virgin atlantic

Virgin Atlantic annual report 2014

Contents

Our purpose

To embrace the human spirit and let it fly

Our ambition

To be the airline most loved by our customers

We will achieve this by being uniquely Virgin Atlantic

Our routes

[1] Route starting Summer 2015
[2] Little Red route ceasing 26 September 2015
[3] Seasonal route starting Summer 2015

2014 Highlights

Safety

The safety, security and wellbeing of our customers and our people is, and always will be, our top priority

Customers

Our focus is always for the customer, with flair

People

Our people are Virgin Atlantic's biggest differentiator and make us unique

£300m

We are investing over £300m to enhance our product and service offering for the benefit of our customers

6,156,000

We served 6,156,000 customers on 29,600 flights to 33 destinations

85.5%

On time performance remains high with 85.5% of flights departing within 15 minutes of schedule

NPS score

Our customer satisfaction and net promoter score have increased, exceeding our own ambitious targets

Fleet

We have begun the evolution of our aircraft towards the most modern and fuel efficient in the industry
Our first Boeing 787-9 Dreamliner entered service in October

200

Our transatlantic joint venture with Delta Air Lines, Inc. (Delta) has opened up over 200 destinations to our customers, with full co-location of our services at JFK and partial co-location at Heathrow Terminal 3

We continue to invest in our people and this year launched our Loved for Service programme for all customer facing employees

£1.4m

In 2014, Virgin Atlantic and The Virgin Atlantic Foundation together donated £1.4m in total for charity and celebrated a year of engagement with 12,000 young people at the first ever UK We Day at Wembley Arena

2014 Highlights continued

Financial

We have successfully concluded our recovery programme which began in 2013

£14m

Profit before tax and exceptional items of £14m, a £65m year on year improvement on 2013

4.8%

Unit revenue per airline passenger increased 4.8% at constant currency

0.3%

Increase in unit operating costs of 0.3% at constant currency

£121m

Operating cash flow of £121m

£88m

Dividends paid out in the year of £88m

£61m

Net capital expenditure of £61m including delivery of two Boeing 787-9 aircraft

50%

We will replace 50% of our aircraft over the next four years driving operational simplification and improved fuel efficiency

We have a 'Plan to Win' that will position us for enduring profitability and allows us to invest and grow our business for our people, customers and shareholders

Celebrating 30 years of Virgin Atlantic

When Virgin Atlantic first took to the skies in June 1984 there wasn't much choice of who to travel with. Most countries had their own national airline, complete with an unimaginative customer experience.

Virgin Atlantic was founded to change that, to give people a genuine choice. We shook up the industry and showed that things could be done differently. We were – and remain – always for the customer, with flair. We aim to provide the best and most innovative service at excellent value for money.

This year, we celebrated our 30th anniversary. A lot has changed in our business, the industry, and the wider world, but we remain a customer driven airline with an emphasis on value for money, quality, fun and innovation.

For the last three decades we are proud to have been at the forefront of innovating and driving change, not just at our airline, but in the wider industry.

We were the first to offer seatback video entertainment.

We introduced a whole new cabin, Premium Economy, for the cost conscious business traveller and holidaymakers who want to treat themselves.

We introduced first class service at business class prices with Upper Class.

Upper Class service (2014)

We were the first to offer an option of limo transfers and Drive Thru Check In.

Throughout this time what has made Virgin Atlantic stand out from our competitors is our people. Our team makes the airline what it is and our customers choose to fly with us in the face of growing competition because of them.

This year our customer satisfaction has increased. We are exceeding the ambitious targets we have set ourselves. We do particularly well where our customers have face to face interactions with Virgin Atlantic's people. We are extremely proud of this. It is because of all the work that has gone into making us an airline which puts the customer at the heart of everything it has done. I would like to thank everyone who has been a part of this journey. We are not stopping here!

Celebrating our 30th Birthday in Crawley (30 June 2014)

Having celebrated our 30th anniversary, we look ahead and we are ambitious. The possibilities that flying can offer passengers in the future are amazing. We will continue to improve the quality, experience and connectivity we bring our customers in the years ahead.

Our joint venture with Delta offers us great scope. We are opening up many more US destinations to our customers in the UK, and the opportunity for many more US customers to connect onto our transatlantic routes and experience our service. The introduction of new, state of the art and fuel efficient aircraft types led by the Boeing 787-9, combined with our new onboard product, is being very well received by our customers.

We will continue to invest heavily in customer experience, we will continue to radically innovate, and we will continue to be profitable and uniquely Virgin Atlantic.

Sir Richard Branson
President
4 March 2015

We are exceeding the ambitious targets we have set ourselves

Chairman's review

> To focus on our customers and to deliver a safe, innovative, compelling and consistent travel experience

This year we achieved our short term goal of returning to profit. We made a profit on ordinary activities before taxation and exceptional items of £14m, which is an improvement of £65m on the pro forma loss reported for the 12 months ended 31 December 2013. This is the fruit of our two year programme. We have successfully completed the recovery phase.

Improved performance of return
Through our first 30 years we deservedly earned a reputation for high quality service and customer experience. Financial performance was less reliable. Now we are adding sustainable profitability to the mix.

The core of this plan is to focus on our customers and to deliver a safe, innovative, compelling and consistent travel experience. The safety and security of our customers and colleagues has always been at the very core of everything that we do. Our ambition is to be the airline most loved by our customers, preferred for business, best for leisure.

Our development plan, our Plan to Win, will be achieved through continuing investment. Investment in our people; in our customers; in the latest technology, fuel efficient aircraft; in realigning our route network with Delta; and in our IT infrastructure. Through these changes we are building a sustainably profitable business attracting new customers, retaining existing customers and delighting all.

Shareholder returns
During the year we distributed dividends of £88.1m to shareholders. These resulted from two exceptional transactions. The first was the demerger from the Group of certain Virgin trademarks. The second was the sale of most of our investment in Airline Group Limited, which is the company that owns 42% of NATS (formerly National Air Traffic Services), the UK's main air navigation service provider.

787-9 Dreamliner (2014)

Colleagues
On behalf of the Board, I thank all our people in the Virgin Atlantic Group for their loyalty, commitment and hard work during the year.

I would like to take this opportunity to recognise the support and contribution of my fellow Board colleagues during the year. I would like to thank Tim Livett, who left us in July, for his services to Virgin Atlantic over the last ten years and for his stewardship as Chief Financial Officer (CFO) of our finances during a number of challenging years. A warm welcome to Ian Woods who joined the Board to replace Shai Weiss as a non-executive director, following Shai's appointment as CFO.

Peter Norris
Chairman
4 March 2015

Chief Executive Officer's review: Recovery complete in 2014

787-9 Dreamliner onboard bar (2014)

This recovery phase has been successfully completed in 2014 with Virgin Atlantic returning a pre-exceptional profit before tax of £14m

There has never been a better time to build Virgin Atlantic for the future. We are now optimally setup to delight our customers with a robust and sustainable airline. We have the right planes, on the right routes and a plan to lead in customer experience.

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

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

Strategic changes in the business along with operational and cost efficiencies have driven the improved financial performance. Unit revenue for the Airline improved significantly, 4.8% higher than 2013 at constant currency, and the net increase in unit operating costs of 0.3% at constant currency was well below inflation, despite significant investment in customer products and services.

Our customers
We strive to deliver a personal and effortless experience for our customers throughout their time with us centred on our people, our aircraft, and also investing in state of the art technology. During 2014 we served 6,156,000 customers on 29,600 flights to 33 destinations, and our Net Promoter Score improved by 24% from 2012, which demonstrates our success in delighting our customers.

The safety, security and well-being of our customers and our people is, and always will be, our top priority

We have total commitment to the highest safety and security standards from the CEO and Executive Management Team. This is fully supported by a management structure with clear accountability and defined escalation channels, a team of dedicated safety and security professionals, and focussed action groups structured on the International Civil Aviation Organisation (ICAO) model.

Our Safety Management System actively encourages our people to report confidently, openly and honestly. All reports are investigated by our safety and security experts who identify appropriate actions and recommendations. We continuously review how we manage safety and security ensuring the highest corporate standards, care for our people and the safety and security of our customers are maintained at all times.

Our people
The people of Virgin Atlantic truly define our company and we recognise that they have played a crucial part in returning our business to profitability. Throughout 2014 we have invested heavily in training and developing our people, with our whole customer facing team engaging in our new Loved for Service programme. Together with the launch in September of our new uniform, and the cabin improvements made to our aircraft, these initiatives have driven significant improvements in employee engagement and customer satisfaction.

Chief Executive Officer's review continued

Since our joint venture with Delta launched in January 2014, we have seen 100,000 connecting customers, full co-location at New York JFK's Terminal 4 and partial co-location at Heathrow's Terminal 3

Virgin Atlantic and Delta Air lines

Our fleet
The evolution of our aircraft fleet towards the most modern and fuel efficient in the industry is well underway. Our first Boeing 787-9 Dreamliner aircraft entered into service in October, driving not only a step change improvement in fuel efficiency, but also significantly improving the inflight experience for our customers. 16 further aircraft are due to join us by the end of 2018, putting new generation aircraft types, such as the 787-9, at the centre of our future fleet.

Our network
In 2014 we started to lay the foundations for the Plan to Win by strengthening our network to focus on our transatlantic routes. This included the addition of 10 new transatlantic routes. The combined strengths of loyal customers of Virgin Atlantic in the UK and Delta customers in the US has created significant advantage to our network. Unfortunately this also meant making some tough decisions to remove routes which are not profitable, including our domestic Little Red operation.

Our partnership
Since our joint venture with Delta launched in January 2014, we have seen 100,000 connecting customers, full co-location at New York JFK's Terminal 4 and partial co-location at Heathrow's Terminal 3. We now offer a memory schedule, with services departing up to every half hour during the peak period, between the two airports which is particularly valued by our corporate customers.

We are coordinating sales and marketing activity, and have aligned our flying programmes with increased capacity now deployed on JV routes. Our customers have also benefited from a huge choice of connecting destinations within Delta's network, and a choice of carrier on key cooperated routes of Boston, JFK, Los Angeles and Atlanta from the US to the UK.

Our Plan to Win
We have delivered against our recovery plan and we are now profitable. It is time to focus on the future.

We have a Plan to Win that will position us for enduring profitability, earning competitive returns that will allow us to invest and grow our business for our people, customers and shareholders.

Our 'Plan to Win' leverages our key strengths including brand and customer experience, people, size and simplicity, our advantageous position in the UK, fleet of aircraft, and our joint venture with Delta across the Atlantic.

Our focus is always for the customer, with flair, providing an effortless experience for our customers across the journey by offering a compelling alternative through our renowned product and the highest standards of service.

We announced on 3 September 2014 that we are investing over £300m to ensure we continue to delight our customers including:

- We will be the 'connected airline', with full rollout of WiFi across our fleet
- Keeping our Clubhouses, cabins and seat, and food and beverage offerings well ahead of the competition
- Best in class Inflight Entertainment (IFE)
- Investing in our web and mobile experience

We will maximise the benefits of the joint venture with Delta through expanding our joint schedule and growing market share.

- Developing our network through new routes and schedules and increase coordination of sales and marketing activities
- Continue the delivery of co-location and joint service provision in UK and USA to create a seamless customer experience
- In 2015 we will launch a new joint hospitality space at London O2 Arena to build awareness and understanding of the benefits of the partnership amongst our customers

Chief Executive Officer's review continued

Our Plan To Win - four key performance indicators

Net Promoter Score - We ask our customers "How likely would you be to recommend Virgin Atlantic to a friend on the basis of this journey experience overall?" on a scale of 0-10. In 2014 Net Promoter Score (NPS) saw its third consecutive annual increase. We lead the way in transatlantic NPS scores but believe we can be even better.

Engagement – Virgin Atlantic's people make us unique. Our overall engagement score has improved by 9% since our last survey in 2012 and is significantly higher than the airline industry norm.

Profitability – We aim to deliver long term returns to our shareholders and people by delivering sustainable profits as measured by profit before tax and exceptional items.

Return on invested capital (ROIC) - ROIC is a new measure for Virgin Atlantic. With this measure we intend to ensure our investments are driving the appropriate level of returns.

- Drive profitability through our Virgin Holidays brand by increasing co-ordination with Virgin Atlantic and Delta customers

We will replace 50% of our aircraft over four years driving improved economics from operational simplification and fuel efficiency, together with a better experience and more consistency for customers.

Our fleet transformation will see us move from 39 aircraft spread across five aircraft types, to just three aircraft types, with 17 Boeing 787-9 aircraft. The replacement of Airbus A340 with state of the art Boeing 787-9 aircraft continues through to 2018 reducing the average age of our aircraft making our fleet one of the youngest and most fuel efficient in the skies.

We are investing over £100m in a technology transformation focussing on customers and our people.

- Investing in a better customer experience that drives engagement and advocacy such as developing our mobile app and providing fleet wide WiFi connectivity by 2018

- Equipping our people with technology that enables them to deliver a better customer service

- Investing in solutions that improve our organisation's efficiency and effectiveness

Let It Fly

We have a strong brand at Virgin Atlantic that we are all extremely proud of and at the beginning of 2015 we launched our much awaited advertising campaign, 'Let it Fly', to help bring our strong customer ethos to life.

Virgin Atlantic naturally attracts customers who are passionate about seeking new experiences and our new campaign encourages them to embrace the human spirit and 'Let it Fly'. Our new brand campaign message of 'Life doesn't come to you, so go to it' captures our passion for service and demonstrates how we go above and beyond to deliver unforgettable experiences for our customers.

This is a positive step change in how we express ourselves creatively. We will always challenge the status quo. For this campaign, instead of challenging the competition, we are challenging ourselves for the customer. This global, integrated campaign continues with outdoor, press, digital, email and social advertising showcasing the iconic destinations that we fly to and the experiences available in each.

People

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

We are a people business and believe in a strong link between high levels of employee engagement and outstanding customer service. Engagement is a key part of our Plan to Win. Our focus is to ensure that our people support our vision, that they are motivated and that they are empowered to deliver for our customers and for each other.

As a business we prioritise investing in our people through training and development. Since late 2013 and throughout 2014, every single member of cabin crew, including crew management, has taken part in our Loved for Service programme. Our front line people are empowered to deliver an even more exceptional service.

We will continue to work with our people in 2015 to further drive a high performing culture, increased levels of employee engagement and a culture that places the customer at its very heart.

Our people are our big differentiator and we recognise that they have played a crucial part in returning our business to profitability and will be equally critical to the success of our Plan to Win.

The Strategic report was approved by the Board of Directors on 4 March 2015 and signed on its behalf by

Craig Kreeger
Chief Executive Officer
4 March 2015

Chief Financial Officer's review

We increased Airline Passenger Revenue per ASK (p) by 3.5% at constant currency

Virgin Atlantic has returned a profit before exceptional items of £14.4m for the year 2014 which successfully concludes our recovery phase. We reported an operating profit before exceptional items of £4.2m. We generated operating cash flows of £121.3m, an increase of £138.5m on the ten months ended 31 December 2013, and incurred net capital expenditure of £60.6m including the acquisition of two new Boeing 787-9 aircraft. Dividends paid out in the year of £88.1m resulted from the disposal of Airline Group Limited (AGL) and the demerger of the Trademark entities from the Group. We are investing £300m to enhance our product and service offering for the benefit of our customers.

Result highlights

- Profit before tax and exceptional items improves by £65.4m year on year to a profit of £14.4m (statutory profit before tax of £17.6m)
- Airline revenue for the year down 1.6% (up 1.5% at constant currency)
- Airline passenger unit revenue up 0.5% (3.5% at constant currency)
- Airline operating costs before exceptional items have fallen year on year by £109.3m
- Virgin Holidays revenue saw a 1.1% year on year increase in 2014
- Airline operating margin improvement of 2.6pts year on year
- Total operating profit for the year to 31 December 2014 of £9.7m
- Return on invested capital improves 4.2pts to 6.4%[1]

Airline passenger revenue

By continuing to improve our service and product and by exploiting the opportunities enabled by the joint venture with Delta we increased Airline Passenger Revenue per ASK (p) by 3.5% at constant currency[2]. The joint venture has seen a successful first year, with 100,000 connecting passengers resulting in a 9.9% increase in associated revenue year on year.

Our customer loyalty programme, Flying Club, saw strong revenue performance and we continue to invest in building long term customer loyalty and engagement.

Cargo revenue

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

Operating costs

Airline operating costs before exceptional items have fallen year on year by £109.3m driven by reduction in fuel cost and improved efficiency. We empower our front line team to identify opportunities to reduce the volume of fuel that our aircraft consume and this reduced fuel consumption by 3.1%.

As part of our recovery, we undertook a detailed cost review, and during 2014 the company successfully delivered £32m in cost reduction through effective procurement and improving efficiency.

We absorbed regulated cost increases in excess of inflation (especially at London Heathrow), and increased investment in customer product and services.

Fuel cost

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

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

1. ROIC has been calculated as EBIT divided by net assets deployed less net debt.
Adjustments are made to EBIT and net assets to account for those aircraft operated under operating leases.
2. Constant currency refers to the restatement of prior year revenue and cost at the average IATA 5 day exchange rate for the current year.

Chief Financial Officer's review continued

The replacement of A340s with state-of-the-art Boeing 787-9 continues with eight arriving in 2015 reducing the average age of our aircraft from ten years to eight years

Number of aircraft

	31 December 2014	31 December 2013
A340-300	**2**	4
A340-600	**13**	14
747-400	**12**	12
A330-300	**10**	10
787-9	**2**	-
Total	**39**	40

Aircraft ownership costs
Aircraft ownership costs reduced 5.0% at constant currency due the reduction in the number of aircraft in our fleet and partially due to lower interest rates. The majority of our aircraft are financed through operating leases.

The replacement of A340s with state of the art Boeing 787-9 continues with eight arriving in 2015 reducing the average age of our aircraft from ten years to eight years making our fleet one of the youngest and most fuel efficient in the skies.

Virgin Holidays
In 2014, Virgin Holidays saw a 1.1% year on year increase in revenue driven by performance of the North America region. Online bookings continue to grow, and we are investing in a new technology platform to continue to drive growth through this channel. The retail distribution network has delivered increased bookings year on year and the number of retail outlets open as at 31 December 2014 stood at 126 (2013: 106). Travel agent sales were comparable with the prior period.

Gross profit margin was slightly lower than prior year, at 10.0% (compared to 10.2% for the 12 months to 31 December 2013[3]) due to the impacts of the strengthening US dollar and the lag in the consumer confidence upturn translating to departed holiday volume increases.

Market overview
The UK long haul air travel market is valued at £15bn for both leisure and business with business travellers representing 33% of market at £5bn but only 5% of travellers.

The continued recovery of the UK economy has contributed to increased customer confidence, reflected in higher traveller spend on international travel. Longhaul capacity growth out of LHR was 2.9% supported by modest UK and global GDP growth of 2.6%.

UK price inflation hit a five-year low in the year to December 2014 primarily due to a steep fall in wholesale energy prices.

Oil prices fell by almost half between June and December 2014 with low demand due to weak economic activity and American fracking activity creating excess supply. Most airlines hedge their exposure to fuel prices and so the full impact will not be felt immediately.

The transatlantic longhaul market saw the emergence of new low cost carriers. This continues a trend that is made possible by the increased capability and availability of fuel efficient long range aircraft.

Regulatory landscape
While we saw some positive improvements in 2014, specifically in the areas of Air Passenger Duty (APD) and the charging framework at Heathrow and Gatwick airports, the overall regulatory environment in the UK and Europe remains challenging.

In its Budget in March 2014, the UK Government announced that it would simplify the structure of APD charges, creating one long haul rate instead of three different levels depending on distance between capital cities. This was a good outcome for Virgin Atlantic's passengers, particularly as it removed the anomaly whereby our Caribbean passengers paid more in APD than those travelling to the West Coast of the US. In its Autumn Statement in December 2014, the Government corrected another anomalous aspect of APD, when it
→

3. Unaudited pro forma

Chief Financial Officer's review continued

In 2015, 70% of our capacity will be deployed on transatlantic routes operated in conjunction with Delta

announced its intention to remove it from children's fares. Despite these positive steps, APD is still the highest passenger tax in the world, at around double the German rate. Achieving an internationally competitive rate of APD remains a priority.

In early 2014, the CAA announced that it would continue to regulate Gatwick and Heathrow airports, due to the significant market power they exert over the airlines (including Virgin Atlantic) which operate from them. After a decade of exponential increases in Heathrow's charges, the CAA confirmed that for 2014-2018, the airport would be limited to an RPI-1.5% increase per annum. Whilst Gatwick was subject to lighter touch regulation, through commercial agreements with carriers, robust price caps were still imposed.

Going forwards, the publication of Sir Howard Davies' Airports' Commission recommendation on the location of new capacity in the South East of England, and the new Government's response to it, present significant regulatory uncertainty. While Virgin Atlantic believes that a third runway at Heathrow airport is the right answer for the UK, we will continue to engage with the Government, CAA and other stakeholders on how this capacity will be delivered and paid for. Our customers should not be expected to pay for a runway they may never use, so the traditional pre-funding model cannot apply. New capacity should enhance competition between airlines, correcting legacy carriers' inherited dominance rather than exacerbating it.

We will continue to engage with regulators and policymakers in the UK and Brussels on passenger rights regulation, including the EC261 denied boarding and delay compensation regulation, and on global climate change framework for our industry which is both economically efficient and environmentally effective.

Outlook
2015 is an important year for Virgin Atlantic, as we continue to build on our success in 2014. We expect to see continued improvement in our financial performance, coupled with a stronger balance sheet.

In 2015, 70% of our capacity will be deployed on transatlantic routes operated in conjunction with Delta. Capacity will reduce marginally year on year due to the cessation of Little Red. Unit revenue is expected to continue to increase at a rate above GDP due to market and capacity driven performance, maximising joint venture benefits and new sales initiatives.

Lower fuel prices and fleet transformation will drive further reductions in fuel cost per ASK. Non-fuel costs are expected to reduce despite inflationary pressure driven by fleet simplification, network change and efficiency savings.

Having returned to profit in 2014 we are now ready to deliver our Plan to Win. Our Plan to Win has clearly defined objectives combining customer and people dimensions to our financial performance. We are actively engaged in identifying better and more efficient ways of leveraging our assets while delivering our uniquely Virgin Atlantic service to our customers.

Shai Weiss
Chief Financial Officer
4 March 2015

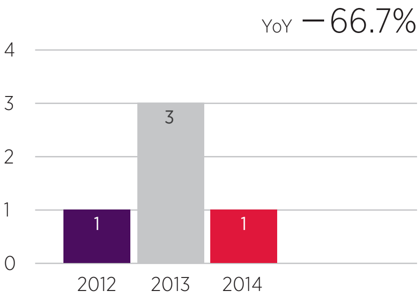
Key performance indicators

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

Safety

The safety and security of our customers is our primary concern

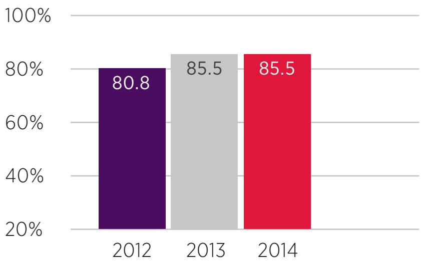
Number of incidents[4]



Customers

Always for the customer, with flair

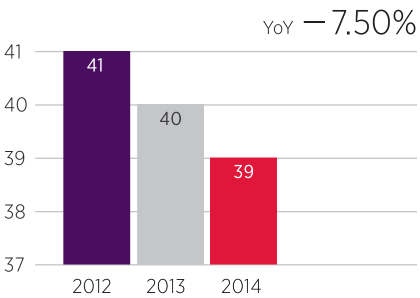
On time performance (D15)



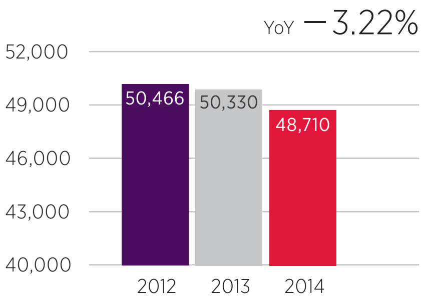
Capacity

Disciplined approach to managing our capacity

Aircraft



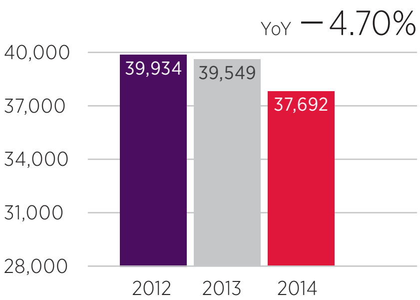
Available Seat Kilometres (ASK) (m)



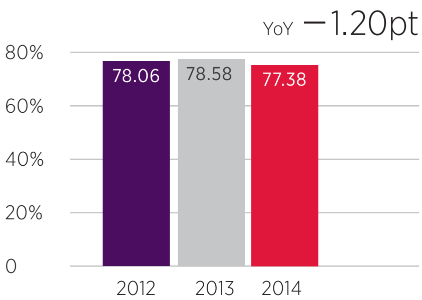
Passengers

Passenger growth remains a key part of our Plan to Win

Revenue Passenger Kilometres (RPK) (m)



Passenger load factor

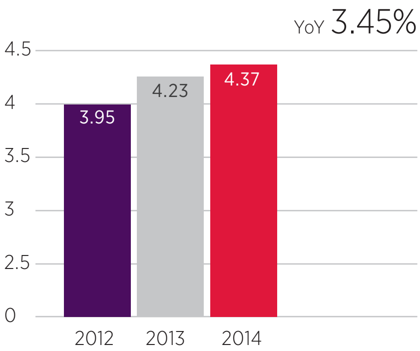


4. Incidents subject to review by external bodies (e.g. AAIB, NTSB)

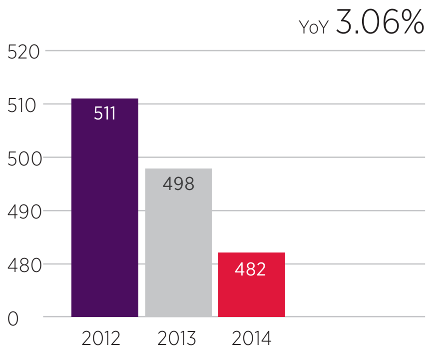
Key performance indicators continued

Financials

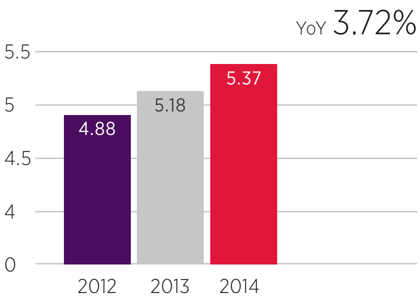
Airline Passenger Revenue per ASK (p)



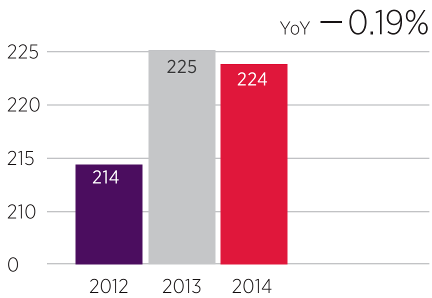
Fuel Uplift (USG) (m)



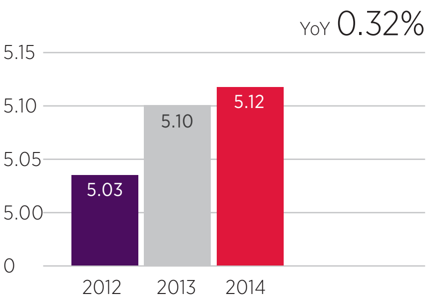
Airline Passenger Revenue per RPK (p)



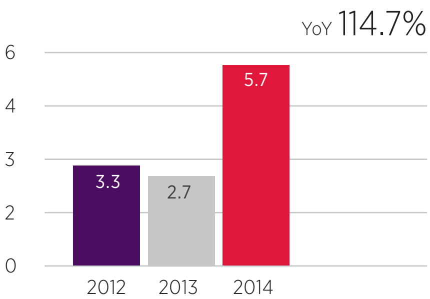
Cargo tonnage (kg) (m)



Airline cost per ASK (p)



Virgin Holidays profit before tax and exceptional items[5] (£m)



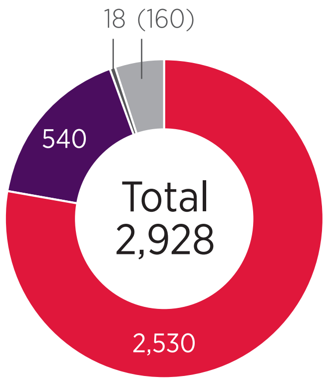
5. As reported in Virgin Holidays' audited financial statements.
Trading between Virgin Holidays and Virgin Atlantic Airways is on an arm's length basis.

Key performance indicators continued

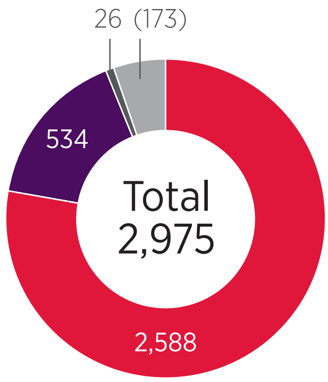
Summary Financial Results

Turnover by activity

12 months ended 31 December 2014 (£m)

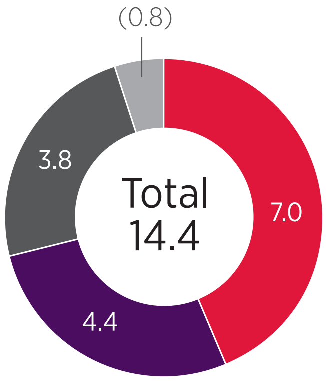


12 months ended 31 December 2013 (£m)
Pro forma

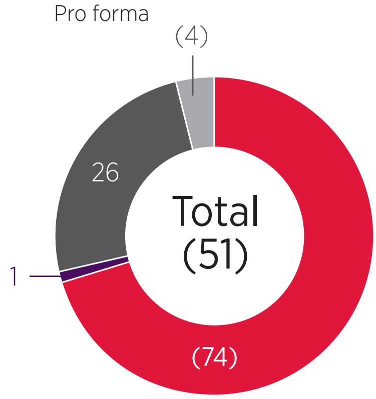


Profit/(loss) on ordinary activities

12 months ended 31 December 2014 (£m)



12 months ended 31 December 2013 (£m)
Pro forma



- Airline passenger and ancillary services
- Virgin Holidays operations
- Licensing activities
- Holding and intra-group elimination

Principal Risks And Uncertainties

The highly regulated and commercially competitive environment, together with operational complexity, leaves us exposed to a number of significant risks. The focus remains on mitigating these risks at all levels in the business, although many remain outside of our control such as government regulation, taxes, terrorism, adverse weather, pandemics and availability of funding from the financial markets.

The directors believe that the risks and uncertainties described below that may have the most significant impact on our long term performance.

Business and operational

Brand reputation

The strong reputation and loyalty engendered by the Virgin Atlantic brand is a core part of the value of the business. Any damage to the brand caused by any single event or series of events could materially impact customer loyalty and propensity of customers to travel and so adversely affect the business

We regularly monitor customer satisfaction through monthly customer surveys, alongside ongoing research and development of the product, in order to mitigate this risk. We allocate substantial resources to safety, operational integrity, onboard product and new aircraft to maintain its strong brand position.

Economic conditions

Our operations are particularly sensitive to economic conditions in the markets in which it operates. A global economic slowdown may adversely affect the demand for business and leisure travel and cargo services which could result in a material adverse impact on our financial performance.

The Airline produces a regular revenue forecast, which is reviewed by the Executive Management Team and appropriate actions taken.

Government intervention

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

Safety, terrorism and security incidents

We are impacted by the effect of terrorism on the aviation and tour operating industries; as a result we ensure that the safety of passengers, crew and staff is at the heart of our business. Failure to respond to terrorism or security incidents may adversely impact operations and financial performance. We adopt a holistic approach to security, with the Corporate Security team having overall responsibility for security matters linked to aviation, border security, cargo, facilities, IT, personnel and asset protection. To ensure the robustness of our security regime, the Airline operates a self inspection and test programme. Joint audits and inspections are also conducted with regulators. Regulated compliance performance is monitored by way of a dedicated scorecard reviewed at the Safety and Security Review Board. In view of the ongoing terrorist targeting of civil aviation and the potential impacts of global geopolitical events, much focus is placed on threat monitoring and assessment to ensure that we have the most current and accurate data to make informed judgements about the security of our human and physical assets.

Failure of a critical IT system

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

Key supplier risk

We are dependent on suppliers for some principal business processes. The failure of a key supplier to deliver contractual obligations may cause significant disruption to operations. A close relationship is maintained with key suppliers in order to ensure awareness of any potential supply chain disruption.

Financial risk management

The directors are responsible for setting financial risk management policies and objectives, and approve the parameters within which the various aspects of

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Principal Risks And Uncertainties continued

financial risk management are operated. Our Fuel and Foreign Currency Risk Management policy, which has been approved by the directors, outlines our approach to corporate and asset financing, interest rate risk, fuel price risk, foreign exchange risk and cash and liquidity management. The directors have delegated powers for treasury risk management to the Financial Risk Committee. This Committee ensures that the treasury policies and objectives approved by the directors are fully implemented.

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

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

Foreign currency risk
We have a significant US Dollar exposure including aviation fuel, finance and operating leases. In addition we are exposed to a number of other currencies. We seek to reduce our foreign exchange exposure arising in various currencies through matching, receipts and payments in individual currencies and holding foreign currency balances to meet our future trading obligations. Where there is a predicted exposure in foreign currency holdings, we use a limited range of hedging instruments as stipulated in our Fuel and Foreign Currency Risk Management policy.

Fuel price risk
Our Fuel and Foreign Currency Risk Management policy aims to provide protection against sudden and significant changes in the jet fuel price. In order to provide protection we use a limited range of hedging instruments, principally vanilla put and call options, collars and forwards, with approved counterparties and within approved limits.

Derivative financial instruments
We use derivative financial instruments selectively for foreign currency and aviation fuel price risk management purposes. Our policy is not to trade in derivatives but to use these instruments to hedge anticipated future cash flows. We are not permitted to sell currency or jet fuel options, except as part of hedging structures authorised in our Fuel and Foreign Currency Risk Management policy. All derivatives are used for the purpose of risk management and accordingly they do not expose the Group to market risk as they are matched to identified physical exposures within the Group. However, the timing difference between derivative maturity date and current mark-to-market value can give rise to cash margin exposure; this risk is managed through choice of instrument, appropriate counterparty agreements and, where required, cash deposits with counterparties. Counterparty credit risk is controlled through mark-to-market based credit limits.

Compliance and regulatory

Compliance with competition, anti-bribery and corruption law
We are exposed to the risk of individual employee's or groups of employee's unethical behaviour by employees resulting in fines or losses to the Group. We have comprehensive training schemes in place to educate all appropriate staff.

Compliance with regulatory authorities
We are exposed to regulation across our network, including the Civil Aviation Authority (CAA). The CAA authorises the Group to continue its activities following assessments of financial fitness criteria, the broad framework of which is available via the CAA website (www.caa.co.uk).

Sustainability – Change Is In The Air

Birthday Girl, received in October 2014, has a 20% smaller carbon footprint compared with similar sized aircraft, and a 60% reduction in noise output

Virgin Atlantic's sustainability strategy, Change is in the Air, includes its comprehensive environmental and community investment programmes. Each business area has specific objectives to implement, with the sustainability team providing advice and challenge, as well as incubating and managing specific initiatives until they become business as usual.

In 2014 the Airline reviewed and re-launched our Sustainability Policy, confirming its vision to become the leading airline on sustainability, driving innovative solutions for the whole industry. Virgin Atlantic wants to offer its customers clarity and peace of mind about its commitment to sustainability. It cares about its impact on the environment. The Airline actively seeks to reduce its environmental impact and it supports communities in the destinations to which it flies.

The annual sustainability report for 2014, including updates on performance against published targets, will be published in the Summer of 2015. In the meantime, additional information on a wide range of sustainability activities is available on the Virgin Atlantic website.

Environment

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

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

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

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

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

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

Community

The Virgin Atlantic Foundation, a UK registered charity, was set up in 2003 in order to support the welfare of children and young people through funds raised from Virgin Atlantic's community investment programme.

Since 2010 Virgin Atlantic has been partnered with Free The Children, an inspirational organisation which has inspired employees, partners and customers to raise over £4.5 million for projects in the UK and overseas.

The UK element of the partnership, We Act, is aimed at children aged between 7 and 18 and has three guiding principles: educate, engage

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Sustainability – Change Is In The Air continued

and empower. We Act, a year long programme which includes educational resources and support staff, is designed to enhance the existing school curriculum. The aim is to spark at least one local and one global action in support of causes young people care about. The result is that young people are showing, every day, that by taking small steps, tangible actions, the world will become a better place.

March 2014 saw a huge celebration of this programme, the UK's first ever We Day, for which 12,000 children and young people gathered at Wembley Arena to hear inspirational speakers such as Malala, Prince Harry, Al Gore, Martine Wright and Richard Branson. The Virgin Atlantic Foundation was a headline sponsor of this event.

In parallel, the international aspect of the partnership with Free The Children focuses on delivering real, long term improvements on social and environmental issues in the Airline's destinations.

Through the 'Adopt a Village' model, Virgin Atlantic is supporting eight communities across Africa, India and China. Local knowledge, assets and environment are at the foundation of the 'Adopt a Village' model, providing innovative and locally sustainable solutions. Every step of the way Free The Children works closely with local government to make sure that community members are empowered and hold ownership over each and every project.

The 50:50 initiative, which supports staff fundraising for a wide variety of charities close to their hearts, has generated nearly £80,000 for a number of great causes. Added to the £120,000 raised by Virgin Atlantic's people for Free The Children, 2014 has been a fantastic year for fun'raising.

Through the 'Adopt a Village' model, Virgin Atlantic is supporting eight communities across Africa, India and China

Staff adventure, Udawad, India, 2014

Governance Board of Directors

The Board of Directors comprises seven non-executive directors and two executive directors. Four of the non-executive directors are appointed by Virgin Group, as it is the holder of 51% of the Company's shares, and three of the non-executive directors are appointed by Delta Air Lines, as it is the holder of 49% of the Company's shares. The two executive directors are the Chief Executive Officer and the Chief Financial Officer, who are full time employees of the Group.

The executive directors have regular meetings with representatives of both shareholders as well as via their Board representatives.

The Board leads and provides direction for the Executive Management Team by setting our strategy. Its role includes overseeing strategic decisions, scrutinising the performance of its management team in meeting the goals set by the Board, and takes a proactive role in monitoring the performance of the Group as a whole.

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

As at 31 December 2014, members of the Board comprise:

Sir Richard Branson
– President and Non-Executive Director
Sir Richard Branson is Founder of the Virgin Group. Sir Richard founded Virgin Atlantic in 1984.

Peter Norris
– Chairman and Non-Executive Director
Peter is the Chairman of the Virgin Group and prior to this he acted as an adviser to the Virgin Group from 1996.

He took up his position in 2009 with over 35 years' experience in investment banking and business management. He began his career at Barings in 1976 before joining Goldman Sachs for a three year spell. He returned to Barings first as head of its South East Asian advisory operations and eventually in 1994 as CEO of Barings Investment Banking Group. Three months after his appointment, the notorious derivatives trading scandal in Singapore was revealed, which brought down the bank.

From 1995, Peter established a corporate finance business which in 2007 he merged with Quayle Munro Holdings Plc, and became the CEO of the combined entity until taking the role of Chairman of Virgin Group.

Peter graduated in Modern History and Modern Language in 1976, from Magdalen College, Oxford

Gordon McCallum
- Non-Executive Director
Gordon is a non-executive director at Virgin Group.

Gordon joined Virgin in 1998. During his early years, he was heavily involved in the establishment of the Group's banking and mobile phone businesses and, more recently, in Virgin Money's acquisition of Northern Rock and the sale of Virgin Media to Liberty Global. Gordon is also a non-executive Director of Virgin Money and Virgin Enterprises (the owner of the Virgin trademark).

Previously, Gordon spent several years working as a consultant for McKinsey & Co. in the U.S., and as an investment banker for Baring Brothers in London and Asia).

Gordon holds an MA from Oxford University and an MBA from The Wharton School at the University of Pennsylvania.

Ian Woods
- Non-Executive Director
Ian is the General Counsel and COO at Virgin Group.

Ian has been with Virgin since 2005. His initial position was as the Group Legal Director before taking on the General Counsel role in 2011 and additionally the COO role in 2013. He previously worked as a corporate lawyer for leading international law firm Slaughter and May.

Ian also sits on the Board of various Group companies including Virgin Management, Virgin Limited Edition and Virgin Enterprises (the owner of the Virgin trademark).

Ian holds an LLB from Sheffield University.

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Governance Board of Directors continued

Ed Bastian
- Non-Executive Director
Ed is President of Delta Air Lines and a member of Delta's Board of Directors.

Having gained broad finance and audit experience in senior roles across several leading organisations including Pepsi Cola and Frito Lay, Ed joined Delta in 1998 as Vice President – Finance and Controller and was promoted to Senior Vice President in 2000. After a spell away from Delta in 2005 as Senior Vice President and Chief Financial Officer of Acuity Brands, he returned as Executive Vice President and Chief Financial Officer, a position he held prior to his appointment as President. Ed also served as Chief Restructuring Officer between 2005 and 2007, playing a crucial role in the airline's swift and successful Chapter 11 reorganisation.

Ed is a graduate of St. Bonaventure University with a bachelor's degree in business administration.

Glen Hauenstein
- Non-Executive Director
Glen is Executive Vice President and Chief Revenue Officer of Delta Air Lines, responsible for Network Planning and Revenue Management.

Glen joined Delta in August 2005 and has overseen a transformation of the airline's network from a primarily domestic operation to a nearly even mix of international and domestic service, substantially improving revenue performance.

His previous position was as Vice General Director for Alitalia, serving in the dual role of Chief Commercial Officer and Chief Operating Officer. Prior to joining Alitalia in 2003, he was Senior Vice President – Network for Continental Airlines, joining in 1987 as International Controller and going on to become Senior Vice President responsible for planning and execution of the airline's schedule, fleet, pricing and revenue management strategies.

Glen is a 1982 graduate of Stetson University, where he received a bachelor's degree in Finance.

Perry Cantarutti
- Non-Executive Director
Perry is Senior Vice President of Delta Air Lines responsible for Europe, Middle East and Africa, overseeing all commercial activities in the region, and works to develop the success of the joint venture with Virgin Atlantic.

He previously held the position of Vice President – Reservation Sales and Customer Care at Delta, having served in a similar position for Northwest Airlines. Perry joined Northwest in 1992 as an analyst in Domestic Pricing before holding management positions in the Passenger Marketing and International departments.

Perry holds a bachelor's degree from the University of California – Berkeley and a MBA from Northwestern University.

Craig Kreeger
– Executive Director
(Chief Executive Officer)
Craig is Chief Executive Officer of Virgin Atlantic.

He joined from American Airlines (AA) in February 2013 following a 27 year career spanning commercial, financial and strategic roles in the US and around the globe.

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

Craig holds a Bachelor of Arts degree in Economics from the University of California at San Diego, and a Master of Business Administration degree from the University of California at Los Angeles.

Shai Weiss
– Executive Director
(Chief Financial Officer)
Shai is Chief Financial Officer at Virgin Atlantic. He is responsible for the financial operations of the business and oversees revenue management, cargo and strategy.

He took up the position in July 2014 from Virgin Management, where he had been an Investment Partner since 2012 and a Founding Partner of the Virgin Green Fund from 2007.

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Governance Board of Directors continued

Through his role at Virgin Management Shai has been a member of the Virgin Atlantic board since summer 2012.

Shai has extensive financial and operational expertise. Prior to joining Virgin Group, he held several senior management positions at ntl:Telewest (now known as Virgin Media) with roles including Managing Director of Consumer Products, Director of Operations, and Director of Financial Planning for the Consumer division. Prior to ntl, Shai established the European office of early stage technology venture fund JVP and was a senior associate with Morgan Stanley from 1997 to 2000.

Shai holds an MBA from Columbia University in New York and a BBA from City University of New York, Baruch College.

Group Company Secretary

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

Committees of the Board

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

The Audit Committee is made up of two Virgin appointed non-executive directors and two Delta appointed non-executive directors. As at 31 December 2014 the Committee members were Gordon McCallum (Chairman), Peter Norris, Glen Hauenstein and Perry Cantarutti. The Committee meets three times a year or more often if required.

The Committee agrees and monitors the audit programme of the Group Internal Audit and receives regular updates on its work from the Group Head of Internal Audit. The Committee also meets with both the Group Head of Internal Audit and the External Audit Partner without Management present at least once a year.

Remuneration committee
The Board has formed a Remuneration Committee. The role of this committee is to consider, report and make recommendations of the terms of appointment or dismissal and the remuneration and other benefits of the Executive Directors and the Executive Management Team.

The Remuneration Committee is made up of two Virgin appointed non-executive directors and two Delta appointed non-executive directors. As at 31 December 2014 the Committee members were Peter Norris (Chairman), Ian Woods, Edward Bastian and Glen Hauenstein. The Committee meets as required.

Safety governance
The Board considers safety and security of paramount importance to Virgin Atlantic. The Virgin Atlantic Safety & Security Review Board (VASSRB) was established to monitor, improve and constantly enhance safety and security management across the airline.

The VASSRB is owned and led by Virgin Atlantic's Accountable Manager and Duty Holder and chaired by Wayne Jenner, an independent third party safety and security advisor. 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 monitor the effectiveness of the safety supervision and oversight of sub-contracted operations.

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

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

Joint venture steering committee
The joint venture with Delta Air Lines is managed on behalf of the Board through the Joint Venture Steering Committee. The Committee has no independent authority to act for either party, but has the delegated authority to resolve most issues.

This Committee 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, the Virgin Group Shareholder has the right to appoint an observer who can attend and address all Committee meetings and report back to the Board.

The Board receives regular updates and reports from the Joint Venture Steering Committee.

Directors' report

Registered Number: 08867781

The directors present their annual report and the audited financial statements for Virgin Atlantic Limited (formerly known as Virgin Atlantic (Holdings) Limited) and subsidiary companies for the year ended 31 December 2014. The comparative amounts are stated for the ten months ended 31 December 2013.

Pages 1 to 28, 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 from incorporation of the Company to the end of the period were as follows:

Sir Richard Branson
(President)

Peter Norris
(Chairman)

Gordon McCallum

Ian Woods
(appointed 7 July 2014)

Edward Bastian
(appointed 25 March 2014)

Glen Hauenstein
(appointed 25 March 2014)

Perry Cantarutti
(appointed 25 March 2014)

Craig Kreeger
(appointed 25 March 2014)

Shai Weiss

Timothy Livett
(resigned 7 July 2014)

Wayne Aaron
(appointed 25 March 2014 as alternate for Edward Bastian, Glen Hauenstein and Perry Cantarutti)

Results, business review and future developments

The results of the Group for the period are set out on page 30 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, the Group seeks to ensure that full and fair consideration is given to the abilities and aptitudes of the applicant against the requirements of the 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 the Group and are of interest and concern to them as employees. The Group also encourages employees, where relevant, to meet on a regular basis to discuss matters affecting them.

Dividends

During the year the Company paid £0.2m in Preference dividends (prior period: Virgin Atlantic Two Limited £1.8m). The directors declared and paid interim ordinary dividends of £87.9m in aggregate in respect of the year ended 31 December 2014 (prior period: Virgin Atlantic Two Limited £nil).

The directors recommend that no final ordinary dividend be paid in respect of the year ended 31 December 2014 (prior period: £nil).

Overseas branches

The Group flies to a number of countries and a number of overseas branches have been established in many of these countries to facilitate this. The Group has

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Directors' report continued

Registered Number: 08867781

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 (prior year: £nil).

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

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

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

By order of the board

Ian de Sousa
Company Secretary

Company Secretariat
The Office
Manor Royal
Crawley
West Sussex
RH10 9NU
4 March 2015

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period.

In preparing each of the Group and Parent Company financial statements, the directors are required to:

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

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

Independant auditor's report

Independent auditor's report to the members of Virgin Atlantic Limited
We have audited the financial statements of Virgin Atlantic Limited for the year ended 31 December 2014 set out on pages 30 to 63. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor
As explained more fully in the Directors responsibilities statement set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Strategic report and Directors' report and consolidated financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
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 2014 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic report and Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Jonathan Downer
(Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
4 March 2015
KPMG LLP
15 Canada Square
London
E14 5GL
United Kingdom

Financial statements

Consolidated profit and loss account

for the year ended 31 December 2014

	Note	For the year ended 31 December 2014			For the 10 month period ended 31 December 2013		
		Ordinary activities before exceptional items	Exceptional items (note 6)	Total	Ordinary activities before exceptional items	Exceptional items (note 6)	Total
		£m	£m	£m	£m	£m	£m
Turnover	2	2,927.9	-	2,927.9	2,570.6	-	2,570.6
Cost of sales		(2,546.7)	-	(2,546.7)	(2,229.8)	-	(2,229.8)
Gross profit		381.2	-	381.2	340.8	-	340.8
Administrative expenses		(382.9)	(1.4)	(384.3)	(314.4)	(11.9)	(326.3)
Other operating income/(expense)		5.9	6.9	12.8	(16.1)	-	(16.1)
Operating profit/(loss)	2	4.2	5.5	9.7	10.3	(11.9)	(1.6)
Costs of fundamental restructuring	6	-	(7.7)	(7.7)			-
Profit/(loss) on disposal of tangible fixed assets		10.9	-	10.9			(0.4)
Profit on disposal of fixed asset investment		-	30.9	30.9			-
Interest receivable and similar income	4	1.8	-	1.8			3.7
Interest payable and similar charges	5	(2.5)	(25.5)	(28.0)			(6.8)
Profit/(loss) on ordinary activities before taxation		14.4	3.2	17.6			(5.1)
Tax charge/(credit) on profit/(loss) on ordinary activities	8			(2.7)			4.8
Profit/(loss) for the financial period	18			14.9			(0.3)

All amounts relate to continuing operations. The notes on pages 35 to 63 form part of these financial statements.

Financial statements continued

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2014

	For the year ended 31 December 2014	For the period ended 31 December 2013
	£m	£m
Profit/(loss) for the financial period	14.9	(0.3)
Currency translation differences on foreign currency net investments	-	(0.1)
Total recognised gains/(losses) relating to the period	**14.9**	(0.4)

The notes on pages 35 to 63 form part of these financial statements.

Financial statements continued

Consolidated balance sheet

At 31 December 2014

	Note	As at 31 December 2014	As at 31 December 2013
		£m	£m
Fixed assets			
Intangible assets	9	**85.8**	86.4
Tangible assets	10	**456.1**	347.8
Investments	11	**0.4**	7.3
		542.3	441.5
Current assets			
Stocks	12	**43.0**	43.7
Debtors due within one year	13	**342.7**	357.5
Debtors due after one year	13	**37.2**	54.2
		379.9	411.7
Cash at bank and in hand		**296.1**	319.7
		719.0	775.1
Creditors: amounts falling due within one year	14	**(1,065.3)**	(935.4)
Net current liabilities		**(346.3)**	(160.3)
Total assets less current liabilities		**196.0**	281.2
Creditors: amounts falling due after more than one year	15	**(24.3)**	(30.4)
Provisions for liabilities and charges	16	**(173.7)**	(179.6)
Net (liabilities)/assets		**(2.0)**	71.2
Capital and reserves			
Called up share capital	17	**150.0**	0.3
Share premium account	18	**0**	140.0
Other reserves	18	**(236.2)**	(226.5)
Profit and loss account	18	**84.2**	157.4
Shareholders' funds	19	**(2.0)**	71.2

The notes on pages 35 to 63 form part of these financial statements.

These financial statements were approved by the Board of Directors on 4 March 2015 and were signed on its behalf by:

Shai Weiss
Director

Registered number 08867781

Financial statements continued

Company balance sheet
At 31 December 2014

	Note	As at 31 December 2014 £m
Fixed assets		
Investments	11	**289.4**
Current assets		
Debtors	13	**0.0**
		0.0
Creditors: amounts falling due within one year	14	**(0.1)**
Net current liabilities		**(0.1)**
Total assets less current liabilities		**289.3**
Creditors: amounts falling due after more than one year	15	**-**
Provisions for liabilities and charges	16	**-**
Net assets		**289.3**
Capital and reserves		
Called up share capital	17	**150.0**
Other reserves	18	**139.4**
Profit and loss account	18	**(0.1)**
Shareholders' funds	19	**289.3**

The notes on pages 35 to 63 form part of these financial statements.

These financial statements were approved by the Board of Directors on 4 March 2015 and were signed on its behalf by:

Shai Weiss
Director

Registered number 08867781

Financial statements continued

Consolidated cash flow statement

for the year ended 31 December 2014

	Note	For the year ended 31 December 2014	For the period ended 31 December 2013
		£m	£m
Net cash (outflow) from operating activities before margin calls		191.2	(8.4)
Net cash outflow relating to margin calls		(69.9)	(8.8)
Net cash (outflow) from operating activities	23	121.3	(17.2)
Returns on investment and servicing of finance			
Interest received		1.6	1.2
Interest paid		(1.2)	(6.0)
Interest element of finance lease rental payments		(0.3)	(0.4)
		0.1	(5.2)
Taxation			
Taxation (paid)		(2.6)	(1.5)
Capital expenditure			
Purchase of tangible fixed assets		(174.7)	(48.2)
Purchase of intangible fixed assets		0.0	(6.0)
Sale proceeds on disposal of fixed assets		76.2	4.1
Sale of fixed asset investments		37.9	-
		(60.6)	(50.1)
Equity dividends paid			
Preference dividends paid		-	(1.8)
Interim ordinary dividends paid		(87.2)	-
Cash outflow before management of liquid resources and financing		(29.0)	(75.8)
Management of liquid resources			
Decrease in short term deposits		(9.0)	0.2
Financing			
New secured loan		22.1	14.0
Repayment of secured loans		(23.4)	(11.4)
Capital element of finance lease and hire purchase contract payments		-	(3.3)
		(1.3)	(0.7)
Decrease in cash in the period	24	(39.3)	(76.3)

The Group and Company holds £14.8m of restricted cash which provides security on facilities made available by banks in respect of advanced bookings, security for certain hedging arrangements, or guarantee arrangements. The notes on pages 35 to 63 form part of these financial statements.

Notes forming part of the financial statement

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with matters which are considered material in relation to the financial statements.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards.

The directors having regard for the principle risks and uncertainties, as set out in the Strategic and Directors' report, which could impact the business, consider that the preparation of the financial statements on a going concern basis remains appropriate and the Group will be able to meet its current obligations. The Company has taken advantage of section 408 of the Companies Act 2006 and has not published a separate profit and loss account for the Company. The result for the period attributable to the Company is disclosed in note 18.

Change in accounting reference date

During the prior period the directors took the decision to change the accounting reference date of Virgin Atlantic Two Limited and each of its subsidiary companies from 28 February to 31 December. The decision was taken in order to align with the new accounting reference date of the Virgin Group of companies. Comparative balances are therefore for the 10 months ending 31 December 2013.

Basis of consolidation

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

During the period 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 has applied merger accounting in accordance with paragraph 13 of FRS 6, as the respective net assets remained unchanged following the share for share exchange. The Group presents the consolidated results of Virgin Atlantic Limited as if it has always existed, as the Group has applied the exemption available under paragraph 22 of FRS6.

The consolidated financial statements have been prepared using the principles of merger accounting for the inclusion of Virgin Travel Group Limited since 1993, although it did not meet all of the conditions of the Companies Act 1985 for merger accounting. The Companies Act 1985, now superseded by the Companies Act 2006, was overridden at the time to give a true and fair view. The Group arose through a reconstruction of a former group which did not alter the relative rights of the ultimate shareholders of the Company's subsidiaries and hence it was considered inappropriate to account for the transaction using acquisition accounting principles, which would have been the required treatment if the Companies Act had not been overridden. Virgin Atlantic Limited consolidated the results of Air Nigeria Development Limited (formerly Virgin Nigeria Airways Limited) from the time it was set up in 2005 to 31 August 2007 on the grounds that it had a 49% equity shareholding and rights contained in certain core legal agreements which allowed the Group to exercise dominant influence over the operating and financial policies of Air Nigeria Development Limited (formerly Virgin Nigeria Airways Limited). During the course of the year ended 29 February 2008 Virgin Atlantic Limited experienced severe restrictions in its ability to enforce those rights, and as such could not exercise either dominant or significant influence over the operational and financial policies of Air Nigeria Development Limited, a situation which continued through to the current financial period and which the board considers irreversible. Since 1 September 2007, Virgin Atlantic Limited's equity investment in Air Nigeria Development Limited has been accounted for as a fixed asset investment with a net book value of £nil (notes 11 and 26). The remaining subsidiaries have been accounted for using the principles of acquisition accounting.

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Notes continued

1 Principal accounting policies (continued)

Turnover
Turnover is stated gross of commission and comprises:

Revenue from passenger ticket sales, cargo and ancillary goods and services which is recognised on the basis of flights operated in the accounting period. Unused tickets are recognised as turnover using estimates based on the terms and conditions of the ticket and historic trends;

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

Income relating to rights over the use of the Virgin name in the airline and tourism industries and its intellectual property. Income is calculated as a percentage of turnover and is recognised in the same period as the turnover in the underlying company. Revenue relating to flights, holidays and travel insurance commencing after the accounting period, together with any commission thereon, is carried forward as deferred income.

Administrative expenses
Administrative expenses comprise overhead expenses together with marketing and promotional costs. All administrative costs and promotional costs are expensed to the profit and loss account as incurred.

Compensation payments
Income resulting from claims for compensation payments is recognised as income in the profit and loss account when all performance obligations are met, including when a contractual entitlement exists, it can be reliably measured (including the impact of the receipt, if any, on the underlying assets' carrying value) and it is probable that economic benefits will accrue to the Group. When such claims do not relate to a compensation for loss of income or towards incremental operating costs, the amounts are recorded as a reduction in the cost of the related asset.

Translation of foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction, or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currency are translated using the rates of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate.

For consolidation purposes, the profit and loss accounts and the balance sheets of overseas subsidiary undertakings are translated at the closing exchange rates. Exchange differences arising on translation are taken to reserves. All other profits or losses arising on translation are dealt with through the profit and loss account. Any gains or losses arising on the re-translation of foreign currency cash balances held in the short term to meet future trading obligations are reported as part of 'Other operating income/(expense)' in the profit and loss account.

Derivative financial instruments
The Group uses various derivative financial instruments to manage its exposure to foreign exchange, jet fuel price and interest rate risks. Gains and losses on hedges of revenue or operating payments, including amounts received or paid on hedges closed out in advance of maturity, are recognised in the profit and loss account of the period in which the hedged transaction matures or would have matured.

Pension costs
The Group operates defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amount charged in the profit and loss account represents the contributions payable to the schemes by the Group in respect of the accounting period.

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Notes continued

1 Principal accounting policies (continued)

Taxation

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.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Intangible fixed assets

Goodwill arising on consolidation is capitalised in the balance sheet as an intangible asset and amortised through the profit and loss account over its estimated useful economic life.

The Group had previously amortised 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.

Other intangible fixed assets are amortised through the profit and loss account over their estimated useful economic lives.

Aircraft maintenance costs

Routine maintenance costs are charged to the profit and loss account as incurred. Maintenance costs for overhauls relating to aircraft and engines held under operating leases for which there is a contractual obligation are provided for by making appropriate charges to the profit and loss account. Such charges are based on the lease period and engineering assessments of when maintenance is required to meet such obligations.

For owned aircraft and engines, major overhaul expenditure is capitalised and depreciated by reference to the units of economic consumption, typically hours or sectors flown. Where the effect is material, the provision for maintenance costs is discounted to present value using a current pre-tax discount rate that reflects the risks specific to the liability.

Development expenditure

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

Investments

The Company's investments in subsidiary undertakings are held at cost less any provision for impairment. Current assets investments are held at the lower of cost or net realisable value.

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Notes continued

1 Principal accounting policies (continued)

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

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

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

Tangible fixed assets
Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Directly attributable financing costs on aircraft progress payments are capitalised as incurred until such time that the aircraft enters into service.

Depreciation is calculated to write off the cost, less estimated residual value, on a straight line basis over the useful life of the asset, or the period of the underlying finance lease if shorter.

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 then current cost of the maintenance procedures.

The balance of aircraft and engine cost is depreciated on a straight line basis over periods of up to twenty five years, so as to reduce the cost to estimated residual value at the end of that period. The effective depreciation rate per annum in respect of new wide bodied aircraft is approximately 4%. Rotable spares are depreciated on a straight line basis so as to reduce the cost or valuation to estimated residual value at the end of their useful lives. The effective depreciation rate per annum in respect of rotable spares is 7.25% or 12.5% dependent on type.

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

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.

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Notes continued

1 Principal accounting policies (continued)

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

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

Stocks
Stocks are stated at the lower of cost and net realisable value. Provision is made for obsolete, slow moving or defective items where appropriate.

Cash and liquid resources
Cash at bank and in hand includes both cash and liquid resources. Cash includes cash in hand and deposits repayable on demand held with any financial institution. Liquid resources include term deposits.

Leases
Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term, even if the payments are not made on such a basis. Where operating lease charges are variable based on prevailing interest rates, costs are recognised prospectively over the remaining term of the lease.

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets. Depreciation is provided at rates designed to write off this cost less residual value in equal annual amounts over the shorter of the period of the lease or the anticipated useful life of the asset. The capital elements of future lease obligations are recorded as liabilities and the interest element is charged to the profit and loss accounts over the period of the lease in proportion to the balance outstanding.

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

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

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

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

Notes continued

2 Analysis of turnover, Group operating profit/(loss) and net (liabilities)/assets

Turnover, Group operating profit/(loss) and net (liabilities)/assets are analysed below:

By activity

	Turnover		Operating profit/(loss)	
	For the year ended 31 December 2014	For the 10 month period ended 31 December 2013	**For the year ended 31 December 2014**	For the 10 month period ended 31 December 2013
	£m	£m	**£m**	£m
Airline passenger and ancillary services	**2,529.8**	2,221.5	**4.4**	(11.6)
Holiday tour operations	**540.3**	467.3	**3.6**	2.2
Other	**18.2**	19.1	**2**	(7.9)
Intra-Group eliminations	**(160.4)**	(137.3)	**(0.3)**	15.7
	2,927.9	2,570.6	**9.7**	(1.6)

Other income includes income from engineering services and license fees relating to rights over the Virgin name and its intellectual property.

By geographical market

	For the year ended 31 December 2014	For the 10 month period ended 31 December 2013
	£m	£m
Net (liabilities)/assets:		
Airline passengers and ancillary services	**49.2**	38.5
Holiday tour operations	**33.4**	61.1
Other	**(84.6)**	(28.4)
	(2.0)	71.2
	£m	£m
Turnover by source:		
United Kingdom	**2,076.0**	1,731.3
North America and the Caribbean	**488.8**	453.2
Far East	**160.3**	163.4
Africa	**115.1**	113.8
Other	**248.0**	246.2
Intra-Group elimination	**(160.3)**	(137.3)
	2,927.9	2,570.6
	£m	£m
Turnover by destination:		
North America	**1,744.2**	1,514.8
Caribbean	**406.6**	330.8
Far East	**375.8**	348.1
Africa	**240.5**	218.0
United Kingdom	**52.9**	29.7
Other	**268.2**	266.5
Intra-Group elimination	**(160.3)**	(137.3)
	2,927.9	2,570.6

Notes continued

2 Analysis of turnover, Group operating profit/(loss) and net (liabilities)/assets (continued)

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

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

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.

Notes continued

3 Staff numbers and costs

The average number of persons (full time equivalent) employed by the Group (including directors), analysed by category, was as follows:

	For the year ended 31 December 2014 No.	For the 10 month period ended 31 December 2013 No.
Management and administration	**1,268**	1,215
Flight crew	**777**	779
Cabin crew	**3,551**	3,678
Reservations and sales	**2,500**	2,642
Engineering, cargo and production	**1,135**	1,215
	9,231	9,529

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

	£m	£m
Wages and salaries	**299.4**	251.2
Social security costs	**29.1**	24.0
Other pension costs (note 27)	**27.3**	20.9
	355.8	296.1

4 Interest receivable and similar income

	For the year ended 31 December 2014 £m	For the 10 month period ended 31 December 2013 £m
Interest on bank deposits	**1.6**	1.3
Exchange gains on foreign currency borrowings less deposits	**-**	1.8
Finance income from fixed asset investments (note 11)	**0.2**	0.6
	1.8	3.7

Notes continued

5 Interest payable and similar charges

	For the year ended 31 December 2014 £m	For the 10 month period ended 31 December 2013 £m
Interest on bank loans and overdrafts including exceptional items (note 6)	**26.3**	6.0
Interest payable on other loans	**1.3**	1.1
Finance charges in respect of finance leases and hire purchase contracts	**0.3**	0.5
Exchange losses on foreign currency borrowings less deposits	**0.9**	-
Unwinding of discount on provisions (note 16)	**0.2**	0.3
	29.0	7.9
Interest capitalised on aircraft progress payments (note 10)	**(1.0)**	(1.1)
	28.0	6.8

6 Profit/(loss) on ordinary activities before taxation

	For the year ended 31 December 2014 £m	For the 10 month period ended 31 December 2013 £m
Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):		
Amortisation of intangible fixed assets (note 9)	**0.6**	0.5
Depreciation of tangible fixed assets (note 10)	**63.0**	59.9
Rentals under operating leases:		
Aircraft and related equipment	**204.1**	190.5
Plant and machinery	**11.3**	11.7
Land and buildings	**28.0**	23.6
Remuneration of the auditors and their associates:		
Audit (Group)	**0.5**	0.4
Other services	**0.4**	0.1
Other operating income/(expense)	**(5.9)**	16.1
(Profit)/loss on disposal of fixed assets (note 10)	**(10.9)**	0.4
Exceptional items (see below):		
Other operating income	**(6.9)**	-
Restructuring costs	**7.7**	-
Profit on disposal of fixed asset investment (note 11)	**(30.9)**	-
Interest payable and similar charges (note 5)	**25.5**	-
Administrative expenses	**1.4**	11.9

Notes continued

6 Profit/(loss) on ordinary activities before taxation (continued)

Other operating expense/(income) is the loss/(gain) arising on re-translation of foreign currency denominated balances held in the short term to meet future foreign currency denominated trading obligations. In the current year, other operating income also includes a £6.9m credit (prior period: £nil) in relation to the successful settlement of a legal claim that the Group had pursued in relation to a supplier.

Restructuring cost of £7.7m (prior period: £nil) have been recognised in line with the Group's strategy to restructure the route network, costs incurred include both employee restructuring costs as well as incremental costs incurred to facilitate route realignment.

Interest payable and similar charges includes an amount of £25.5m (prior period: £nil) incurred to settle historic interest rate swaps where the hedging relationship was no longer effective in relation to the underlying hedged item.

In March 2014, the Group disposed the majority of its shares within the Airline Group Limited, recognising a profit on sale of £30.9m. As the investment was held under the historic cost convention the profit on disposal has been recognised as exceptional, see note 11 for further details.

Administrative expenses include 1.4m (prior period: £11.9m) comprised of legal costs and payments to certain directors of subsidiary undertakings together with associated social security costs, arising as a consequence of the acquisition by Delta Air Lines, Inc. of 49% of the Company's share capital from Singapore Airlines Limited.

Fees payable to the Company's auditor for the audit of the Company's annual accounts are £4,101 (prior period: £nil). Fees payable to the Company's auditor and its associates for other services relating to the audit of the Company's subsidiaries, pursuant to legislation are £0.5m (prior period: £0.3m). Fees payable to the Company's auditor and its associates for services other than the statutory audit of the Company and subsidiaries are as follows:

	For the year ended 31 December 2014 £m	For the 10 month period ended 31 December 2013 £m
Fees payable for taxation advice and compliance	**0.1**	0.1
Fees payable for services related to accounting advice	**0.3**	-
Total fees for other services	**0.4**	0.1

Notes Continued

7 Emoluments of directors

During the period of their service, the emoluments of the directors of the Company were:

	For the year ended 31 December 2014 £m	For the 10 month period ended 31 December 2013 £m
Aggregate emoluments	**1.3**	0.7
Company contributions to money purchase pension schemes	**0.1**	0.1
Aggregate amounts receivable under long term incentive schemes	**1.1**	1.8
	2.5	2.6

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

During the year an amount of £175,000 (prior period: £138,000) was paid to shareholders in respect of the services of certain shareholder-appointed non-executive directors of the Company.

The amounts receivable during the prior period by directors of the Company under Long Term Incentive ("LTIP") Schemes arise solely as a consequence of the successful acquisition during the period by Delta Air Lines, Inc. of 49% of the Company's share capital from Singapore Airlines Limited. The cost of these payments arising under the LTIP scheme has been borne by the immediate holding company, Virgin Atlantic Limited. This scheme was terminated during 2014 and a new LTIP scheme has been created for 2015.

The aggregate compensation for loss of office paid in the year, not included in the above table, was £276,000 (prior period: £855,000). No directors have share options and therefore none were exercised in the year.

	For the year ended 31 December 2014 £m	For the 10 month period ended 31 December 2013 £m
Highest paid director		
Aggregate emoluments and other benefits	**0.6**	0.1
Company contributions to money purchase pension schemes	**0.1**	-
Aggregate amounts receivable under Long Term Incentive Schemes	**0.8**	1.1
	1.5	1.2

Notes continued

8 Tax on profit/(loss) on ordinary activities

	For the year ended 31 December 2014 £m	For the 10 month period ended 31 December 2013 £m
UK corporation tax	**5.6**	3.1
Overseas tax paid at source	**-**	0.2
Non-UK tax adjustments in respect of prior years	**0.0**	(0.1)
Non-UK tax	**0.1**	0.1
Total current tax charge	**5.7**	3.3
Deferred tax		
Origination and reversal of timing differences	**(2.8)**	(1.7)
Adjustments in respect of prior years	**(0.2)**	(0.9)
Recognition of previously unrecognised Non-UK tax losses	**-**	(0.1)
Effect of decreased tax rate	**-**	(5.4)
Total deferred tax credit	**(3.0)**	(8.1)
Tax credit on loss on ordinary activities	**2.7**	(4.8)

The standard rate of UK corporation tax for the year is 21.5% (prior period: 23%). The total tax charge of 15.2% for the year is lower than the standard rate of corporation tax. This is driven by the gain on the disposal of shares within the Airline Group Limited being permanently non-taxable, due to the exemptions available. The actual current tax charge for the year/period differs from that computed by applying the standard tax rate to the loss on ordinary activities before tax as reconciled below:

	For the year ended 31 December 2014 £m	For the 10 month period ended 31 December 2013 £m
Profit/(loss) on ordinary activities before taxation	**17.7**	(5.1)
Tax at the standard rate at 21.5% (prior period: 23%)	**3.8**	(1.2)
Factors affecting the charge for the year/period:		
Depreciation in excess of capital allowances	**7.8**	10.1
UK tax losses not utilised or recognised	**-**	-
Non-UK tax losses not utilised or recognised	**0.1**	0.1
Utilisation of UK tax losses brought forward	**(2.1)**	(5.6)
Other timing differences	**(2.3)**	(2.4)
Foreign tax	**0.1**	0.1
Expenses not deductible for tax purposes	**4.8**	2.3
Adjustments to tax charge in respect of prior years	**0.2**	(0.1)
Holdover relief	**2.3**	-
Income not taxable	**(9.0)**	-
Total current tax charge	**5.7**	3.3

Notes continued

8 Tax on profit/(loss) on ordinary activities (continued)

The 2013 Budget delivered on 20 March 2013 announced that the UK corporation tax rate would reduce to 20% by 1 April 2015. The reductions in the rate from 23% (effective from 1 April 2013) to 21% (effective from 1 April 2014) and then from 21% (effective from 1 April 2014) to 20% (effective 1 April 2015) were substantively enacted on 2 July 2013.

The deferred tax liability at 31 December 2014 has been calculated based on the lower rate of 20% substantively enacted at the balance sheet date.

9 Intangible assets

Group	Goodwill £m	Landing slots £m	Carbon allowances £m	Other £m	Total £m
Cost					
At 1 January 2014	8.8	91.0	1.0	1.6	102.4
At 31 December 2014	**8.8**	**91.0**	**1.0**	**1.6**	**102.4**
Amortisation					
At 1 January 2014	3.8	10.6	-	1.6	16.0
Charge for the year	0.6	-	-	-	0.6
At 31 December 2014	**4.4**	**10.6**	**-**	**1.6**	**16.6**
Net book value					
At 31 December 2014	**4.4**	**80.4**	**1.0**	**-**	**85.8**
At 31 December 2013	5.0	80.4	1.0	-	86.4

Goodwill arises on the consolidation of subsidiary companies and is amortised on a straight-line basis over 15 years, being its estimated useful economic life.

Refer to the intangible fixed assets section of note 1 for the accounting policy relating to landing slots and carbon allowances. The directors have conducted an impairment review of landing slots and carbon allowances at 31 December 2014 and based on this review no impairment needs to be recognised.

Other intangible assets relates to the purchase of the Travel City Direct brand name, trademarks and databases by Virgin Holidays Limited and related legal fees. The Travel City Direct brand name, trademarks and databases are being amortised over 4 years, being their estimated useful economic life.

Notes continued

10 Tangible fixed assets

Group	Land and buildings	Assets in the course of construction	Aircraft, rotable spares and ancillary equipment	Modifications to aircraft on operating leases	Plant and machinery, fixtures and fittings	Total
Cost	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January 2014	31.8	25.5	414.3	221.1	252.3	945.0
Additions	-	36.6	189.8	0.4	11.8	238.7
Disposals	(1.0)	(1.5)	(140.9)	(7.7)	(5.6)	(156.6)
Reclassifications	-	(26.9)	(1.4)	0.8	27.6	-
At 31 December 2014	**30.8**	**33.7**	**461.8**	**214.6**	**286.2**	**1,027.1**
Depreciation						
At 1 January 2014	4.4	-	268.0	150.2	174.6	597.2
Charge for the year	0.5	-	24.8	12.3	25.4	63.0
Disposals	(0.1)	-	(76.1)	(7.7)	(5.3)	(89.2)
At 31 December 2014	**4.8**	**-**	**216.7**	**154.8**	**194.7**	**571.0**
Net book value						
At 31 December 2014	**26.0**	**33.7**	**245.1**	**59.8**	**91.5**	**456.1**
At 31 December 2013	27.4	25.5	146.3	70.9	77.7	347.8

Included in aircraft, rotable spares and ancillary equipment are progress payments of £64.8m (prior period: £24.6m). Interest capitalised by the Group on aircraft progress payments included in additions during the year amounted to £1.0m (prior period: £1.1m). The cumulative amount of interest capitalised in the total cost above for the Group amounts to £2.3m (prior period: £1.3m).

In October 2014, the Group purchased and immediately entered into a sale and operating lease back of its first Boeing 787-9 aircraft. In December 2014, the Group took delivery of another Boeing 787-9 aircraft. In September 2014, the Group disposed of an Airbus A340-300 aircraft, no impairments arose on the sale of the aircraft. The total profit on the disposal of aircraft was £10.9m.

Included in land and buildings are short leasehold buildings at cost of £0.1m (prior period: £0.1m) and net book value of £nil (prior period: £nil). The balance of land and buildings is freehold.

Notes continued

10 Tangible fixed assets (continued)

The following fixed asset categories include assets held under finance leases and hire purchase contracts:

	For the year ended 31 December 2014 £m	For the 10 month period ended 31 December 2013 £m
Net book value		
Rotable spares and ancillary equipment	**28.1**	33.6
Depreciation charged for the year		
Rotable spares and ancillary equipment	**5.4**	5.1

The Group did not enter into any new finance lease and hire purchase contract arrangements in respect of tangible fixed assets during the year (prior period: £nil). The net book value of assets held under finance leases includes maintenance events and modifications to the asset which have been incurred in periods following the lease inception. Amounts due in respect of finance leases are shown in notes 14 and 15.

The Company did not have any fixed assets (prior period: £nil).

Notes continued

11 Fixed asset investments

Group

Cost	Investment £m
At 1 January 2014	7.3
Accrued interest for unsecured loan notes (note 4)	0.2
Disposals	(7.1)
At 31 December 2014	**0.4**
Net book value	
At 31 December 2014	**0.4**
At 31 December 2013	7.3

Investments represent an investment in Airline Group Limited consisting of equity and unsecured loan notes. In March 2014, the Group disposed of the majority of its shares within the Airline Group Limited for sales proceeds of £38.2m, recognising a profit on sale of £30.9m (note 6). The Group continues to hold a minority holding within the revised capital structure of the Airline Group Limited.

Company

	Investments £m
Cost	
At 1 January 2014	-
Shares in subsidiary undertakings	289.4
At 31 December 2014	**289.4**

Details of subsidiaries and associated undertakings are given in note 26.

Other investments represent an equity interest in Air Nigeria Development Limited (formerly Virgin Nigeria Airways Limited), see note 26 for more details.

12 Stocks

Group	As at 31 December 2014 £m	As at 31 December 2013 £m
Aircraft consumable spares	**34.4**	35.4
Finished goods and goods for resale	**7.1**	7.6
Uniforms	**1.4**	0.5
Fuel stocks	**0.1**	0.2
	43.0	43.7

Notes continued

13 Debtors

Amounts falling due within one year:	Group		Company
	As at 31 December 2014 £m	As at 31 December 2013 £m	**As at 31 December 2014 £m**
Trade debtors	**152.7**	161.7	**-**
Amounts owed by group undertakings	**0.0**	-	**0.0**
Other debtors	**112.7**	125.3	**-**
Prepayments and accrued income	**77.3**	70.5	**-**
	342.7	357.5	**0.0**

Included within other debtors due within one year in the Group is an amount of £67.0m (prior year: £nil) relating to margin calls on fuel and foreign exchange open derivative positions. In the Company there is an amount of £38.0k due from a subsidiary company.

Amounts falling due after more than one year:	Group		Company
	As at 31 December 2014 £m	As at 31 December 2013 £m	**As at 31 December 2014 £m**
Other debtors	**32.5**	40.2	**-**
Prepayments and accrued income	**4.7**	14.0	**-**
	37.2	54.2	**-**

Notes continued

14 Creditors: amounts falling due within one year

	Group		Company
	As at 31 December 2014 £m	As at 31 December 2013 £m	**As at 31 December 2014 £m**
Secured bank loans (note 15)	**18.0**	14.7	**-**
Obligations under finance leases and hire purchase contracts (note 20)	**4.0**	3.1	**-**
Trade creditors	**84.2**	46.0	**-**
Amounts owed to parent undertakings	**18.4**	-	**-**
Corporation tax	**4.2**	3.1	**-**
Group relief payable	**0.1**	-	**0.0**
Other taxes and social security	**11.3**	11.0	**-**
Other creditors	**2.6**	91.4	**-**
Accruals and deferred income	**922.5**	766.1	**0.1**
	1,065.3	935.4	**0.1**

Included within other creditors due within one year is an amount of £nil (prior period: £2.8m) relating to margin calls on fuel and foreign exchange open derivative positions. Included within accruals and deferred income are forward sales of £531.5m (prior year: £539.1m).

15 Creditors: amounts falling due after more than one year

	Group		Company
	As at 31 December 2014 £m	As at 31 December 2013 £m	**As at 31 December 2014 £m**
Secured bank loans	**10.5**	10.6	**-**
Obligations under finance leases and hire purchase contracts (note 20)	**0.2**	4.0	**-**
Accruals and deferred income	**13.6**	15.8	**-**
	24.3	30.4	**-**

Bank loans totalling £28.5m (prior period: £25.3m) are secured by mortgages over certain aircraft and engine assets. None (prior year: £nil) of these loans fall due for repayment after five years. The interest rates charged in the year in respect of these loans are in the range from 3.00% to 3.35% above US$ LIBOR'

Notes continued

16 Provisions for liabilities and charges

Group	Deferred tax £m	Maintenance £m	Onerous leases £m	Leasehold dilapidations £m	Legal provisions £m	Total £m
At 1 January 2014	26.6	138.7	0.9	2.8	10.6	179.6
Foreign exchange translation	-	3.7	-	-	-	3.7
Amounts provided in the year	(2.9)	29.9	-	5.5	6.7	39.2
Amounts utilised in the year	(0.2)	(40.9)	(0.5)	(0.4)	(8.5)	(50.5)
Other movements	-	1.5	-	-	-	1.5
Unwinding of discount	-	-	-	0.2	-	0.2
At 31 December 2014	**23.5**	**132.9**	**0.4**	**8.1**	**8.8**	**173.7**

The amounts provided for deferred taxation at 20% (prior period: 20%) are as follows:

	As at 31 December 2014 £m	As at 31 December 2013 £m
Accelerated capital allowances	**43.2**	50.7
Other timing differences	**(1.4)**	(3.6)
Non-UK tax losses	**(0.1)**	(0.1)
UK tax losses	**(18.1)**	(20.4)
	23.6	26.6

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

Cash outflows on aircraft and engine maintenance provisions will occur when the maintenance events take place on future dates not exceeding October 2026.

Legal provisions represent the estimated outstanding cost arising from the settlement of civil actions. The information usually required by Financial Reporting Standard 12 for these provisions is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of these cases.

Company
The Company did not have any provisions for liabilities and charges.

Notes
continued

17 Share capital

Company	As at 31 December 2014 £
Allotted, called up and fully paid	
100,000,000 (31 December 2013: nil) ordinary shares of £1 each (equity)	**100,000,000**
50,000 preference shares of £1,000 each, linked to LIBOR plus 2.5% (equity)	**50,000,000**

The Company was incorporated on 29 January 2014 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.

Notes continued

18 Reserves

Group

	Share premium account £m	Other reserves £m	Profit and loss account £m	Total £m
Balance at 1 January 2014	140.0	(226.5)	157.4	70.9
Profit for the financial year	-	-	14.9	14.9
Ordinary interim dividends paid	-	-	(88.1)	(88.1)
Share premium settled	(140.0)	-	-	(140.0)
Merger reserve	-	(9.7)	-	(9.7)
Balance at 31 December 2014	**-**	**(236.2)**	**84.2**	**(152.0)**

Other reserves also includes the merger reserve arising from the inclusion of Virgin Travel Group Limited in the consolidation using the merger accounting method as described in note 1, Basis of consolidation.

Company

	Share premium account £m	Other reserves £m	Profit and loss account £m	Total £m
Balance at date of incorporation	-	-	-	-
Profit for the financial period	-	-	30.8	30.8
Preference dividends paid	-	-	(0.2)	(0.2)
Ordinary dividends paid	-	-	(30.7)	(30.7)
Merger reserve	-	139.4	-	139.4
Balance at 31 December 2014	**-**	**139.4**	**(0.1)**	**139.3**

Notes continued

19 Reconciliation of movements in shareholders' funds

Group	**For the year ended 31 December 2014 £m**	For the period ended 31 December 2013 £m
Profit for the financial year/period	**14.9**	(0.3)
Other recognised gains and losses relating to the year/period (net)	**-**	(0.1)
Preference dividends paid in the year/period	**-**	(1.8)
Ordinary dividends paid in the year/period	**(88.1)**	-
Movements in shareholders' funds	**(73.2)**	(2.2)
Opening shareholders' funds	**71.2**	73.4
Closing shareholders' (deficit)/funds	**(2.0)**	71.2

Company	**For the year ended 31 December 2014 £m**
Loss for the financial year/period	**(0.1)**
New ordinary shares issued	**100.0**
New preference shares issued	**50.0**
Merger reserve	**139.4**
Movements in shareholders' funds	**289.3**
Opening shareholders' funds	**-**
Closing shareholders' funds	**289.3**

In accordance with the provisions of Financial Reporting Standard 25 the preference shares have been classified in share capital.

Notes continued

20 Leasing commitments

Group
The capital element of the future minimum lease payments to which the Group is committed at 31 December 2014 under finance lease and hire purchase contract obligations incurred in the acquisition of aircraft, engines, spares and other equipment are as follows:

	As at 31 December 2014 £m	As at 31 December 2013 £m
Amounts due within:		
One year	**4.0**	3.1
Second to fifth year inclusive	**0.2**	4.0
	4.2	7.1

Rentals, net of finance charges, are included in obligations under finance leases and hire purchase contracts in notes 14 and 15 above.

As at 31 December 2014, the Group had annual commitments under non-cancellable operating leases as set out below:

	As at 31 December 2014		As at 31 December 2013	
	Land and buildings £m	**Aircraft and other £m**	Land and buildings £m	Aircraft and other £m
Operating leases which expire:				
Within one year	**4.4**	**11.0**	8.1	4.5
In the second to fifth year inclusive	**12.8**	**103.2**	10.9	45.8
Over five years	**10.1**	**74.2**	12.1	133.3
	27.3	**188.4**	31.1	183.6

Company
As at 31 December 2014, the Company had no commitments under operating leases (prior period: £nil).

Notes continued

21 Capital commitments

	As at 31 December 2014 £m	As at 31 December 2013 £m
Capital commitments at the balance sheet date for which no provision has been made:	**2,246.4**	2,273.6

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

Company
As at 31 December 2014, there were capital commitments in the Company of £nil (prior period: £nil).

22 Commitments

Group
A substantial proportion of capital expenditure, leasing commitments, fuel and other operating costs are denominated in US Dollars. Notional foreign exchange forward purchase contracts amounting to US$693.8m outstanding at 31 December 2014 (prior period: US$1,847.0m) have been taken out to cover part of the exposure risk. In addition, the Group has entered into a number of other derivative foreign exchange financial instruments the maximum potential commitment of which at 31 December 2014 is US$331.8m (prior period: US$317.5m).

The fair value at 31 December 2014 of all the derivative contracts held by the Group to meet future obligations in respect of foreign exchange and fuel hedging contracts is a negative fair value of £214.5m (prior period: negative fair value £20.6m). This is comprised of a negative fair value of £229.4m (prior period: positive fair value £31.8m) in respect of fuel hedging derivatives and a positive fair value of £14.9m (prior period: negative fair value £33.5m) in respect of foreign currency derivatives. Note that all fair values stated exclude margin calls already made to counterparties (see note 13).

The timing difference between derivative maturity date and current mark-to-market value can give rise to cash margin exposure; this risk is managed through choice of instrument, appropriate counterparty agreements and, where required, cash deposits with counterparties notes 13 and 14).

Company
The Company did not have any commitments at 31 December 2014 (prior period: nil).

Notes continued

23 Reconciliation of operating loss to net cash inflow from operating activities

	For the year ended 31 December 2014 £m	For the period ended 31 December 2013 £m
Pre-exceptional operating profit	**4.2**	10.3
Amortisation of intangible assets	**0.6**	0.5
Depreciation charge	**63.0**	59.9
(Profit)/loss on sale of fixed assets	**-**	2.1
(Profit) on sale of fixed asset investment	**(30.9)**	-
(Increase)/decrease in stocks	**0.8**	(2.3)
Decrease in debtors	**98.5**	26.0
Increase/(decrease) in creditors	**61.5**	(102.1)
(Decrease) in provisions	**(3.0)**	(7.0)
Other operating expense	**(6.6)**	16.1
Exceptional items (note 6)	**3.2**	(11.9)
Net cash inflow/(outflow) from operating activities before margin calls	**191.2**	(8.4)
Net cash (outflow) relating to margin calls (note 13)	**(69.9)**	(8.8)
Net cash inflow/(outflow) from operating activities	**121.3**	(17.2)

24 Reconciliation of net cash flow to movement in net funds

	For the year ended 31 December 2014 £m	For the period ended 31 December 2013 £m
Decrease in cash in the period	**(39.3)**	(76.3)
Net cash outflow from decrease in debt (note 25)	**1.3**	0.7
Cash flow from increase/(decrease) in liquid resources (note 25)	**9.0**	(0.2)
Change in net funds resulting from cash flows	**(29.0)**	(75.8)
Non-cash items:		
Translation difference	**5.1**	(14.3)
Movement in net funds in the period	**(23.9)**	(90.1)
Net funds at 1 January 2014	**287.3**	377.4
Net funds at 31 December 2014	**263.4**	287.3

Notes continued

25 Analysis of net funds

	1 January 2014 £m	Cash Flow £m	Other non-cash movements £m	Exchange movements £m	**31 December 2014 £m**
Net cash:					
Cash at bank and in hand	319.7	(30.3)	-	6.7	**296.1**
Less: short term deposits treated as liquid resources	(5.8)	(9.0)	-	-	**(14.8)**
	313.9	(39.3)	-	6.7	**281.3**
Debt:					
Debt due within one year	(14.7)	(1.8)	-	(1.4)	**(17.9)**
Debt due after one year	(10.6)	-	-	-	**(10.6)**
Finance leases and hire purchase contracts	(7.1)	3.1	-	(0.2)	**(4.2)**
	(32.4)	1.3	-	(1.6)	**(32.7)**
Liquid resources:					
Short term deposits included in cash at bank and in hand	5.8	9.0	-	-	**14.8**
Net funds	287.3	(29.0)	-	5.1	**263.4**

Notes continued

26 Subsidiaries and associated undertakings

The subsidiaries of the Company as at 31 December 2014 were:

Subsidiaries	Country of incorporation or registration	% Ordinary issued shares	Principal activity
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
Worldwide Travel of East Anglia Limited	England and Wales	100	Travel agency
Virgair Limited	England and Wales	100	Leasing of aircraft
VA Cargo Limited	England and Wales	100	Cargo management
Virgin Airways Limited	England and Wales	100	Non-trading
Greenart Limited	England and Wales	100	Non-trading
Virgin Atlantic Engineering Limited	England and Wales	100	Non-trading
Virgin Atlantic Consol Limited	England and Wales	100	Dormant
Virglease Limited	England and Wales	100	Leasing of aircraft
Virglease (2) Limited	England and Wales	100	Non-trading
Virglease (3) Limited	England and Wales	100	Leasing of aircraft
Fordbar Services Limited	England and Wales	100	Dormant
Voyager Nominees Limited	England and Wales	100	Dormant
Public Eye Promotions Limited	England and Wales	100	Dormant
Virgin Aviation Services Limited	England and Wales	100	Dormant
Virgin Freeway Limited	England and Wales	100	Dormant
Speed 5024 Limited	England and Wales	100	Dormant
Campden Securities Limited	England and Wales	100	Investment company
Fit Leasing Limited	Jersey	100	Leasing of aircraft
Bug Leasing Limited	Jersey	100	Leasing of aircraft
Threesixty Aerospace Limited	England and Wales	100	Non-trading
Junopart Limited	England and Wales	100	Leasing property
Virgin Holidays Cruises Limited	England and Wales	100	Non-trading
Bales Worldwide Limited	England and Wales	100	Non-trading
Openride Limited	England and Wales	100	Tour operator
Check-in Holidays Limited	England and Wales	100	Dormant
Virgin Vacations Incorporated	United States of America	100	Travel Agency
Virgin Incoming Services Incorporated	United States of America	100	Tour Operator
Significant holdings			
Air Nigeria Development Limited (formerly Virgin Nigeria Airways Limited)	Nigeria	49	Airline operations

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.

In March 2014, the Shareholders of the Company implemented a reorganisation of the corporate group headed by the Company which resulted in certain subsidiary undertakings of the Company (VAL Trademark Two Limited, VAL Trademark Three Limited, VAL Trademark Four Limited and VAL Trademark Five Limited) being demerged and the trademark rights for the use of the Virgin name and logo (as set out in note 28) held by these companies being transferred to other companies ultimately controlled by Virgin Group Holdings Limited. The Company and its subsidiary undertakings continue to be licenced to use the Virgin name and logo on substantially the same terms as before the demerger.

Notes continued

26 Subsidiaries and associated undertakings (continued)

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.

As at 31 December 2014, the consolidated balance sheet includes balances due from Air Nigeria Development Limited to Group companies amounting to £9.7m (prior period: £9.7m). Of this balance £5.2m relates to trademark royalties due to the Group for the period to 29 February 2008. The Group has made full provision against the recovery of these balances. During the year under review Air Nigeria Development Limited purchased no services from Group companies (prior period: £nil).

27 Pension schemes

The Group operates defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. There were no outstanding or prepaid contributions at 31 December 2014 (prior period: £nil).

28 Related party transactions

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

The following is a summary of material transactions and balances by the Group with related entities which are required to be disclosed by Financial Reporting Standard 8:

Group	Year ended 31 December 2014			At 31 December 2014	
Related party	Revenue £m	Purchases £m	Preference dividends £m	Balances due to the Group £m	Balances due from the Group £m
Companies related by virtue of common control or ownership:					
Bluebottle Investments (UK) Limited	-	0.1	0.1	-	-
Sundog Pictures Limited	-	0.1	-	-	-
Velocity Rewards Limited	-	0.2	-	-	-
Necker Island BVI Limited	-	0.3	-	-	-
Delta Air Lines, Inc.	10.2	57.6	0.1	1.1	55.7
Virgin Hotels Group Limited	-	0.3	-	-	-
Virgin Management Limited	0.1	-	-	-	-
West Coast Trains Limited	1.4	-	-	0.2	-
VAL TM Limited	-	18.4	-	18.4	-

Notes continued

28 Related party transactions (continued)

Company	Year ended 31 December 2014			At 31 December 2014	
Related party	Revenue £m	Purchases £m	Preference dividends £m	Balances due to the Group £m	Balances due from the Group £m
Companies related by virtue of common control or ownership:					
Bluebottle Investments (UK) Limited	-	0.1	0.1	-	-
Companies related by virtue of being investors in the Group:					
Delta Air Lines, Inc.	10.2	57.6	0.1	1.1	55.7

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 10 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 reorganization in March 2014 (see note 26) 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.

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

On 31 December 2014 the Group owed Delta Air Lines Inc. £55.7m (prior period: £nil) with respect to the joint operation agreement. Costs incurred in relation to the joint arrangement are presented with costs of sale.

29 Ultimate holding company

As at 31 December 2014, the directors consider the ultimate holding company to be Virgin Group Holdings Limited, a company registered in the British Virgin Islands.

As at 31 December 2014, the largest group in which the results of the Company are consolidated is that headed by Virgin Wings Limited, a company registered in England and Wales. The smallest group in which the results of the Company are consolidated is that headed by Virgin Holdings Limited, a company registered in England and Wales.

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