Annual report 2015

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

Safety

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

Our routes

[1] 2016 Seasonal Summer route

2015 Highlights

Customers

Our focus is always for the customer, with flair

5,939,000

We served 5,939,000 customers on 26,739 flights to 29 non-stop destinations

NPS Score

We saw our customer satisfaction and net promoter score continue to climb

Fleet

We have continued to modernise our fleet, taking delivery of a further seven new, fuel efficient Boeing 787-9 aircraft

Network

We successfully launched a new route to Detroit and increased frequencies to other US destinations, so that approximately 70% of our flights now serve the transatlantic market

550

We have created more connecting opportunities to US destinations with more than 550 codeshare routes through our transatlantic joint venture with Delta Air Lines, Inc. (Delta), and 392,000 connecting customers

325,000

We arranged 325,000 Virgin Holidays experiences for customers to visit over 40 destinations

2015 Highlights continued

People

We know our people are our biggest differentiator and make us unique

Loved for service

Throughout the year, 3,200 of our crew undertook the '*Me and My Customer*' training

HOLIDAYS

100%

Virgin Holidays moved closer to its customers by becoming a 100% direct sale business

£1.2m

Together, Virgin Atlantic and the Virgin Atlantic Foundation distributed the equivalent of over £1.2m in money, time and donations-in-kind to charity, of which our people raised £275,000 for charity through fund raising activities and volunteering

Waste

97% of our total UK ground waste is diverted from landfill. 65% is recycled, 30% is used to generate energy and 2% is composted. We have also reduced our total UK ground waste by 33% over the last eight years

Noise

We have reduced noise output per aircraft movement by 2.24dB to 95.32dB compared to 2012, and continue to work towards our target of reducing our noise output per aircraft movement by 6dB in 2020 as compared to 2012

2015 Highlights continued

Financial

Building on our return to profitability

£22.5m

Virgin Atlantic profit before tax and exceptional items of £22.5m, a £10.1m year on year[1] improvement

55%

The transatlantic joint venture with Delta continues to strengthen, with the contribution to our profits increasing by 55% year on year

£196m

Airline operating cost before exceptional items down £196m year on year, driven mainly by the reduction in fuel cost of £191m

85%

Virgin Holidays' profit before tax and exceptional items of £10.9m, a £5.0m (85%) year on year improvement

£220m

The completion of a landmark senior secured note bond financing transaction of £220m, Virgin Atlantic's maiden capital markets transaction, and a first financing of its kind in Europe

6.8%

Return on Invested Capital[2] of 6.8% for 2015

1. Comparatives with 2014 are with the amounts restated under IFRS and, with the exception of profit before tax and exceptional items, are made on a constant currency basis
2. Return on Invested Capital (ROIC) has been calculated as EBIT divided by net assets deployed, less net debt. Adjustments are made to EBIT and net assets to account for those aircraft operated under operating leases and mark-to-market movements on open contracts

Contents

Chairman's Review

Our joint venture with Delta on transatlantic routes has continued to produce excellent results

I am pleased to report that the Virgin Atlantic Group increased its profits in the 2015 financial year, following its return to profitability in 2014. Our profit before tax and exceptional items[3] for 2015 was £22.5m, compared to £12.4m for 2014 (both results stated under IFRS, which we adopted in 2015).

Since the end of 2014, the price of oil has fallen by over 34%. This has been welcome. However, because we did not anticipate this development, our customary hedging programmes have restricted the immediate benefit we can pass on to customers. It is possible that a lower price level will persist for some time, as there is a clear excess of supply over demand, in the absence of significant changes in extraction levels, or of geopolitical events, which might restrict supply. Our objectives are to remain as competitive as possible by passing on the benefit of reducing costs to customers, while remaining appropriately prudent in terms of managing the risk of future price increases. We will also continue to take every opportunity we have to reduce consumption, by investing in new generation aircraft and engines. Over the long term, in the absence of alternative energy sources, reduced consumption is the most effective counter to price volatility.

Our joint venture with Delta on transatlantic routes has continued to produce excellent results. In addition, Virgin Holidays has achieved a significant increase in profits, producing a profit before tax and exceptional items of £10.9m (2014: £5.9m).

In 2015, we made great progress in implementing our long-term *Plan to Win*. While there remains a lot to be done, we are confident that the foundations of a sound and consistently profitable business are being built.

Sustainable profitability

The main objectives of the *Plan to Win* are to be consistently profitable through the economic cycles; to maintain an appropriate return on capital; and to have the most engaged and effective work force in the industry delivering the unique Virgin Atlantic experience to customers. In 2015, we took a number of important steps towards these goals. We strengthened the balance sheet with long-term financing, invested considerable sums in capital programmes, technology and training and development, including our *Loved for Service* initiative. We also reduced operating costs in a number of areas and in 2016 will move into a new headquarters facility which will give us a more flexible working environment as well as reducing expenses. The new building has been rated as 'excellent' under BREEAM 2011 and meets the EPC 'B' standard.

Los Angeles Clubhouse

We made significant investments in customer service, introducing new menus, on-board Wi-Fi and a new Clubhouse in Los Angeles. We took delivery of seven more Boeing 787-9 aircraft, so we now have nine out of our total order of 17. We are on track to have the most modern and efficient fleet across the Atlantic. This will be supported by the introduction in 2016 of our new passenger service system, *Air4*. This is a vital project for Virgin Atlantic, and in 2015 we made good progress in the development phase.

To achieve the *Plan to Win* we must reach higher levels of operating efficiency, so that our non-fuel costs are properly competitive. We have undertaken a root and branch exercise to identify ways of doing this. We are creating centres of excellence, automating processes and eliminating overlaps and duplication in our departments. As a result we have reduced managerial and support staff numbers by approximately 500. The efficiency programme will deliver £30m of recurring annual benefit from 2016, which we will invest in our customer service and our people.

Chairman's Review continued

On behalf of the Board, I give heartfelt thanks to all our people at Virgin Atlantic for their loyalty, commitment and very hard work during 2015

Virgin Atlantic and Delta Air lines

Shareholder returns
Our balance sheet structure has benefited from the successful completion of a large long-term financing. This raised proceeds of £220m through a securitisation format which is the first of its kind in Europe. We are investing the proceeds in purchasing outright two of the Boeing 787-9 fleet. We will continue to re-balance our fleet profile, by increasing our level of outright ownership of aircraft.

Celebrating 30 years of Virgin Holidays
In 2015, Virgin Holidays celebrated its 30th year in business. Since 1985, Virgin Holidays has been one of the most innovative operators in its sector. It was the first tour operator to offer dedicated airport lounges to leisure customers, at Gatwick and Manchester. It has introduced innovative retail stores designed to inspire consumers through immersive experiences as holidays are brought to life through sight, sound and smell and through a welcoming atmosphere. Its ability to change the model and improve its product has enabled it to maintain a market-leading position and to remain profitable through periods of great change in the way in which holidays are sold.

Colleagues
During 2015, there were a number of changes to our Board and Executive Management Team. Perry Cantarutti stepped down as a non-executive director and we thank him very much for his contribution to our Board. We welcome his replacement, Nat Pieper, and also Erik Varwijk, who has joined our senior executive team as EVP, Commercial. Finally we congratulate our Board colleagues, Ed Bastian and Glen Hauenstein, on their promotions at Delta. Ed will become Chief Executive Officer and Glen will take over from Ed as President in May 2016.

On behalf of the Board, I give heartfelt thanks to all our people at Virgin Atlantic for their loyalty, commitment and very hard work during 2015. From this foundation, we can face the future with confidence.

Peter Norris
Chairman
17 March 2016

3. Exceptional items include gains or losses on hedging, restructuring costs and gains or losses on the disposal of property, plant and machinery.

Chief Executive Officer's Review

Our profit before tax and exceptional items increased to £22.5m, a significant improvement on 2014 of £10.1m

Safety and security first and always
The safety and security of our customers and our people is, and always will be, our top priority. We aim to ensure every decision we take, no matter how big or small, starts with safety and security as our first consideration. It is built into our culture. This is supported by a management structure with clear accountability and defined escalation channels, a team of dedicated safety and security professionals, and focused 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 that the highest corporate standards, care for our people, and the safety and security of our customers are maintained at all times. In 2015, we started operating under the new European Aviation Safety Agency (EASA) Flight Time Limitations regulations and also became the first airline to complete a year of the Civil Aviation Authority's (CAA's) Performance Based Regulation approach. Based on the success of our last International Air Transport Association (IATA) Operational Safety Audit, in which we had no areas for improvement, we are now building towards an Enhanced IATA Operational Safety Audit (IOSA) for this year.

I would like to thank everyone across Virgin Atlantic Airways and Virgin Holidays for their continued commitment to the highest safety standards throughout our entire business.

2015: laying the foundations for the future
After delivering successfully against our recovery plan in 2014, returning Virgin Atlantic to profitability, in 2015 we set our sights on positioning Virgin Atlantic for the future. It was the first full year of our *Plan to Win*, our four-year plan to deliver long-term success and profitability, ensuring we are always focused on our customers and delivering service with Virgin Atlantic flair.

Our profit before tax and exceptional items[4] increased to £22.5m, a significant improvement on 2014[5] of £10.1m. Of note was Virgin Holidays' strong performance, where profit before tax and exceptional items increased by 85%.

In 2015 Virgin Atlantic Airways flew 5,939,000 people on 26,739 flights to 29 non-stop destinations. 325,000 people enjoyed a Virgin Holiday. Both Virgin Atlantic Airways and Virgin Holidays are on track to meet our long term ambitions.

Our focus remains on being always for the customer, with flair, and 2015 was a great year for our customers. Brent Crude prices fell by 34% and Virgin Atlantic passed on much of its benefit from fuel savings to our customers in the form of lower fares.

We achieved these improved results in a year in which we also transformed our business, laying the foundations for a robust and enduring Virgin Atlantic. A key part of our *Plan to Win* has been creating a customer-focused organisation that is consistently profitable and capable of reaching the targets we have set ourselves. This includes the need to be structured in a simpler, more efficient way. By reducing the number of management layers, we bring our people closer to our customers. This, together with other initiatives, has helped to reduce our overall non-fuel costs, making us more competitive. This safeguards our ability to continue investing more in the unique Virgin Atlantic service and experience for the benefit of our customers, which we believe is a true differentiator for us.

2016: a pivotal year
2016 will be a pivotal year for Virgin Atlantic. We will continue to enhance the customer experience, increase our earning potential, and invest in technology that benefits our customers and our people. Many of the benefits from the business transformation that we put in place in 2015 will be realised throughout 2016 and will last for years to come.

→

4. Exceptional items include gains or losses on hedging, restructuring costs and gains or losses on the disposal of property, plant and machinery.
5. The result for 2014 has been restated following our adoption of International Financial Reporting Standards as adopted by the European Union ("IFRS") for 2015, as explained in the Chief Financial Officer's review

Chief Executive Officer's Review continued

AIR4
AIR4 is the biggest technology transformation in our history, and a key part of our *Plan to Win*. We are replacing our current Passenger Service System (PSS), SHARES, our Airport and Contact Centre systems and our mobile apps with a new technology platform called *AIR4*. Much progress has already been made towards its implementation in 2016. It's a major change in how we operate our business and interact with our customers. It is also part of a wider technology investment programme that will see the development of our *Platform to Serve*, helping us to improve the ways in which we personalise customer experiences and communications.

We expect benefits directly to the bottom line from reduced fuel hedging, leading to greater financial benefits from lower fuel prices. Our Boeing 787-9 programme continues to deliver cost efficiencies and customer benefits, and this trend will continue as we increase our Boeing 787-9 fleet from nine to 13 aircraft. We are investing in new technology, including our new passenger service system, *AIR4*, and a new Customer Relationship Management (CRM) system called *Platform to Serve*. We will grow further into the extra capacity that we have added through our joint venture routes with Delta, while continuing to drive maximum benefit from this partnership.

We are moving our head office to a brand new building, and our operations at London Gatwick Airport are moving to new, modern facilities at the Airport's North Terminal. We expect to be fully operational in the North Terminal in early 2017. We are continuing our investment in our customer experience, both on the ground and in the air, as well as in our people and their development.

Our Plan to Win
The *Plan to Win* leverages our key strengths, including our people; customer experience and brand; our scale and advantageous position in the UK; our fleet of aircraft and network; and our transatlantic joint venture with Delta.

Our people
At Virgin Atlantic, our people play the most critical role in delivering the customer experience. We have an ethos of continually improving the way we serve our customers, always with Virgin Atlantic flair. 2015 was no exception and our people continued to deliver outstanding experiences, with customer feedback telling us that our people have made a real difference to their journeys. I would like to thank our people for the contribution they have made in achieving this.

We place great emphasis on hiring the best people and welcoming them to our business through our dedicated *Hello day* (the Virgin Atlantic induction programme). We continue to invest in training and development to help them make best use of their talent, creativity and experience. In 2015 we continued to develop our customer-facing teams, including our crew, customer service centre and airport teams, through our *Me and My Customer* programme. This award-winning programme ensures our people are empowered to do the right thing for our customer, delivering a consistently superior service across all touch points.

We also continued to provide training to existing First Officers and Captains, investing particularly in training our flight crews in the safety, security and operational requirements of our new modern fleet of Boeing 787-9 aircraft.

As part of our investment in people development, in 2015 we welcomed the first group of the *Future Flyers* pilot cadet scheme. The aim of the scheme is to train pilots with little or no previous flying experience, enabling people with diverse skills and backgrounds to join the profession. This year saw 12 cadets join the 18-month programme, which leads towards the Civil Aviation Authority's latest Multi-crew Pilot Licence (MPL) and a position as a Virgin Atlantic First Officer. In its first year, the scheme proved incredibly popular, with over 8,000 applicants.

As always, at the core of our Virgin Atlantic culture is a belief in working together with the communities in which we operate and to give something back. In 2015, through the Virgin Atlantic Foundation, we raised £633,000 on board our aircraft for our *Change for Children* appeal. Our employees took part in six fundraising adventures; and more than 150 of our people gave up their time to volunteer at Free The Children's annual youth empowerment event, 'WE Day'.

Chief Executive Officer's Review continued

In 2015, our customer satisfaction scores increased again, and we are exceeding the ambitious targets we have set ourselves

Our customers
At the beginning of 2015 we launched our much anticipated advertising campaign, *Let it Fly*, bringing our customer-centric ethos to life through our iconic brand. The campaign message, '*Life doesn't come to you, so go to it'*, encapsulates our passion for service and demonstrates how we go above and beyond to deliver unforgettable experiences for our customers. We have always challenged the status quo. In this campaign, instead of challenging the competition, we are challenging ourselves for the customer. We continue to build on this promise – for our customers and our people.

In 2015, our customer satisfaction scores increased again, and we are exceeding the ambitious targets we have set ourselves. We know we do particularly well where our customers have face-to-face interactions with our people.

We are also investing in our product and services to support our brilliant people. from 2015 to 2018, we will have delivered over £300m of new investment into our customer experience. In 2015, we have already made great progress. We launched a fleet-wide Wi-Fi roll-out, which will be complete by the end of 2016. We opened a new Virgin Atlantic Clubhouse in Los Angeles and refurbished a number of our Clubhouses around the world. We also made significant investment in 2015 in our food and beverage offering, which has had a positive impact on our customers' flying experience. Our investment in 2015 focused primarily on the new Economy cabin that we introduced across our fleet between March and September 2015.

Food and beverage service improvements included adding cheese and crackers to meals; providing water bottles to all customers in the cabin; increasing portion sizes for main meals and adding a second meal service on longer flights – and we also introduced a hot towel service as well as offering chocolates while serving tea and coffee to our Economy customers.

And of course we won't lose sight of the basics, continuing to serve our customers' needs through best-in-class On Time Performance (OTP) scores. 2015 saw another strong performance for our OTP, with around 85% of flights departing within 15 minutes of schedule.

Network and fleet: the right aircraft flying to the right places
By the end of 2015, our fleet included nine Boeing 787-9 aircraft, and we're excited to be welcoming a further four Boeing 787-9 aircraft in 2016, as we replace 40% of our fleet over a four-year period. Thanks to the landmark financing deal that raised £220m, our final Boeing 787-9 delivery in 2015, *Maid Marian*, is an aircraft wholly owned by Virgin Atlantic. We now operate the Boeing 787-9 on routes where it makes most sense, both financially and to our customers. This includes routes like Hong Kong, Shanghai, Los Angeles and Johannesburg, which are longer flights where the customer experience and fuel efficiency benefits are maximised.

Today approximately 70% of our flying is transatlantic, the same level as during the most profitable period in our history. While we announced changes to our longhaul network and to *Little Red* in 2014,

Premium Economy

Chief Executive Officer's Review continued

I would like to take this opportunity to thank our people once more. Their focus on being themselves while taking care of our customers has played a critical role in delivering the first year of our Plan to Win

it was in 2015 that those plans turned into reality. The strength of Delta's network in the United States, combined with the presence of Virgin Atlantic at London Heathrow and Gatwick, delivers a strong network proposition for our customers. We capitalised on our transatlantic joint venture with Delta during the year, adding more routes to North America, and increased our flying capacity to our most popular destinations. We also introduced our Heathrow to Detroit route, which connects our customers to almost anywhere in North America. Virgin Atlantic Airways now connects 392,000 customers to over 200 destinations in the United States with Delta, on over 550 routes. We also launched new opportunities for our customers in the UK, including a Belfast to Orlando direct seasonal route. Following the success of this route in 2015, we are continuing this offer in 2016.

Virgin Holidays: exceeding targets
In October, we announced that Virgin Holidays would transition to a direct sales model, ceasing its distribution through third-party travel agents. Owning the relationship with our customers allows us to deliver the personalisation and differentiation to achieve our vision of offering the best customer experience in the UK. This decision was made possible by the success of the retail network that Virgin Holidays has built up. In 2015 we opened the first of our standalone retail *v-room* stores, in Bluewater, Newcastle Metro Centre, Lakeside, Bristol and Leeds. Business in these stores is already strong and based on this early success, we will add three more retail *v-room* stores in the first half of 2016.

We have also continued to invest and innovate in our offering for customers, including the launch of *Wonderlist*, a collection designed to showcase unique, once-in-a-lifetime holidays to premium customers. We have also invested in our customer touch points, including ensuring that our Customer Service Centres serve calls in the UK. This change was a direct result of listening to and acting on feedback from our customers, who told us how much they valued a UK call centre. Similarly, we have invested in a new mobile responsive website, and will back this investment up in 2016 with enhancements to our online customer experience through new functionality and improved design.

Thank you to our people
Progress has been made in many areas of our business. I would like to take this opportunity to thank our people once more. Their focus on being themselves while taking care of our customers has played a critical role in delivering the first year of our *Plan to Win*. We are well positioned to achieve our long-term targets, and expect to post record profits, on a sustainable basis, by 2018. It's now time to realise our potential.

Craig Kreeger
Chief Executive Officer
17 March 2016

Virgin Holidays V-Room store, Leeds

Chief Financial Officer's Review

This is our second consecutive profitable year and supports the long-term goals of our Plan to Win

For the year ended 31 December 2015, Virgin Atlantic returned a profit of £22.5m before tax and exceptional items[6]. This is our second consecutive profitable year and supports the long-term goals of our *Plan to Win*. The result is significant given the considerable changes made to our network configuration and operations during the year, setting us up well for 2016 and our *Plan to Win*.

Result highlights

- Profit before tax and exceptional items improves by £10.1m year on year[7] to £22.5m (statutory profit before tax of £87.5m, 2014: restated loss before tax of £174.7m)
- Total revenue for the year down £45.6m
- Airline passenger unit revenue down 2.9%
- Airline operating costs have fallen year on year by £196m, driven by fuel cost reduction of £191m
- Non-fuel unit costs remained flat year on year, despite regulated cost increases
- Virgin Holidays saw a £5.0m year on year improvement in profit before tax and exceptional items in 2015 to £10.9m
- Return on invested capital improves 0.4pts to 6.8%[8]
- The completion of a landmark senior secured note bond financing transaction raising £220m
- Total cash (including restricted cash) increased by £300m to £596m

Airline passenger revenue

2015 was a year of significant network change for Virgin Atlantic, aligning our network to take full advantage of our transatlantic joint venture with Delta and focusing on our longhaul operation.

We stopped flying to Tokyo, Mumbai, Cape Town and Vancouver, and also closed our shorthaul service, *Little Red*, and have replaced these services with additional transatlantic flying.

2014 comparators – IFRS

- We are now preparing our financial statements under full IFRS to allow better comparability with our peer group. We have historically prepared our financial statements under UK GAAP, and the key impact of the change to IFRS has been on fuel and foreign exchange hedging and the frequent flyer programme (*Flying Club*). In previous periods, fuel and foreign currency derivatives, as well as *Flying Club*, were not reflected on our balance sheet at fair value. Prior year comparators have been restated to reflect the conversion which reduces net assets at 31 December 2014 by £242m and profit before tax and exceptional items by £2.0m to £12.4m, leading to a year on year improvement of £10.1m.
- In adopting IFRS we have also changed the revenue recognition criteria in relation to Passenger Service Charges (PSC) from (principal) gross accounting (reflected in Total Revenue and Traffic Direct Operating Cost) to (agent) a net basis within Total Revenue. Prior year comparators have been restated to reflect this which impacts total revenue and traffic direct operating costs by £97.5m. This change will make our revenue reporting more reflective of commercial activity.

Overall for the year, our load factor was down 2.5pts to 76.8%, driven by the redeployment of our capacity from the rest of the world to our transatlantic services to reorient our network towards approximately 70% transatlantic flying. This will benefit the airline in the long-term. Yield performance was strong in the first part of the year, driven by improvements to market fares and in our performance in the business and premium economy cabins. This partially offset some of the decline in our load factor. In the latter half of the year the fuel environment, while reducing our fuel costs, led to downward pressure on our fares. These factors led to an overall reduction in airline passenger revenue of £72.8m year on year, a reduction in unit passenger revenue of 2.9%.

→

6. Exceptional items include gains or losses on hedging, restructuring costs and gains or losses on the disposal of property, plant and machinery.
7. Comparatives with 2014 are with the amounts restated under IFRS and, with the exception of profit before tax and exceptional items, are made on a constant currency basis
8. Return on Invested Capital (ROIC) has been calculated as EBIT divided by net assets deployed, less net debt. Adjustments are made to EBIT and net assets to account for those aircraft operated under operating leases and mark-to-market movements on open contracts.

Chief Financial Officer's Review continued

Fuel hedging

- Virgin Atlantic operates a hedging policy that protects the business from exposure to volatility in oil prices and foreign currency rates. The policy allows Virgin Atlantic to hedge within bands, up to 24 months out with declining percentages. While Brent Crude prices have fallen by 34% (from $56 on the 1 January to $37 on the 31 December 2015), we did not benefit fully from the decline in price because of our hedging policy.
- We made realised hedging losses of £198m in 2015, but still benefited from a fall in our effective hedged fuel price by 17% year on year, and in 2016 we will see this reduce further.

In the transatlantic market we increased capacity by 14.8%. This is aligned with our strategy to offer a better and more frequent service to our customers, as well as opening up new US markets with Delta. We successfully added additional services into several existing Virgin Atlantic markets; New York, Los Angeles and San Francisco while also starting services into the key Delta hubs of Atlanta and Detroit, significantly enhancing the presence of Virgin Atlantic in the transatlantic market. We generated strong growth in passenger numbers, up 9.1% versus 2014 but these increases did not keep pace with our capacity growth. This led to a decline in our transatlantic load factor of 4.3pts.

We launched Boeing 787-9 aircraft into existing markets to Shanghai, Hong Kong, Johannesburg and Delhi. These aircraft are delivering a superior experience to our customers as well as reducing our capacity in each market and driving down our unit costs.

Cargo revenue

Cargo revenue declined 13.0% primarily due to aggressive competitor activity and the low fuel cost environment, which put pressure on price and meant our yields were down 8% year on year.

The change to our network was the right decision for the airline, but the loss of key routes, including Tokyo, Mumbai and Cape Town, resulted in declining volumes for our cargo business. We also introduced the Boeing 787-9 to Hong Kong and Shanghai, which reduced cargo capacity from the Far East. On the rest of the network, market capacity increases outstripped demand growth. Overall, cargo tonnage was down 4.3% year on year.

Virgin Holidays

2015 saw continued growth in Virgin Holidays' profitability, with profit before tax and exceptional items up by 85% to £10.9m.

Departed passenger volumes grew by 5%, underpinned by strong performances across all key regions. Growth was seen in both the North America and Caribbean markets, while new flight search technology enabled us to find the best prices for our customers and helped drive a 22% uplift in non-transatlantic routes. Gross margin was comparable with the prior year at 10.2%.

Pre-exceptional operating costs totalled £48.3m and cost efficiency improved to 8.4% of revenue (2014: 9.0%). This included the benefit of an internal reorganisation to remove organisational layers and reduce support roles which will deliver an annualised benefit of £4m.

Flying Club

We have changed our frequent flyer programme (*Flying Club*) by making more seats available on more flights for our members, to drive higher customer satisfaction scores using our reward proposition. This change was reflected by a 17% increase in the number of standard redemption seats booked by our members in 2015, and a £3.4m increase in *Flying Club* revenue year on year to £72.3m for 2015.

Operating costs

Airline operating costs before exceptional items have fallen year on year by £196m, driven by falling fuel prices (including the cost of hedging) and improved operating efficiency. Airline unit operating cost of 4.69p improved by 7.3% year on year.

Fuel cost

On a unit basis, fuel costs fell by 20.4%, mainly driven by fuel prices. The introduction of new fuel-efficient aircraft has supported our efforts to reduce our physical fuel cost, which is reflected in a 4.6% reduction in fuel burn year on year with flat capacity growth. However, this was largely offset by hedging losses of £198m, which will continue to unwind over the next 12 months (see separate box on fuel hedging).

Non-fuel cost

Non-fuel unit cost remained flat year on year. Improved cost efficiency through our change programme, *fit.nimble*, has successfully covered the costs associated with our increased investment in customer product and services. Improved cost efficiency has also offset the on-going negative impact of above inflation cost increases we saw endorsed by regulators in the last review period, for certain regulated costs in our supply chain. (see separate box on *fit.nimble*.)

→

Chief Financial Officer's Review continued

Change programme (fit.nimble)

- 2015 has been a year of transformation and building a platform for long-term success.
- In early 2015, we launched our change programme *fit.nimble* to drive efficiency and simplicity throughout all areas of the business while keeping the safety and security of our customers first and foremost, and delivering an even better customer experience:
  - *fit* is about becoming a leaner organisation, with efficient processes focused on value adding activities;
  - *nimble* is about becoming agile in how we work and having a cost base that reflects our size.
- We will operate in a more efficient way with fewer management layers, bringing the entire business closer to the customer.
- Following an independent cost benchmarking exercise, we have identified and are implementing more than 50 projects that will deliver £30m of recurring benefits in 2016 and with a run-rate of approximately £60m by 2018.
- Focus areas for savings include the creation of Centres of Excellence for support functions (such as Finance, HR and Procurement) and reviewing contracts for ground handling and engineering.
- We will continue to find opportunities to drive improved and competitive non-fuel unit cost relative to our peer group and below the prevailing market inflation.

Aircraft ownership costs
We took delivery of seven new Boeing 787-9 aircraft during 2015, taking our total Boeing 787-9 fleet to nine overall. The replacement of Airbus A340 aircraft with the state-of-the-art Boeing 787-9 continued, reducing the average age of our aircraft from ten years to eight. This makes our fleet one of the youngest and most fuel-efficient in the skies.

Aircraft ownership costs have reduced by £7.4m, driven by the cessation of our shorthaul operation (*Little Red*) and reduced interest costs due to an improved mix of leased and owned aircraft. In the long-term, as we move towards our target for ownership of approximately 50% of our aircraft fleet, we will increasingly benefit from lower ownership costs.

Cash flow
We continue to improve our capital structure through stronger operating performance, a better mix of leased and owned aircraft, and through the successful completion of a landmark senior secured note bond transaction. This was our maiden capital markets transaction, and the first financing transaction of its kind in Europe to utilise UK airport slots to raise debt finance (see separate box on this transaction). Total cash (including restricted cash) increased by £300m to £596m driven by cash generated from operations of £257m (up £177m year on year) and net cash flow from financing activities of £195m.

The £220m inflow from the senior secured note financing transaction allowed us to purchase a Boeing 787-9 outright, which is our first unencumbered new aircraft to be owned by the airline.

In line with our strategy, our leverage[9] ratio reduced to 3.9x (down from 4.2x in 2014) and we remain committed to reducing it further to 2.5x.

Market overview
2015 saw downward pricing pressure on transatlantic routes, due to the increased capacity in the market. UK transatlantic capacity grew 5.8% year on year, partly impacted by the changes that we made to our network. In 2016, we expect to see seat capacity growth stabilise now that we have rebalanced our network.

The price of fuel continued to decline, as reflected by the 68% fall in the price of Brent Crude per barrel (from a high point in 2014 of $116, $56 on the 1 January 2015 to $37 on the 31 December 2015). As hedges unwind, the benefit of a lower fuel price environment will be increasingly felt by airlines and other energy intensive industries.

Overall, 2015 has been a relatively good year for airlines, which resulted in a 7.5% average airline ROIC, above the cost of capital for the first time. This new measure is a pillar of our *Plan to Win* (2015 ROIC 6.8%).

Regulatory landscape
Virgin Atlantic continues to advocate the importance of promoting competition in the travel industry, which ultimately benefits consumers. In particular, it remains critical that any new runway capacity, as endorsed by the Government, should be allocated to enhance competition and correct legacy carriers' inherited dominance, rather than exacerbate it.

£m	**31 December 2015**	31 December 2014
EBIT[10]	**£27.0m**	£13.2m
EBITDAR[10]	**£328.1m**	£280.3mm
Leverage	**3.9x**	4.2x
Liquidity	**21.4%**	10.5%

9. Leverage has been calculated as net debt divided by EBITDAR. Adjustments are made to net debt to account for those aircraft operated under operating leases.
10. before exceptional items

Chief Financial Officer's Review continued

£220m senior secured note financing transaction

- Completed in December 2015, this was a landmark senior secured note bond financing transaction with £220m being raised using the majority of our take-off and landing slot portfolio at London Heathrow as security. The bonds, which have a very attractive coupon when compared to other capital market products, have a tenor of up to 15 years with the notes being split between two tranches: £190m A1 notes (with a weighted average life of 12 years) and £30m A2 notes (with a weighted average life of 10 years).
- This unique financing transaction, for which Macquarie Corporate and Asset Finance acted as sole arranger, was unique in a number of respects: Moody's provided the first such rating for this asset class in Europe, and the transaction was the first in Europe to use airport slots in this way. The transaction was also our maiden capital markets transaction.
- The transaction attracted participation from a number of blue chip investors including Pension Insurance Corporation, a client of Hastings Funds Management (UK), Standard Life Investments and Edmond de Rothschild Asset Management (UK) Limited.
- The financing transaction helps ensure that we have the appropriate capital base to fund our long term investment programme including the outright purchase of brand new Boeing 787-9 aircraft. Given the highly regulated and intangible nature of the security, the financing structure required the creation of a wholly owned and licensed airline subsidiary called Virgin Atlantic International Limited with flights operated by two Airbus A330-300 aircraft serviced by Virgin Atlantic Airways' existing team of pilots and crew from London Gatwick Airport to a number of Caribbean destinations.

As we enter the initial process of discussions over regulated charges for Heathrow and Gatwick, we support the Davies Commission's recommendation that the economic benefits for the UK are greatest from expanding hub capacity at Heathrow. That said, a new runway must deliver a good outcome for local communities and boost competition – which ultimately will benefit customers. We continue to work constructively with the Government, the CAA and other stakeholders on how new capacity should be delivered and paid for, and will continue to encourage the Government to ensure decisions are made with customers' interests front of mind, in terms of funding models, slot allocation and capacity.

Air Passenger Duty (APD) abolition for band C and D and children's travel was implemented in 2015. Despite these positive steps, APD is still the highest passenger tax in the world, double the next highest in Europe, which is in Germany. A passenger travelling with Virgin Atlantic will be taxed £73 in Economy or £146 in Premium Economy or *Upper Class* from April 2016 for an outbound journey. Achieving an internationally competitive rate of APD remains a priority.

We will continue to engage with regulators and policymakers in the UK and Brussels to progress amendments to EU Regulation EC261/2014, by encouraging the development of a new passenger rights regulation on denied boarding and delay compensation.

Finally, we will continue to support the need for an agreement on a global climate change framework for our industry which is both economically efficient and environmentally effective.

Outlook

In 2015, we set the foundations of our *Plan to Win*. 2016 is a year of delivery.

We will improve our financial performance as we leverage our strengthened network and grow into the capacity added last year.

The continuing unwinding of higher-priced hedging contracts and the further reduction in fuel prices is expected to lead to greater financial benefits in 2016.

Through our change programme, *fit.nimble*, we have identified and are implementing more than 50 projects across eight workstreams and we are well on the way to delivering £30m of benefit in 2016, with a run-rate of approximately £60m by 2018.

We will improve our financial performance as we leverage our strengthened network and grow into the capacity added last year

Virgin Holidays will continue to build on the strong profit growth delivered in 2015, capitalising on good forward demand and realising the full benefits of the reorganisation that was implemented part-way through 2015. We expect that the decision to become a direct-only business will both yield stronger margins and allow Virgin Holidays to deliver an irresistible customer journey, which is one of the fundamental pillars of our *Plan to Win*. We will continue to invest in both the website and the retail distribution network to deliver this objective.

Virgin Atlantic and its people are committed to delighting our customers, as we have done for over 30 years. Through exploiting our network and partnership with Delta, and investing in our people, customers and technology, we have the building blocks in place underpinning our *Plan to Win* and to deliver sustainable profits.

Shai Weiss
Chief Financial Officer
17 March 2016

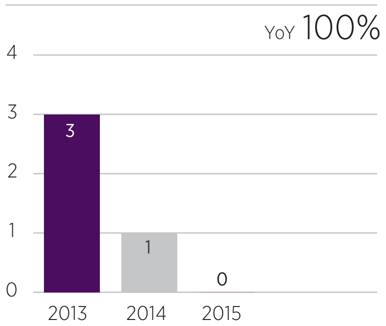
Key Performance Indicators

We have outlined below the key performance indicators that we rely on to manage our business. 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[11].

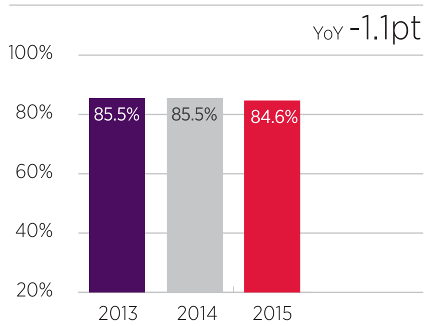
Number of incidents



Customers

Always for the customer, with flair.

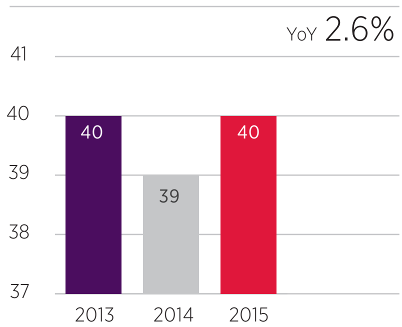
On time performance (D15)



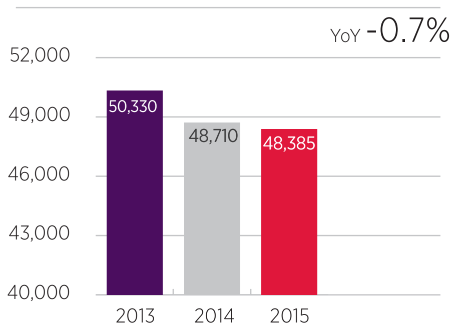
Capacity

Disciplined approach to managing our capacity.

Aircraft



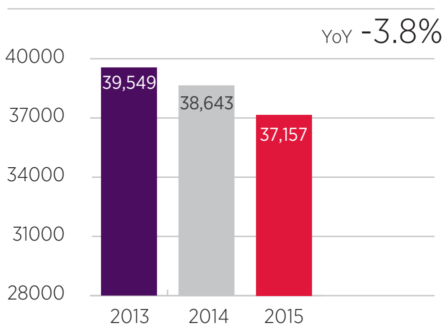
Available seat kilometres (ASK) (m)



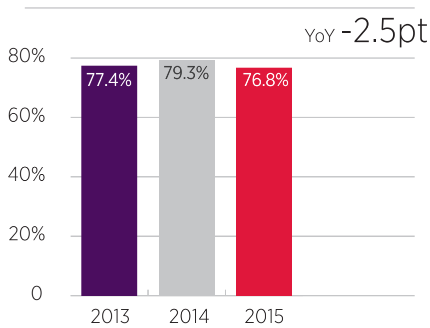
Passengers

Passenger growth remains a key part of our *Plan to Win.*

Revenue passenger kilometres (RPK) (m)



Passenger load factor



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

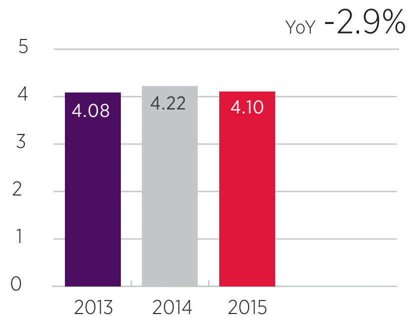
Key Performance Indicators continued

Airline financials

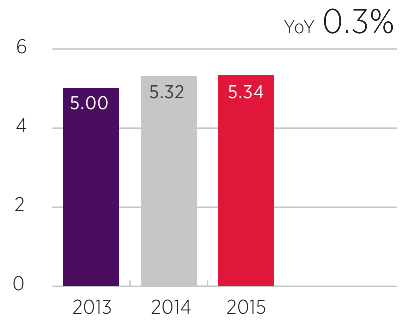
Passenger revenue

Yield performance was strong in the first part of the year, and partially offset some of our load-factor weakness.

Airline passenger revenue per ASK, (PRASK) (p)



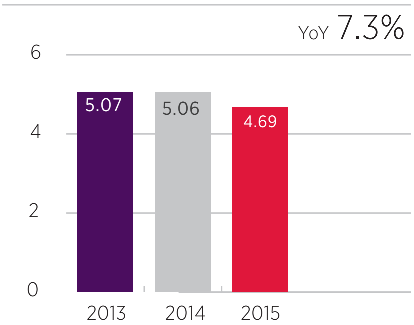
Airline passenger revenue per RPK (p)



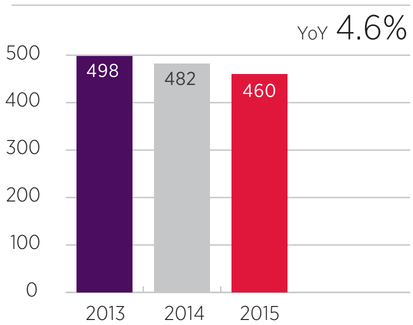
Airline costs

Cost improvement driven by falling fuel prices (including the cost of hedging), reduced fuel usage and improved operating efficiency.

Airline cost per ASK, (CASK) (p)



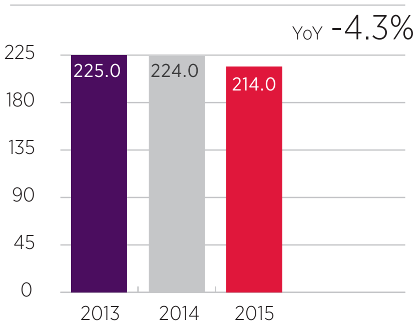
Fuel consumed (USG) (m)



Cargo

Capacity reduced due to network and fleet changes.

Cargo tonnage (kg) (m)

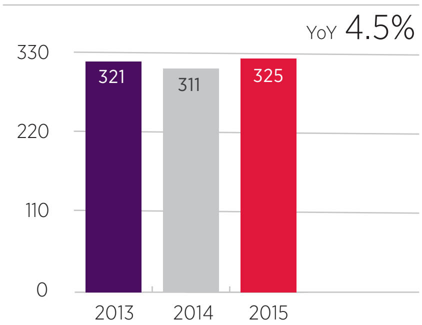


Key Performance Indicators continued

Virgin Holidays

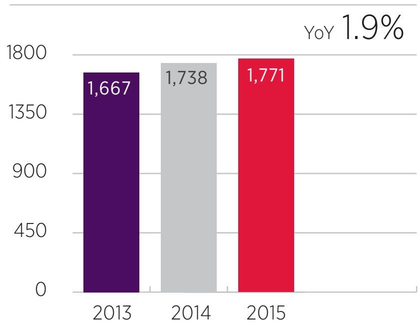
Passengers
We delivered growth across all key regions.

Inclusive tour passengers (000)



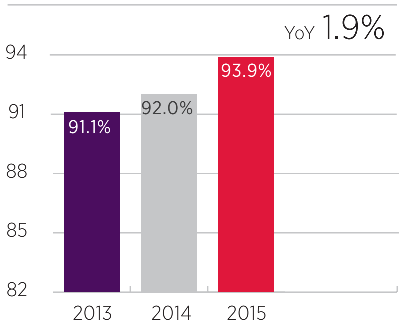
Revenue
Investment in product is generating higher revenues.

Revenue per passenger (£)



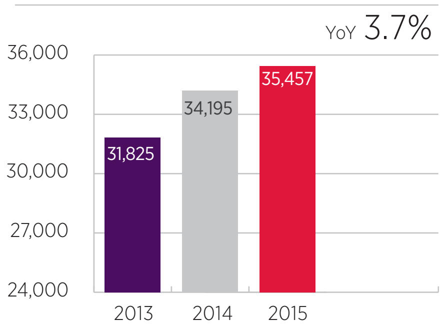
Distribution
Focusing on direct distribution to deliver an irresistible customer experience.

Direct distribution (%)



Children holidaying in Florida with us
We made dreams come true for 35,000 children!

Number of children

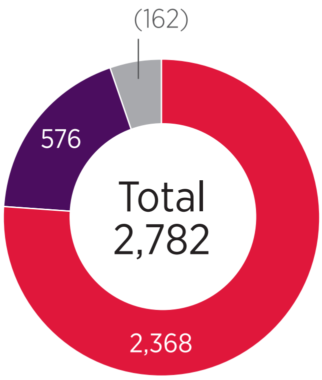


Key Performance Indicators continued

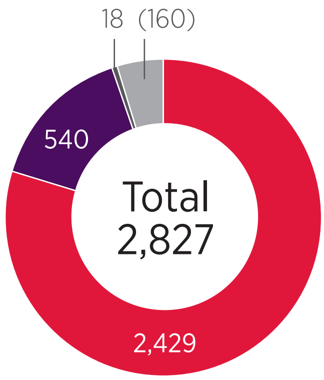
Summary financial results

Turnover by activity

Year ended 31 December 2015 (£m)

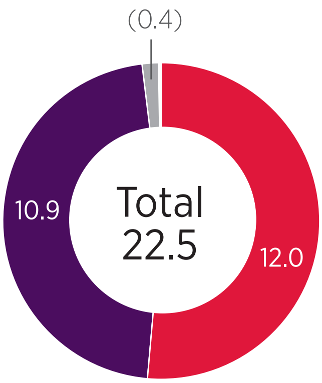


Year ended 31 December 2014 (£m)

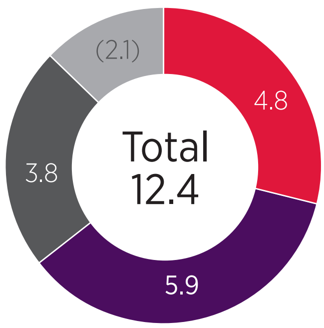


Profit before tax and exceptional items

Year ended 31 December 2015 (£m)



Year ended 31 December 2014 (£m)



- Traffic
- Holiday tour operations
- Licensing activities
- Other and intra-group eliminations

Principal Risks And Uncertainties

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

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

Business and operational

Brand reputation

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

We regularly monitor customer satisfaction through monthly customer surveys, alongside on-going research and development of our product and services, in order to mitigate this risk. We allocate substantial resources to safety, operational integrity, on-board product and new aircraft to maintain our strong brand position.

Economic conditions

Our operations are particularly sensitive to economic conditions in the markets in which we operate. 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.

We produce a regular revenue forecast, which is reviewed by the Executive Management Team and appropriate action is 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 both to comply with and influence any changes in these regulations is critical to maintaining our operational and financial performance.

Safety, terrorism and security incidents

The threat of terrorism to the aviation and tour operating industries has an impact on us. As a result, we ensure that the safety of customers, crew and staff is at the heart of our business. Failure to respond to terrorism or security incidents may adversely impact our operations and financial performance. We adopt a holistic approach to security, with the Corporate Security team having overall responsibility for security matters linked to aviation, border security, cargo, facilities, IT, personnel and asset protection. To ensure the robustness of our security regime, we operate a self-inspection and test programme. Joint audits and inspections are also conducted with regulators. Regulated compliance performance is monitored by way of a dedicated scorecard which is reviewed at the Safety and Security Review Board. In view of the on-going by terrorists 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.

Principal Risks And Uncertainties continued

Failure of a critical IT system

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

During 2016, we will introduce a new passenger service system *(AIR4)* which increases our critical IT systems risk; should the transition from old to new system prove to be problematic. We are mitigating this increased level of risk through a comprehensive implementation plan and by drawing on the extensive systems implementation experience of Delta, who is providing us with *AIR4*.

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 our operations. To mitigate this risk, a close relationship is maintained with key suppliers in order to ensure we are aware of any potential supply chain disruption.

Financial risk management

The directors are responsible for setting financial risk management policies and objectives, and for approving the parameters within which the various aspects of financial risk management are operated. 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. The latter is managed through our 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, which 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 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 through our Fuel and Foreign Currency Risk Management policy.

Some of the overseas countries in which we trade impose exchange controls to regulate the flow of money. This creates the risk that it may be impossible to bring the income earned in one or more of these overseas countries into the UK, either because it is not permitted by the authorities in the overseas country or because it is difficult to obtain foreign currency there. We seek to mitigate this risk by closely monitoring the value of our funds denominated in overseas currencies which are subject to exchange controls, to identify issues at an early stage and to take remedial action to minimise the value of these funds.

→

Principal Risks And Uncertainties continued

Fuel price risk
Our Fuel and Foreign Currency Risk Management policy aims to provide protection against sudden and significant changes in the price of jet fuel. 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 Virgin Atlantic to market risk as they are matched to identified physical exposures within Virgin Atlantic. 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 unethical behaviour by individual employees or groups of employees resulting in fines or losses to Virgin Atlantic. To mitigate this risk we have comprehensive training schemes and compliance protocols 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 Virgin Atlantic to continue its activities following assessments of safety, ownership and control, and financial fitness criteria, the broad framework of which is available via the CAA website (www.caa.co.uk).

Change Is In The Air – Our Sustainable Business Programme

For us, sustainability means being a responsible business. To us it also means a commitment to innovative and industry leading ways of supporting a sustainable future. *Change is in the Air* is the name we give to our sustainability strategy and it encompasses our environment and community investment programmes. Our strategy is shaped by a risk and opportunities based approach. We naturally focus on our biggest environmental and social impacts, but also on the things our customers and people care about and experience.

Sustainability is owned and delivered by everyone across the business, from engineers to cabin crew to office-based employees. The sustainability team advises and coordinates all this great work and continually reminds our business of our vision 'to be the leading airline on sustainability, driving innovative solutions for the whole industry'.

We publish an annual sustainability report in June, which contains all the latest information on our progress against targets such as aircraft CO_2 and energy efficiency. For the latest sustainability reports and updates visit www.virgin-atlantic.com/changeisintheair.

Environment
More than 99% of our direct carbon footprint comes from our aircraft operations. It's no surprise then that our environment programme focuses on this area, along with noise, ground operations, waste, design and buying.

2015 was a step change year for our aircraft CO_2 and fuel efficiency scores. We finished the year flying nine Boeing 787-9 aircraft and are introducing eight more over the next few years. The Boeing 787-9 is not only around 30% more fuel efficient than the aircraft it is replacing, but also has a 60% smaller noise footprint.

The Boeing 787-9 is not only around 30% more fuel efficient than the aircraft it is replacing, but also has a 60% smaller noise footprint

The nine Boeing 787-9s join our ten Airbus A330-300s which have been consistently increasing our overall fuel efficiency since they joined the fleet in 2011/12. In our June 2015 sustainability report we reported that our CO_2 emissions per revenue tonne kilometre had reduced by 10% since 2007. This was made even better knowing that we had flown more people and cargo than in any other year since 2007, decoupling the link between growth and carbon emissions. Our progress was also shown in our improved Carbon Disclosure Project (CDP) score of 97B for 2015.

As well as investing in new, more efficient aircraft, we are also working on a sustainable jet fuel with our partner, LanzaTech. Using waste gases from industrial plants like steel mills, this technology is likely to have a 60% smaller CO_2 footprint than conventional kerosene. In 2014, HSBC joined this exciting partnership. The project is currently working on the conversion of ethanol to jet fuel, while testing and seeking technical approvals to use LanzaTech jet fuel in commercial aircraft.

We flew nearly six million customers around the world last year, serving them about 12 million meals and even more drinks. So, along with our inflight services team we decided to do what we could to make our food and drink more sustainable.

We were the first airline to partner with the Sustainable Restaurant Association (SRA), back in March 2013. The SRA benchmarks caterers against a detailed set of criteria, covering three pillars of sustainability: people, product and planet. It gives each caterer an independently verified star rating – think the 'Michelin of sustainability'.

Over the last three years we've gained real insight into the sustainability of our catering operations globally and we now know how we're performing on a comprehensive range of indicators, from Fairtrade products, to sustainably sourced fish, to reducing the existing reforestation risk from products like beef, soy and palm oil.

Community investment
In 2003 the Virgin Atlantic Foundation (VAF), a UK registered charity, was set up to support the welfare of children and young people by allocating funds raised through *Change for Children*, the airline's on-board charity appeal for VAF. VAF currently also allocates funds raised through the Virgin Atlantic community investment programme.

→

Change Is In The Air – Our Sustainable Business Programme continued

From 2003 to 2010 VAF supported a variety of children's and young people's charities. In 2010 the Charity decided to focus on partnering with Free The Children, an inspirational, non-profit organisation which supports children and young people around the world. Since 2010, this partnership has inspired employees, partners and customers to raise over £4.5m for projects in the UK and overseas.

Through *Change for Children*, our on-board charity appeal for VAF, VAF has funded a number of Free The Children's initiatives, both domestically and abroad. This includes the UK schools programme. This domestic programme, aimed at children and young people aged between seven and 18, provides free educational resources and support via a year-long 'Be The Change' approach that enhances the curriculum and empowers students to discover the causes they care about, encouraging them to take action and make a difference.

On 5 March 2015, 12,000 students and teachers from schools across the UK arrived at 'WE Day', Free The Children's flagship event. With an incredible line up of speakers and performers, including actor Martin Sheen, Nobel Peace Laureate Professor Muhammad Yunus, and our very own Sir Richard Branson, the students were encouraged and inspired to take action.

Free The Children's international development projects focus on delivering long-term, sustainable change to communities in poor, remote and rural areas. Free The Children offers support to enable these communities to be self-sustaining in the long term, not relying on handouts, and therefore relying less and less on foreign aid.

Free The Children's international development programme, 'Adopt a Village', is supported through helping eight communities across Kenya, Ghana, India and rural China, each at a different stage of the programme.

And who could forget our amazing people. In 2015, over 300 of our staff and their families and friends took part in our *'adventures'*. These range from the London Marathon, trekking the Great Wall of China or cycling through South Africa. They really do embody the adventures motto *'have fun, do good'*. As well as crazy adventurers, our people also raise tens of thousands of pounds every year through staff sales, bake offs and the infamous *Virgineers Golf Day*.

The Strategic Report, comprising pages 8 to 26, was approved by the Board of Directors on 17 March 2016 and signed by order of the Board by

Ian de Sousa
Company Secretary

In 2015, over 300 of our staff and their families and friends took part in our 'adventures'. These range from the London Marathon, trekking the Great Wall of China or cycling through South Africa

WE Day 2015

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, which holds 51% of the Company's shares, and the other three non-executive directors are appointed by Delta which holds of 49% of the Company's shares. The two executive directors are the Chief Executive Officer and the Chief Financial Officer, who are full-time employees of the Group.

The executive directors have regular meetings with representatives of both shareholders as well as with 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 in meeting the goals set by the Board, and taking a pro-active role in monitoring the performance of the Group as a whole.

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

For the year ended 31 December 2015 the members of the Board comprised:

Sir Richard Branson
– President and Non-Executive Director
Sir Richard Branson is Founder of the Virgin Group. Sir Richard founded Virgin Atlantic in 1984, and it has established itself as a leading airline and holiday company.

Peter Norris
– Chairman and Non-Executive Director
Peter is the Chairman of the Virgin Group, a position he took up in 2009. Prior to this he acted as an adviser to the Virgin Group from 1996.

When he took up this position, Peter had 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 he merged with Quayle Munro Holdings Plc, in 2007, and became the CEO of the combined entity until taking the role of Chairman of Virgin Group.

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

Gordon McCallum
– Non-Executive Director
Gordon is a non-executive director appointed by 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, followed by its successful IPO in November 2014. In addition to his Virgin Atlantic responsibilities, Gordon continues to serve as a non-executive director of Virgin Money.

Away from Virgin, Gordon acts as a Senior Advisor to private equity firm Searchlight Capital (on whose behalf he acts as non-executive Chairman at one of its portfolio companies, Hunter Boot), as well as serving as an independent non-executive director on the Board of John Swire & Sons, London (as well as its shipping subsidiary, China Navigation, headquartered in Singapore and its Green Investments subsidiary in the UK). He also serves on the Advisory Board of Canadian retailer Aldo Group, headquartered in Montreal.

Previously, Gordon spent several years working as a consultant for McKinsey & Co. in the US, and as an investment banker for Baring Brothers in London and Asia. He 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 Chief Operating Officer (COO) at Virgin Group.

Ian has been with Virgin since 2005. His initial position was as the Group Legal Director before he took 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.

→

Governance Board of Directors continued

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.

Ed Bastian
– Non-Executive Director
Ed is President of Delta Air Lines and a member of Delta's Board of Directors. It has been announced that he will step down as President and take up the position of Chief Executive Officer at Delta with effect from 2 May 2016.

Having gained broad finance and audit experience in senior roles across several leading organisations including Pepsi Cola International 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 BA 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 & Revenue Management. It has been announced that he will take up the position of President at Delta with effect from 2 May 2016.

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 BA in Finance.

Perry Cantarutti
- Non-Executive Director
(resigned on 15 August 2015)
Perry was Senior Vice President of Delta Air Lines responsible for Europe, Middle East and Africa, overseeing all commercial activities in the region, and worked to develop the success of the transatlantic joint venture with Virgin Atlantic. Perry resigned on 1 September 2015 in order to take up the position of Chief Executive Officer of SkyTeam, the global airline alliance.

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 BA from the University of California, Berkeley and an MBA from Northwestern University.

Nathaniel Pieper
– Non-Executive Director
(appointed on 15 August 2015)
Nathaniel (Nat) Pieper serves as Senior Vice President - Europe, Middle East and Africa for Delta Air Lines. In his role he oversees all commercial activities in the region. Based in Paris, Nat's role includes optimising Delta's industry-leading transatlantic joint venture with Air France KLM and Alitalia, and enhancing Delta's successful joint venture with Virgin Atlantic.

Nat previously held the position of Vice President-Fleet Strategy where he was responsible for all activities related to Delta's 1,300 mainline and regional aircraft, including strategy, analysis, acquisition, disposition and fleet capital investments. Major fleet accomplishments in Nat's career include the execution of eight multi-billion

→

Governance Board of Directors continued

US Dollar aircraft analysis and acquisition campaigns and completion of numerous secondary market aircraft deals.

Nat was instrumental in the development and implementation of Delta's fleet optimisation strategy, featuring opportunistic acquisition of effective, proven technology aircraft to replace inefficient flying, enhancing the customer experience and improving cost performance.

Nat joined Delta's management team in November 2008 following Delta's merger with Northwest Airlines. Prior to assuming fleet responsibilities at Delta, Nat served as Vice President – Alliances for Northwest, where he was accountable for the airline's worldwide alliance strategy, managing and optimising Northwest's relationships with its 28 global airline partners. His role included service as co-chairman of Northwest's industry-leading joint venture with KLM Royal Dutch Airlines, and as Vice Chairman of the SkyTeam airline alliance. Nat started his airline industry career with Northwest in 1997, spending eight years in the finance department, with responsibilities including strategic planning, annual and long-range business planning, capital budgeting, and route profitability.

Nat holds a BA in History from Duke University, and an MBA in Finance, Strategy and Transportation Management from Northwestern University's Kellogg School of Management. He and his family reside in Paris.

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

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

Craig holds a BA in Economics from the University of California, San Diego, and an MBA from the University of California, Los Angeles.

Shai Weiss
– Executive Director
(Chief Financial Officer)
Shai is Executive Vice President and Chief Financial Officer at Virgin Atlantic. He is responsible for the financial operations of the business and strategy as well as overseeing the cargo business.

He took up the position in July 2014 from Virgin Management Ltd, where he had been an Investment Partner since 2012 and a Founding Partner of the Virgin Green Fund from 2007. 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 his time at 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 a BBA from City University of New York, Baruch College, and an MBA from Columbia University in New York.

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 BSc in Economics from Brunel University in London.

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 assess the appropriateness of estimates and judgements made by management; monitor the adequacy and effectiveness of internal reporting and control systems; agree the scope of the external and internal audit plans and monitor the actions required as a result of the auditors' findings, 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 2015 the Committee members were Gordon McCallum (Chairman), Peter Norris, Glen Hauenstein and Nathaniel Pieper. 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 2015 the Committee members were Peter Norris (Chairman), Ian Woods, Edward Bastian and Glen Hauenstein. The Committee meets as required.

Safety Governance

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, Phil Maher and chaired by an independent chairman, Wayne Jenner, who is an independant advisor to the Board. It is supported by Virgin Atlantic's Nominated Post Holders and Safety and Security specialists. The VASSRB is strategic and deals with high-level issues in relation to policies, resource allocation and safety and security performance monitoring. Proactively reviewing data and encouraging continuous improvement, the VASSRB assures the safety and security of our people and customers. The VASSRB also monitors 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

Joint venture steering committee
The transatlantic joint venture with Delta is managed 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 and subsidiary companies for the year ended 31 December 2015. The comparative amounts are stated on a revised basis for the year ended 31 December 2014.

As reported in the Chief Financial Officer's Review on page 14, this is the first year to be prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'). The comparative amounts were previously prepared under applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice ('UK GAAP')) and have been restated to be prepared on a consistent basis under IFRS. The reconciliations to IFRS from the previously published UK GAAP financial statements are summarised in note 3.

Pages 8 to 33, inclusive, of this annual report comprise the directors' report that has been drawn up and presented in accordance with English company law and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

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

Directors and directors' interests
The directors who held office during the year were as follows:

Sir Richard Branson
(President)

Peter Norris
(Chairman)

Gordon McCallum

Ian Woods

Edward Bastian

Glen Hauenstein

Perry Cantarutti
(resigned 15 August 2015)

Nathaniel Pieper
(appointed 15 August 2015)

Craig Kreeger

Shai Weiss

Wayne Aaron
(resigned 1 January 2016 as alternate for Edward Bastian, Glen Hauenstein and Nathaniel Pieper)

Share based payments: Long Term Incentive Scheme
During the year Virgin Atlantic started a Long Term Incentive Scheme for Executive Directors and other invited participants to incentivise and recognise execution of our *Plan to Win*. The details of this share appreciation rights (cash settled) scheme can be found in note 9.

Results, business review and future developments
The results of the Group for the period are set out on page 35 and are commented on within the Strategic report. The Strategic report also contains a review of the business and the future developments.

→

Directors' Report continued

Registered Number: 08867781

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

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

Dividends
The Company did not pay a preference dividend during the year (2014: paid £0.2m). The directors did not declare or pay interim ordinary dividends in respect of the year ended 31 December 2015 (2014: paid £87.9m).

The directors recommend that no final ordinary dividend be paid in respect of the year ended 31 December 2015 (2014: £nil).

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

Political contributions
Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year (2014: £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
17 March 2016

Registered office:
Company Secretariat
The Office
Manor Royal
Crawley
West Sussex
RH10 9NU

Directors' Responsibilities Statement

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

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare both the Group and the Parent Company financial statements in accordance with IFRS as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

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

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

Independent Auditor's Report

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 2015 set out on pages 35 to 96. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 33, 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 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 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year ended 31 December 2015 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
17 March 2016
KPMG LLP
15 Canada Square
London
E14 5GL
United Kingdom

Financial Statements

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	Note	**For the year ended 31 December 2015**			For the year ended 31 December 2014		
		Ordinary activities before exceptional items	**Exceptional items and fair value movements (Note 8)**	**Total**	Ordinary Activities	Exceptional items and fair value movements (Note 8)	Total
		£m	**£m**	**£m**	£m	£m	£m
Total revenue	6	**2,781.9**		**2,781.9**	2,827.5		2,827.5
Physical fuel		**(525.5)**	**-**	**(525.5)**	(854.7)	-	(854.7)
Fuel hedging		**(198.0)**	**198.0**	**-**	(1.9)	1.9	-
Airline traffic direct operating costs		**(511.2)**	**-**	**(511.2)**	(518.1)	-	(518.1)
Aircraft costs		**(246.4)**	**(6.7)**	**(253.0)**	(240.3)	-	(240.3)
Distribution, marketing and selling costs		**(472.7)**	**(6.8)**	**(479.5)**	(446.7)	6.9	(439.8)
Employee remuneration	9	**(355.2)**	**-**	**(355.2)**	(355.8)	-	(355.8)
Other operating and overhead costs		**(275.4)**	**-**	**(275.4)**	(237.0)	11.9	(225.1)
Engineering and maintenance costs		**(138.9)**	**-**	**(138.9)**	(145.7)	-	(145.7)
Other depreciation and amortisation		**(51.5)**	**-**	**(51.5)**	(30.6)	-	(30.6)
Other income		**15.4**	**(6.2)**	**9.2**	5.9	6.9	12.8
Operating profit		**22.5**	**178.4**	**200.9**	2.6	27.6	30.2
Profit on disposal of property, plant and equipment		**4.5**	**57.7**	**62.2**	10.6	-	10.6
Profit on disposal of unlisted investment		**-**	**-**	**-**	-	30.9	30.9
Restructuring		**-**	**(31.4)**	**(31.4)**	-	(9.0)	(9.0)
		4.5	**26.3**	**30.8**	10.6	21.9	32.4
Finance income		**1.8**	**-**	**1.8**	1.7	-	1.7
Finance expense		**(6.3)**	**-**	**(6.3)**	(2.5)	(25.5)	(28.0)
Net finance costs	10	**(4.5)**	**-**	**(4.5)**	(0.8)	(25.5)	(26.3)
Fair value (losses) on derivative		-	**(139.7)**	**(139.7)**	-	(211.0)	(211.0)
Profit/(loss) before tax	**7**	**22.5**	**65.0**	**87.5**	12.4	(187.0)	(174.7)
Tax charge	11			**(7.4)**			35.8
Total comprehensive income for the year				**80.1**			(138.9)
Other comprehensive income (items that will not be reclassified to the income statement):							
Net exchange gain on retranslation of net investments				0.0			0.0
Total comprehensive income for the year				**80.1**			**(138.9)**

All amounts relate to continuing operations. The notes on pages 41 to 96 form part of these financial statements.

Financial Statements continued

Consolidated statement of financial position

As at 31 December 2015

	Note	**As at 31 December 2015 £m**	As at 31 December 2014 £m	As at 31 December 2013 £m
Non-current assets				
Intangible assets	12	**124.5**	136.3	128.2
Property, plant and equipment	13	**542.9**	418.3	317.0
Deferred tax	14	**21.6**	30.3	-
Investments	15	**0.0**	0.4	7.4
Derivative financial instruments	16	**5.1**	6.8	11.3
Trade and other receivables	17	**33.4**	37.0	50.1
		727.5	629.1	514
Current assets				
Inventory	18	**38.8**	43.1	43.7
Trade and other receivables	17	**318.8**	338.2	353.3
Derivative financial instruments	16	**16.9**	31.8	45.1
Cash and cash equivalents	19	**527.1**	281.3	313.9
Restricted cash	19	**68.5**	14.9	5.8
		970.1	709.3	761.8
Total assets		**1,697.6**	1,338.4	1,275.8
Current liabilities				
Borrowings	20	**(34.4)**	(22.0)	(17.8)
Trade and other payables	21	**(369.1)**	(406.4)	(335.4)
Provisions	22	**(61.6)**	(55.0)	(54.0)
Derivative financial instruments	16	**(183.7)**	(173.8)	(57.9)
Deferred income	23	**(722.7)**	(714.1)	(657.4)
		(1,371.5)	(1,371.3)	(1,122.5)
Net current assets/(liabilities)		**(401.4)**	(662.0)	(360.7)
Total assets less current liabilities		**326.1**	(32.9)	153.3
Non-current liabilities				
Borrowings	20	**(363.5)**	(10.8)	(14.6)
Deferred income	23	**(52.8)**	(11.1)	(14.0)
Deferred tax	14	**-**	-	(11.1)
Trade and other payables	21	**(5.1)**	(2.5)	(1.8)
Provisions	22	**(58.8)**	(107.4)	(109.8)
Derivative financial instruments	16	**(9.9)**	(79.4)	(19.1)
		(490.1)	(211.2)	(170.4)
Net assets/(liabilities)		**(164.0)**	(244.1)	(17.1)
Equity				
Ordinary share capital		**100.0**	100.0	0.2
Preference share capital		**50.0**	50.0	0.0
Share premium		**-**	-	140.0
Other reserves		**(236.3)**	(236.3)	(226.5)
IFRS conversion reserve		**-**	-	(88.5)
Retained earnings		**(77.7)**	(157.8)	157.7
		(164.0)	(244.1)	(17.1)

These financial statements were approved by the Board of Directors on 17 March 2016 and were signed on its behalf by:

Shai Weiss, *Director*
Register number 08867781

The notes on pages 41 to 96 form part of these financial statements

Financial Statements continued

Company statement of financial position

As at 31 December 2015

	Note	**As at 31 December 2015 £m**	As at 31 December 2014 £m
Non-current assets			
Investments	15	**289.4**	289.4
		289.4	289.4
Current assets			
Trade and other receivables	17	**0.0**	0.0
		0.0	0.0
Total assets		**289.4**	289.4
Current liabilities			
Trade and other payables	21	**(0.4)**	(0.1)
		(0.4)	(0.1)
Net current assets/(liabilities)		**(0.4)**	(0.1)
Net assets/(liabilities)		**289.0**	289.3
Equity			
Ordinary share capital		**100.0**	100.0
Preference share capital		**50.0**	50.0
Other reserves		**139.4**	139.4
Retained earnings		**(0.4)**	(0.1)
		289.0	289.3

These financial statements were approved by the Board of Directors on 17 March 2016 and were signed on its behalf by:

Shai Weiss, *Director*
Register number 08867781

The notes on pages 41 to 96 form part of these financial statements

Financial Statements continued

Consolidated statement of changes in equity

As at 31 December 2015

	IFRS transition reserve	Ordinary share capital	Preference share capital	Share premium	Other reserves	Retained earnings	Total
	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2014	(88.5)	0.2	0.0	140.0	(226.5)	157.7	(17.1)
Loss for the year	-	-	-	-	-	(138.9)	(138.9)
Transfer to retained earnings	88.5	-	-	-	-	(88.5)	-
Ordinary dividends paid	-	-	-	-	-	(30.7)	(30.7)
Preference dividends paid	-	-	-	-	-	(57.4)	(57.4)
Group reorganisation	-	99.8	50.0	(140.0)	(9.8)	-	-
Exchange translation differences	-	-	-	-	-	(0.0)	(0.0)
Balance at 31 December 2014	**-**	**100.0**	**50.0**	**-**	**(236.3)**	**(157.8)**	**(244.1)**
Balance at 1 January 2015	-	**100.0**	**50.0**	**-**	(236.3)	(157.8)	(244.1)
Profit for the year	-	-	-	-	-	80.1	80.1
Exchange translation differences	-	-	-	-	-	0.0	0.0
Balance at 31 December 2015	**-**	**100.0**	**50.0**	**-**	**(236.3)**	**(77.7)**	**(164.0)**

The notes on pages 41 to 96 form part of these financial statements

Financial Statements continued

Company statement of changes in equity

As at 31 December 2015

	Ordinary share capital	Preference share capital	Other reserves	Retained earnings	Total
	£m	£m	£m	£m	£m
Balance at 1 January 2014	-	-	-	-	-
Group reorganisation	100.0	50.0	139.4	-	289.4
Profit for the year	-	-	-	30.8	30.8
Ordinary dividends paid	-	-	-	(30.7)	(30.7)
Preference dividends paid	-	-	-	(0.2)	(0.2)
Balance at 31 December 2014	**100.0**	**50.0**	**139.4**	**(0.1)**	**289.3**
Balance at 1 January 2015	100.0	50.0	139.4	(0.1)	289.3
Loss for the year	-	-	-	(0.3)	(0.3)
Balance at 31 December 2015	**100.0**	**50.0**	**139.4**	**(0.4)**	**289.0**

Alloted, called up and fully paid share capital includes 100,000,000 (2014: 100,000,000) ordinary shares of £1 each and 50,000 (2014: 50,000) preference shares of £1,000 each, linked to LIBOR plus 2.5%.

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

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

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

Financial Statements continued

Consolidated statement of cash flows

For the year ended 31 December 2015

	Note	For the year ended 31 December 2015 £m	For the year ended 31 December 2014 £m
Net cash from operating activities	32	**256.7**	79.8
Purchase of property, plant and equipment		**(386.4)**	(187.2)
Purchase of intangible assets		**(0.8)**	(0.3)
Sale of investments		**0.4**	6.9
Proceeds from sale of property, plant and equipment and intangible assets		**415.7**	89.8
Realised losses on derivatives		**(182.6)**	(17.1)
Interest received		**1.8**	1.8
Net cash used in investing activities		**(151.9)**	(106.1)
Payment of long term borrowings		**(18.8)**	(20.7)
Proceeds from issue of new bonds		**236.2**	26.9
Payment of finance lease instalments		**(22.8)**	(3.4)
Net cash from financing activities		**194.6**	2.8
Cash and cash equivalents at beginning of year (incl. restricted cash)	19	**296.2**	319.7
Effect of foreign exchange rate changes		**-**	-
Cash and cash equivalents at end of year (incl. restricted cash)	19	**595.6**	296.2

Notes forming part of the financial statement

1 General Information

Virgin Atlantic Limited (the 'Company') and its subsidiaries ('VAL' or the 'Group' as applicable) is principally a passenger airline with a significant tour operations component, operating primarily from the United Kingdom. Further details on the nature of the Group's operations and its principal activities can be found within the Strategic Report on pages 8 to 26.

The Company is a private limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The address of its registered office is given on page 32.

2 Statement of compliance with IFRS

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

The principal accounting policies adopted by the Group and by the Company are set out in note 4.

3 Statement of compliance for first time adopters of IFRS

Virgin Atlantic Limited has historically prepared its audited annual financial statements under UK Generally Accepted Accounting Practice ("UK GAAP"), this is the first year that the Group has prepared financial statements that comply with IFRS. As such, the accounting policies and basis of preparation differ from those set out in the report and financial statements for the year ended 31 December 2014. The disclosures required by IFRS 1, First-time Adoption of International Financial Reporting Standards for the transition from UK GAAP to IFRS are included in the notes to the financial statements.

4 Accounting policies

Basis of preparation

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

The Company has taken advantage of section 408 of the Companies Act 2006 and has not published a separate income statement and related notes for the Company. The result for the year attributable to the Company is disclosed in the Company statement of changes in equity.

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

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

Basis of consolidation

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

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

→

Notes continued

4 Accounting policies (continued)

entity so as to obtain benefits from its activities.

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

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

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

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

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

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

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

→

Notes continued

4 Accounting policies (continued)

Virgin Atlantic Limited consolidated the results of Air Nigeria Development Limited (formerly Virgin Nigeria Airways Limited) from the time it was set up in 2005 to 31 August 2007 on the grounds that it had a 49% equity shareholding and exercised control over the operating and financial activities of Air Nigeria Development Limited. Since 1 September 2007, Virgin Atlantic Limited's equity investment in Air Nigeria Development Limited has been accounted for as a non-current investment with a net book value of £nil (note 24).

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

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

Passenger revenue
Passenger ticket sales, net of passenger taxes and discounts, are recorded within deferred income, until recognised as revenue when transportation occurs. This also includes revenue derived from flights operated by the Group's codeshare partners.

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

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

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

Trademark revenue
In the prior period, income relating to rights over the use of the Virgin name in the airline and tourism industries and its intellectual property was also due to the Group. Income was calculated as a percentage of revenue and was recognised in the same period as the revenue in the underlying Company. Following the demerger of Trademark entities (see note 24) the Group is no longer entitled to trademark related revenue.

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

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

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

→

Notes continued

4 Accounting policies (continued)

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

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

Compensation payments

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

Translation of foreign currencies

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

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

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

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

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

Employee benefits

Pension

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

→

Notes continued

4 Accounting policies (continued)

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Other employee benefits are recognised when there is deemed to be a present obligation.

Share based payments: Long Term Incentive Plan (LTIP)

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

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

Taxation

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

Current tax

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

Deferred tax

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

- In respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and

- Deferred income tax assets are recognised only to the extent that it is probable (more likely than not) that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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

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

→

Notes continued

4 Accounting policies (continued)

Intangible assets
Intangible assets are held at cost and amortised on a straight-line basis over their economic life, or where deemed to have an indefinite economic life and are not amortised, but tested annually for impairment.

The carrying value of intangibles is reviewed for impairment if and when events or changes in circumstances indicate the carrying value may not be recoverable.

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

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

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

Software
The cost of purchase or development of computer software that is separable from an item of related hardware is capitalised separately and amortised over a period not exceeding six years on a straight-line basis. Computer software is carried at cost less accumulated amortisation.

Development expenditure on activities is capitalised if the product or process is technically and commercially feasible and the Group intends to, and has the technical ability and sufficient resources to, complete development and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials and direct labour. Other development expenditure is recognised in the income statement as an expense as incurred.

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

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

→

Notes continued

4 Accounting policies (continued)

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

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

Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits or discounts.

An element of the cost of a new aircraft is attributed on acquisition to prepaid maintenance of its engines, landing gear and airframe and is depreciated over a period from one to ten years from the date of purchase to the date of the next scheduled maintenance event for the component.

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

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

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

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

Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over the lower of six years and the remaining life of the aircraft.

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

Notes continued

4 Accounting policies (continued)

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

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

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

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

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

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

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

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

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

Leases

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

Notes continued

4 Accounting policies (continued)

Sale and leaseback

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

Finance lease

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

Inventories

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

Provisions

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

Leased aircraft maintenance provisions

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

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

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

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

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

→

Notes continued

4 Accounting policies (continued)

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

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

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

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

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

Passenger delay compensation
A provision is made for passenger compensation claims when the group has an obligation to recompense customers under regulations. Provisions are measured based on known eligible flights delays and historic claim rates and are expected to unwind across the claim window, which is deemed to be 6 years.

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

→

Notes continued

4 Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

→

Notes continued

4 Accounting policies (continued)

Non-derivative financial liabilities

Non-derivative financial liabilities are initially recorded at fair value less directly attributable transaction costs, and subsequently at amortised cost, and include trade and other payables, borrowings and provisions. Interest expense on borrowings is recognised using the effective interest method.

Borrowings are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Certain leases contain interest rate swaps that are closely related to the underlying financing and, as such, are not accounted for as an embedded derivative.

De-recognition of non-derivative financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts are recognised in the income statement.

Borrowing costs

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

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

Notes continued

4 Accounting policies (continued)

Impact of new International Financial Reporting Standards and interpretations
The following standards and interpretations issued by the International Accounting Standards Board have been implemented for the year ended 31 December 2015; however the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

New or amended standards	Summary of requirements	Adoption and EU endorsement status	Possible impact on consolidated financial statements
IFRS 9 Financial Instruments	IFRS 9 published in July 2014, replaces the existing guidance in IAS39 Financial instruments: Recognition and Measurement. IFRS9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment of financial assets, and new hedge accounting requirements.	IFRS9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The new standard is not yet endorsed by the EU.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9
IFRS 15 Revenue from contracts with customers	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS18 Revenue, IAS11 Construction Contracts and IFRC13 Customer Loyalty Programmes.	IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The new standard is not yet endorsed by the EU.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.
IFRS 16 Leases	IFRS 16 changes fundamentally the accounting for leases by lessees. It eliminates the current IAS 17 dual accounting model, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases and, instead, introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting. Sale-and-leaseback is effectively eliminated as an off-balance sheet financing structure.	IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted providing IFRS15 is also adopted. The new standard is not yet endorsed by the EU.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

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

- IFRS14 Regulatory Deferral Accounts;
- Accounting for Acquisitions of Interests in Joint Operations (amendments to IFRS11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (IAS16 and IAS38)
- Equity Method in Separate Financial Statements (amendments to IAS27)
- Sale or Contribution of Assets between an Investor and its Associate or JV (amendments to IFRS10 and IAS28)
- Annual improvements to IFRSs 2012-14 cycle – various standards
- Investment Entities: Applying the Consolidation Exception (amendments to IFRS10, IFRS12 and IAS28)
- Disclosure initiative (amendments to IAS1)
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS12
- Disclosure Initiative – Amendments to IAS7

Notes continued

5 Significant judgements, estimates and critical accounting policies

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

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

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

Leased aircraft maintenance provisions (note 22)
For aircraft held under operating leases, the Group has a commitment to return the aircraft in a specific maintenance condition at the end of the lease term. Estimating the provision for maintenance costs requires judgement as to the cost and timing of future maintenance events. This estimate is based on planned usage of the aircraft, contractual obligations under lease agreements, industry experience, manufacturers' guidance and regulations. Any change in these assumptions could potentially result in a significant change to the maintenance provisions and costs in future periods.

Revenue recognition – frequent flyer programme (note 23)
For the Group's frequently flyer loyalty programme, the fair value attributed to awarded miles is deferred as a liability and is recognised as revenue on redemption of the miles and provision of service to the participants to whom the miles are issued.

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

Residual value and useful economic lives of assets (note 13)
The Group exercises judgement to determine useful lives and residual values of property, plant and equipment. The assets are depreciated to their residual values over their estimated useful lives.

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

Notes continued

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

	Group	
Revenue:	For the year ended 31 December 2015 £m	For the year ended 31 December 2014 £m
Airline traffic and cargo operations	**2,352.7**	2,429.3
Holiday tour operations	**575.8**	540.3
Other revenue	**15.7**	18.2
Intra-group revenue	**(162.3)**	(160.3)
	2,781.9	2,827.5
Operating profit (after exceptional items):		
Airline traffic and cargo operations	**197.2**	16.0
Holiday tour operations	**3.6**	12.3
Other and intra-group eliminations	**0.1**	1.9
	200.9	30.2
Net assets/(liabilities):		
Airline traffic and cargo operations	**(114.6)**	(198.0)
Holiday tour operations	**35.9**	38.3
Other and intra-group eliminations	**(85.3)**	(84.4)
	(164.0)	(244.1)

Other revenue includes income from engineering services and license fees relating to rights over the Virgin name and its intellectual property (note 26).

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

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

Company income is made up of dividends received from Virgin Atlantic Two Limited. No dividends were received in the current year (2014: £30.9m).

Notes continued

6 Revenue analysis (continued)

	Group	
	For the year ended 31 December 2015 £m	For the year ended 31 December 2014 £m
Revenue by source:		
United Kingdom	**2,001.5**	1,952.3
North America and the Caribbean	**591.0**	495.1
Far East	**122.4**	160.3
Africa	**96.6**	115.1
Other	**132.7**	265.0
Intra-group revenue	**(162.3)**	(160.3)
	2,781.9	2,827.5
Revenue by destination:		
North America	**1,857.3**	1,640.9
Caribbean	**399.8**	406.6
Far East	**317.6**	350.7
Africa	**196.5**	233.8
Other	**173.0**	355.8
Intra-group revenue	**(162.3)**	(160.3)
	2,781.9	2,827.5

Notes continued

7 Profit/(loss) before tax from ordinary activities

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

	Group	
	For the year ended 31 December 2015 £m	For the year ended 31 December 2014 £m
Depreciation of property, plant and equipment (note 13)	**(68.0)**	(49.7)
Amortisation of intangible assets (note 12)	**(21.1)**	(13.3)
Rentals under operating leases:		
Aircraft and related equipment	**(212.0)**	(204.1)
Plant and machinery	**(10.4)**	(11.3)
Land and buildings	**(28.1)**	(28.0)
Contribution to pension schemes	**(26.4)**	(26.0)
Remuneration of the auditors and their associates:		
Audit services	**(0.5)**	(0.5)
Other services	**(0.5)**	(0.4)

Fees payable to the Company's auditor and its associates for audit services are £4,101 (2014: £4,101). Fees payable to the Group's auditor and its associates for services other than the statutory audit of the the Company and subsidiaries are as follows:

	Group	
	For the year ended 31 December 2015 £m	For the year ended 31 December 2014 £m
Taxation advice and compliance	**(0.4)**	(0.1)
Services related to accounting advice	**(0.1)**	(0.3)
Total fees for other services	**(0.5)**	(0.4)

Notes continued

8 Exceptional items

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

	Group	
	For the year ended 31 December 2015 £m	For the year ended 31 December 2014 £m
Accelerated depreciation on aircraft equipment (i)	**(6.7)**	-
Fuel hedging reclassified to fair value losses on derivatives (ii)	**198.0**	1.9
Forex derivative gains/(losses) reclassified to fair value losses on derivatives (ii)	**(12.9)**	18.8
Reclassified from other operating income/expenses	**(6.2)**	11.9
Reclassified from distribution, marketing and selling costs	**(6.8)**	6.9
Settlement of legal claim against supplier (iii)	**-**	6.9
Profit on disposal of aircraft equipment (iv)	**57.7**	-
Profit on disposal of unlisted investment (v)	**-**	30.9
Restructuring costs (vi)	**(31.4)**	(9.0)
Loss on settlement of interest rate swap (vii)	**-**	(25.5)
Fair value losses on derivatives (viii)	**(139.7)**	(211.0)
	65.0	(187.0)
The fair value losses on derivatives can be analysed as follows:		
Gain/(loss) on fair value movements	**45.4**	(190.3)
Loss on fuel derivatives settled during the year (reclassified - see above)	**(198.0)**	(1.9)
Gain/(loss) on forex derivatives settled during the year (reclassified - see above)	**12.9**	(18.8)
	(139.7)	(211.0)

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

(i) During the year the Group incurred accelerated depreciation of £6.7m, on its A-330 fleet. The acceleration relates to cabin components which are scheduled to exit the fleet earlier than anticipated.

(ii) Fuel costs include £198.0m (2014: £1.9m) relating to losses recognised on maturity of fuel derivative contracts. Other income/expenses and distribution, marketing and selling costs include gains of £6.2m and £6.8m respectively (2014: losses of £11.9m and £6.9m) relating to movements on maturity of foreign currency derivative contracts. Fair value movements in relation to the Group's fuel and foreign currency derivatives are reclassified as an exceptional item to fair value losses on derivatives, to ensure that the operating costs of the Group can be reflected at an unhedged rate as the Group does not apply hedge accounting.

Notes continued

8 Exceptional items (continued)

(iii) In the prior year, included within other income was a £6.9m gain recognised in relation to the successful settlement of a legal claim that the Group had pursued in relation to a supplier.

(iv) During the year ended 31 December 2015, the Group purchased and subsequently entered into sale and operating leasebacks of four Boeing 787 aircraft. Profits sale and leaseback amounted to £57.7m. The profits arising from the sale and operating leaseback of the aircraft have been reclassified and are shown net of any supplier compensation received. See note 13 for further details.

(v) In 2014, the Group disposed the majority of its shares within the Airline Group Limited, recognising a profit on disposal of £30.9m. As the investment was held at historic cost the profit on disposal was considered exceptional. See Note 15 for further details.

(vi) Restructuring costs of £31.4m have been recognised during the year and relate to the Group's change programme - fit.nimble. Costs incurred in the current year relate to employee restructuring costs (£13.7m), and onerous lease obligations (£17.7m) that have been recognised following the decision to co-locate more of the Group's functions. The programme involves fundamental appraisal of how the business operates in both front and back office functions and will continue to transform the business over a number of years, see the Strategic Report for further details.

In the prior year £9m, was recognised as exceptional relating to the Group's strategy to restructure the route network.

(vii) Included within finance expense for 2014, an amount of £25.5m was incurred to settle historic interest rate swaps where the hedging relationship was no longer effective in relation to the underlying hedged item.

(viii) The Group discloses specific IAS 39 mark-to-market movements seperately within the statement of comprehensive income.

Notes continued

8 Employee remuneration

(i) Headcount and total remuneration

The average monthly number of employees (including executive directors) was:

	Group	
	For the year ended 31 December 2015 £m	For the year ended 31 December 2014 £m
Management and administration	**1,189**	1,268
Flight crew	**777**	777
Cabin crew	**3,507**	3,551
Reservations and sales	**2,460**	2,500
Engineering, cargo and production	**1,072**	1,135
	9,005	9,231

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

	Group	
	For the year ended 31 December 2015 £m	For the year ended 31 December 2014 £m
Wages and salaries	**298.2**	299.4
Social security costs	**29.5**	29.1
Other pension costs (note 25)	**27.5**	27.3
	355.2	355.8

The Virgin Atlantic Limited Group operates a defined contribution pension scheme. The pension cost charged to the statement of comprehensive income represents contributions payable by the Group to the scheme. There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

The Company has no salaried employees (2014: nil).

Notes continued

9 Employee remuneration (continued)

(ii) Aggregate directors' remuneration
During the year/period of their service, the emoluments of the directors of the Group were:

	Group	
	For the year ended 31 December 2015 £m	For the year ended 31 December 2014 £m
Total emoluments		
Aggregate emoluments	**1.2**	1.3
Contributions to money purchase pension schemes	**0.1**	0.1
Aggregate amounts receivable under long term incentive schemes	**-**	1.1
	1.3	2.5
Highest paid director:		
Aggregate emoluments and other benefits	**0.7**	0.6
Contributions to money purchase pension schemes	**0.1**	0.1
Aggregate amounts receivable under long term incentive schemes	**-**	0.8
	0.8	1.5

Retirement benefits are accruing to 2 (2014: 2) directors under money purchase pension schemes.

During the year an amount of £0.2m (2014: £0.2m) was paid to shareholders in respect of the services of certain shareholder-appointed non-executive directors of the Group.

During the year an amount of £nil (2014: £0.4m) was receivable by a former director of the Group in relation to long term incentive schemes, this scheme was terminated during 2014 and a new scheme has been created for 2015 (see iii below). During the year, the directors received shares under the long term incentive plan scheme. No options were exercised during the year.

The aggregate compensation for loss of office paid in the year, not included in the above table, was £nil (2014: £0.3m).

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

(iii) Share-based payments: Long-term incentive scheme
In May 2015, the Group granted 108,561 (38,420 A1 shares of £1 each and 70,141 A2 shares of £0.01 each) Share Appreciation Rights ("SARs") within Virgin Atlantic Two Limited, to employees that entitle them to a cash payment after 4 years of service. The SARs expire at the end of the four-year period after grant date. The amount of the cash payment is determined based on the increase in the earnings valuation of the Group between the grant date and the time of exercise. The valuation of the SARs are made on an annual basis using external third parties. The fair value of the SARs are nil as at 31 December 2015.

Notes continued

10 Net finance costs

	Group	
	For the year ended 31 December 2015 £m	For the year ended 31 December 2014 £m
Finance income		
Bank deposits	**1.5**	1.5
Unlisted investments (note 15)	**0.3**	0.2
	1.8	1.7
Finance expense		
Bank loans and overdrafts (note 20)	**(1.0)**	(1.1)
Other loans	**(5.0)**	(1.0)
Exchange loss on foreign currency borrowings less deposits	**(0.7)**	(0.9)
Finance leases and hire purchase contracts (note 20)	**(3.5)**	(0.3)
Settlement of interest rate swap (note 8)	**-**	(25.5)
Unwinding of discount on provisions (note 22)	**(0.5)**	(0.2)
	(10.7)	(29.0)
Interest capitalised on aircraft progress payments (note 13)	**4.4**	1.0
	(6.3)	(28.0)
Net finance costs	**(4.5)**	(26.3)

Notes continued

11 Tax

Analysis of the tax expense during the year:

	Group	
	For the year ended 31 December 2015 £m	For the year ended 31 December 2014 £m
Current tax		
UK corporation tax	**-**	(5.5)
Adjustments in respect of prior periods	**1.3**	-
Non – UK current tax	**-**	(0.1)
Total current tax (charge)/credit	**1.3**	(5.6)
Deferred tax		
Origination and reversal of timing differences	**(3.8)**	41.2
Adjustments in respect of prior years	**(4.9)**	0.2
Effect of decrease in tax rate	**0.0**	-
Total deferred tax (charge)/credit	**(8.7)**	41.4
Tax (charge)/credit	**(7.4)**	35.8

The standard rate of UK corporation tax for the year is 20.25% (2014: 21.5%). The total tax charge of 8.5% for the period is lower than the standard rate of corporation tax. This is driven by UK government reliefs and other permanent differences.

The actual current tax charge for the period differs from that computed by applying the standard tax rate to the profit on ordinary activities before tax as reconciled below:

	Group	
	For the year ended 31 December 2015 £m	For the year ended 31 December 2014 £m
Profit/(loss) for the year before taxation	**87.5**	(174.7)
Tax at the standard rate of 20.25% (2014: 21.5%)	**(17.7)**	37.6
Factors affecting the (charge)/credit for the year:		
Income not taxable	**-**	9.0
Expenses not deductible for tax purposes	**(0.7)**	(4.8)
Effects of other tax rates	**0.2**	-
Depreciation for the year in excess of capital allowances	**-**	(7.8)
Adjustments in respect of prior periods	**(3.7)**	(0.2)
Utilisation of UK tax losses brought forward	**-**	2.2
Non-UK tax losses not utilised or recognised	**-**	(0.1)
Other timing differences	**-**	2.3
UK government reliefs	**4.3**	-
Foreign tax	**-**	(0.1)
Permanent differences	**10.2**	-
Rollover relief	**-**	(2.3)
Tax (charge)/credit	**(7.4)**	35.8

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Group's future current tax charge accordingly. The deferred tax asset at 31 December 2015 has been calculated at 20%.

Notes continued

12 Intangible assets

	Group					
	Software	Goodwill	Landing slots	Carbon Allowances	Other Intangibles	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2014	117.1	8.8	91.1	0.9	1.6	219.5
Exchange differences	(0.0)	-	-	-	-	(0.0)
Additions	0.1	-	-	0.0	-	0.1
Transfers from property, plant & equipment	21.6	-	-	-	-	21.6
Disposals	(1.0)	-	-	-	-	(1.0)
At 31 December 2014	**137.8**	**8.8**	**91.1**	**0.9**	**1.6**	**240.2**
Accumulated amortisation						
At 1 January 2014	75.3	3.8	10.6	-	1.6	91.3
Exchange differences	0.0	(0.0)	-	-	-	0.0
Amortisation for the year	13.3	(0.0)	-	-	-	13.3
Disposals	(0.7)	-	-	-	-	(0.7)
At 31 December 2014	**87.9**	**3.8**	**10.6**	**-**	**1.6**	**103.9**
Carrying amount at 31 December 2014	**49.9**	**5.0**	**80.5**	**0.9**	**-**	**136.3**
Cost						
At 1 January 2015	137.9	8.8	91.1	0.9	1.6	240.3
Exchange rate adjustments	0.0	-	-	-	-	0.0
Additions	0.4	-	-	0.2	-	0.6
Transfers from property, plant & equipment	10.1	-	-	-	-	10.1
Disposals	(14.4)	-	-	(1.0)	-	(15.4)
At 31 December 2015	**134.0**	**8.8**	**91.1**	**0.1**	**1.6**	**235.6**
Accumulated amortisation						
At 1 January 2015	88.0	3.7	10.6	0.0	1.6	103.9
Exchange rate adjustments	0.1	-	-	-	-	0.1
Amortisation for the year	21.1	-	-	-	-	21.1
Disposals	(14.0)	-	-	-	-	(14.0)
At 31 December 2015	**95.2**	**3.7**	**10.6**	**0.0**	**1.6**	**111.1**
Carrying amount at 31 December 2015	**38.8**	**5.1**	**80.5**	**0.1**	**-**	**124.5**

Notes continued

12 Intangible assets (continued)

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

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

Landing rights

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

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

Goodwill

At 31 December 2015 the goodwill balance was attributable to Virgin Vacations Inc. (puchased 13 April 2011), Bales Worldwide Limited (purchased 14 December 2009) and Virgin Holidays Crusises Limited (purchased 8 October 2007).

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

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

Impairment review

A sensitivity analysis has not been disclosed as management believe that any reasonable change in assumptions would not cause the carrying value of the CGU to exceed their recoverable amount. The impairment review of both landing rights and goodwill has not resulted in an impairment charge during the year (2014: no impairment).

The Company did not have any intangible assets (2014: £nil).

Notes continued

13 Property, plant and equipment

	Group					
	Land and buildings £m	Aircraft, rotable spares and ancillary equipment £m	Modifications to aircraft on operating leases £m	Plant and machinery, fixtures and fittings £m	Assets under construction £m	Total £m
Cost						
At 1 January 2014	31.8	414.3	250.9	135.9	25.6	858.5
Exchange differences	(0.0)	-	-	0.0	(0.0)	0.0
Additions	-	189.8	13.1	11.7	36.6	251.2
Disposals	(1.0)	(140.9)	(19.3)	(4.9)	(1.6)	(167.7)
Reclassifications	-	(1.4)	0.8	6.2	(27.0)	(21.4)
At 31 December 2014	**30.8**	**461.8**	**245.5**	**148.9**	**33.6**	**920.6**
Accumulated depreciation						
At 1 January 2014	4.4	268.0	169.0	100.2	-	541.6
Exchange differences	(0.0)	-	-	0.0	-	0.0
Depreciation for the year	0.5	24.8	12.3	12.1	-	49.7
Disposals	(0.1)	(76.1)	(8.1)	(4.7)	-	(89.0)
At 31 December 2014	**4.8**	**216.7**	**173.2**	**107.6**	**-**	**502.3**
Carrying amount						
At 31 December 2014	**26.0**	**245.1**	**72.3**	**41.3**	**33.6**	**418.3**
Cost						
At 1 January 2015	**30.8**	**461.8**	**245.5**	**148.9**	**33.6**	**920.6**
Exchange differences	**-**	**-**	**-**	**0.0**	**-**	**0.0**
Additions	**-**	**478.7**	**7.2**	**1.1**	**67.6**	**554.6**
Disposals	**(0.6)**	**(353.5)**	**(60.3)**	**(20.5)**	**(6.5)**	**(441.4)**
Reclassifications	**-**	**2.7**	**6.5**	**14.6**	**(33.7)**	**(10.0)**
At 31 December 2015	**30.2**	**589.7**	**198.8**	**144.1**	**61.0**	**1,023.8**
Accumulated depreciation						
At 1 January 2015	**4.8**	**216.7**	**173.2**	**107.6**	**-**	**502.3**
Exchange differences	**-**	**-**	**-**	**(0.0)**	**-**	**(0.0)**
Depreciation for the year	**0.4**	**23.1**	**29.7**	**14.8**	**-**	**68.0**
Disposals	**-**	**(10.0)**	**(59.4)**	**(20.0)**	**-**	**(89.4)**
At 31 December 2015	**5.2**	**229.8**	**143.5**	**102.4**	**-**	**480.9**
Carrying amount						
At 31 December 2015	**25.0**	**359.9**	**55.3**	**41.7**	**61.0**	**542.9**

Notes continued

13 Property, plant and equipment (continued)

Freehold land with a cost of £30.1m (2014: £30.1m) has not been depreciated. Included in aircraft, rotable spares and ancillary equipment are progress payments of £46.8m (2014: £64.8m), these amounts are not depreciated.

During 2015, the Group purchased and subsequently entered into sale and operating leasebacks of four Boeing 787-9 aircraft. During the year the Group returned two Airbus A340-600 and two Boeing 747 aircraft held on operating leases back to lessors at the end of the lease term. Furthermore, the Group returned two Airbus A340-300s and a Boeing 747 aircraft held under operating leases to the lessor at the end of the lease term, but immediately purchased all three aircraft from the same lessor. The two A340-300s were subsequently sold.

No impairments arose on the disposal of any aircraft. The total profit on the disposal of aircraft above was £4.74m (excluding supplier settlements - see note 8 for further details).

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

	Group	
	As at 31 December 2015 £m	As at 31 December 2014 £m
Carrying amount		
Aircraft, rotable spares and ancillary equipment	**124.4**	28.2
Depreciation charged for the year		
Aircraft, rotable spares and ancillary equipment	**5.3**	5.4

During the year the Group entered into two new finance leases for Boeing 787-9 aircraft with a book value of £129.2m (2014: £nil). The carrying amount of assets held under finance leases includes maintenance events and modifications to the asset which have been incurred in periods following the lease inception. Finance leases obligations are shown note 20 and 28.

Interest capitalised by the Group on aircraft progress payments included in additions during the year amounted to £4.4m (2014: £1.0m). The cumulative amount of interest capitalised in the total cost above for the Group amounts to £1.3m (2014: £2.3m).

At 31 December 2015, fleet assets with a carrying amount of £30.3m (2014: £32.8m) have been pledged as security for bank and other loans.

The Company did not have any property, plant and equipment (2014: £nil).

Notes continued

14 Deferred tax

The following are the material deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting period. Deferred taxation is provided for at 20% (2014: 20%):

	Group		
	As at 31 December 2015 £m	As at 31 December 2014 £m	As at 31 December 2013 £m
Accelerated capital allowances	**(31.9)**	(48.7)	(54.7)
Other timing differences	**36.8**	60.7	23.1
UK tax losses	**28.9**	18.2	20.4
Holdover relief	**(12.3)**	-	-
Non-UK tax losses	**0.1**	0.1	0.1
	21.6	30.3	(11.1)

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

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

	Group
	Total £m
Balance as at 1 January 2014	(11.1)
Charged to statement of comprehensive income	41.4
Balance as at 31 December 2014/1 January 2015	30.3
Credit to statement of comprehensive income	(8.7)
Balance as at 31 December 2015	**21.6**

The Company did not have any deferred tax (2014: £nil).

Notes continued

15 Investments

	Group		Company	
	As at 31 December 2015 £m	As at 31 December 2014 £m	**As at 31 December 2015 £m**	As at 31 December 2014 £m
Non-current				
Investment in Airline Group Limited	**0.0**	0.4	**-**	-
Interest in subsidiaries	**-**	-	**289.4**	289.4
	0.0	0.4	**289.4**	289.4

The unlisted investment represents the Group's interest in the Airline Group Limited, which consists of both equity and unsecured loan notes. In March 2014, the Group disposed of the majority shares within the Airline Group Limited, recognising a profit on sale of £30.9m (see note 8). The Group continues to hold a minority position within the revised capital structure of the Airline Group Limited. The investment is carried at cost.

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

Investments in subsidiaries are carried at cost.

Notes continued

16 Derivative financial instruments

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

	Group		
	As at 31 December 2015 £m	As at 31 December 2014 £m	As at 31 December 2013 £m
Non-current assets			
Foreign currency	**2.2**	3.6	4.5
Fuel	**2.9**	3.2	6.8
	5.1	6.8	11.3
Current assets			
Foreign currency	**16.9**	16.2	15.3
Fuel	**0.0**	15.6	29.8
	16.9	31.8	45.1
Current liabilities			
Foreign currency	**(0.7)**	(4.8)	(36.7)
Fuel	**(183.0)**	(169.0)	(2.3)
Interest rate swap	**-**	-	(18.9)
	(183.7)	(173.8)	(57.9)
Non-current liabilities			
Foreign currency	**-**	(0.1)	(16.6)
Fuel	**(9.9)**	(79.3)	(2.5)
	(9.9)	(79.4)	(19.1)

	Group		
Nominal amounts	**2015 quantity (m)**	2014 quantity (m)	2013 quantity (m)
Foreign currency (USD)	**712.1**	978.3	1,772.1
Foreign currency (Other, represented in GBP)	**193.8**	125.0	249.5
Fuel (Barrels)	**7.5**	11.6	13.0
Interest rate swap (USD)	**-**	-	500.0

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

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

Notes continued

16 Derivative financial instruments (continued)

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

	Group		
As at 31 December 2015	**Gross amount £m**	**Amount not set off £m**	**Net amount £m**
Derivative financial instruments			
Assets	**22.0**	**(3.0)**	**19.0**
Liabilities	**(193.6)**	**3.0**	**(190.6)**
	(171.6)	**-**	**(171.6)**

	Group		
As at 31 December 2014	Gross amount £m	Amount not set off £m	Net amount £m
Derivative financial instruments			
Assets	38.6	(23.7)	14.9
Liabilities	(253.2)	23.7	(229.5)
	(214.6)	-	(214.6)

	Group		
As at 31 December 2013	Gross amount £m	Amount not set off £m	Net amount £m
Derivative financial instruments			
Assets	56.3	(41.4)	14.9
Liabilities	(77.0)	41.4	(35.6)
	(20.7)	-	(20.7)

The Company did not hold any derivative financial instruments (2014: £nil)

Notes continued

17 Trade and other receivables

	Group		Company	
	As at 31 December 2015 £m	As at 31 December 2014 £m	**As at 31 December 2015 £m**	As at 31 December 2014 £m
Non-current				
Other receivables	**33.0**	32.5	**-**	-
Corporate tax recoverable	**0.2**	-	**-**	-
Prepayments and accrued income	**0.2**	4.5	**-**	-
	33.4	37.0	**-**	-
Current				
Trade receivables	**141.4**	158.7	**-**	-
Provision for doubtful receivables	**(5.4)**	(6.1)	**-**	-
Net trade receivables	**136.0**	152.6	**-**	-
Other receivables	**114.4**	112.7	**-**	-
Corporate tax recoverable	**5.6**	0.0	**-**	-
Group relief receivables	**0.0**	(0.0)	**0.0**	0.0
Prepayments and accrued income	**62.8**	72.9	**-**	-
Amounts owed by group companies	**-**	-	**-**	0.0
	318.8	338.2	**0.0**	0.0

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

Included within current other receivables is an amount of £69.5m (2014: £67m) relating to margin calls on fuel and foreign currency derivative positions.

During the year the Group wrote £0.4 million (2014: £0.7 million) of receivables off against the provision.

	Group	
	As at 31 December 2015 £m	As at 31 December 2014 £m
Ageing of past due but not impaired receivables:		
1-30 days	**45.2**	23.1
31-60 days	**1.5**	15.9
61-90 days	**0.3**	1.1
91-120 days	**0.0**	0.2
120+ days	**2.0**	7.1
Total	**49.0**	47.4

Notes continued

17 Trade and other receivables (continued)

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

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

	Group	
	As at 31 December 2015 £m	As at 31 December 2014 £m
Analysis of trade receivables by currency:		
Sterling	**106.4**	132.7
US dollars	**24.2**	12.2
Other	**10.8**	13.8
	141.4	158.7

18 Inventories

	Group	
	As at 31 December 2015 £m	As at 31 December 2014 £m
Aircraft consumable spares	**32.2**	34.5
Finished goods and goods for resale	**5.4**	7.2
Fuel	**0.1**	0.1
Uniforms	**1.1**	1.3
	38.8	43.1

The Company did not have any inventories (2014: £nil).

Notes continued

19 Cash, cash equivalents and restricted cash

	Group	
	As at 31 December 2015 £m	As at 31 December 2014 £m
Cash at bank and in hand	**530.8**	282.7
Bank overdrafts	**(3.7)**	(1.4)
Cash and cash equivalents	**527.1**	281.3
Restricted cash	**68.5**	14.9

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

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

The Company did not have any cash and cash equivalents (2014: £nil).

20 Borrowings

	Group	
	As at 31 December 2015 £m	As at 31 December 2014 £m
Non-current		
Secured bank loans (i)	**(10.5)**	(10.6)
Obligations under finance leases (ii)	**(143.0)**	(0.2)
Senior bonds - A1 (iii)	**(182.1)**	-
Senior bonds - A2 (iii)	**(27.9)**	-
	(363.5)	(10.8)
Current		
Secured bank loans (i)	**(26.2)**	(17.9)
Obligations under finance leases (ii)	**(5.7)**	(4.1)
Senior bonds - A1 (iii)	**(1.4)**	-
Senior bonds - A2 (iii)	**(1.1)**	-
	(34.4)	(22.0)

Notes continued

20 Borrowings (continued)

(i) The secured bank loans are secured by mortgages over certain fleet assets (see note 13). 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.

(ii) See note 28 for a full breakdown of all commitments under finance leasing and hire purchase agreements. Two additional aircraft were obtained under finance leases that were entered into during the year.

(iii) In December 2015, the Group issued £220m of senior bonds to bond investors (£190m Class A1 bonds and £30m of Class A2 bonds). The terms are such that repayment of the principal will occur in part over the life of the bonds such that £112m (£100m Class A-1 bonds and £12m of Class A-2 bonds) is payable on the maturity of the bonds after 15 years. The value of the bonds is stated after transaction costs.

	Group		
	Sterling £m	**US dollars £m**	**Total £m**
Analysis of borrowings by currency as at 31 December 2015:			
Secured bank loans (i)	-	(36.7)	(36.7)
Obligations under finance leases and hire purchase agreements (ii)	-	(148.8)	(148.8)
Senior bonds - A1 (iv)	(183.5)	-	(183.5)
Senior bonds - A2 (iv)	(29.0)	-	(29.0)
	(212.5)	(185.5)	(380.0)
Analysis of borrowings by currency as at 31 December 2014:			
Secured bank loans (i)	-	(28.5)	(28.5)
Obligations under finance leases and hire purchase agreements (ii)	-	(4.3)	(4.3)
Senior bonds - A1 (iv)	-	-	-
Senior bonds - A2 (iv)	-	-	-
	-	(32.8)	(32.8)

The maturity profile of borrowings is disclosed in note 30.

The Company did not have any borrowings (2014: £nil).

Notes continued

21 Trade and other payables

	Group		Company	
	As at 31 December 2015 £'000	As at 31 December 2014 £'000	**As at 31 December 2015 £'000**	As at 31 December 2014 £'000
Non-current				
Accruals	**(5.1)**	(2.5)		
	(5.1)	(2.5)	**-**	-
Current				
Trade payables	**(45.4)**	(84.1)	**-**	-
Amounts owed to other group companies	**(19.6)**	(18.4)	**(0.2)**	-
Corporation tax	**-**	(4.2)	**-**	-
Group relief payable	**-**	(0.1)	**-**	-
Other taxes and social security	**(11.3)**	(11.3)	**-**	-
Other payables	**(1.6)**	(2.6)	**-**	-
Accruals	**(291.2)**	(285.7)	**(0.2)**	(0.1)
	(369.1)	(406.4)	**(0.4)**	(0.1)

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

Notes continued

22 Provisions

	Group		
	As at 31 December 2015 £m	As at 31 December 2014 £m	As at 31 December 2013 £m
Non-current			
Maintenance	**(49.7)**	(100.4)	(107.6)
Onerous leases	**(3.0)**	(0.4)	(0.3)
Leasehold dilapidation	**(6.1)**	(6.6)	(1.9)
	(58.8)	(107.4)	(109.8)
Current			
Maintenance	**(42.7)**	(44.8)	(42.1)
Onerous leases	**(9.1)**	-	(0.5)
Leasehold dilapidation	**(1.2)**	(1.4)	(0.8)
Legal claims	**(8.6)**	(8.8)	(10.6)
	(61.6)	(55.0)	(54.0)

	Group				
	Maintenance £m	**Onerous leases £m**	**Leasehold dilapidations £m**	**Legal claims £m**	**Total £m**
At 1 January 2014	(149.6)	(0.9)	(2.7)	(10.6)	(163.8)
Exchange differences	-	-	-	-	-
Amounts provided/(released) in the year	(38.6)	0.0	(5.5)	(6.7)	(50.8)
Amounts utilised in the year	47.4	0.5	0.4	8.5	56.8
Other movements	(4.4)	(0.0)	(0.0)	-	(4.4)
Unwinding of discount	-	-	(0.2)	-	(0.2)
At 31 December 2014	**(145.2)**	**(0.4)**	**(8.0)**	**(8.8)**	**(162.4)**
As at 1 January 2015	(145.2)	(0.4)	(8.0)	(8.8)	(162.4)
Exchange differences	-	-	-	-	-
Amounts provided/(released) in the year	(26.9)	(11.7)	(0.6)	(11.4)	(50.6)
Amounts utilised in the year	84.1	-	0.6	8.9	93.6
Other movements	(4.3)	-	1.2	2.7	(0.4)
Unwinding of discount	-	-	(0.5)	-	(0.5)
At 31 December 2015	**(92.3)**	**(12.1)**	**(7.3)**	**(8.6)**	**(120.3)**

Notes continued

22 Provisions (continued)

Maintenance included in provisions, relates to the costs to meet the contractual return conditions on aircraft held under operating leases. Cash outflows on aircraft and engine maintenance occur when the maintenance events take place on future dates not exceeding October 2026.

The Group operates from a number of properties where the costs involved with fulfilling the terms and conditions of the lease are higher than the amount of economic benefit received. Such provisions represent the rent and occupancy related expenses which will be incurred after these properties have been vacated until the end of the lease term.

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

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

The Company did not have any provisions (2014: £nil).

Notes continued

23 Deferred income

	Group		
	As at 31 December 2015 £m	As at 31 December 2014 £m	As at 31 December 2013 £m
Current			
Forward sales of passenger carriage and holidays	**(547.2)**	(531.5)	(539.0)
Unredeemed revenue: Customer loyalty programme	**(131.6)**	(107.3)	(98.6)
Other revenue received in advance	**(43.9)**	(75.3)	(19.8)
	(722.7)	(714.1)	(657.4)
Non-current			
Other revenue received in advance	**(52.8)**	(11.1)	(14.0)
	(52.8)	(11.1)	(14.0)

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

The Company did not have any deferred income (2014: £nil).

Notes continued

24 Interest in subsidiaries

The group consists of a parent company, Virgin Atlantic Limited, incorporated in the UK and a number of subsidiaries which operate and are incorporated around the world. The subsidiaries of the Group as at 31 December 2015 are:

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	Non-trading
Virgair Limited	England and Wales	100	Non-trading
VA Cargo Limited	England and Wales	100	Cargo management
Virgin Airways Limited	England and Wales	100	Non-trading
Greenart Limited	England and Wales	100	In liquidation
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	Asset leasing
Virglease (2) Limited	England and Wales	100	Non-trading
Virglease (3) Limited	England and Wales	100	Asset leasing
Fordbar Services Limited	England and Wales	100	In liquidation
Voyager Nominees Limited	England and Wales	100	In liquidation
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	Asset leasing
Bug Leasing Limited	Jersey	100	Asset leasing
Threesixty Aerospace Limited	England and Wales	100	Non-trading
Junopart Limited	England and Wales	100	Asset leasing
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	In liquidation
Virgin Vacations Incorporated	United States of America	100	Travel agency
Virgin Incoming Services Incorporated	United States of America	100	Tour operations
VAA Holdings UK Limited	England and Wales	100	Holding company
VAA Holdings Jersey Limited	Jersey	100	Holding company
Virgin Atlantic International Limited	England and Wales	100	Airline operations
Significant holdings			
Air Nigeria Development Limited (formerly Virgin Nigeria Airways Limited)	Nigeria	49	Non-trading

Notes continued

24 Interest in subsidiaries (continued)

During the year ended December 2015, Virgin Atlantic International Limited became a newly incorporated subsidiary of the Group. Virgin Atlantic International Limited is a 100% owned subsidiary.

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

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

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 26) 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.

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

As at 31 December 2015, the consolidated balance sheet includes balances due from Air Nigeria Development Limited to Group companies amounting to £9.7m (2014: £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 (2014: £nil).

Notes continued

25 Pension schemes

The Group offers its employees a contract based defined contribution pension in the form of a group personal pension plan. 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 2015 (2014: £nil).

26 Related party transactions

The Group and Company had transactions in the ordinary course of business during the year ended 31 December 2015 and 31 December 2014 with related parties.

	Group		Company	
	For the year ended 31 December 2015 £m	For the year ended 31 December 2014 £m	**For the year ended 31 December 2015 £m**	For the year ended 31 December 2014 £m
Parent				
Sales to/purchases on behalf of parent	**-**	-	**-**	-
Purchases from parent	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Amounts owed by parent	**0.0**	0.0	**0.0**	0.0
Amounts owed to parent	**(0.0)**	(0.1)	**(0.0)**	(0.1)
Subsidiary undertakings of the parent				
Sales to subsidiary undertakings of the parent	**6.6**	1.6	**6.6**	1.6
Purchases from subsidiary undertakings of the parent	**(19.9)**	(14.0)	**(19.9)**	(14.0)
Amounts owed by the subsidiary undertakings of the parent	**0.4**	0.3	**0.4**	0.3
Amounts owed to the subsidary undertakings of the parent	**(12.9)**	(12.8)	**(12.9)**	(12.8)
Subsidiaries				
Sales to subsidiaries			**-**	-
Purchase from subsidiaries			**-**	-
Amounts owed by subsidiaries			**-**	-
Amounts owed to subsidiaries			**(0.1)**	-

The Group has trademark licenses for the use of the Virgin name and logo from VAL TM Limited. The licenses are for an initial period ending on 30 March 2041 extendable by mutual agreement for up to 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 the Group had licenses from Virgin Enterprises Limited that were without term limit, mostly royalty free and exclusive subject to licenses granted to Virgin America Inc. and Virgin Australia Airlines PTY Ltd. All transactions have been concluded at arm's length.

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

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

Notes continued

26 Related party transactions (continued)

On 31 December 2015 the Group owed Delta Air Lines Inc. £84.8m (2014: £55.7m) with respect to the joint operation agreement. Costs incurred in relation to the joint arrangement are presented within airline traffic direct operating costs. Total sales to Delta Air Lines Inc. during the year amounted to £16.7m (2014: £10.2m), total purchases were £7.6m (2014: £57.6m). Outstanding receivable balances amounted to £3.2m (2014: £1.1m) and outstanding payables were £85.7m (2014: £55.7m).

As at 31 December 2015, the directors consider the ultimate holding company to be Virgin Group Holdings Limited, a company registered in the British Virgin Islands. The sole shareholder of Virgin Group Holdings Limited is Sir Richard Branson. Sir Richard Branson has interests directly or indirectly in certain other companies, which are considered to give rise to related party disclosures under IAS 24.

27 Ultimate holding

As at 31 December 2015, the directors consider the Group's ultimate holding company is Virgin Group Holdings Limited, a company incorporated in the British Virgin Islands. The Directors consider that Sir Richard Branson to be the ultimate controlling party of the Group. The results of the Company are not consolidated into any higher group whose financial statements are publicly available.

Notes continued

28 Commitments

(i) Commitments under finance leases

The capital element of the future minimum lease payments to which the Group is committed at 31 December 2015 under finance lease and hire purchase contract obligations incurred in the acquisition of aircraft, engines, spares and other equipment are as follows:

	Group	
	As at 31 December 2015 £m	As at 31 December 2014 £m
Not later than one year	**5.7**	4.1
Later than one year and not later than five years	**26.1**	0.2
Later than 5 years	**116.9**	-
	148.7	4.3

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

(ii) Commitments under operating leases

As at 31 December 2015, the Group had annual commitments under non-cancellable operating leases as set out below:

	Group			
	As at 31 December 2015		As at 31 December 2014	
	Land and buildings £m	**Aircraft and other £m**	Land and buildings £m	Aircraft and other £m
Not later than one year	**27.5**	**9.0**	25.7	11.9
Later than one year and not later than five years	**64.0**	**197.5**	52.5	297.2
Later than 5 years	**85.0**	**996.5**	54.2	703.6
	176.5	**1203.0**	132.4	1,012.7

(ii) Capital commitments

	Group	
	As at 31 December 2015 £m	As at 31 December 2014 £m
Capital commitments at the balance sheet date for which no provision has been made:	**1,313.0**	2,246.4

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

Notes continued

29 Financial instruments

(i) Financial instruments by category

	Group		
	As at 31 December 2015 £m	As at 31 December 2014 £m	As at 31 December 2013 £m
Financial assets			
Cash and cash equivalents	**527.1**	281.3	313.9
Restricted cash	**68.5**	14.9	5.8
Fair value through profit and loss:			
Derivative financial instruments	**22.0**	38.6	56.3
Loans and receivables at amortized cost:			
Investments	**0.0**	0.4	7.4
Trade and other receivables (excl. prepayments and accrued income)	**289.2**	297.9	318.9
	906.8	633.1	702.3
Financial liabilities			
Fair value through profit and loss			
Derivative financial instruments	**(193.6)**	(253.2)	(77.0)
Financial liabilities at amortized cost			
Borrowings	**(397.9)**	(32.7)	(32.4)
Trade and other payables (excl. accruals)	**(77.9)**	(120.7)	(212.6)
	(669.4)	(406.6)	(322.0)

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

The Company holds £0.2m (2014: £0.0m) of financial instruments that consist of amounts owed to group companies, these are carried at amortised cost.

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
Level 3: Inputs for the asset or liability that are not based on observable market data.

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

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

There were no transfers between levels during the year.

Notes continued

30 Financial risk management

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

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

(i) Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel hedging policy aims to provide protection against sudden and significant changes in the jet fuel price. The policy allows the Group to hedge within bands up to 24 months out with declining percentages. In implementing the strategy, the fuel hedging policy allows for the use of a number of derivatives available on the over-the-counter (OTC) markets with approved counterparties and within approved limits.

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

	Group		
	As at 31 December 2015 £m	As at 31 December 2014 £m	As at 31 December 2013 £m
Increase in fuel price by a fixed percentage	**30%**	30%	30%
Increase in profit before tax	**50.4**	148.4	111.1
Decrease in fuel price by a fixed percentage	**(30%)**	(30%)	(30%)
Decrease in profit before tax	**(64.3)**	(139.5)	(109.9)

(ii) Foreign currency risk

The Group is primarily exposed to currency risk on fuel, finance and operating lease costs which results in a shortfall of US dollars, this is partially offset by US dollar revenues. The Group is also exposed to currency risk on costs and revenues in other currencies. Currency risk is reduced through matching receipts and payments in individual currencies and holding foreign currency balances to meet future obligations. Any exposure that cannot be naturally hedged is managed through application of the foreign exchange hedging policy.

The foreign exchange hedging policy aims to provide protection against sudden and significant movements in exchange rates. The policy allows the Group to hedge within bands up to 24 months out with declining percentages. In implementing the strategy, the foreign exchange hedging policy allows for the use of a number of derivatives available on the over-the-counter (OTC) markets with approved counterparties and within approved limits.

Notes continued

30 Financial risk management (continued)

The Group has substantial liabilities denominated in US dollar.

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

	Group		
	As at 31 December 2015 £m	As at 31 December 2014 £m	As at 31 December 2013 £m
Strengthening in US Dollar exchange rate by a fixed percentage	**10%**	10%	10%
Decrease in profit before tax	**(46.4)**	(59.2)	(122.7)
Weakening in US Dollar exchange rate by a fixed percentage	**(10%)**	(10%)	(10%)
Increase in profit before tax	**56.9**	67.4	137.9

(iii) Interest rate risk
The interest rate risk management programme is designed to protect the business from significant adverse movement in interest rates in a manner which is broadly in line with the Group's major competitors. The objective is to lower the cost of capital by maintaining a targeted optimal range of net floating rate debt instruments while at the same time, not over-exposing the Group to interest rate fluctuations. Interest rate exposure is managed on net basis i.e. after taking into consideration the natural hedge available due to cash invested in the short term at floating interest rates.

(iv) Credit risk
The Group is exposed to credit risk to the extent of non- performance by its counterparties in respect of financial assets receivable and /or in the money positions for derivatives transactions. In respect of cash investments transactions, counterparty as well as instrument type limits are in place based on credit rating criteria. Each issuer must be rated by one rating agency (Fitch, Moody's or S&P). Credit default swaps are also considered wherever relevant and available. Similarly for foreign exchange, fuel and interest rate swap counterparties, adequate processes are in place whereby credit ratings and credit default swaps are reviewed where available, ISDA (International Swaps and Derivatives Association) master agreements are executed and Credit Support Annexures (CSA) and Parent Guarantees are put in place wherever necessary to mitigate and minimize credit risk. The overall Group exposure in respect of all the counterparties is reported to the Financial Risk Committee (FRC) on monthly basis. Due diligence is carried out for new foreign exchange, fuel and interest rate swap counterparties which are then presented to the FRC for approval with the information mentioned above as well as share price performance and financial statements technical analysis wherever applicable.

The maximum exposure to credit risk is limited to the carrying value of each class of asset as summarised in note 29.

The Group and Company does not hold any collateral to mitigate this exposure.

Notes continued

30 Financial risk management (continued)

(v) Liquidity risk

The Group maintains a high proportion of cash in overnight money market deposits with same day access, to minimize the impact of margin calls relating to the Group's derivatives activities, a combination of CSA and non-CSA counterparties are used. There are also margin call limits within the foreign exchange and fuel hedging policies in order to cap the margin call cash impact. In December 2015, the Group secured £220m of collataralised financing utilising its slot portfolio to enhance the liquidity position of the Group. The Group continues to maintain committed revolving credit facilities of £25m.

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

	2015			
	Within 1 £m	1-2 years £m	2-5 years £m	Over 5 years £m
Group				
Trade and other payables (excl. accruals)	**(77.9)**	-	**-**	-
Derivative financial instruments	**(183.7)**	(9.9)	**-**	-
Borrowings:				
Secured bank loans	**(26.6)**	(1.1)	**(10.0)**	-
Obligations under finance leases & hire purchase agreements	**(15.1)**	(17.2)	**(47.7)**	(162.1)
Senior bonds - A1	**(6.6)**	(7.7)	**(23.3)**	(155.5)
Senior bonds - A2	**(1.5)**	(1.7)	**(5.1)**	(19.5)
	(311.4)	(37.6)	**(86.1)**	(337.1)

Group	2014			
Trade and other payables (excl. accruals)	**(120.7)**	-	**-**	-
Derivative financial instruments	**(173.8)**	(79.4)	**-**	-
Borrowings:				
Secured bank loans	**(18.3)**	(2.1)	**(12.5)**	-
Obligations under finance leases & hire purchase agreements	**(4.1)**	(0.2)	**-**	-
	(316.9)	(81.7)	**(12.5)**	-

Group	2013			
Trade and other payables (excl. accruals)	**(226.5)**	-	**-**	-
Derivative financial instruments	**(57.9)**	(19.1)	**-**	-
Borrowings				
Secured bank loans	**(15.1)**	(1.0)	**(10.8)**	-
Obligations under finance leases & hire purchase agreements	**(10.0)**	(3.9)	**(0.2)**	-
	(309.5)	(24.0)	**(11.0)**	-

(vi) Capital risk

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

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

Notes continued

31 First time adoption of IFRS

These financial statements, for the year ended 31 December 2015, are the first the Group has prepared in accordance with International Financial Reporting Standards (IFRS). For periods up to and including the year ended 31 December 2014, the Group prepared its financial statements in accordance with UK GAAP.

Accordingly, the Group has prepared financial statements which comply with IFRS (as adopted by the EU) applicable for periods ending on or after 31 December 2015, together with the comparative period data as at and for the year ended 31 December 2014, as described in the accounting policies.

In preparing these financial statements, the Group's opening statement of financial position was prepared as at 1 January 2014, the Groups date of transition to IFRS.

This note explains the principal adjustments made by the Group in restating its UK GAAP statement of financial position as at 31 December 2013 and its previously published UK GAAP financial statements as at and for the year ended 31 December 2014.

Consolidated statement of financial position

	As at 31 December 2013				
	As per UK GAAP	**(A) Reclassifications**	**UK GAAP After Reclassifcation**	**(B) Remeasurements**	**As per IFRS**
	£m	**£m**	**£m**	**£m**	**£m**
Non-current assets	495.8	-	495.8	18.2	514.0
Current assets	720.8	-	720.8	41.0	761.8
Current liabilities	(936.0)	(53.6)	(989.6)	(132.9)	(1,122.5)
Non-current liabilities	(209.3)	53.6	(155.7)	(14.7)	(170.4)
Equity	**71.3**	**-**	**71.3**	**(88.5)**	**(17.1)**

	As at 31 December 2014				
Non-current assets	580.5	(23.6)	556.9	72.2	629.1
Current assets	680.9	-	680.9	28.4	709.3
Current liabilities	(1,065.3)	(55.0)	(1,120.3)	(251.0)	(1,371.3)
Non-current liabilities	(197.9)	78.6	(119.3)	(91.9)	(211.2)
Equity	**(1.8)**	**-**	**(1.8)**	**(242.3)**	**(244.1)**

Notes continued

31 First time adoption of IFRS (continued)

Consolidated statement of comprehensive income
For the year ended 31 December 2014 (after exceptional items)

	As per UK GAAP £m	(B) Remeasurements £m	As per IFRS £m
Revenue	2,928.0	(100.5)	2,827.5
Other depreciation and amortisation	-	0.6	-
Fuel hedging	-	1.9	-
Airline traffic direct operating cost	-	97.5	-
Engineering and maintenance	-	0.6	-
Distribution, marketing and selling costs	-	6.9	-
Other operating costs and overheads	-	12.1	-
Operating profit	11.1	19.1	30.2
(Loss) on disposal of property, plant and equipment	-	(0.4)	-
Fair value gains losses on derivatives	-	(211.0)	-
Profit/(loss) before tax	17.7	(192.3)	(174.7)
Tax (charge)/credit	(2.7)	38.5	35.8
Profit/(loss) for the year	**10.6**	**153.8**	**(143.2)**

In previous years, expenses were presented by function.
During the current year the Group has elected to disclose expenses by nature.

Notes continued

31 First time adoption of IFRS (continued)

Consolidated statement of cash flow
For the year ended 31 December 2014

	As per UK GAAP £m	Reclassifications £m	As per IFRS £m
Net cash (used in)/from operating activities	121.4	(41.6)	79.8
Common items between UK GAAP and IFRS:			
Interest received	1.6	0.2	1.8
Proceeds from sale of property, plant and equipment and intangible assets	76.2	13.6	89.8
Purchase of property, plant and equipment	(174.8)	(12.4)	(187.2)
Purchase of intangible assets	(0.0)	(0.3)	(0.3)
Sale of investments	38.0	(31.1)	6.9
Issue of new bonds	22.1	4.8	26.9
Payment of long term borrowings	(23.4)	2.7	(20.7)
Items moved to net cash from operating activities:			
Interest paid	(1.2)	1.2	-
Corporation tax paid	(2.6)	2.6	-
Dividends paid	(87.2)	87.2	-
Interest element of finance lease rentals	(0.2)	0.2	-
Presentational changes:			
Decrease in short term deposits	(9.0)	9.0	
Payment of finance lease instalments		(3.4)	(3.4)
New line items:			
Realised (losses) on derivative contracts	-	(17.1)	(17.1)
Inclusion of restricted cash into 2014 cash flow statement	14.9	(14.9)	-
Net decrease in cash and cash equivalents	**(24.4)**	**0.9**	**(23.5)**

The reclassifications above are presentational changes to bring the statement of cash flows in line with IFRS requirements.

Notes continued

31 First time adoption of IFRS (continued)

(A) Reclassifications
A summary of all reclassifications made on adoption of IFRS is presented below:

Statement of financial position	Notes	As at 31 December 2014 £m	As at 31 December 2013 £m
Non-current assets			
Property, plant and equipment	(i)	(50.2)	(41.9)
Intangible assets	(i)	50.2	41.9
Deferred tax	(iv)	(23.6)	-
		(23.6)	-
Current assets			
Cash and cash equivalents	(ii)	(14.9)	(5.8)
Restricted cash	(ii)	14.9	5.8
		-	-
Current liabilities			
Trade and other payables	(iii)	658.5	600.6
Deferred income	(iii)	(636.5)	(582.8)
Borrowings	(iii)	(22.0)	(17.8)
Provisions	(v)	(55.0)	(53.6)
		(55.0)	(53.6)
Non-current liabilities			
Trade and other payables	(iii)	21.9	28.6
Deferred income	(iii)	(11.1)	(14.0)
Borrowings	(iii)	(10.8)	(14.6)
Deferred tax	(iv)	-	(26.7)
Provisions	(iv)	23.6	26.7
Provisions	(v)	55.0	53.6
		78.6	53.6

Notes

(i) Computer software previously included as part of property, plant and equipment under UK GAAP, has been reclassified as an intangible asset in accordance with IFRS.

(ii) Cash not freely available for use by the Group was previously included within cash and cash equivalents under UK GAAP. In accordance with IFRS such balances have been reclassified as restricted cash.

(iii) Under UK GAAP the Group disclosed its borrowings and deferred income within trade and other payables. In accordance with IFRS both items are now separately presented on the face of the statement of financial position.

(iv) Deferred tax liabilities had previously been disclosed within provisions. In accordance with IFRS the Group now presents deferred tax as a separate item on the face of the statement of financial position.

(v) Presentational conventions under UK GAAP did not require provisions to be disaggregated between current and non current elements. In accordance with IFRS provisions are classified between current and non-current elements.

Notes continued

31 First time adoption of IFRS (continued)

(B) Remeasurements
A summary of all remeasurements on adoption of IFRS is presented below:

Statement of financial position	Notes	As at 31 December 2014 £m	As at 31 December 2013 £m	Cumulative total £m
Non-current assets				
Property, plant and equipment	(iv)	1.5	11.0	12.5
Property, plant and equipment	(viii)	(0.1)	-	(0.1)
Intangible assets	(ix)	(0.3)	-	(0.3)
Intangible assets	(x)	0.6	-	0.6
Derivative financial instruments	(i)	(4.5)	11.3	6.8
Deferred tax	(vi)	38.5	-	38.5
Reclassification of deferred tax liability to asset	(xi)	15.4	-	15.4
Trade and other receivables	(i)	(0.2)	(1.0)	(1.2)
Trade and other receivables	(ii)	3.2	(3.2)	-
		54.1	18.1	72.2
Current assets				
Trade & other receivables	(i)	(0.2)	(3.3)	(3.5)
Trade & other receivables	(ii)	0.8	(0.8)	-
Derivative financial instruments	(i)	(13.2)	45.1	31.9
		(12.6)	41.0	28.4
Current liabilities				
Derivative financial instruments	(i)	(115.9)	(57.9)	(173.8)
Deferred income	(iii)	(3.0)	(74.5)	(77.5)
Trade & other payables	(v)	0.8	(0.5)	0.3
		(118.1)	(132.9)	(251.0)
Non-current liabilities				
Derivative financial instruments	(i)	(60.3)	(19.1)	(79.4)
Deferred tax	(vi)	-	20.8	20.8
Deferred tax	(vii)	-	(5.4)	(5.4)
Reclassification of deferred tax liability to asset	(xi)	(15.4)	-	(15.4)
Provisions	(iv)	(1.4)	(11.0)	(12.4)
		(77.1)	(14.7)	(91.8)
Equity				
Loss for the year		(153.8)	-	(153.8)
IFRS transition reserve		-	(88.5)	(88.5)
		(153.8)	(88.5)	(242.3)

Notes continued

31 First time adoption of IFRS (continued)

Statement of comprehensive income
For the year ended 31 December 2014

	Notes	For the year ended 31 December 2014 £m
Revenue		
Airline traffic revenue	(iii)	(3.0)
Airline traffic revenue	(xii)	(97.5)
		(100.5)
Operating profit		
Other depreciation and amortisation	(x)	0.6
Fuel hedging	(xiii)	1.9
Airline traffic direct operating cost	(xii)	97.5
Engineering and maintenance	(iv)	0.6
Distribution, marketing and selling costs	(xiii)	6.9
Other operating costs and overheads	(v)	0.2
Other operating costs and overheads	(xiii)	11.9
Other operating costs and overheads	(viii) and (ix)	(0.4)
Other operating costs and overheads	(viii) and (ix)	0.4
		119.6
Loss on disposal of property, plant and equipment	(viii) and (ix)	(0.4)
Fair value loss on derivative	(i)	(194.3)
Fair value loss on derivative	(xiii)	(20.7)
Fair value loss on derivative	(ii)	4.0
		(211.4)
Tax credit	(vi) and (vii)	38.5
Loss for the year		(153.8)

Notes continued

31 First time adoption of IFRS (continued)

Notes

(i) Under UK GAAP the gain or loss on derivative financial instruments (fuel and foreign exchange) would not be recognised until the maturation of the contract. Under IFRS the movement in the fair value of these derivative financial instruments at each reporting date is recognised in the statement of comprehensive income. Any fair value movements after the date of conversion have therefore been recognised.

(ii) Under UK GAAP, gains or losses on interest rate swaps that were settled ahead of contractual maturities were deferred on the statement of financial position and amortised over the life of the existing hedge. In accordance with IFRS such hedging relationships are deemed non-qualifying requiring immediate recognition of any gains or losses in the income statement.

(iii) Under UK GAAP, the Group recorded a provision for unredeemed frequent flyer miles based on the estimated additional incremental cost to the Group of miles being redeemed by customers. In accordance with IFRIC 13 the consideration allocated to award credits is measured by reference to their fair value and deferred until the service obligation has been provided.

(iv) UK GAAP permitted the Group to provide for maintenance obligations on operating leased aircraft on an incremental basis over the maintenance cycle. In accordance with IAS 37 the Group is required to recognise a full liability when the obligation arises under the relevant lease terms. See accounting policies for further details.

(v) Under UK GAAP, the Group recognised lease incentives over the period to the next rent review. In accordance with IAS 17, lease incentives must be spread over the whole lease term rather than to the next rent review.

(vi) This journal reflects the deferred tax effect of the adjustments arising from the first time adoption of IFRS.

(vii) Under UK GAAP, deferred tax was provided on certain timing differences that had originated but not reversed at the balance sheet date. Under IFRS, deferred tax is provided on temporary differences based upon future recovery or settlement of assets and liabilities recognised in the balance sheet.

(viii) Certain software development costs included within assets under construction under UK GAAP do not meet the capitalisation criteria under IFRS and have been derecognised.This amount was reclassified to loss from disposal of fixed assets, beneath the operating profit line for the purposes of the statement of comprehensive income.

(ix) Certain software development costs included within intangible assets under UK GAAP do not meet the capitalisation criteria under IFRS and have been derecognised. This amount was reclassified to loss from disposal of fixed assets, beneath the operating profit line for the purposes of the statement of comprehensive income.

(x) Under UK GAAP, goodwill is amortised over its expected useful life. Under IFRS goodwill is tested for impairment annually with any necessary impairment being recognised immediately in the statement of comprehensive income. Any amortisation recognised after the date of conversion to IFRS has therefore been reversed.

(xi) The deferred tax liability moved into an asset position in 2014. This adjustment was necessary to correctly reflect the total asset and liability movements from UK GAAP to IFRS. This is a presentational adjustment.

(xii) Under UK GAAP, revenue from passenger service charges was previously disclosed on a gross basis. Under IFRS, the Group should present any revenue earned net of costs when acting as an agent to a transaction. As a result, total costs incurred were written back to the traffic direct operating cost line item and netted off against revenue.

(xiii) Under UK GAAP matured fuel and foreign exchange derivatives were previously recognised within the fuel and other operating costs and overheads line items respectively. Both items have been reclassified to fair value (losses) on derivatives such that all derivative gains and losses are recognised within a single line item on the face of the statement of comprehensive income. The Group does not apply hedge accounting.

Notes continued

32 Reconciliation between profit for the year and cash generated by operations

	Group	
	For the year ended 31 December 2015 £m	For the year ended 31 December 2014 £m
Profit/(loss) for the year	**80.1**	(138.9)
Adjustments for:		
Depreciation	**68.0**	49.7
Amortisation	**21.1**	13.3
Loss on unrealised forex	**13.9**	(2.7)
Profit on disposal of property plant and equipment and intangible assets	**(62.2)**	(10.6)
Taxation	**7.4**	(35.8)
Movement in provision for bad debts	**(0.7)**	(2.6)
Fair value movement in derivatives	**139.7**	211.0
Net interest paid	**4.5**	26.3
Exceptional items	**18.7**	-
Working capital changes:		
Inventory	**4.2**	0.8
Trade and other receivables	**29.4**	30.6
Trade and other payables	**(30.5)**	70.6
Deferred income	**50.4**	(10.2)
Provisions	**(73.6)**	(2.4)
Interest paid	**(5.1)**	(27.7)
Dividends paid	**-**	(87.2)
Income taxes paid	**(8.6)**	(4.4)
Net cash from operating activities	**256.7**	79.8

Corporate structure 31 December 2015

- **VIRGIN ATLANTIC LIMITED**
  - VIRGIN ATLANTIC TWO LIMITED
    - VIRGIN TRAVEL GROUP LIMITED
      - **VIRGIN HOLIDAYS LIMITED**
        - BALES WORLDWIDE LIMITED
        - CHECK-IN HOLIDAYS LIMITED**
        - OPENRIDE LIMITED
        - VIRGIN HOLIDAYS CRUISES LIMITED
        - VIRGIN INCOMING SERVICES INC.
        - VIRGIN VACATIONS INC.
      - **VIRGIN ATLANTIC AIRWAYS LIMITED**
        - BUG LEASING LIMITED
        - VIRGAIR LIMITED
        - CAMPDEN SECURITIES LIMITED
        - VIRGIN AIRWAYS LIMITED
        - FIT LEASING LIMITED
        - VIRGIN ATLANTIC CONSOL LIMITED
        - FORDBAR SERVICES LIMITED**
        - VIRGIN ATLANTIC ENGINEERING LIMITED
        - GREENART LIMITED**
        - VIRGIN AVIATION SERVICES LIMITED
        - JUNOPART LIMITED
        - VIRGIN FREEWAY LIMITED
        - PUBLIC EYE PROMOTIONS LIMITED
        - VIRGLEASE LIMITED
        - SPEED 5024 LIMITED
        - VIRGLEASE (2) LIMITED
        - THREESIXTY AEROSPACE LIMITED
        - VIRGLEASE (3) LIMITED
        - VA CARGO LIMITED
        - VOYAGER NOMINEES LIMITED**
        - VAA HOLDINGS UK LIMITED
          - VAA HOLDINGS JERSEY LIMITED
            - VIRGIN ATLANTIC INTERNATIONAL LIMITED
        - WORLDWIDE TRAVEL OF EAST ANGLIA LTD

Note:
All companies are wholly owned by Virgin Atlantic Limited unless otherwise indicated.
** Companies in liquidation

Glossary

Airline Passenger unit revenue (PRASK)	Our total airline Passenger Revenue divided by the number of Available Seat Kilometres.
Airline Passenger Revenue per RPK or Yield	Our measure for yield, calculated as our total airline passenger revenue divided by the number of seats occupied by revenue customers x distance flown.
Available seat kilometre	Our passenger carrying capacity, calculated by seats available x distance flown.
Constant currency	The restatement of our prior year revenue and cost at the average IATA five-day exchange rate for the current year.
Cost per available seat kilometre (CASK)	This is how much each seat on a flight costs us for every kilometre it operates.
Davies Commission	The Independant Airports Commission established under the chairmanship of Sir Howard Davies by the UK Government into the nature, scale and timing of the steps to maintain the UK's global hub status and for the options for additional runway capacity.
Departed passenger volumes	The number of customers who started a Virgin Holidays experience. They may have completed their experience after the end of the financial year.
Exceptional items	One off events that do not form part of business as usual activities. They include gains or losses on hedging, restructuring costs and some gains or losses on the disposal of property, plant and machinery.
International Civil Aviation Organisation	A specialised agency of the United Nations, the International Civil Aviation Organisation (ICAO) was created in 1944 to promote the safe and orderly development of international civil aviation throughout the world. It sets standards and regulations necessary for aviation safety, security, efficiency and regularity, as well as for aviation environmental protection.
Load factor	The proportion of seats filled by revenue passengers, weighted by distance flown.
Me and My Customer	This is a programme for our crew under our *Loved for Service* initiative. *Loved for Service* is our ambition/desire and drives the theory behind the programme.

Glossary continued

Net Promoter Score (NPS)	Our key measure of success in customer satisfaction. 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 from 0-10. The Net Promoter Score is calculated by subtracting the number of detractors (customers who respond 0-6) from the number of promoters (customers who respond 9-10).
Non-fuel unit costs	This is how much each seat on a flight costs us for every kilometre it operates once the effect of fuel price and hedging is removed.
Passenger Service System	A Passenger Service System ('PSS') is the industry term for an airline booking system. *AIR4* is the system Virgin Atlantic has chosen to replace several older software products, which support business processes as varied as customer relationship management, ticket sales, the e-commerce engine behind our website and our limo booking tool.
PBT	Profit before tax.
Reporting year	1 January to 31 December.
Return on invested capital (ROIC)	This allows us to measure whether our investments are driving the appropriate level of return for our shareholders. It's widely used within the aviation industry and we can compare our performance to our peers. It is calculated as Earnings Before Interest and Tax and exceptional items (EBIT) divided by net assets deployed, less net debt. Adjustments are made to EBIT and net assets to account for those aircraft operated under operating leases and mark-to-market movements on open contracts.
Revenue Passenger km	Our passenger revenue measure weighted for distance, calculated by seats occupied by revenue customers x distance flown.
Year on year	Comparing two financial years.
Yield	A measure of financial return.