1	2,780.6	-	2,780.6
Physical fuel		(686.3)	-	(686.3)	(697.9)	-	(697.9)
Fuel hedging		(17.8)	17.8	-	38.8	(38.8)	-
Airline traffic direct operating costs		(592.9)	-	(592.9)	(553.3)	-	(553.3)
Aircraft costs		(173.2)	(1.3)	(174.5)	(183.8)	-	(183.8)
Tour and other marketing costs		(564.9)	(14.4)	(579.3)	(541.8)	0.4	(541.4)
Employee remuneration	9	(421.9)	-	(421.9)	(397.3)	-	(397.3)
Other operating and overhead costs		(176.1)	(19.8)	(195.9)	(178.4)	(69.7)	(248.1)
Engineering and maintenance costs		(175.5)	-	(175.5)	(156.3)	-	(156.3)
Other depreciation and amortisation		(76.8)	(0.3)	(77.1)	(73.7)	(0.5)	(74.2)
Other income		30.8	-	30.8	46.0	-	46.0
Operating (loss)/profit		72.5	(18.0)	54.5	82.9	(108.6)	(25.7)
Profit on disposal of property, plant and equipment		1.4	-	1.4	(1.3)	23.2	21.9
Restructuring		-	(10.4)	(10.4)	-	(8.1)	(8.1)
Impairments on financial assets	8	-	(40.5)	(40.5)	-	-	-
		1.4	(50.9)	(49.5)	(1.3)	15.1	13.8
Finance income		10.7	-	10.7	8.6	-	8.6
Finance expense		(107.0)	-	(107.0)	(99.2)	-	(99.2)
Net finance costs	10	(96.3)	-	(96.3)	(90.6)	-	(90.6)
Fair value (losses)/gains on derivative contracts		-	37.0	37.0	-	(15.2)	(15.2)
(Loss)/profit before equity accounted investees and tax	7	(22.4)	(31.9)	(54.3)	(9.0)	(108.7)	(117.7)
Share of profit/(loss) from equity accounted investees		(7.1)	(2.3)	(9.4)	-	-	-
(Loss)/profit before tax		(29.5)	(34.2)	(63.7)	(9.0)	(108.7)	(117.7)
Tax credit/(charge)	11	-	-	9.0	-	-	21.6
(Loss)/profit for the year				(54.7)			(96.1)
Other comprehensive income (items that will not be reclassified to the income statement):							
Exchange translation differences				(0.1)			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				82.6			(0.1)
Total comprehensive (loss)/income for the year				27.8			(96.0)
(Loss)/profits attributable to:							
Owners of the company				27.7			(96.1)
Non-controlling interests	25			0.1			0.1
Total profits				27.8			(96.0)

*The Group has initially applied IFRS 16 at 1 January 2019, resulting in restatement of comparative information (see note 5).

The profit for the year for the Company is £nil (2018: £nil).

All amounts relate to continuing operations.

The notes on pages 56 to 113 form part of these financial statements.

Consolidated statement of financial position

As at 31 December 2019

	Note	As at 31 December 2019 £m	As at 31 December 2018 Restated* £m	As at 1 January 2018 Restated* £m
Non-current assets				
Intangible assets and goodwill	12	182.5	172.7	170.1
Property, plant and equipment	13	2,228.0	1,921.5	1,727.1
Deferred tax	14	8.7	-	-
Investments	15	0.0	0.0	0.0
Derivative financial instruments	16	4.4	3.2	5.1
Trade and other receivables	17	17.8	25.3	16.9
		2,441.4	2,122.7	1,919.2
Current assets				
Inventory	18	38.8	33.6	31.3
Trade and other receivables	17	288.3	297.7	254.6
Derivative financial instruments	16	20.2	47.6	30.2
Cash and cash equivalents	19	352.6	391.6	444.8
Restricted cash	19	96.5	97.3	49.1
		796.4	867.8	810.0
Total assets		3,237.8	2,990.5	2,729.2
Current liabilities				
Borrowings	20	(248.2)	(173.3)	(148.6)
Trade and other payables	21	(515.5)	(508.1)	(469.6)
Deferred revenue on air travel and tour operations	22	(523.4)	(618.5)	(598.3)
Provisions	23	(30.4)	(36.2)	(35.8)
Derivative financial instruments	16	(34.1)	(66.2)	(20.8)
		(1,351.6)	(1,402.3)	(1,273.1)
Net current (liabilities)		(555.2)	(534.5)	(463.1)
Total assets less current liabilities		1,886.2	1,588.2	1,456.1
Non-current liabilities				
Borrowings	20	(1,966.6)	(1,777.1)	(1,562.4)
Deferred tax	14	-	(0.1)	(21.7)
Trade and other payables	21	(3.6)	(4.7)	(9.4)
Deferred revenue on air travel and tour operations	22	(1.9)	(1.0)	(1.0)
Provisions	23	(99.6)	(93.4)	(68.3)
Derivative financial instruments	16	(4.9)	(17.0)	(3.4)
		(2,076.6)	(1,893.3)	(1,666.2)
Net (liabilities)		(190.4)	(305.1)	(210.1)
Equity				
Ordinary share capital		100.0	100.0	100.0
Preference share capital		50.0	50.0	50.0
Hedging reserve		82.5	(0.1)	-
Other reserves		(372.0)	(232.5)	(232.7)
Retained earnings		(50.9)	(223.4)	(127.4)
Equity attributable to owners of the Company		(190.4)	(306.0)	(210.1)
Non-controlling interests	25	-	0.9	-
Total equity		(190.4)	(305.1)	(210.1)

* The Group has initially applied IFRS 16 at 1 January 2019, resulting in restatement of comparative information (see note 5).

The notes on pages 56 to 113 form part of these financial statements.

These financial statements were approved by the Board of Directors on 14 August 2020 and were signed on its behalf by:

Tom Mackay, Director. Registered number 08867781

Company statement of financial position

for the year ended 31 December 2019

	Note	As at 31 December 2019 £m	As at 31 December 2018 £m
Non-current assets			
Investments	15	289.4	289.4
		289.4	289.4
Current assets			
Trade and other receivables		-	-
		-	-
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
Retained earnings		138.6	(0.8)
		288.6	288.6

The notes on pages 56 to 113 form part of these financial statements.

These financial statements were approved by the Board of Directors on 14 August 2020 and were signed on its behalf by:

Tom Mackay, Director.
Director
Registered number 08867781

Consolidated statement of changes in equity

As at 31 December 2019

	Ordinary Share Capital £m	Preference Share Capital £m	Hedging Reserve £m	Other Reserves £m	Retained Earnings £m	Total £m	Non- controlling interest £m	Total Equity £m
Balance at 1 January 2018	100.0	50.0	-	(232.7)	100.0	17.3	-	17.3
Adjustment on initial application of IFRS 16, net of tax (note 5)	-	-	-	-	(227.4)	(227.4)	-	(227.4)
Restated balance at 1 January 2018	100.0	50.0	-	(232.7)	(127.4)	(210.1)	-	(210.1)
Transfer of opening assets (note 25)	-	-	-	-	-	-	0.8	0.8
Restated loss for the year	-	-	-	-	(96.1)	(96.1)	0.1	(96.0)
Exchange translation differences	-	-	-	0.2	-	0.2	-	0.2
Other comprehensive income/(expense) for the year	-	-	(0.1)	-	-	(0.1)	-	(0.1)
Balance at 31 December 2018	100.0	50.0	(0.1)	(232.5)	(223.5)	(306.0)	0.9	(305.1)
Balance at 1 January 2019	100.0	50.0	(0.1)	(232.5)	(223.5)	(306.0)	0.9	(305.1)
Bonus share issue, and subsequent capital reduction	-	-	-	(139.4)	139.4	-	-	-
Demerger of subsidiary (note 25)	-	-	-	-	87.9	87.9	(1.0)	86.9
Loss for the year	-	-	-	-	(54.8)	(54.8)	0.1	(54.7)
Exchange translation differences	-	-	-	(0.1)	-	(0.1)	-	(0.1)
Other comprehensive income/(expense) for the year	-	-	82.6	-	-	82.6	-	82.6
Total comprehensive income/(expense) for the year	-	-	82.6	(0.1)	(54.8)	27.7	0.1	27.8
Balance at 31 December 2019	100.0	50.0	82.5	(372.0)	(50.9)	(190.4)	-	(190.4)

The Group demerged a subsidiary during the year. Virgin Group Loyalty Company Limited was transferred via a dividend to the Group's shareholders, Virgin Holdings Limited and Delta Airlines Incorporated. See note 24.

The notes on pages 56 to 113 form part of these financial statements.

Company statement of changes in equity

As at 31 December 2019

	Ordinary Share Capital £m	Preference Share Capital £m	Other Reserves £m	Retained Earnings £m	Total £m
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
Balance at 1 January 2019	100.0	50.0	139.4	(0.8)	288.6
Bonus share issue, and subsequent capital reduction	-	-	(139.4)	139.4	-
Loss for the year	-	-	-	-	-
Balance at 31 December 2019	100.0	50.0	-	138.6	288.6

Allotted, called up and fully paid share capital includes 100,000,000 (2018: 100,000,000) ordinary shares of £1 each and 50,000 (2018: 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.

During the year the Company, Virgin Atlantic Limited capitalised its merger reserve via bonus issue of shares, which were subsequently cancelled via a reduction of capital.

The notes on pages 56 to 113 form part of these financial statements.

Consolidated statement of cashflows

As at 31 December 2019

	Note	For year ended 31 December 2019 £m	For year ended 31 December 2018 Restated* £m
Net cash from operating activities before exceptional items	31	226.7	261.4
Adjustments for exceptional items	31	(10.0)	(5.4)
Net cash (used in)/from operating activities	31	216.7	256.0
Purchase of property, plant and equipment		(533.4)	(377.3)
Purchase of intangible assets		(34.0)	(25.5)
Proceeds from sale of property, plant and equipment and intangible assets		6.2	193.1
Interest received		8.4	8.4
Investment in associate		(5.6)	-
Net cash used in investing activities		(558.4)	(201.3)
Payment of long term borrowings		(6.2)	(6.1)
Drawdown from revolving credit facility		51.3	-
Payment of leases		(173.7)	(169.2)
Proceeds from asset financing arrangements		480.5	83.6
Loan to associate		(34.9)	-
Net cash from/(used in) financing activities		317.0	(91.7)
Net decrease in cash and cash equivalents		(24.7)	(37.0)
Cash and cash equivalents at beginning of year (including restricted cash)	19	488.9	493.9
Effect of foreign exchange rate changes		(15.1)	32.0
Cash and cash equivalents at end of year (including restricted cash)	19	449.1	488.9

*The Group has initially applied IFRS 16 at 1 January 2019, resulting in restatement of comparative information (see note 5).

The notes on pages 56 to 113 form part of these financial statements.

Notes forming part of the financial statements

As at 31 December 2019

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 4 to 32.

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 43.

2. Statement of compliance with IFRS

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

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 ('FRS 100') issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2019 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 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 hundred thousand pounds, except where indicated otherwise.

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

Reduced Disclosure Framework ('FRS 101'), with a transition date of 1 January 2016. The Company has taken advantage of section 408 of the Companies Act 2006 and has not published a separate income statement and related notes for the Company. The result for the year attributable to the Company is disclosed in the Company statement of changes in equity. In addition, the Company has taken advantage of the disclosure exemptions permitted under FRS 101 to 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.

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

3. Accounting policies *continued*

(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.

Going concern

In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2019, the Directors are required to consider whether the Group and Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken an assessment of the financial forecasts with specific consideration to the trading position of the Group and Company in the context of the current Coronavirus pandemic ('Covid-19'), for the reasons set out below.

At 31 December 2019, the Group's financing consisted of total cash balances of £449.1m (including unrestricted cash of £352.6m) and a revolving credit facility of \$280m ('secured bank loans') which had been drawn down by £51.3m. The revolving credit facility was subsequently fully drawn down in March 2020. At 30 June 2020, the Group had total cash balances of £477.3m (including unrestricted cash of £380.2m).

Since March 2020 the impact of the Coronavirus pandemic has been severe on the whole aviation and travel sector and for Virgin Atlantic has included the cessation of our passenger operations since March 2020, and with only an average of 117 flights a week in operation for our Cargo business.

The timing of resumption of flying is uncertain so the Directors have modelled a series of dynamic downside scenarios that cover rolling 12- and 24-month periods. These downside scenarios represent increasingly severe but plausible scenarios and include assumptions relating to the estimates of the impact

of factors including:

- Resumptions of passenger flying from September, as well as from December 2020 (expected case); and
- Varying rates of passenger revenue recovery from pre-Covid-19 levels, with the September 2020 case assuming that passenger revenue will be at a maximum of 79% of 2019 levels through 2021, and the December 2020 scenario assuming a 50% overall reduction in passenger revenue in 2021 when compared with 2019. Both scenarios assume a gradual ramp up in passenger demand.

The Directors consider the December case to be the most likely. This scenario includes the following assumptions:

- Passenger flying resumes in December with passenger revenue throughout the year in 2021 at 50% of 2019 levels overall (and similar levels of reduction in Virgin Holidays revenue), with 4% of Q4 FY19 capacity being forecast in Q4 FY20, increasing to 62% of FY19 capacity by the end of FY21. This is due to factors such as the potential for:
 - Extended restriction of travel to the US until December 2020 and partial restrictions remaining through 2021;
 - A second wave of Covid-19 in the UK causing further groundings of aircraft; and
 - Onboard social distancing requirements beyond Q1 2021.
- Airline and holidays forward sales re-booking and refund trends will continue in line with those experienced through the first three months of the pandemic; and
- The requirement for further adjustments to the cost base.

The Directors have sought to recapitalise the Group and Company based on the December case. This scenario indicates that the unrestricted cash and RCF facilities would be insufficient to ensure the 12 and 24-month survival of the business for at least the 12 month period from August 2020. However, the same scenario indicates that, post mitigating actions, the cash low point under such a scenario would be £150m and we would meet liquidity and slot covenant requirements, and continue to operate for the foreseeable future.

Notes forming part of the financial statements *continued*

3. Accounting policies *continued*

Mitigating actions already taken by the Group to secure this outcome include:

- Reducing headcount by 3,450 roles;
- CEO and Leadership Team reduced salaries by 20% and 15% respectively (Apr-Dec 2020);
- Utilisation of the Government Coronavirus Job Retention programme, with up to 80% of our staff furloughed between April and July 2020;
- Rightsizing our fleet – including grounding all 7 of our 747-400s and exiting our 346 fleet, and the deferral of several new aircraft orders. 4xA332s will be retired by Q1 2022;
- Proactively focusing on customer incentives to achieve a c.50% rebook rate;
- Suspension of discretionary overhead and capex spend; and
- Proactive management of the supplier cost base resulting in reductions in cash liability and future cost rates.

In addition, on 14 July 2020 we announced our court sanctioned Restructuring Plan. This will:

- Secure £200m additional funding from Virgin Group;
- Defer the majority of aircraft lessor payments for 18 - 21 months from April 2020, with repayment due between January 2022 and December 2025, as well as support from other creditors, resulting in a £450m reduction in cash liabilities over the combined deferral period (April 2020 to February 2022); and
- Secure new debt financing from Davidson Kempner Capital Management, a Global Institutional Investment Management Firm, of £170m.
- Provide card acquirer support (from Lloyds Cardnet and First Data); and
- Confirm additional shareholder support of in excess of £400m.

The Restructuring Plan will need to go through a court-sanctioned process under Part 26A of the Companies Act 2006 before it can be implemented. This is expected in September 2020.

Due to the high level of uncertainty of how the operations of the business may emerge from the current Covid-19 pandemic the Directors also modelled a further severe, but plausible, scenario assuming limited resumptions of passenger flying through to 1 August 2021, with a gradual ramp up from this time, to assess the liquidity position over the entire going concern period of at least 12 months from the date of signing of this report. In addition to the assumptions in the expected case scenario, the August 2021 scenario also considered the impact of movements in the US dollar exchange rate and the price of jet fuel.

In this scenario our free cash levels would breach current liquidity and slot covenant levels in January 2021 all other things being equal. The Group would also be exposed to further working capital outflows through refunds as a result of the return of customer advance payments on cancelled departures. At 30 June 2020 the value of forward sales across both the Airline and Holidays businesses was £727m of which around £669m related to departures from July to the end of the year and a further £58m related to departures in 2021. In this scenario, and based on experience to date, the Directors expect a significant portion of sales in advance will be retained, in return for discount vouchers and offers on future departures.

In the unlikely event that this scenario transpires the Directors considered additional potential mitigating actions. These included:

- Review and rationalisation of our network;
- Asset disposals;
- Further significant restructuring and cost reduction activities;
- Deferral of expenditure; and
- Securing additional funding.

The directors consider there are scenarios which could represent a material uncertainty and could cast significant doubt upon the Group's ability to continue as a going concern. These scenarios include the failure of the current court sanctioned

3. Accounting policies *continued*

recapitalisation process, the failure of potential additional mitigations in the more severe August 2021 scenario (for example the lack of alternative sources of finance, such as sale and leasebacks on aircraft), or the inability to obtain additional funding.

Notwithstanding this material uncertainty caused by the current Covid-19 pandemic, the Directors do not consider this additional severe August 2021 downside scenario to be likely.

Based on the above indications the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, this material uncertainty may cast significant doubt on the Group's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

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.

Interests in equity accounted investees

The Group's interests in equity-accounted investees comprises interest in a joint venture. Joint ventures are those entities in which the Group has joint control over the financial and

operating policies. Interests in joint ventures are accounted for using the equity method. They are initially measured at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees.

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

Notes forming part of the financial statements *continued*

3. Accounting policies *continued*

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.

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 in relation to its tour operations business and in accordance with IAS 20, has accounted for these as a deduction to expenses over the period of the performance obligation.

3. Accounting policies *continued*

Frequent flyer programme revenue

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

In accordance with IFRS 15 'Revenue from contracts with customers', the apportioned standalone selling price of the awarded Flying Club mile in 2018 was deferred as a liability and recognised as revenue at the point the performance obligation has been satisfied by the Group (typically flight date). During 2019 the frequent flyer programme was demerged from the Group (see note 24).

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 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 to reflect the substance of the transaction.

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.

Notes forming part of the financial statements *continued*

3. Accounting policies *continued*

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

Employee benefits

Pension

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

Share based payments:

Long-term incentive 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 scheme, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in the income statement for the year.

Taxation

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

Current Tax

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

Deferred Tax

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

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

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

3. Accounting policies *continued*

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.

Notes forming part of the financial statements *continued*

3. Accounting policies *continued*

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 lease if shorter. Residual values and useful economic lives of assets are reviewed annually against prevailing market values for equivalently aged assets and depreciation rates are adjusted accordingly on a prospective basis.

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

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

Fleet

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

Aircraft and engine maintenance costs in respect of major overhauls of owned aircraft which are typically carried out at intervals greater than one year are capitalised and depreciated by reference to their units of economic consumption, typically hours or sectors flown. Part of the initial cost of new or used aircraft

is treated as such maintenance expenditure based upon its maintenance status on acquisition and the current cost of the maintenance events.

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

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

Aircraft and engine spares acquired on the introduction or expansion of the fleet as well as 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,

3. Accounting policies continued

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 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.

Leases

Lease contracts, as defined by IFRS 16 'Leases', are recorded on the balance sheet, leading to the recognition of a right-of-use asset representing the Group's right to use an asset during the term of the lease contract and a lease liability relating to the payment obligation.

Measurement of the Right-of-use asset

Right-of-use assets are measured at cost and comprise the amount equal to the initial measurement of the lease liability, adjusted for (if applicable) lease incentives, initial direct costs incurred for the arrangement of the contract, estimated costs for returning the leased asset to the condition required by

Notes forming part of the financial statements *continued*

3. Accounting policies *continued*

the terms of the contract, discounted to reflect the present value on initial recognition.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date over the useful life of the underlying asset (lease term for the rentals). The Group has included restoration costs in the right of use asset as required by IFRS 16 (see provisions policy).

The Group presents right-of-use assets in 'property, plant and equipment' in the statement of financial position.

Measurement of the lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease if readily available, or otherwise the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments;
- Variable lease payments that depend on an index (such as LIBOR), initially measured using the index in force at the commencement of the lease;
- Amounts expected to be payable by the lessee under residual value guarantees;
- Payments for options to purchase, or for terminating the lease if the lease term reflects these options.

The lease liability is subsequently measured based on a process similar to the amortised cost method:

- The liability is increased by accrued interest resulting from the discounting of the lease

liability at the beginning of the lease period;

- The liability is reduced by lease payments made.

In addition, the lease liability may be remeasured in the following situations:

- Change in the lease term;
- Modification related to the assessment of the likelihood of an option being exercised;
- Remeasurement linked to residual value guarantees;
- Adjustment to the indices on which the rents are calculated when rent adjustments occur;
- Changes in foreign exchange rate, for lease liabilities due in foreign currency.

The Group presents lease liabilities in 'borrowings' in the statement of financial position.

Sale and leaseback

In sale and leaseback transactions where the Group sells and then leases back aircraft, provided it meets the criteria of a sale per IFRS 15, the Group measures the right of use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. If a sale has not occurred, the asset is retained on balance sheet within property, plant & equipment with a corresponding finance liability recognised under IFRS 9.

Short term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets, with a value equal to or less than \$5,000, and shorter-term leases, with a duration equal to or less than 12 months. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3. Accounting policies *continued*

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 treated as right of use assets 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. The Group has included restoration costs in the right of use asset as required by IFRS 16.

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

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

- No charge is recorded during the initial period

of lease agreements where no compensation or maintenance is required prior to hand-back.

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

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

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

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

Notes forming part of the financial statements *continued*

3. Accounting policies *continued*

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. Compensation related to delayed or cancelled flights are treated as deductions from revenue in line with IFRS interpretation committee (IFRIC) conclusions pursuant to IFRS 15.

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.

Cash flow hedging

The Group applies cash flow hedging to certain financial liabilities held in foreign currency in accordance with IFRS 9. The Group determines the existence of an economic relationship between the hedging instruments and hedged item based on the currency, amount and timing of their respective cash flows. The hedge ratio applied is 1:1.

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

3. Accounting policies *continued*

value cannot be reliably measured due to significant variability in the range of reasonable fair value estimates.

Cash and cash equivalents

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

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

Restricted cash

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

Impairment of non-derivative financial assets

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

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

De-recognition of non-derivative financial assets

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

Non-derivative financial liabilities

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

De-recognition of non-derivative financial liabilities

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

Borrowing costs

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

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

Notes forming part of the financial statements *continued*

4. Significant judgements, estimates and critical accounting policies

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

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

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

Leased aircraft maintenance provisions (note 23)

For aircraft treated as right of use assets, 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 in 2018 is deferred as a liability and recognised as revenue at the point the performance obligation has been satisfied by the Group. Up until the de-merger of the frequent flyer programme in 2019 (see note 24) the release and deferral of revenue is still recognised in the accounts. 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

When a lease substantially transfers all the risk and rewards of ownership to the Group the aircraft is treated as owned, such leases include but are not limited to JOLCO and asset backed finance leasing arrangements. 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 16 from 1 January 2019. IFRS 16 Leases replaces IAS 17 Leases. The new standard eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lessee accounting model. The Group has a number of leases for assets including aircraft, property and other equipment which have been impacted by the new standard.

Under the revised requirements of IFRS 16, a single lessee accounting model is applied to all leases meeting the capitalisation criteria of the new standard. The Group will now account for such leases through addition of a right-of-use asset and recognition of a corresponding lease liability. For leases previously accounted for under IAS17 as 'operating leases', rental payments were charged to the statement of comprehensive income. Under IFRS 16 these rental charges are replaced with the depreciation of the right-of-use asset and an interest charge on the lease liability.

Under IFRS 16, in the statement of cash flows, repayments of lease liabilities are moved from operating activities to financing activities, within payment of lease liabilities.

IFRS 16 has been applied to the group using the fully retrospective approach, meaning comparative information throughout these financial statements has been restated to reflect the requirements of the new standard.

In adopting IFRS 16, the Group has chosen to apply the following practical expedient:

- Capitalisation exemptions for lease contracts with a duration equal or less than 12 months and; lease contracts for which the underlying asset has a low value in new which has been defined by the Group below \$5,000.

The following table summarises the impact, net of tax, of transition to IFRS 16 on retained earnings at 1 January 2019.

	Impact of adopting IFRS 16 at 1 January 2019 £m
Retained earnings	
Impact of interest & depreciation	285.0
Related tax	-
Decrease on retained earnings at 1 January 2019	285.0

5. Changes in significant accounting policies *continued*

The following tables summarise the impacts of adopting IFRS 16 on the Group's statement of financial position and its statement of comprehensive income:

	1 January 2018 as originally presented £m	IFRS 16 £m	1 January 2018 restated £m	31 December 2018 as originally presented £m	IFRS 16 £m	31 December 2018 restated £m
Non-current assets						
Intangible assets	170.1	-	170.1	172.7	-	172.7
Property, plant and equipment	702.8	1,024.3	1,727.1	804.8	1,116.7	1,921.5
Investments	0.0	-	0.0	0.0	-	0.0
Derivative financial instruments	5.1	-	5.1	3.2	-	3.2
Trade and other receivables	16.9	-	16.9	25.3	-	25.3
	894.9	1,024.3	1,919.2	1,006.0	1,116.7	2,122.7
Current assets						
Inventory	31.3	-	31.3	33.6	-	33.6
Trade and other receivables	271.2	(16.6)	254.6	310.3	(12.6)	297.7
Derivative financial instruments	30.2	-	30.2	47.6	-	47.6
Cash and cash equivalents	444.8	-	444.8	391.6	-	391.6
Restricted cash	49.1	-	49.1	97.3	-	97.3
	826.6	(16.6)	810.0	880.4	(12.6)	867.8
Total assets	1,721.5	1,007.7	2,729.2	1,886.4	1,104.1	2,990.5
Current liabilities						
Borrowings	(17.6)	(131.0)	(148.6)	(24.2)	(149.1)	(173.3)
Trade and other payables	(474.1)	4.5	(469.6)	(512.7)	4.6	(508.1)
Deferred revenue on air travel and tour operations	(598.3)	-	(598.3)	(618.5)	-	(618.5)
Provisions	(35.8)	-	(35.8)	(36.5)	0.3	(36.2)
Derivative financial instruments	(20.8)	-	(20.8)	(66.2)	-	(66.2)
	(1,146.6)	(126.5)	(1,273.1)	(1,258.1)	(144.2)	(1,402.3)
Net current assets/(liabilities)	(320.0)	(143.1)	(463.1)	(377.7)	(156.8)	(534.5)
Total assets less current liabilities	574.9	881.2	1,456.1	628.3	959.9	1,588.2
Non-current liabilities						
Borrowings	(453.8)	(1,108.6)	(1,562.4)	(532.3)	(1,244.8)	(1,777.1)
Deferred tax	(21.7)	-	(21.7)	(0.1)	-	(0.1)
Trade and other payables	(9.4)	-	(9.4)	(4.7)	-	(4.7)
Deferred revenue on air travel and tour operations	(1.0)	-	(1.0)	(1.0)	-	(1.0)
Provisions	(68.3)	-	(68.3)	(93.4)	-	(93.4)
Derivative financial instruments	(3.4)	-	(3.4)	(17.0)	-	(17.0)
	(557.6)	(1,108.6)	(1,666.2)	(648.4)	(1,244.8)	(1,893.3)
Net assets/(liabilities)	17.3	(227.4)	(210.1)	(20.1)	(285.0)	(305.1)
Equity						
Ordinary share capital	100.0	-	100.0	100.0	-	100.0
Preference share capital	50.0	-	50.0	50.0	-	50.0
Hedging reserve	-	-	-	(0.1)	-	(0.1)
Other reserves	(232.7)	-	(232.7)	(232.5)	-	(232.5)
Retained earnings	100.0	(227.4)	(127.4)	61.6	(285.0)	(223.4)
Equity attributable to owners of the Company	17.3	(227.4)	(210.1)	(21.0)	(285.0)	(306.0)
Non-controlling interests	-	-	-	0.9	-	0.9
Total equity	17.3	(227.4)	(210.1)	(20.1)	(285.0)	(305.1)

5. Changes in significant accounting policies *continued*

	2018 as originally reported			IFRS 16			2018 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	Ordinary activities before exceptional items £m	Exceptional items and fair value movements (Note 8) £m	Total £m
Total revenue	2,780.6	-	2,780.6	-	-	-	2,780.6	-	2,780.6
Physical fuel	(697.9)	-	(697.9)	-	-	-	(697.9)	-	(697.9)
Fuel hedging	38.8	(38.8)	-	-	-	-	38.8	(38.8)	-
Airline traffic direct operating costs	(553.3)	-	(553.3)	-	-	-	(553.3)	-	(553.3)
Aircraft costs	(267.0)	-	(267.0)	83.2	-	-	(183.8)	-	(183.8)
Tour and other marketing costs	(543.6)	0.4	(543.2)	1.8	-	-	(541.8)	0.4	(541.4)
Employee remuneration	(397.3)	-	(397.3)	-	-	-	(397.3)	-	(397.3)
Other operating and overhead costs	(202.3)	5.1	(197.2)	23.9	(74.8)	(74.8)	(178.4)	(69.7)	(248.1)
Engineering and maintenance costs	(159.8)	-	(159.8)	3.5	-	-	(156.3)	-	(156.3)
Other depreciation and amortisation	(55.7)	(0.5)	(56.2)	(18.0)	-	-	(73.7)	(0.5)	(74.2)
Other income	46.0	-	46.0	-	-	-	46.0	-	46.0
Operating (loss)/profit	(11.5)	(33.8)	(45.3)	94.4	(74.8)	(74.8)	82.9	(108.6)	(25.7)
Profit on disposal of property, plant and equipment	(1.3)	23.2	21.9	-	-	-	(1.3)	23.2	21.9
Restructuring		(8.1)	(8.1)	-	-	-	-	(8.1)	(8.1)
	(1.3)	15.1	13.8	-	-	-	(1.3)	15.1	13.8
Finance income	8.6	-	8.6	-	-	-	8.6	-	8.6
Finance expense	(21.9)	-	(21.9)	(77.3)	-	-	(99.2)	-	(99.2)
Net finance costs	(13.3)	-	(13.3)	(77.3)	-	-	(90.6)	-	(90.6)
Fair value (losses)/gains on derivative contracts	-	(15.2)	(15.2)	-	-	-	-	(15.2)	(15.2)
(Loss)/profit before tax	(26.1)	(33.9)	(60.0)	17.1	(74.8)	(74.8)	(9.0)	(108.7)	(117.7)
Tax credit/(charge)			21.6						21.6
(Loss)/profit for the year			(38.4)						(96.1)
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)						(0.1)
Total comprehensive (loss)/income for the year			(38.3)						(96.0)

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

	Group	
	For year ended 31 December 2019 £m	For year ended 31 December 2018 Restated* £m
Revenue		
Airline traffic and cargo operations	2,425.6	2,292.2
Holiday tour operations	626.6	619.7
Other revenue	18.2	10.5
Intra-group revenue	(143.3)	(141.8)
	2,927.1	2,780.6
Operating (loss)/profit		
Airline traffic, holiday tour and cargo operations	49.3	(25.2)
Other including intra-group eliminations	5.2	(0.5)
	54.5	(25.7)
Net (liabilities)/assets		
Airline traffic, holiday tour and cargo operations	159.8	(178.1)
Other and intra-group eliminations	(350.2)	(127.0)
	(190.4)	(305.1)

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

	Group	
	For year ended 31 December 2019 £m	For year ended 31 December 2018 £m
Revenue by source		
United Kingdom	1,875.9	1,845.9
North America and the Caribbean	765.9	707.5
Far East	98.1	97.5
Africa	85.3	71.3
Other	245.2	200.2
Intra-group revenue	(143.3)	(141.8)
	2,927.1	2,780.6
Revenue by destination		
North America	1,996.6	1,939.4
Caribbean	329.3	343.8
Far East	317.5	258.7
Africa	203.5	176.3
Other	223.5	204.2
Intra-group revenue	(143.3)	(141.8)
	2,927.1	2,780.6

*The Group has initially applied IFRS 16 at 1 January 2019, resulting in restatement of comparative information (see note 5).

The Company had no income in the current year (2018: £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 2019 £m	For year ended 31 December 2018 Restated* £m	For year ended 31 December 2019 £m	For year ended 31 December 2018 £m
Depreciation of property, plant and equipment (note 13)	(243.6)	(234.2)	-	-
Amortisation of intangible assets (note 12)	(23.0)	(22.9)	-	-
Contribution to pension schemes	(35.3)	(31.5)	-	-
Remuneration of the auditors and their associates:				
Audit services	(0.6)	(0.5)	(0.1)	(0.1)
Other services	(0.3)	(0.5)		-

*The Group has initially applied IFRS 16 at 1 January 2019, resulting in restatement of comparative information (see note 5).

Fees payable to the Company's auditor and its associates for audit services are £130,000 (2018: £100,000). 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 2019 £m	For year ended 31 December 2018 £m
Fees payable for:		
Tax compliance	(0.02)	(0.10)
Tax advice	(0.20)	(0.10)
Other non-audit services	(0.04)	(0.10)
Other assurance services	(0.04)	(0.10)
Customer analysis	-	(0.10)
Total fees for other services	(0.30)	(0.50)

Notes forming part of the financial statements *continued*

8. Exceptional items

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

	Group	
	For year ended 31 December 2019 £m	For year ended 31 December 2018 Restated* £m
Aircraft ownership costs (i)	(1.3)	-
Goodwill impairment (ii)	(0.3)	-
Fuel hedging reclassified to fair value (gains) / losses on derivatives (iv)	17.8	(38.8)
Forex derivative (gains) / losses reclassified to fair value (gains) / losses on derivatives (iv)	(34.2)	5.5
Reclassified from other operating income / expense	(19.8)	5.1
Reclassified from distribution, marketing and selling costs	(14.4)	0.4
Profit on disposal of aircraft equipment (iii)	-	23.2
Restructuring costs (v)	(10.4)	(8.6)
Share of profit/(loss) from equity accounted investees, net of tax (vi)	(2.3)	-
Fair value (losses) / gains on derivatives (iv)	37.0	(15.2)
Unrealised forex losses arising on adoption of IFRS 16 (vii)	-	(74.8)
Other impairments in financial assets (viii)	(40.5)	-
	(34.2)	(108.7)
The fair value (losses) / gains on derivatives can be analysed as follows:		
(Loss) / gain on fair value movements	20.6	(48.5)
(Loss) / gain on fuel derivatives settled during the year (reclassified – see above)	(17.8)	38.8
Gain on forex derivatives settled during the year (reclassified – see above)	34.2	(5.5)
	37.0	(15.2)

* The Group has initially applied IFRS 16 at 1 January 2019, resulting in restatement of comparative information (see note 5).

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. Aircraft ownership costs of £1.3m (2018: £nil) have been recognised in the year.
- ii. Virgin Vacations Incorporated, a wholly owned subsidiary of the Group based in the US ceased trading on 31 March 2019. The carrying value of the goodwill was £0.3m; this was fully impaired.
- iii. Profits on sale and leaseback amounted to £nil during the year (2018: profits of £23.2m). During 2018 the Group purchased and subsequently entered into a sale and leaseback of two Boeing 787 aircraft. The profits arising from the sale and leaseback of the aircraft have been reclassified and are shown net of any supplier compensation received.
- iv. Fuel costs include losses of £17.8m (2018: gains of £38.8m) recognised on maturity of fuel derivative contracts. Other income includes gains of £34.2m (2018: gains of £5.5m) 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. Restructuring costs of £10.4m have been recognised in the year (2018: £8.6m).
- vi. Share of profit/(loss) from equity accounted investees included one off transaction costs of £2.3m (2018: £nil) incurred by Connect Airways Ltd during the purchase of Flybe.
- vii. Unrealised forex losses of £74.8m have been recognised upon restatement of the 2018 income statement following adoption of IFRS 16 (refer to note 5 for further detail). The losses arose as a result of revaluation of USD denominated aircraft lease obligations recognised on the balance sheet for the first time, retrospectively, as at 1 January 2018. During 2019, these aircraft lease obligations were designated in hedge accounting arrangements, and therefore corresponding unrealised forex movements for 2019 have been recognised through other comprehensive income.
- viii. The Group's equity accounted investee, Connect Airways Limited, and its subsidiary Flybe Limited entered administration in March 2020. As at 31 December 2019, the Group had provided for the loans and guarantees to Flybe Ltd. The Group expects to recover material amounts from the administrator however the amount and likely timing of such recoveries are too uncertain to accurately quantify at the balance sheet date. Accordingly, the Group impaired the full value of loans receivable and investment held to £nil, and provided for the guarantees within 2019 (2018: £nil).

Notes forming part of the financial statements *continued*

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	
	2019 number	2018 Number
Management and administration	1,263	1,257
Flight crew	966	917
Cabin crew	3,178	3,343
Reservations and sales	1,926	2,057
Engineering, cargo and production	1,024	997
	8,357	8,571

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

	Group	
	2019 £m	2018 £m
Wages and salaries	358.0	340.6
Social security costs	38.5	35.7
Other pension costs	35.4	31.5
	431.9	407.8

Included within Tour and other marketing costs within the Statement of Comprehensive Income are employee costs amounting to £9.9m (2018: £10.4m) 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 £4.9m at 31 December 2019 (2018: £4.1m).

The Company has no salaried employees (2018: nil).

(ii) Aggregate Directors' remuneration

During the year/period of their service, the emoluments of the 4 Directors (2018: 3) of the Group and Company were:

	Group	
	For year ended 31 December 2019 £m	For year ended 31 December 2018 £m
Total emoluments		
Aggregate emoluments	3.9	2.3
Company contributions to money purchase pension schemes	0.1	0.1
Aggregate amounts receivable under Long Term Incentive Scheme	0.7	3.8
	4.7	6.2
Highest paid Director		
Aggregate emoluments and other benefits	2.7	1.1
Company contributions to money purchase pension schemes	0.1	0.1
Aggregate amounts receivable under Long Term Incentive Schemes	0.5	1.9
	3.3	3.1

*The 2018 comparatives have been restated to include amounts for services rendered in 2018.

Retirement benefits are accruing to 4 (2018: 3) Directors under money purchase pension schemes. During the year an amount of £0.2m (2018: £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
During the year the Group established a new long term incentive

scheme for Executive Directors and other invited participants to incentivise and recognise execution of the 'Velocity' plan. The scheme consists of a series of cash payments over the 3 year term of the grant. Payments are based on the Group's performance against pre-agreed financial and non-financial measures which are linked to the Group's long term objectives. Included above are cash payments made to directors relating to services rendered during 2019.

During 2019, final settlement was made for the Group's share-based payment long term incentive scheme which closed at the end of 2018. Total amounts paid to Directors under this scheme were £7.7m.

Notes forming part of the financial statements *continued*

10. Net finance costs

	Group	
	For year ended 31 December 2019 £m	For year ended 31 December 2018 Restated* £m
Finance income		
Bank deposits	7.9	8.1
Interest on loan to equity accounted investee	2.3	-
Unlisted investments (note 15)	0.5	0.5
	10.7	8.6
Finance expense		
Interest on leases (note 20)	(98.6)	(92.7)
Unwinding of discount on provisions (note 23)	-	0.1
Other loans (note 20)	(13.6)	(11.4)
	(112.2)	(104.0)
Interest capitalised on aircraft progress payments (note 13)	5.2	4.8
	(107.0)	(99.2)
Net finance costs	(96.3)	(90.6)

*The Group has initially applied IFRS 16 at 1 January 2019, resulting in restatement of comparative information (see note 5).

11. Tax

Analysis of the tax expense during the period:

	Group	
	For year ended 31 December 2019 £m	For year ended 31 December 2018 £m
Current tax		
Adjustments in respect of prior periods	0.3	0.1
Non-UK current tax	(0.1)	–
Total current tax charge	0.2	0.1
Deferred tax		
Origination and reversal of timing differences	2.3	22.7
Adjustments in respect of prior periods	6.5	(1.2)
Total deferred tax credit	8.8	21.5
Tax credit	9.0	21.6

The standard rate of UK corporation tax for the period is 19.00% (2018: 19.00%). The total tax credit of 14.13% for the period is lower than the standard rate of corporation tax. This is driven by UK Government reliefs and other permanent differences.

Notes forming part of the 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 2019 £m	For year ended 31 December 2018 Restated* £m
(Loss) / Profit before taxation	(63.7)	(117.7)
Tax at the standard rate at 19.00% (2018: 19.00%)	12.1	22.4
Factors affecting the credit for the year:		
Income not subject to corporation tax	0.4	0.4
Expenses not deductible for tax purposes	(2.1)	(1.0)
Effects of difference in deferred tax rate	0.6	(1.2)
Fixed asset differences	(19.4)	(0.1)
Adjustments in respect of prior periods	6.5	(1.2)
UK Government reliefs	3.8	4.0
Permanent differences	-	(0.1)
Current tax deduction where deferred tax not recognised on adoption of IFRS 16	6.0	(11.0)
Recognition of deferred tax not recognised on adoption of IFRS 16	8.5	-
Recognition of previously unrecognised deferred tax	(7.4)	9.4
Total current tax credit / (charge)	9.0	21.6

*The Group has initially applied IFRS 16 at 1 January 2019, resulting in restatement of comparative information (see note 5).

The deferred tax liability at 31 December 2019 has been calculated based on 17.00%. 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 2019	8.7	91.1	225.5	18.7	344.0
Additions	-	3.2	0.4	30.1	33.7
Impairment	(0.4)	-	-	-	(0.4)
Disposals	-	-	(5.7)	-	(5.7)
Reclassifications	-	-	18.3	(18.3)	-
At 31 December 2019	8.3	94.3	238.5	30.5	371.6
Amortisation					
At 1 January 2019	3.7	10.6	157.0	-	171.3
Amortisation	-	-	23.0	-	23.0
Impairment	(0.1)	-	-	-	(0.1)
Disposals	-	-	(5.1)	-	(5.1)
At 31 December 2019	3.6	10.6	174.9	-	189.1
Carrying amount					
At 31 December 2019	4.7	83.7	63.6	30.5	182.5
Carrying amount					
At 31 December 2018	5.0	80.5	68.5	18.7	172.7

Notes forming part of the financial statements *continued*

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 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 2019 the goodwill balance was attributable to Bales Worldwide Limited (purchased 14 December 2009) and Virgin Holidays Cruises Limited (purchased 8 October 2007). On

the 31 March 2019 Virgin Vacations Inc. (purchased 13 April 2011) ceased trading, the carrying value of the goodwill was impaired to nil during the year.

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 landing rights and the remaining goodwill assets 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 (2018: £nil).

13. Property, plant and equipment

	Group					
	Aircraft, rotatable spares and ancillary equipment		Other		Assets under construction	Total
	Owned £m	Leased £m	Owned £m	Leased £m	£m	£m
Cost						
At 1 January 2018	999.0	-	192.1	7.5	36.0	1,234.6
Adjustment on initial application of IFRS 16 (see note 5)	(35.2)	2,053.1	-	163.1	-	2,181.0
At 1 January 2018 (restated*)	963.8	2,053.1	192.1	170.6	36.0	3,415.6
Additions	329.1	228.5	-	3.5	27.7	588.8
Disposals	(190.2)	(162.7)	(6.9)	(5.8)	-	(365.6)
Reclassifications	17.0	-	6.3	-	(23.3)	-
Other**	-	9.2	-	1.6	-	10.8
At 31 December 2018 (restated*)	1,119.7	2,128.1	191.5	169.9	40.4	3,649.6
Accumulated depreciation						
At 1 January 2018	410.8	-	119.9	1.0	-	531.7
Adjustment on initial application of IFRS 16 (see note 5)	(15.8)	1,106.6	-	66.0	-	1,156.8
At 1 January 2018 (restated*)	395.0	1,106.6	119.9	67.0	-	1,688.5
Depreciation for the year	70.2	133.7	14.4	15.9	-	234.2
Disposals	(20.7)	(162.7)	(6.6)	(4.6)	-	(194.6)
At 31 December 2018 (restated*)	444.5	1,077.6	127.7	78.3	-	1,728.1
Carrying amount						
At 31 December 2018 (restated*)	675.2	1,050.5	63.8	91.6	40.4	1,921.5
At 1 January 2018 (restated*)	568.8	946.5	72.2	103.6	36.0	1,727.1
Cost						
At 1 January 2019	1,119.7	2,128.1	191.5	169.9	40.4	3,649.6
Additions	462.2	11.2	0.5	7.8	87.7	569.4
Disposals	(38.3)	(185.9)	(5.7)	(6.5)	-	(236.4)
Reclassifications	84.8	-	10.3	-	(95.1)	-
Other**	-	(23.2)	-	7.4	-	(15.8)
At 31 December 2019	1,628.4	1,930.2	196.6	178.6	33.0	3,966.8
Accumulated depreciation						
At 1 January 2019	444.5	1,077.6	127.7	78.3	-	1,728.1
Depreciation for the year	89.1	124.0	13.7	16.8	-	243.6
Disposals	(34.8)	(185.9)	(5.7)	(6.5)	-	(232.9)
At 31 December 2019	498.8	1,015.7	135.7	88.6	-	1,738.8
Carrying amount						
At 31 December 2019	1,129.6	914.5	60.9	90.0	33.0	2,228.0
At 31 December 2018	675.2	1,050.5	63.8	91.6	40.4	1,921.5

*The Group has initially applied IFRS 16 at 1 January 2019, resulting in restatement of comparative information (see note 5).

**Other movements relates to lease extensions which do not constitute a new lease addition pursuant to IFRS 16, and asset adjustments resulting from variable lease rentals which are linked to the prevailing LIBOR at a point in time as per the lease agreements.

Notes forming part of the financial statements *continued*

13. Property, plant and equipment *continued*

Freehold land with a cost of £4.4m (2018: £4.4m) has not been depreciated. Included in aircraft, rotatable spares and ancillary equipment are progress payments of £78.1m (2018: £143.1m). These amounts are not depreciated. Interest capitalised by the Group on aircraft progress payments included in additions during the year amounted to £5.2m (2018: £4.8m).

During the year, the Group purchased four A350 aircraft (2018: nil), nil Boeing 787 aircraft (2018: one), nil Airbus A340 aircraft (2018: two), one Trent XWB engine (2018: nil), one PW4168A engine (2018: nil) and nil Trent 1000 engine (2018: one). The Group also purchased and subsequently, entered into a sale and leaseback of nil Boeing 787 aircraft (2018: two). The net book value of assets held under leases includes maintenance events and modifications to the asset which have been incurred in periods following the lease inception. Lease obligations are shown in note 20.

The Group holds certain owned assets as collateral against the RCF borrowing facility this includes 2 owned aircraft and 8 engines (2018: 2 owned aircraft and 5 engines).

In accordance with accounting standards, the Group tests the carrying value of assets including right-of-use assets for impairment if there is an indicator of impairment. There were no indicators of impairment for any of the Group's assets during the year (2018: no indicators). Therefore, a test of impairment has not been carried out. No losses 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 £1.4m (2018: £nil).

The Company did not have any property, plant and equipment (2018: £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 17.00% (2018: 17.00%):

	Group	
	For year ended 31 December 2019 £m	For year ended 31 December 2018* £m
Accelerated capital allowances	15.5	12.5
Other timing differences	8.1	4.8
UK tax losses	2.0	3.2
Holdover relief	(16.9)	(20.6)
	8.7	(0.1)

The Group has restricted its recognition of deferred tax assets to equal the amount of deferred tax liabilities at the period end, as permitted by IAS 12. The gross temporary differences not recognised by the company total £204.3m, which equates to a deferred tax asset not recognised of £34.7m. The deferred tax asset not recognised relates to temporary differences arising on the adoption of IFRS 16.

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

Movement in deferred tax asset / (liability)	£m
Balance as at 1 January 2018	(21.7)
Charged to statement of comprehensive income	21.6
Balance at 1 January 2019	(0.1)
Charged to statement of comprehensive income	8.8
Balance as at 31 December 2019	8.7

The Company did not have any deferred tax (2018: £nil).

Notes forming part of the financial statements *continued*

15. Investments

	Group		Company	
	For year ended 31 December 2019 £m	For year ended 31 December 2018 £m	For year ended 31 December 2019 £m	For year ended 31 December 2018 £m
Current tax				
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 (2018: £1,575). For further information on the subsidiaries of the Group, see note 24.

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 2019 £m	For year ended 31 December 2018 £m
Non-current assets		
Foreign currency	1.1	2.5
Fuel	3.3	0.7
	4.4	3.2
Current assets		
Foreign currency	10.4	44.7
Fuel	9.8	2.9
	20.2	47.6
Current liabilities		
Foreign currency	(21.9)	(13.0)
Fuel	(12.2)	(53.2)
	(34.1)	(66.2)
Non-current liabilities		
Foreign currency	(2.9)	(0.7)
Fuel	(2.0)	(16.3)
	(4.9)	(17.0)
	(14.4)	(32.4)

	Group	
	2019 Quantity (million)	2018 Quantity (million)
Nominal amounts		
Foreign currency (USD)	755.6	1,000.1
Foreign currency (Other, represented in GBP)	6.9	9.9
Fuel (Barrels)	6.5	7.0

Notes forming part of the financial statements *continued*

16. Derivative financial instruments *continued*

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.

	Group		
	Gross amount £m	Amount not set off £m	Net amount £m
For the year ended 31 December 2019:			
Derivative financial instruments			
Assets	24.6	(23.4)	1.2
Liabilities	(39.0)	23.4	(15.6)
	(14.4)	-	(14.4)

	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)

The Company did not hold any derivative financial instruments (2018: £nil).

17. Trade and other receivables

	For year ended 31 December 2019 £m	For year ended 31 December 2018 restated* £m
Non-current		
Other receivables	17.8	25.3
	17.8	25.3
Current		
Trade receivables	161.0	169.2
Provision for doubtful receivables	(2.6)	(3.0)
Net trade receivables	158.6	166.2
Other receivables	92.7	93.0
Prepayments and accrued income	37.0	38.5
	288.3	297.7

*The Group has initially applied IFRS 16 at 1 January 2019, 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.

Notes forming part of the financial statements *continued*

17. Trade and other receivables *continued*

	2019 £m	2018 £m
Ageing of past due but not impaired receivables		
1-30 days	15.3	22.2
31-60 days	3.0	3.1
61-90 days	4.6	0.6
91-120 days	0.2	0.1
120+ days	0.1	0.4
	23.2	26.4

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 2019 £m	For year ended 31 December 2018 £m
Aircraft consumable spares	34.0	29.5
Inflight stock	4.6	3.8
Fuel	0.2	0.3
	38.8	33.6

The Company did not have any inventories (2018: £nil).

19. Cash, cash equivalents and restricted cash

	For year ended 31 December 2019 £m	For year ended 31 December 2018 £m
Cash at bank and in hand	352.6	391.6
Bank overdrafts	-	-
Cash and cash equivalents	352.6	391.6
Restricted cash	96.5	97.3
	449.1	488.9

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 (2018: £nil).

Notes forming part of the financial statements *continued*

20. Borrowings

	Group	
	For year ended 31 December 2019 £m	For year ended 31 December 2018* £m
Non-current		
Obligations under leases (i)	(1,747.1)	(1,551.6)
Senior Bonds – A1 (ii)	(168.6)	(172.3)
Senior Bonds – A2 (ii)	(22.1)	(23.6)
Senior Bonds – A3 (ii)	(28.8)	(29.6)
	(1,966.6)	(1,777.1)
Current		
Obligations under leases (i)	(190.9)	(167.5)
Senior Bonds – A1 (ii)	(3.7)	(3.5)
Senior Bonds – A2 (ii)	(1.5)	(1.5)
Senior Bonds – A3 (ii)	(0.8)	(0.8)
Drawdown on revolving credit facility (iii)	(51.3)	-
	(248.2)	(173.3)

*The Group has initially applied IFRS 16 at 1 January 2019, resulting in restatement of comparative information (see note 5).

- i. See below for a full breakdown of all commitments under leasing 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.

- iii. The Group had drawn down £51.3m on its revolving credit facility at year end.

	Group					Total £m
	Sterling £m	US dollars £m	Chinese Yuan £m	Hong Kong dollar £m	South African rand £m	
Analysis of borrowings by currency as at 31 December 2019:						
Obligations under leases	(57.7)	(1,878.5)	(0.4)	(0.7)	(0.7)	(1,938.0)
Senior Bonds - A1	(172.2)	-	-	-	-	(172.2)
Senior Bonds - A2	(23.7)	-	-	-	-	(23.7)
Senior Bonds - A3	(29.6)	-	-	-	-	(29.6)
Drawdown on revolving credit facility	-	(51.3)	-	-	-	(51.3)
	(283.2)	(1,929.8)	(0.4)	(0.7)	(0.7)	(2,214.8)
Analysis of borrowings by currency as at 31 December 2018:						
Obligations under leases	(58.0)	(1,660.3)	-	(0.6)	(0.2)	(1,719.1)
Senior Bonds - A1	(175.8)	-	-	-	-	(175.8)
Senior Bonds - A2	(25.1)	-	-	-	-	(25.1)
Senior Bonds - A3	(30.4)	-	-	-	-	(30.4)
Drawdown on revolving credit facility	-	-	-	-	-	-
	(289.3)	(1,660.3)	-	(0.6)	(0.2)	(1,950.4)

Analysis of leased debt by maturity:

	Group				Total £m
	Within 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m	
Analysis of leased debt by maturity as at 31 December 2019:					
Leased aircraft & engines	(172.2)	(175.4)	(467.5)	(980.4)	(1,795.5)
Leased property	(16.1)	(15.0)	(29.8)	(45.9)	(106.8)
Leased - other	(2.6)	(2.5)	(6.4)	(24.2)	(35.7)
	(190.9)	(192.9)	(503.7)	(1,050.5)	(1,938.0)
Analysis of leased debt by maturity as at 31 December 2018:					
Leased aircraft & engines	(149.8)	(150.9)	(427.8)	(852.8)	(1,581.3)
Leased property	(15.5)	(13.2)	(30.0)	(51.1)	(109.8)
Leased - other	(2.2)	(2.3)	(5.7)	(17.8)	(28.0)
	(167.5)	(166.4)	(463.5)	(921.7)	(1,719.1)

Notes forming part of the financial statements *continued*

Change in lease debt:

	Group						
	1 January 2019 restated* £m	New contracts & renewal of contracts £m	Other movements £m	Payment of lease rental £m	Revaluation £m	Interest £m	31 December 2019 £m
Leased aircraft & engines	(1,581.3)	(480.5)	23.5	238.1	96.3	(91.6)	(1,795.5)
Leased property	(109.8)	(5.0)	(9.7)	22.9	1.2	(6.4)	(106.8)
Leased - other	(28.0)	(11.5)	-	4.0	1.5	(1.7)	(35.7)
	(1,719.1)	(497.0)	13.8	265.0	99.0	(99.7)	(1,938.0)

	Group						
	1 January 2018 restated* £m	New contracts & renewal of contracts £m	Other movements £m	Payment of lease rental £m	Revaluation £m	Interest £m	31 December 2018 £m
Leased aircraft & engines	(1,322.6)	(301.0)	(8.4)	240.9	(105.4)	(84.8)	(1,581.3)
Leased property	(119.7)	(3.4)	(1.5)	22.7	(1.2)	(6.7)	(109.8)
Leased - other	(24.6)	(3.3)	(0.8)	3.4	(1.4)	(1.3)	(28.0)
	(1,466.9)	(307.7)	(10.7)	267.0	(108.0)	(92.8)	(1,719.1)

The Company did not have any borrowings (2018: £nil).

21. Trade and other payables

	Group		Company	
	For year ended 31 December 2019 £m	For year ended 31 December 2018* £m	For year ended 31 December 2019 £m	For year ended 31 December 2018 £m
Non-current				
Other revenue received in advance	(3.6)	(4.7)	-	-
	(3.6)	(4.7)	-	-
Current				
Trade payables	(117.1)	(78.3)	-	-
Other revenue received in advance	(22.3)	(17.4)	-	-
Flight and airport charges	(114.5)	(114.3)	-	-
Amounts owed to other Group companies	(5.7)	(4.9)	(0.8)	(0.8)
Other taxes and social security	(14.9)	(13.7)	-	-
Other payables	(10.1)	(9.2)	-	-
Accruals	(230.9)	(270.3)	-	-
	(515.5)	(508.1)	(0.8)	(0.8)

*The Group has initially applied IFRS 16 at 1 January 2019, resulting in restatement of comparative information (see note 5).

Included within current and other payables is an amount of nil (2018: £5.2m) 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.

Notes forming part of the financial statements *continued*

22. Deferred revenue on air travel and tour operations

	Group	
	For year ended 31 December 2019 £m	For year ended 31 December 2018 £m
Non-current	(1.9)	(1.0)
Current	(523.4)	(618.5)
Total deferred revenue on air travel and tour operations	(525.3)	(619.5)

	Forward sales of passenger carriage and holidays £m	Customer Loyalty Programme £m	Total £m
Balance at 1 January 2019	(523.8)	(95.7)	(619.5)
Revenue recognised in income statement	2,712.1	8.7	2,720.8
Loyalty points issued to customers	-	(10.2)	(10.2)
Cash received from customers	(2,713.6)	-	(2,713.6)
De-merger of subsidiary	-	97.2	97.2
Balance at 31 December 2019	(525.3)	-	(525.3)

Deferred revenue relating to customer loyalty programmes consisted 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. The customer loyalty programme was demerged from the Group in 2019 see note 24.

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 (2018: £nil).

23. Provisions

	Group	
	2019 £m	2018 Restated* £m
Non-current		
Maintenance	(92.4)	(85.5)
Onerous leases	(0.4)	(0.9)
Leasehold dilapidations	(6.8)	(7.0)
	(99.6)	(93.4)
Current		
Maintenance	(15.7)	(17.8)
Onerous leases	(0.2)	(0.3)
Leasehold dilapidations	(0.2)	-
Legal claims	(14.3)	(16.3)
Restructuring costs	-	(1.8)
	(30.4)	(36.2)

	Group					
	Maintenance £m	Onerous leases £m	Leasehold dilapidations £m	Legal claims £m	Restructuring costs £m	Total £m
As at 1 January 2018 restated*						
Amounts (provided) / released in the year	(80.6)	(1.8)	(8.2)	(12.2)	(1.6)	(104.4)
	(27.1)	-	1.0	(39.0)	(2.3)	(67.4)
Amounts utilised in the year	10.2	0.3	0.1	10.6	2.1	23.3
Other movements	(5.7)	0.3	0.1	24.3	-	19.0
At 31 December 2018	(103.2)	(1.2)	(7.0)	(16.3)	(1.8)	(129.5)
As at 1 January 2019 restated*						
Amounts (provided) / released in the year	(103.2)	(1.2)	(7.0)	(16.3)	(1.8)	(129.5)
	(22.3)	-	-	(12.1)	0.4	(34.0)
Amounts utilised in the year	16.4	0.2	-	13.1	1.4	31.1
Other movements	1.0	0.4	-	1.0	-	2.4
At 31 December 2019	(108.1)	(0.6)	(7.0)	(14.3)	-	(130.0)

*The Group has initially applied IFRS 16 at 1 January 2019, resulting in restatement of comparative information (see note 5).

Maintenance included in provisions relates to the costs to meet the contractual return conditions on aircraft treated as right of use assets. 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 (2018: £nil).

Notes forming part of the financial statements *continued*

24. Interest in subsidiaries and associates

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 2019 are:

	Country of incorporation or registration	% Ordinary is-sued shares	Principal activity
Subsidiaries and associates			
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
Connect Airways Limited	England and Wales	30	Airline operations

Significant holdings

Air Nigeria Development Limited (formerly Virgin Nigeria Airways Limited)	Nigeria	49	Airline operations
--	---------	----	--------------------

Subsidiary and Associates Registered Office

Addresses

Entity	Registered office address:
Fit Leasing Limited, VAA Holdings Jersey Limited	47 Esplanade, St Helier, Jersey, JE1 0BD
Virgin Vacations Inc, Virgin Incoming Services Inc.	5787 Vineland Road, Suite 204, Orlando, Florida, 32819
Barbados Enterprise PLC	35 Great St Helen's, London, EC3A 6AP
Connect Airways Limited	1 More London Place, London, SE1 2AF
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.

Virgin Vacations Incorporated ceased trading on 31 March 2019.

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.

Demerger of a subsidiary

On 31 March 2019 the Group demerged a subsidiary, Virgin Group Loyalty Company (VGLC) which had a non-controlling interest (see note 25). The shares of VGLC were transferred via a dividend of shares to the Group's shareholders, Virgin Group Holdings Limited & Delta Airlines Incorporated.

The following table summarises the information relating to the groups former subsidiary, Virgin Group Loyalty Company immediately prior to demerger

	As at 31st March 2019 £m
Total assets	28.8
Total liabilities	(116.7)
Net liabilities on demerger	(87.9)

Notes forming part of the financial statements *continued*

25. Non-controlling interest

In 2018 the Group established a new subsidiary, Virgin Group Loyalty Company. 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 Investments Limited, the Group's ultimate parent company were acquired in exchange for 67,626 of the total 1,035,626 share capital in Virgin Group Loyalty Company. The Group accounted for a non-controlling interest ('NCI') until the subsidiary, Virgin Group Loyalty Company was demerged from the Group (see note 24) on 31 March 2019.

The following table summarises the information relating to the Group's former subsidiary, Virgin Group Loyalty Company which had a NCI before any intra-group eliminations in the prior year. Profits allocated to the NCI for the three months ended 31st March 2019 were £0.1m; the table below shows the comparative for 2018. The Group did not have a NCI as at 31 December 2019.

	2018 £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 2019 and 31 December 2018 with related parties.

	Group		Company	
	For year ended 31 December 2019 £m	For year ended 31 December 2018 £m	For year ended 31 December 2019 £m	For year ended 31 December 2018 £m
Parent				
Purchases from parent	(0.1)	(0.1)	(0.1)	(0.1)
Purchases from associate	(1.0)	-	-	-
Related parties under common control				
Sales to related parties	58.0	10.6	-	-
Purchases from related parties	(72.8)	(19.8)	-	-
Amounts owed by related parties	13.0	-	-	-
Amounts owed to related parties	(9.9)	(5.1)	-	-
Subsidiaries				
Amounts owed to subsidiaries			(0.8)	(0.8)

Notes forming part of the financial statements *continued*

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 2019 the Group owed Delta Air Lines Inc. £32.4m (2018: £8.0m) 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 £5.5m (2018: £6.4m); total purchases were £98.4m (2018: £72.2m). Outstanding receivable balances amounted to £0.2m (2018: £0.4m) and outstanding payables (excluding amounts owed under the joint arrangement) were £7.2m (2018: 2.8m).

In March 2019, a £30.0m facility was made available by the Group's shareholders; Delta Air Lines committed 49% of this

facility and Virgin Holdings Limited committed 51%. During the year, the Group paid commitment fees of £0.1m to Delta Air Lines and £0.1m to Virgin Holdings Limited in respect of this facility.

In January 2019, the Group along with partners Stobart Aviation and Cyrus Capital ('the Consortium') established a separate entity named Connect Airways Limited, with each having ownership of 30%, 30% and 40% respectively. In February 2019 Connect Airways Limited acquired Flybe Limited. During the year, the Group entered into a commercial agreement with Flybe Limited to receive all revenue generated from and settle all operating costs of certain routes operated by Flybe Limited, resulting in a net settlement of £5.2m to Flybe in the year, presented within Share of profit/(loss) from equity accounted investees. The Consortium also entered into loan agreements, including certain guarantees, which committed funding to Flybe Limited of up to £135.0m, of which the Virgin Atlantic Group committed up to £41.0m, secured on certain fleet and other assets of Flybe Limited. The Group received interest under these loan agreements amounting to £2.3m during the year, presented within Finance income. All transactions have been concluded at arm's length with the exception that during the year the Group entered into agreements with Flybe Limited, whereby certain take-off and landing slots at London Heathrow Airport currently allocated to Virgin Atlantic shall be temporarily exchanged to Flybe Limited, these are considered to be at below market rates. On 5th March 2020, Flybe Limited filed for administration (refer to note 32). The Group considered the financial position of the company at the balance sheet date to be an indicator that both the loan receivable and the investment it holds in Connect Airways Limited was impaired as at 31 December 2019. The Group expects to recover material amounts from the administrator however the amount and likely timing of such recoveries are too uncertain to accurately quantify at the balance sheet date, and therefore do not meet the 'virtually certain' recognition criteria per IAS 37. Accordingly, the Group

impaired the full value of the loans receivable and investment balance held to £nil, and provided for the guarantees as at 31 December 2019 (refer to note 8).

Not included in the table above is a balance of £8.3m within deferred income at the balance sheet date relating to Virgin Money UK Plc. Revenue also includes £1.0m of sales to this related party. These transactions were at arms length.

As at 31 December 2019, the Directors consider the ultimate holding company to be Virgin Investments Limited, a company registered in the British Virgin Islands. The sole shareholder of Virgin Investments 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 Investments 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

As at 31 December 2019, the Group and Company had the following annual commitments under non-cancellable leases which are outside the scope of IFRS 16 (see note 5):

	Group			
	2019		2018	
	Land and buildings £m	Aircraft and other £m	Land and buildings £m	Aircraft and other £m
Commitments under non-cancellable leases				
Not later than one year	2.4	0.6	1.3	-
Later than one year and not later than five years	2.5	-	0.9	-
Later than five years	-	-	-	-
	4.9	0.6	2.2	-

*The Group has initially applied IFRS 16 at 1 January 2019, resulting in restatement of comparative information (see note 5).

Notes forming part of the financial statements *continued*

Capital commitments

	Group	
	2019 £m	2018 £m
Capital commitments at the balance sheet date for which no provision has been made:	3,433.1	2,568.2

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	
	2019 £m	2018 £m
Financial assets		
Cash and bank balances	352.6	391.6
Restricted cash	96.5	97.3
Fair value through profit and loss:		
Derivative financial instruments	24.6	50.8
Loans and receivables at amortised cost:		
Investments	-	-
Trade and other receivables (excl. prepayments and accrued income)	269.1	284.5
	742.8	824.2
Financial liabilities		
Fair value through profit and loss:		
Derivative financial instruments	(39.0)	(83.2)
Financial liabilities at amortised cost:		
Borrowings (including lease liabilities)	(2,214.8)	(1,950.4)
Trade and other payables	(519.1)	(512.8)
	(2,772.9)	(2,546.4)

*The Group has initially applied IFRS 16 at 1 January 2019, resulting in restatement of comparative information (see note 5).

(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:

Notes forming part of the financial statements *continued*

(i) Fuel price risk *continued*

	Group	
	2019 £m	2018 £m
Increase in fuel price by a fixed percentage	30%	30%
Increase in profit before tax	97.1	70.7
Decrease in fuel price by a fixed percentage	(30%)	(30%)
Decrease in profit before tax	(80.7)	(89.2)

(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. The transactions are considered highly probable based on past performance (USD revenues received in prior years), forecast cash flows and the Group's business model ie. an emphasis on transatlantic flying. 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	
	2019 £m	2018 £m
Strengthening in the USD to GBP currency exchange rate by a fixed percentage	10%	10%
Decrease in profit before tax	(51.7)	(62.0)
Weakening in currency exchange rate by a fixed percentage	(10%)	(10%)
Increase in profit before tax	51.9	87.2

(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 2019 (2018: 38), 66% were based on fixed interest rates and 34% were based on floating interest rates (2018: 66% fixed, 34% floating).

A significant proportion of US dollar liabilities by value are matched with US dollar cash.

(iv) Credit risk

The Group is exposed to credit risk to the extent of non-performance by its counterparties in respect of financial assets

receivable, cash, money market deposits and derivative financial instruments.

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

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

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

As at 31 December 2019 the Group held £nil (2018: £5.2m) of collateral to mitigate this exposure (see note 21).

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

Notes forming part of the financial statements *continued*

(v) Liquidity risk

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

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

As at 31 December 2019 the Group had a secured Revolving Credit Facility for \$280m. Further increases to the Facility can be requested up to \$350m by charging additional assets. The facility currently matures in January 2023. At 31 December 2019 the facility was drawn by \$68.0m (£51.3m).

The maturity profile of financial liabilities based on undiscounted gross cash flows and contractual maturities can be found in note 20.

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

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

	Group	
	2019 £m	2018 £m
(Loss)/profit for the year	(54.7)	(96.1)
Adjustments for:		
Depreciation	243.6	234.2
Amortisation	23.0	22.9
(Gain) / loss on unrealised forex	(2.2)	75.7
Profit on disposal of property, plant and equipment and intangible assets	(1.4)	(21.9)
Profit/loss from equity accounted investees	9.4	-
Taxation	(9.0)	(21.6)
Movement in provision for bad debts	0.4	0.6
Unrealised fair value movement in derivatives	(23.2)	48.7
Net finance costs	96.3	90.6
Other exceptional items (i)	44.8	3.2
Working capital changes		
Inventory	(5.2)	(1.9)
Trade and other receivables	(17.3)	(47.6)
Trade and other payables	29.1	18.1
Deferred revenue on air travel and tour operations	4.2	57.7
Provisions	(13.4)	(5.2)
Interest paid	(108.1)	(101.5)
Income taxes (paid) / recovered	0.4	0.1
Net cash from operating activities	216.7	256.0
Adjustments for other exceptional items	10.0	5.4
Net cash from operating activities before exceptional items	226.7	261.4

*The Group has initially applied IFRS 16 at 1 January 2019, resulting in restatement of comparative information (see note 5).

Notes forming part of the financial statements *continued*

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

Group	2019		
	Cash £m	Non cash £m	Total £m
Restructuring costs	(7.7)	(2.7)	(10.4)
Share of equity accounted investees exceptional items	(2.3)	-	(2.3)
Aircraft costs	-	(1.3)	(1.3)
Goodwill impairment	-	(0.3)	(0.3)
Other impairments	-	(40.5)	(40.5)
	(10.0)	(44.8)	(54.8)

Group	2018		
	Cash £m	Non cash £m	Total £m
Restructuring costs	(5.4)	(3.2)	(8.6)
	(5.4)	(3.2)	(8.6)

Notes forming part of the financial statements *continued*

32. Subsequent events

In January 2020, the Group entered into a joint arrangement with Delta Air Lines Inc. and Air France-KLM S.A., which 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. This joint arrangement, for which the Group received anti-trust immunity from the US Department of Transportation in November 2019, replaces the joint arrangement which previously existed between the Group and Delta Air Lines Inc.

In March 2020, Flybe Limited and its parent company, Connect Airways Limited filed for administration. While not considered in itself to be a post-balance sheet adjusting event, the Group considers this to be an indicator that both the loan receivable and the investment it held in Connect Airways Limited was impaired as at the balance sheet date. The Group expects to recover material amounts from the administrator however the amount and likely timing of such recoveries are too uncertain to accurately quantify at the balance sheet date. Accordingly, the Group impaired the full value of balances held within 2019 (refer to notes 8 and 26).

In March 2020, the World Health Organisation categorised the spread of Covid-19 as a pandemic, following the origination of the disease in China in December 2019 and its spread across Europe and other regions in the following months. The pandemic has had a severe impact on the airline and travel industries, as measures put in place by governments across the globe to contain the spread of the disease have placed restrictions on international travel. The impact of Covid-19 is considered to be a non-adjusting post balance sheet event as it relates to conditions that arose after the reporting period, particularly following the categorisation of the disease as a

pandemic. An accurate estimate of the financial effect caused by Covid-19 cannot be made as at the date of this report, since the impact of the pandemic is ongoing.

