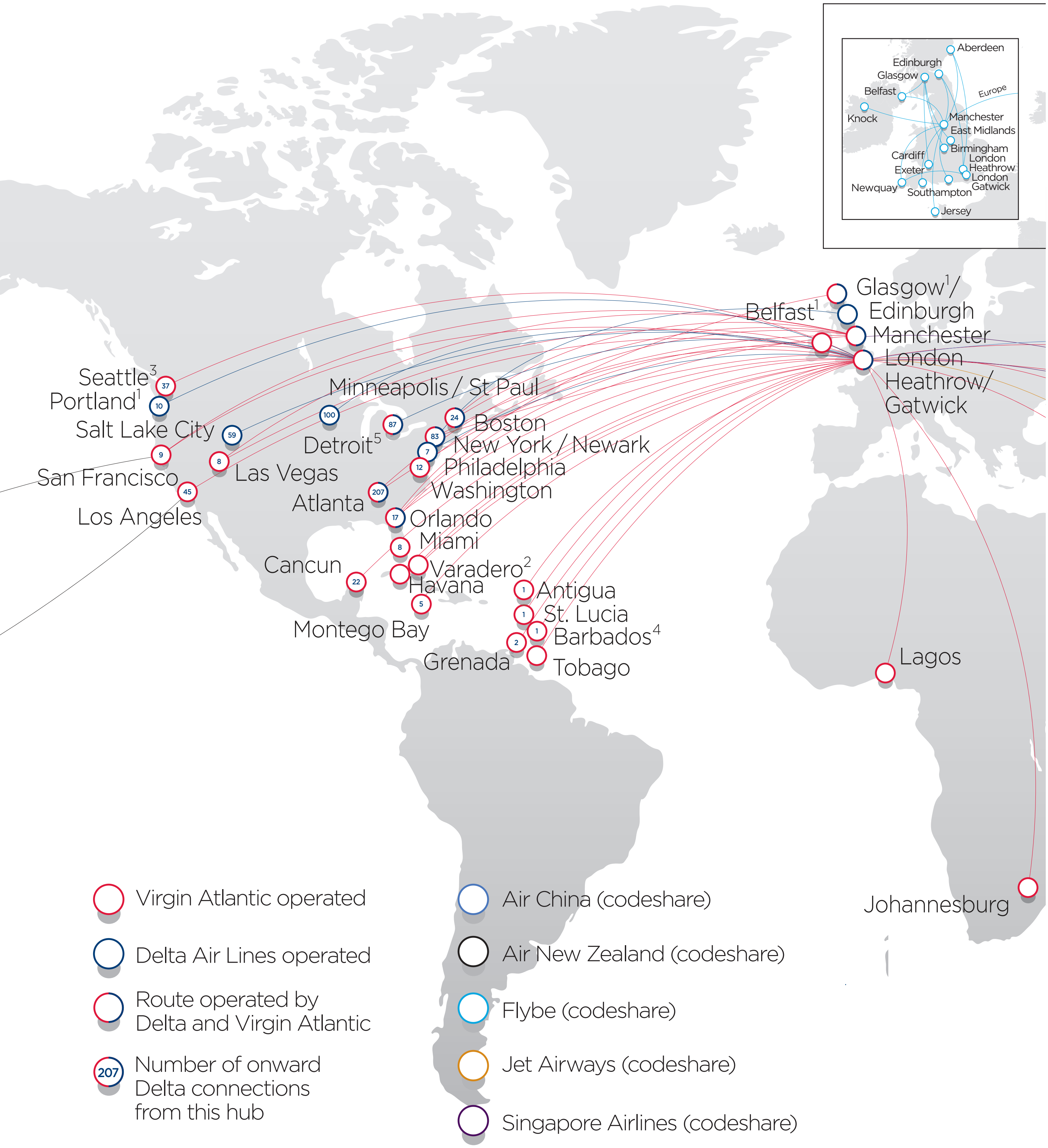
virgin atlantic

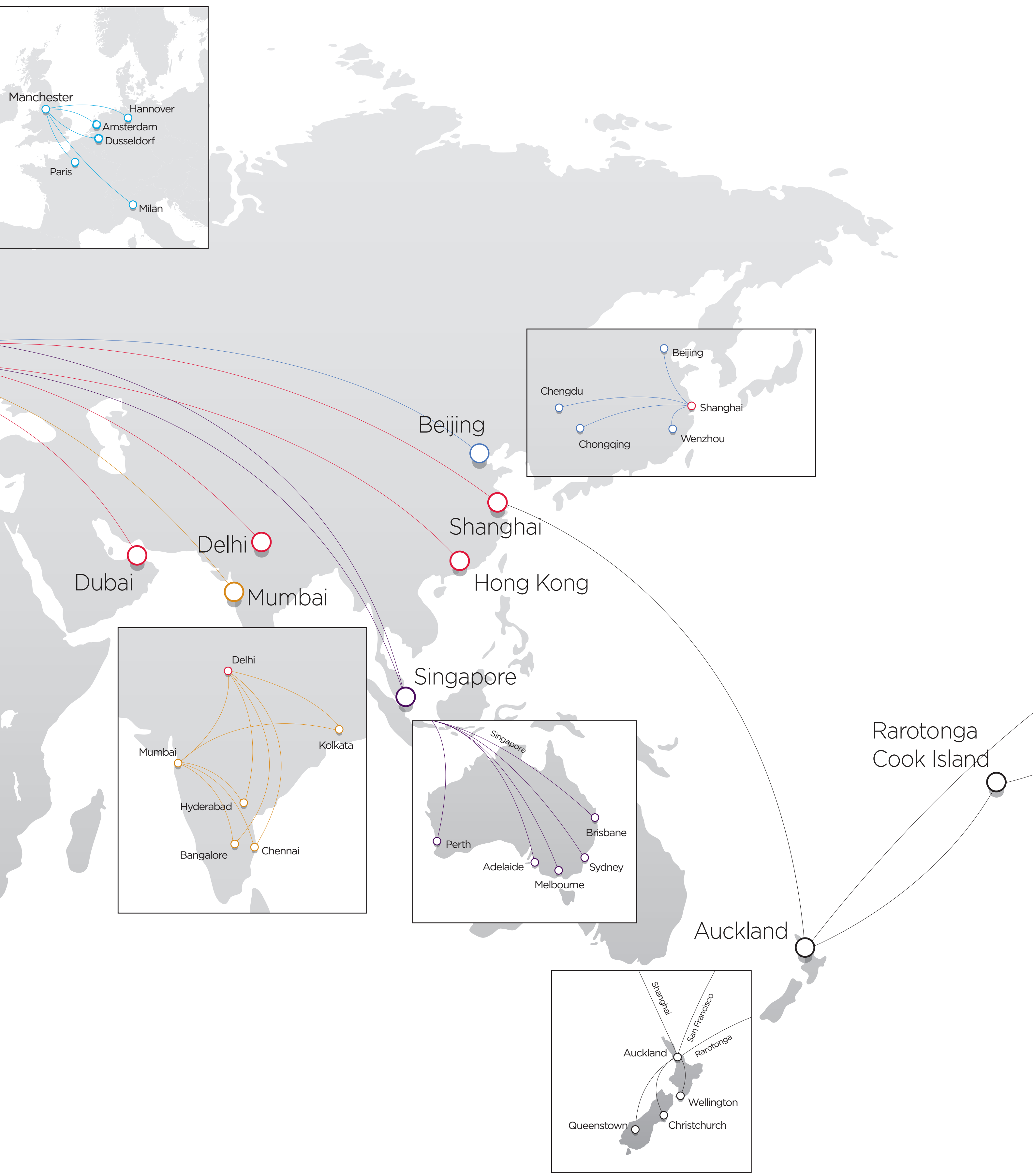
Annual report

2016

Our routes



[1] Summer seasonal service commences 26 May 2017
[2] Service available April 2017
[3] Service available March 2017
[4] London Heathrow service available December 2017
[5] Virgin Atlantic service transfers to Delta March 2017


Manchester
Hannover
Amsterdam
Dusseldorf
Paris
Milan
Beijing
Chengdu
Shanghai
Chongqing
Wenzhou
Beijing
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Delhi
Dubai
Mumbai
Hong Kong
Delhi
Mumbai
Kolkata
Hyderabad
Bangalore
Chennai
Singapore
Singapore
Perth
Brisbane
Adelaide
Sydney
Melbourne
Rarotonga
Cook Island
Auckland
Shanghai
San Francisco
Rarotonga
Auckland
Wellington
Queenstown
Christchurch

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

Cover images From top, clockwise: London Heathrow Terminal 3 Zone A - Check in serving our customers with flair, Captain Andrew Holden, Upper Class Suite, Virgin Holidays v-room, London Heathrow Terminal 3 Zone A - Entrance following the co-location of Delta into Terminal 3, Crew PlanIT - A tablet device and app to help our crew give an even more personal service, VHQ - Our new office for Virgin Atlantic Airways and Virgin Holidays, Virgin Atlantic crew - The Base (centre)

2016 Highlights

Customers

Our focus is always for the customer, with flair

Safety

With our absolute focus on safety and security, we kept our position in airlineratings.com's global top 20 safest airlines for 2016.

5,436,000

We flew 5,436,000 customers on 21,883 flights to 26 non-stop destinations.

81%

We achieved an improvement of five points in On Time Performance (OTP) with 81% of flights arriving within 15 minutes of schedule.

Fleet

We have continued to modernise our fleet, taking delivery of a further four new, fuel efficient Boeing 787-9 aircraft and placed an order for 12 Airbus A350-1000 aircraft. We have reduced our total aircraft CO_2 emissions to 4.04m tonnes, an 8% reduction on last year, and a 22% reduction since our base year, 2007.

Network

We launched a new codeshare with Flybe adding 18 new destinations in Europe. We increased our flights to US destinations so that approximately 81% of our flights now serve the transatlantic market.

1,500

We continue to work with our transatlantic joint venture partner Delta Air Lines, Inc. (Delta) to offer our customers the best joint offering across the Atlantic. Delta completed the co-location of its services with ours at Heathrow's Terminal 3 and together we have created more connecting opportunities to US destinations with around 1,500 passengers a day connecting between the two airlines.

341,000

We arranged 341,000 Virgin Holidays experiences for customers to visit more than 45 destinations. Virgin Holidays rose 98 places to reach 15th in the KPMG Nunwood Customer Experience Excellence ratings, to become the second highest scoring travel company for 2016.

2016 Highlights continued

People

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

500+

Over 500 people were involved in the programme team that successfully launched our new passenger service system *AIR4*, and provided training to 4,000 of our people to support them as we moved over to *AIR4*.

Virgin HOLIDAYS

90%

In 2016 90% of Virgin Holidays Sales & Service consultants completed the *"Selling At Our Best"* training. The company values were updated and successfully rolled out and embedded in the business.

£1.3m

Together, Virgin Atlantic, Virgin Holidays and the Virgin Atlantic Foundation distributed the equivalent of over £1.3m in money, time and donations-in-kind to charity, of which our people raised over £200,000 for charity through fundraising activities.

VHQ

Our new head office building, The VHQ, offers our people a new modern exciting place to work and has an excellent sustainability assessment.

2016 Highlights continued

Financial

Building on our return to profitability

£23m

Virgin Atlantic's profit before tax and exceptional items of £23.0m, up £0.5m year on year.

20%

The devaluation of Pound Sterling by 20% following the referendum vote to leave the EU led to a significant increase in our US Dollar based costs. The impact on our business in 2016 was over £50.0m.

0.6%

Our underlying non-fuel unit costs fell 0.6%, more than offsetting inflationary pressure.

20%

Our cost of fuel fell over 20% with lower oil prices, historical hedges unwinding and improved burn driven by our fleet renewal.

£19.1m

Virgin Holidays achieved an excellent performance with profit before tax and exceptional items of £19.1m, up £8.2m year on year.

526m

Our cash balance remains strong.

7.0%

Our Return on Invested Capital[1] improved by 0.2 points (pts) year on year to 7.0% for 2016.

1. 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

We continue to derive significant value from our joint venture with Delta Air Lines

I am pleased to report a profit for 2016 which represents our third consecutive year of profit and fourth successive year of improvement. Our 2016 profit on ordinary activities before taxation and exceptional items is £23m which is an improvement of £0.5m on 2015, despite a very challenging macro-economic environment.

Notably, Virgin Holidays achieved a significant increase in profit before tax and exceptional items for the second year in succession, to £19.1m (compared to £10.9m in 2015).

We continue to derive significant value from our joint venture with Delta Air Lines, Inc. (Delta) on transatlantic routes. We achieved an important milestone in our relationship in 2016, with the co-location of both airlines' flights at London Heathrow Terminal 3.

Liquidity
I am very pleased that we kept our cash reserves in line with 2015 in a year during which we purchased one Boeing 787-9 aircraft on an unencumbered basis. Our operating cash flow continues to be strong. This gives us confidence in facing an uncertain future.

Shareholder returns
In 2016 we did not pay any dividends to our shareholders.

Regulatory landscape
There is considerable uncertainty about the regulatory impact of the UK leaving the European Union. We believe it is likely that the UK Government will seek to retain current European aviation regulations as they stand, and enter into negotiations to deliver new Air Service Agreements where necessary. In particular, we expect the Government to prioritise a liberal Air Service Agreement with the United States, and we have made clear the UK should remain a full EASA member state with the ability to shape future policy.

Virgin Atlantic continues to advocate the promotion of competition in the aviation sector. We applaud the Government for reaching a decision on a new runway in the South East. We support Heathrow expansion provided that it delivers a transformative increase in airline competition for passengers and represents genuine value for money.

If the full benefits of the new runway are to be realised, new capacity must be allocated in a way that brings more choice, lower fares and better service for customers. We welcome the Secretary of State's comment that expansion "must be delivered without hitting passengers in the pocket." With passenger charges at Heathrow already the highest in the world, we believe it would be a big mistake to increase them any further. Our customers rightly expect charges to fall over time to more internationally competitive levels.

Air Passenger Duty (APD) remains the highest longhaul passenger tax in the world; double that of the next highest country in Europe, Germany. From April 2017, a passenger travelling with Virgin Atlantic will be taxed £75 in Economy or £150 in Premium Economy or Upper Class for an outbound journey. The Scottish Government has announced a plan to reduce longhaul APD by 50%, and the Scottish Conservatives have called for its abolition. They are to be applauded for seeking to develop greater connectivity to longhaul markets to boost trade and tourism. As we leave the European Union and seek to grow trade with key markets such as the USA, China and India, achieving an internationally competitive rate of APD across the UK remains an absolute priority.

Finally, we welcome the announcement in 2016 from the International Civil Aviation Organization (ICAO) Assembly of a global climate change framework for our industry which is both economically efficient and environmentally effective.

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

Chairman's Review continued

On behalf of the Board, I thank all our people for their loyalty, commitment and hard work in 2016

London Heathrow Virgin Atlantic check in

Colleagues
I would like to recognise the support and contribution of my Board colleagues during the year. In particular, I would like to thank Shai Weiss for his contribution as Chief Financial Officer and wish him well in his new role as Chief Commercial Officer. In the executive team, as a result of Shai's move, Tom MacKay has taken over as our Chief Financial Officer.

On behalf of the Board, I would like to thank all of our people for their loyalty, commitment and hard work in 2016. There were a number of unanticipated setbacks during the year, including the fall in Sterling following the EU Referendum, the Zika virus and a number of terrorist incidents. These posed significant challenges. Without the dedication of our people, the Group would be in a significantly worse position. The *Plan to Win* and *fit.nimble* programmes have been vital in strengthening Virgin Atlantic and Virgin Holidays. There is much more to do as we continue to build an airline and holiday business that delights its customers, earns an appropriate return on capital, and operates with the highest levels of safety and environmental responsibility. But we are pleased with progress, none of which would have been achieved without our brilliant people.

The Future
The unexpected events of 2016 have demonstrated the value of the actions we have taken to strengthen Virgin Atlantic, in particular, our partnership with Delta. There is more work for us to do to achieve the goal of sustained profitability, but I am confident we are on the right path and that the strong foundations laid in 2015 and 2016 allow us to face the future with confidence.

Peter Norris
Chairman
23 March 2017

Chief Executive Officer's Review

2016 was an extraordinary year in so many respects, but our team did a great job of building on the solid foundations for our future laid in 2015

Safety and security always our focus
Delivering a safe and secure operation for our people and our customers underpins everything we do at Virgin Atlantic and it is always our absolute priority.

From our management structure, which is set up with clear accountability and defined escalation channels, to our engineering and operations teams, to our pilots and cabin crew taking care of our customers in the air, it is a fundamental part of our culture. This is all underpinned by the work of our team of dedicated safety and security professionals.

This year we launched our 2016-2018 Safety and Security Plan, having successfully delivered our 2014-2016 plan. This provides the strategic vision and direction for how we manage safety and security throughout Virgin Atlantic now and in the future.

We also successfully renewed our IATA Operational Safety Audit (IOSA), achieving certification over a month ahead of expiry. The achievement supports good safety scoring by our partners, insurers, corporate customers and airline rating organisations, and we were pleased to retain our position in airlineratings.com's top 20 safest airlines for 2016.

It is the aspect of the business that matters the most to any airline CEO, and I am proud to lead an organisation of people that work tirelessly to deliver this priority. Thank you to everyone across the Virgin Atlantic and Virgin Holidays teams for their support and commitment to safety and security, first and always.

2016: An unprecedented year
2016 was an extraordinary year in so many respects, but our team did a great job of building on the solid foundations for our future laid in 2015. This meant in 2016 – the second year of our *Plan to Win* – we were able to weather the external headwinds we faced, while continuing to focus on delivering against our plan.

The fall in Pound Sterling following the vote to leave the EU negatively impacted Virgin Atlantic, as a business where our largest outgoings are in US Dollars, and much of our revenue is in Pounds. To prepare for this risk, we took steps ahead of the EU Referendum to ensure our 2016 income statement and balance sheet were mostly protected from exchange rate instability, through currency hedging. Following the result, our teams continued to innovate to mitigate against a slowdown in revenue, leading to an impact to our business predominantly due to an impact on consumer demand, amounting to approximately £50m after the effects of our hedging in 2016. We will continue to monitor the effects of Brexit negotiations as their impact is a key area of focus for us.

Despite these challenges, our team continued to deliver in all areas of our business, leading to another profitable year. We're pleased to celebrate in particular the Virgin Holidays team's record-breaking year, exceeding its budget targets and increasing its profit on ordinary activities before taxation and exceptional items by 75% year on year. Our cargo operation achieved a slight growth in volumes in a very competitive market with more capacity and competition across the Atlantic, although its yields were down. The second half of the year was better than the first and the cargo team take this good momentum into 2017.

In 2016, Virgin Atlantic flew 5,436,000 passengers on 21,883 flights to 26 destinations and carried 217,900 tonnes of cargo. 341,000 customers took a longhaul holiday with Virgin Holidays. The aim of both businesses is to serve our customers with flair, and we continue to be recognised with a loyal customer base.

A year of delivery against our *Plan to Win*
While the macro-environment was shifting around us, it was a year of incredible delivery for both Virgin Atlantic and Virgin Holidays. From the biggest business and technology transformation in our history to new distribution models and further fleet modernisation, our people have been working hard to deliver multiple transformations and new programmes to support our customers.

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Chief Executive Officer's Review continued

We opened the doors to our new head office, the VHQ, in September, and as part of the move introduced new ways of working that give our people more freedom and flexibility about how and where they work

Our people
Our ethos is to be always for the customer, with flair, and our people are at the heart of that ambition. They are our greatest strength, and critical to the ultimate success of our business, which is why people engagement is at the heart of our *Plan to Win*.

This applies to both Virgin Atlantic and Virgin Holidays, and this year we were able to bring the people of both companies together under one roof for the first time. We opened the doors to our new head office, The VHQ, in September and as part of the move introduced new ways of working that give our people more freedom and flexibility about how and where they work.

In November, the first group of our *Future Flyer* pilot cadets graduated. The pilot recruitment scheme, which aims to make a flying career accessible to all through an innovative funding solution, is now into its third year and continues to prove extremely popular, with 8,000 applications received for the 12 positions available in our latest round of recruitment.

Meanwhile, 2016 saw us invest in training and people systems, as well as in technology which supports our people in their roles. One example is the crew tablet devices we have been rolling out to our Flight Service Managers. The devices put helpful information into the hands of our people to help them deliver a more seamless and personalised service to customers.

The next phase of content is already being designed and we intend to roll the devices out more widely to our cabin crew moving forward.

Throughout 2017, we will be exploring opportunities in mentoring and performance management and Virgin Holidays will further develop its emerging leaders' programme. We'll also be focused on employee wellbeing and making further developments to our people systems and communications channels.

We are proud that our people are passionate about raising money for good causes. This year they raised over £200,000 through fundraising events; and around 90 of our people gave up their time to volunteer at WE's[3] annual youth empowerment event, WE Day. Our community investment programme continues to thrive, engaging local communities to help them build a brighter, more sustainable future. Through our onboard *Change for Children* appeal we raised £592,245 for charity in 2016.

Our customers
We are two thirds of the way through our three year £300m investment programme to enhance our customer experience, to ensure the service of our excellent people is matched by a product that gives each customer an unforgettable journey.

We made continued progress against this investment in 2016, including improvements to our food and beverage offering, upgrading the in-flight entertainment across some aircraft to ensure a consistent high quality

The VHQ

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3. WE, formally known as 'Free The Children' is a charity supported by the Virgin Atlantic Foundation.

Chief Executive Officer's Review continued

Our fleet transformation programme will see our whole fleet replaced in a decade between 2011 and 2021

experience across our fleet, and refreshing some of our seats and cabin environments. We also made changes to our reward proposition *Flying Club* to make it more rewarding for members through how they earn and use their miles.

Knowing and understanding our customers' needs is at the heart of great customer service, and in 2016 we launched our *Platform to Serve*, a new Customer Relationship Management programme. Built on the Microsoft Dynamics platform it will help our people deliver a more personalised service by aligning our customer databases, processes and systems so that information will be available at the fingertips of our teams. At the same time, we revolutionised our customer facing technology (see separate box on *AIR4*).

Operationally, we achieved our best year ever, beating all our On Time Performance (OTP) targets for departures and arrivals. This result was delivered despite challenges through the year including increased flying across all fleet types resulting in less downtime for our aircraft, and an unexpected ground handling change at Gatwick Airport. This is testament to the hard work of our teams around the business.

Overall, our customer satisfaction scores ended the year slightly below last year, although adjusting for changes in methodology during this period, they were in line and remain on track against our internal targets.

We will continue to focus on improving customer satisfaction in 2017 and beyond. At the start of this year we moved our operations at Gatwick Airport to an exciting new space in the North Terminal, with a brand new Virgin Atlantic Clubhouse and Virgin Holidays *v-room* lounge. We continue to invest in onboard connectivity and expect to have Wi-Fi across our entire fleet by the end of the year. A refreshed Upper Class Suite, which we introduced with our Boeing 787-9 aircraft, will be rolled out across all of our Airbus A330-300 aircraft.

We expect these investments, combined with maintaining our best-in-class operational performance and the continued excellence of our people, to drive an increase in customer satisfaction in 2017.

Our network and fleet

Our fleet transformation programme will see our whole fleet replaced in a decade between 2011 and 2021. In 2016, we welcomed additional Boeing 787-9 aircraft – but also looked ahead to the next chapter in our fleet modernisation story. In July, Sir Richard Branson and I attended the Farnborough Air Show to announce the purchase of 12 Airbus A350-1000 aircraft, which will join our fleet from 2019. The aircraft will provide a superior customer experience and improve fuel efficiency. It also supports our commitment to a younger and greener fleet, and is 30% more fuel efficient than the aircraft it will replace: thanks to a combination of the aircraft itself and our network planning to optimise passenger numbers and cargo loads.

Our network planning focuses on giving our customers maximum flexibility and the routes they most want to fly. In 2016, we extended some of our popular summer season leisure services, as well as increasing frequencies on other leisure routes.

Reaching new customers is an important part of our strategy, and in 2016 we were able to take our service to customers in different markets across the UK and Europe, thanks to the launch of a codeshare relationship with Flybe. One market where we're already seeing demand for connections between our two airlines is Manchester, and this forms part of our focus on making Manchester a hub moving forward. In 2017, we'll be operating new services to San Francisco, Boston and, in partnership with Delta – New York JFK. Other route changes will see a new service from Gatwick to Varadero in Cuba, launching in April, a service from Heathrow to Barbados launching in December and the start of flights from Heathrow to Seattle, also as part of our joint venture with Delta.

Chief Executive Officer's Review continued

AIR4 delivered
This year we delivered the biggest business and technology transformation programme in our history, by replacing our passenger service system. The new system marks a step change in the way we interact with our customers and provides a superior experience for both them, and our people. The changes include an enhanced website, mobile app, more self-service opportunities for customers in their bookings, and improved functionality at our kiosks. Every area of the business was involved in the implementation, which resulted in a successful cutover to the new system in November. The delivery of *AIR4* is at the core of Virgin Atlantic's technology portfolio and will enable us to enhance and grow our product and service offerings for many years to come. It also cements the Virgin Atlantic/Delta Joint Venture as the most customer-focused transatlantic airline partnership, ensuring seamless experiences for customers.

Virgin Atlantic and Delta Air Lines

Our Joint Venture
Independently rated as the top two transatlantic airlines for customer service, Virgin Atlantic and Delta offer a strong and complementary proposition to our customers. Our partnership continued to grow in 2016 with 5 million passengers flying with the Joint Venture (JV), and around 1,500 passengers connecting between the two airlines each day. We offer more than 220 connecting destinations across 634 routes, and up to 38 peak day flights from the UK to the US on the JV.

Our two airlines continue to work together to give the best customer experience. 2016 saw a milestone in our relationship as Delta co-located all of its London flights with Virgin Atlantic at Heathrow Terminal 3. Together, the two airlines keep our joint network under constant review to ensure it is delivering the best outcome for customers, and we optimised each airline's services to ensure more travel choices and flexibility.

Other benefits of the partnership include our new passenger service system, *AIR4*, (see separate box) being built on a Delta platform and delivered with its support, to provide seamless service to our JV customers; and operational resilience, with Delta able to provide recovery services to support us in getting customers to their final destination on the rare occasions that one of our aircraft becomes unserviceable.

Virgin Holidays
In late 2015, Virgin Holidays changed its distribution model to become 100% direct sale in order to provide customers with a better end to end experience. 2016 was the first full year of this new model and it proved a very successful strategy. Virgin Holidays delivered a 2% increase in booked passengers year on year, despite increased trading uncertainty due to the weakening Pound following the Brexit decision.

There were key investments that the success of 2016 can be credited to. The network of *v-room* concept stores, which take the Virgin Holidays brand to the high street, grew in 2016 with the opening of a further three stores. The *v-room* stores have proved extremely successful and bring our brand and the holiday experience to the high street allowing customers to relax and immerse themselves in the Virgin Holidays experience. These stores were supported by some amazing new products such as *Wonderlist* and *Virgin Holidays Experiences*. Meanwhile, significant website improvements enhanced the customer offering for those booking online and that's already translating into higher booking conversion rates. Virgin Holidays is connecting directly to more suppliers giving our customers a greater choice of product. Virgin Holidays also launched its biggest brand refresh in its 31-year history with its

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Chief Executive Officer's Review continued

2017 is a year in which we expect to face an operating environment where many of the challenges of 2016 continue

new campaign, *Seize the Holiday*. The live TV advert that launched the new brand campaign won Marketing Week's Campaign of the Year 2016.

Moving forward, we expect to develop and grow product integration between Virgin Holidays and the airline, as the two brands within our company continue to work ever more closely together in our new joint head office. It will include the adoption of a joint approach to Customer Relationship Management to provide a more joined up customer journey.

By increasing the level of collaboration between our talented teams at the airline and Virgin Holidays, we will enhance our capability to offer a strong, value-led proposition to our leisure customers.

2017: Further challenges ahead
As we enter the third year of the *Plan to Win*, our four year business plan to deliver long term success, we remain committed to its objectives. We remain focused on delighting our customers, engaging our people, ensuring strong returns on our investments and on delivering an enduring Virgin Atlantic that is profitable for the long term.

2017 is a year in which we expect to face an operating environment where many of the challenges of 2016 continue. While we cannot be sure what impact we will see as the UK begins the process of leaving the European Union, or from changes to political leadership in other parts of the world, we will work hard and focus on the factors we *can* control.

As regards revenue, we will be focused on increasing the earning potential of the airline in face of increased capacity from low fare longhaul competitors and the weakened Pound. We are focusing on remaining true to who we are - a full service carrier, loved by our customers and exploiting the full power of our JV both in the UK and the US. Our relentless focus on costs is paying off and we are now even more resolute to improve our commercial performance. Meanwhile, our team at Virgin Holidays is using its deep knowledge of our customers' favourite destinations to enable customers to curate unique and personalised holidays.

We will continue to win in our core package holiday market by maintaining our differentiated offering and outstanding customer service, and address the rising consumer interest in more experiential holidays by broadening and deepening our *Virgin Holidays Experiences* proposition.

We are sensibly managing our capacity, fleet and network, and have already announced capacity reductions for 2017 to offset demand challenges. We will continue to challenge ourselves on cost, and will continue our business transformation, which will deliver further savings of £50m in 2017 and continue to position us well to deal with future headwinds. Virgin Holidays will continue to reduce its selling and overhead expenses, using technology to further optimise distribution.

Thank you to our people
While the uncertain external environment and macro-economy mean that we will need to review our specific fiscal targets, the ambitions of our *Plan to Win* remain unchanged. Significant progress was made and many projects delivered across our business in 2016, and I'd like to thank each and every one of the Virgin Atlantic and Virgin Holidays teams for their contributions. We will continue to look out for each other so we can delight new and loyal customers, whatever the external environment may bring.

Craig Kreeger
Chief Executive Officer
23 March 2017

Chief Financial Officer's Review

Profit before tax and exceptional items improves by £0.5m year on year to £23.0m

2016 continued our trend of profitability. This was despite consumer uncertainty impacting our business. We were exposed to the 20% drop in the strength of Pound Sterling against the US Dollar between the EU Referendum outcome and the end of 2016. Our largest outgoings are mostly paid in US Dollars, while the greatest proportion of our revenue is in Pounds. The higher cost for UK customers of being overseas reduced demand further.

To prepare for the risks arising from a Brexit result, we took steps ahead of the EU Referendum to ensure our 2016 income statement and balance sheet were mostly insulated from exchange rate volatility, through currency hedging. Even despite these actions, the associated adverse impact to our business of the currency movements, predominately due to an impact on consumer demand, was approximately £50m in 2016.

Result highlights[4]

- Profit before tax and exceptional items[5] improves by £0.5m year on year to £23.0m (statutory profit before tax of £231.6m, up from the £87.5m profit before tax achieved in 2015)
- Total revenue for the year down 3.3% (£92m) driven by Airline passenger unit revenue down 4.3% (at constant currency)
- Airline operating costs have been further reduced year on year by £225m, driven by fuel cost reduction of £191m
- Underlying non-fuel unit costs (excluding the costs associated with the delivery of *AIR4*) are 0.6% better year on year, on 2.5% less capacity
- Virgin Holidays saw a year on year improvement of over 75.2% (£8.2m) in profit before tax and exceptional items in 2016 to £19.1m (statutory profit before tax of £29.3m, up from the £1.6m loss before tax made in 2015)
- Cargo tonnage increased by 1.8%
- Cash and cash equivalents remained steady year on year at £526m after the purchase of one Boeing 787-9 aircraft unencumbered
- EBITDAR improved by 11% year on year
- Return on invested capital improves 0.2pts to 7.0%[6]

Airline passenger revenue

2016 saw a significant increase of 6% in market capacity across the transatlantic driven predominantly by low fare carriers.

Despite this, our load factor was up 1.9pts to 78.7% as the network changes we made in 2014 mature. Yield declined 5.9% driven by a combination of lower fuel prices being passed on to customers and supply/demand imbalance leading to market fare reductions. These factors lead to an overall reduction in airline passenger revenue of £121m year on year, a reduction in unit passenger revenue of 3.4%.

During the year we continued to optimise our fleet deployment moving our Boeing 787-9 aircraft to our longer routes and thereby maximising the cost savings achieved by these aircraft.

Following the Brexit vote we saw bookings decline which materially impacted the second half of the year. However, we were still able to grow our UK point of sale market share by 6.5pts to 44.4% in the second half of the year.

Cargo revenue

Cargo revenue declined 15.9% primarily driven by overcapacity in the market and the weakness of the Pound which put pressure on price and meant our yields were down 17.2% year on year. Overall we saw modest growth in volume of 1.8% through the year with a particularly strong tonnage performance from Europe, USA, Caribbean and the UAE. The impact of the US West Coast port strike in early 2015 meant overall trading was significantly softer through the first half of 2016 but we saw significant improvements in demand across the network as we moved through the summer months. This was sustained through the remainder of the year and meant we began to see the pricing environment stabilise.

Overall our market share position continues to improve, particularly in the USA where we have being growing aggressively over the last 12 months. A focus on growing our premium product offering, leveraging partnerships and improving salesforce effectiveness have all contributed significantly to the relative performance improvement through a very challenging year.

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4. Comparatives to 2015, with the exception of profit before tax and exceptional items are made on a constant currency basis.
5. Exceptional items are one off events that do not form part of business as usual activities. For this reason our measure of profit is profit before tax and exceptional items. They include the reclassification of gains or losses on hedging, restructuring costs and some gains or losses on the disposal of property plant and equipment. The significant fluctuations in fuel price and foreign exchange and the resulting hedging gains or losses would distort our view of underlying performance.
6. 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 fuel hedging policy to reduce our exposure to the volatility of oil prices. The policy allows Virgin Atlantic to hedge out to a medium term horizon in declining percentages. During 2016 Brent crude prices rose 52% (from $37/barrel on 1 January to $57/barrel).

- In 2016 we made realised hedging losses of £179m (which was down from £198m in 2015) as we still had historic hedging at higher levels preventing us from benefitting fully from the lower oil prices seen at the beginning of the year. With the unwinding of historic trades and revised hedging policy, we expect these losses to reduce significantly in 2017.

Virgin Holidays *v-room* store, Lakeside

Virgin Holidays
Virgin Holidays has seen profit before tax and exceptional items continue to grow in 2016 to £19.1m, a 75.2% increase on the prior year. Departed passengers increased by 4.9% year on year driving an increase in gross margin of 18%. The closer working relationship with Virgin Atlantic saw departed passengers into North America increase year on year by 8%.

We also continued to focus on finding further cost efficiencies, while investing in strategic projects such as *v-room* retail stores, website enhancements, direct connections and *Virgin Holidays Experiences*. Gross margin of 11.4% was higher than the 10.2% achieved in 2015 as a result of higher passenger volume and margin. Operating profit as a proportion of revenue has also increased to 3.0% from 1.8% in 2015.

Operating costs
Airline operating costs before exceptional items have reduced year on year by £225m, driven by falling fuel prices (including the cost of hedging) and improved operating efficiency.

We have removed over £60m of cost from the business through *fit.nimble* savings and further tactical cost activity. Airline unit operating cost improved by 7.2% year on year.

Fuel cost
On a unit basis, fuel costs fell by 21.8% mainly driven by fuel prices with a reduction from 2015 average Brent crude spot price of $54.4/barrel, to an average of $44.6/barrel in 2016. On a capacity reduction of 2.5%, fuel burn was 8.7% lower than prior year driven by the continued modernisation of our fleet with four Boeing 787-9 aircraft joining us and four, four engine aircraft being retired.

Non-fuel cost
Our underlying non-fuel unit costs are 0.6% better than 2015 on 2.5% less capacity. Including the non-fuel cost associated with the delivery of *AIR4*, non-fuel unit costs are 0.1% higher year on year. We have mitigated inflationary pressure and capacity reductions through savings from *fit.nimble*.

Aircraft ownership costs
We took delivery of four new Boeing 787-9 aircraft during 2016, taking our total Boeing 787-9 aircraft fleet to 13 so far and representing a third of our fleet. These arrivals as well as the disposal of several of our older aircraft brought the average age of our fleet down from eight to seven years. Furthermore this has increased the number of owned aircraft as we move towards our target for ownership of approximately 50% of our aircraft fleet, which will lead to lower ownership costs.

Chief Financial Officer's Review continued

We continue to improve our capital structure and the current low interest rate environment enabled us to secure long term financing

	31 December 2016	31 December 2015
EBIT[7]	**£41.3m**	£27.0m
EBITDAR[7]	**£358.1m**	£321.5m
Leverage	**4.0x**	4.0x
Net debt	**£1,417.2m**	£1,286.7m
Liquidity	**21.1%**	21.4%

These changes along with optimisation of our flying programme enabled us to improve our operational resilience by maintaining a spare aircraft at Gatwick throughout the year. During 2016 our increased collaboration with Delta also supported our network resilience and performance.

Cash flow and Financing

We continue to improve our capital structure and the current low interest rate environment enabled us to secure long term financing.

This supported us in continuing to invest in creating one of the youngest fleets in the sky as we purchased two of the four new Boeing 787-9 aircraft and also invested in *AIR4*, Virgin Atlantic's largest ever technology project.

The £220m inflow from the senior secured note financing transaction in late 2015 allowed us to purchase one Boeing 787-9 aircraft outright in March 2016.

Total cash (including restricted cash) fell £27m as cash generated from operations of £390m* was more than offset by £342m* outflows from investing activities and £75m outflows from financing activities.

Our first JOLCO[8] was completed in April 2016 and used to finance one Boeing 787-9 aircraft which had been delivered in 2015. For the four new Boeing 787-9 aircraft brought into service in 2016 we entered into two operating leases and purchased two outright.

Outlook

We made significant progress against our *Plan to Win* with the delivery in 2016 we have mentioned.

2017 will be a challenging year due to volatility in the macro-environment. With a weaker Pound and excess supply in the market, I anticipate a challenging year for revenues. We have a number of initiatives to address this. In addition to providing better propositions to our customers, the new *Flying Club* proposition and further opportunities to adapt our product and service offerings to better match customer values gives me confidence in our future. We are also targeting significant growth from our US point of sale as we anticipate increasing demand for travel from the US to UK.

We will continue to practise strong cost control with the delivery of further savings from *fit.nimble* and other tactical initiatives and through a significant reduction in fuel hedging losses arising under our revised fuel hedging policy.

Virgin Holidays continues to focus on passenger growth through 2017, supporting the airline by increasing share of plane and revenue. We are continuing to invest in the long term growth of the business specifically in experiential travel, cruise and Virgin Vacations.

Longer term we have already taken steps towards achieving further cost efficiencies by securing forward orders for 12 Airbus A350-1000 aircraft. I am confident that through these initiatives to manage our performance, engage our people and delight our customers, we are now well placed to achieve our goal of building a sustainably profitable business.

Tom Mackay
Chief Financial Officer
23 March 2017

7. Before exceptional items
8. Japanese Operating Lease with Call Option (JOLCO).

*Please refer to the Addendum to the notes to the statutory financial statements on page 91 for the correction of a cash flow presentational error.

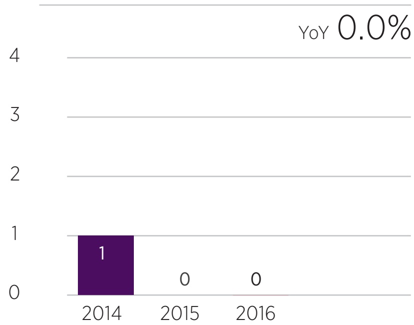
Key Performance Indicators

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[9].

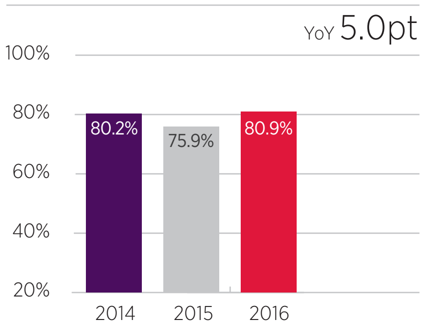
Number of incidents



Customers

Always for the customer, with flair.

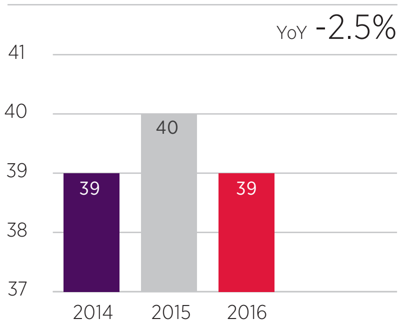
On time performance (A15)



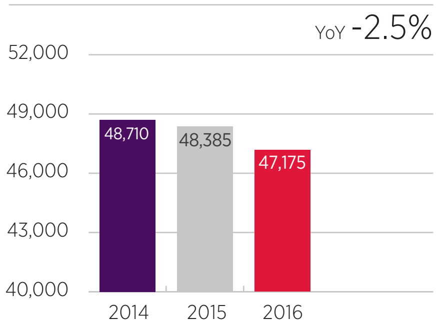
Capacity

Disciplined approach to managing our capacity.

Aircraft



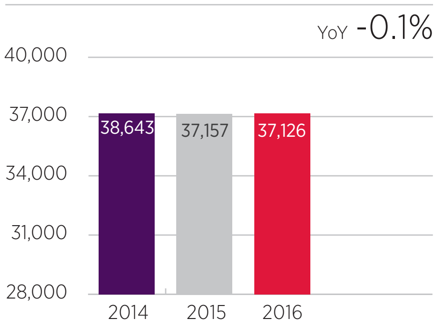
Available seat kilometres (ASK) (m)



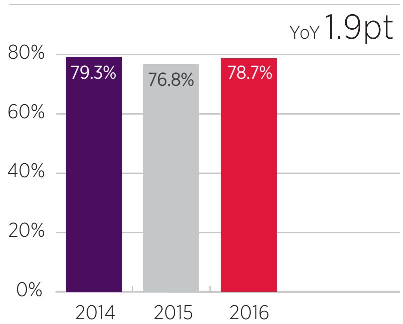
Passengers

Load factor was strong despite increased market capacity.

Revenue passenger kilometres (RPK) (m)



Passenger load factor



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

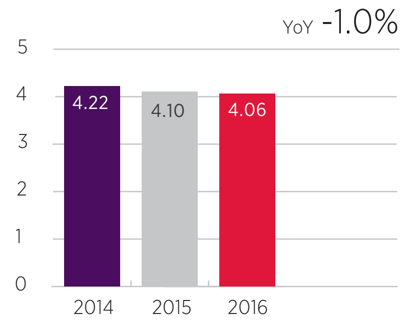
Key Performance Indicators continued

Airline financials[10]

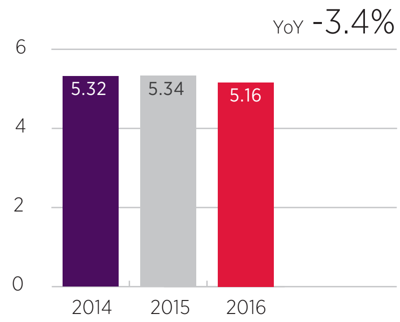
Passenger revenue

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, (p)



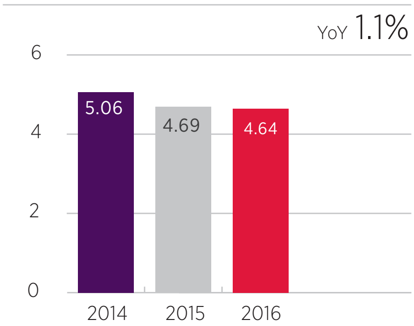
Airline passenger revenue per RPK (p)



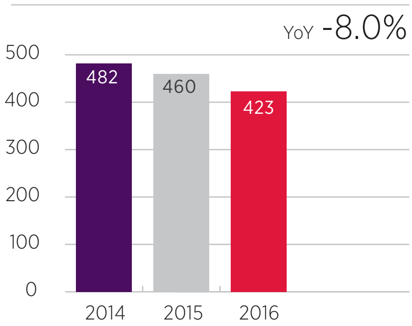
Airline costs

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)



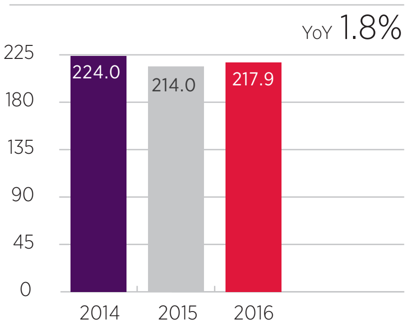
Fuel consumed (USG) (m)



Cargo

Growth in volume with a particularly strong tonnage from Europe, USA Caribbean and UAE.

Cargo tonnage (kg) (m)



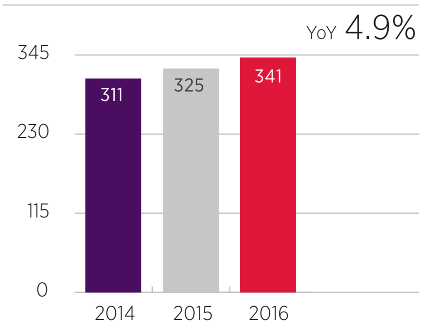
10. Not restated at constant currency

Key Performance Indicators continued

Virgin Holidays

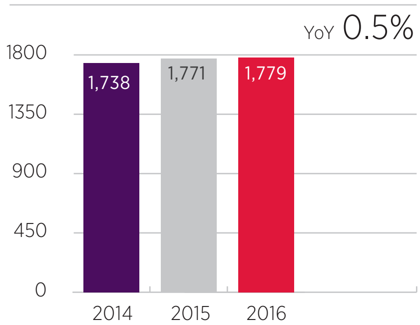
Passengers
We delivered growth across all key regions.

Inclusive tour passengers (000)



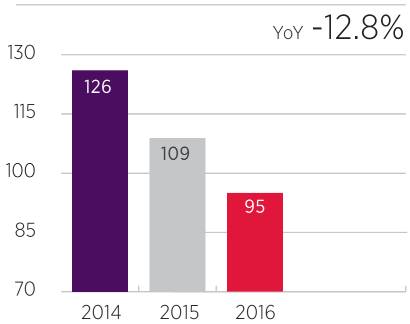
Revenue[11]
Investment in product is generating higher revenues.

Tour Operator revenue per passenger (£)



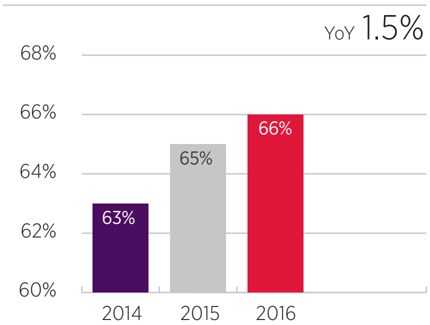
Retail stores
Continue to optimise the number of retail stores and concessions.

Number of retail outlets



Brand consideration
The percentage of customers who would consider booking their next long haul holiday with Virgin Holidays.

Brand consideration (%)



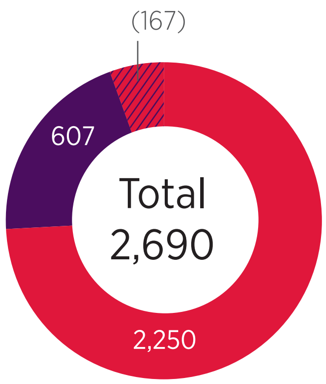
11. Not restated at constant currency

Key Performance Indicators continued

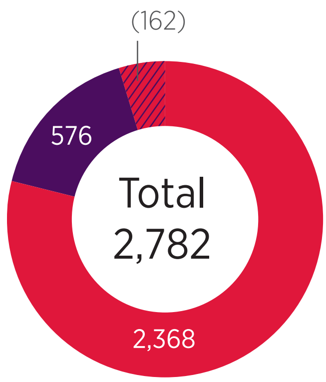
Summary financial results[12]

Turnover by activity

Year ended 31 December 2016 (£m)

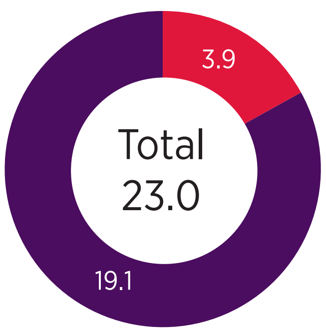


Year ended 31 December 2015 (£m)

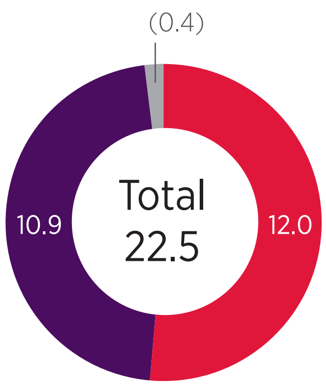


Profit before tax and exceptional items

Year ended 31 December 2016 (£m)



Year ended 31 December 2015 (£m)



- Traffic
- Holiday tour operations
- Intra-group eliminations

12. Not restated at constant currency

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 created 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 affect customer loyalty and likelihood of them travelling with us 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 actions are taken.

Government intervention
Regulation of the aviation and tour operator industries is increasing and covers many of our activities, including safety, security, route flying rights, airport slot access, 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.

There is currently uncertainty over the regulatory impact of the UK leaving the European Union. Whilst it is likely that the UK Government will retain current European aviation regulations as they stand, and enter into negotiations to deliver new Air Service Agreements where necessary, the outcome of these negotiations is not certain.

Globally, we continue to assess political risk and work with Governments across the world to limit any potential regulatory impact on our operations.

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

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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.

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. The directors have delegated powers to the Financial Risk Committee to ensure that the policies and objectives are fully implemented in line with their approved policy.

The financial risk management policies outline our approach to market risk (including foreign currency risk, interest rate risk and fuel price risk), credit risk, capital risk and liquidity risk. Group Treasury carries out financial risk management within the parameters of the approved policies.

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 financial risk management policies.

Our business activities expose us to market risks arising from changes in interest rates on floating rate debt and cash investments. We monitor this risk by calculating the potential movements in interest costs as a result of fluctuation in interest payments. The majority of our loans and operating leases are on a fixed interest rate basis although to the extent necessary we will enter into hedging arrangements to provide a degree of certainty for future financing costs and to reduce volatility of cash flows.

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 by matching receipts and payments in individual currencies. Where there is a predicted exposure in foreign currency holdings, we use a limited range of hedging instruments approved under the financial risk management policies.

Some of the overseas countries in which we trade impose exchange controls to regulate the flow of money. This creates the risk that repatriation may be constrained 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 both operational and financial to minimise the value of these funds.

Fuel price risk
Our fuel hedging policy aims to protect the business from significant near term adverse movements in the jet fuel price, while maintaining an element of price participation when fuel prices are favourable. In implementing the strategy, the fuel hedging policy allows for the use of derivatives available on the over-the-counter (OTC) markets with approved counterparties.

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Principal Risks And Uncertainties continued

Credit Risk
We are exposed to credit risk to the extent of non-performance by our counterparties in respect of financial assets receivable. Credit risk management aims to reduce the risk of default by diversifying exposure and adhering to set limits on credit exposure to counterparties based on their respective credit ratings. Counterparty credit quality is verified before trading on credit terms and exposures are regularly reviewed and if outside of the acceptable tolerances, management will make a decision on remedial action to be taken.

Derivative financial instruments
We use derivative financial instruments selectively for financial risk management purposes. Our policy is not to trade in derivatives but to use these instruments to hedge anticipated future cash flows. 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 actual 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.

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

Change is in the Air is the name we give to our sustainability programme because we believe that sustainability means changing things for the better. It includes our environment, supply chain and community investment programmes and reaches throughout our business, because sustainability is delivered by everyone.

We naturally focus on our biggest environmental and social impacts. As an airline, we're clear that fuel and carbon efficiency is our number one environmental priority. But it doesn't stop there. We work across many other areas that are important to our customers and our people, like considering what we buy and how it is designed, along with addressing aircraft noise, our ground operations, and waste reduction and recycling.

2016 saw a crucial climate agreement reached for global aviation, by the UN special agency ICAO and worldwide nation states. The negotiations, to put in place the world's first carbon offsetting scheme for any global sector, had the backing of the aviation industry. In 2008 we helped establish the international industry group Aviation Global Deal, which campaigned for a global carbon market based measure for aviation. So we are delighted at the progress that has been made, and will continue to support this important mechanism that is expected to raise $billions for high quality carbon reduction projects around the world.

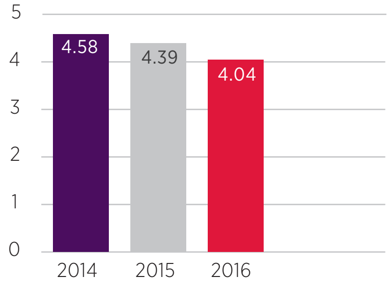
Environment
Aircraft fuel use accounts for more than 99% of our direct carbon emissions and it's also the single biggest cost to our business, so it's a double win to address it. The best place to start is with the aircraft themselves.

We've continued to evolve our fleet, adding four more Boeing 787-9 aircraft during 2016 taking our total to 13. Over the coming years, we plan to take four more Boeing 787-9 aircraft, and from 2019 we'll add the Airbus A350-1000 aircraft to our family. The Boeing 787-9 aircraft are proving to be around 30% more fuel efficient than the aircraft they are replacing. We expect a similar performance from the Airbus A350-1000 aircraft through a combination of the aircraft and engine efficiencies as well as detailed network planning to optimise passenger numbers and cargo loads.

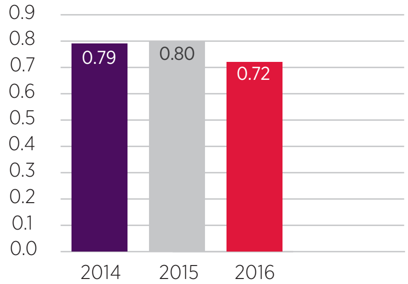
2016 saw a continuing reduction in total CO_2 emissions from our fleet. The chart below shows they were 4.04m tonnes in 2016, an 8% reduction on last year, and a 22% reduction since 2007. Our overall efficiency has also improved, with a reduction of 17% in our CO_2 per revenue tonne kilometre since 2007. It's great to see the impact our new fleet investments have had on our aircraft emissions.

As well as new and more fuel efficient aircraft, we've implemented a number of fuel saving initiatives. For years we've been watching our onboard weight, optimising aircraft cleaning and maintenance and advising our pilots how to fly more efficiently. For example, in 2016 we published reports of our study to better communicate standard fuel efficiency information to our pilots. We were delighted to find that in eight months our pilots have saved 21,507 tonnes of CO_2, that's 6,828 tonnes of fuel and more than £3 million for the business (approximately £1 million at current fuel prices).

Total Aircraft CO_2 Emissions (tonnes) (m)



CO_2 (kg) per Revenue Tonne Kilometre



Change Is In The Air – Our Sustainable Business Programme continued

Over the last three years we've made real progress on the sustainability of our catering operations globally, supported by the Sustainable Restaurant Association

How we power our fleet in the future will lead to the next big drop in our carbon emissions. In pursuit of a commercial, low carbon jet fuel solution, we've been working with the cleantech company LanzaTech since 2011, on its process to convert industrial waste gases into jet fuel. LanzaTech's technology has a fantastic sustainability profile with life cycle carbon savings of over 75%, with few food, land use or water competition issues. In addition, the first batch of jet fuel was produced recently and LanzaTech is tracking well towards commercialisation. We're working with Boeing and other industry partners to complete the fuel testing, review and approvals process required before the fuel can be used routinely in commercial flights.

As well as flying our customers around the world, we serve millions of meals and buy a huge number of products and services, from aircraft to headsets to office paper. To do this, we're working with our buyers and suppliers to improve the human, environmental and animal welfare credentials of the products we source.

Over the last three years we've made real progress on the sustainability of our catering operations globally, supported by the Sustainable Restaurant Association. Together, we've been asking our suppliers to meet a number of challenging criteria: sourcing fair trade products and ensuring employment rights for workers, promoting higher animal welfare standards, and sourcing sustainably certified fish, seafood, beef, soy and palm oil, or finding better alternatives. Through this partnership, we have developed full visibility and traceability within our onboard catering supply chain. Our biggest caterer by far, Gate Gourmet UK, serves 50% of our flights and is now fully compliant with our standards. During 2016, audits showed that four more caterers have met our standards, with other suppliers making significant progress.

To reach further into human rights issues in our supply chain we've joined Sedex, a membership scheme that helps companies understand, assess, audit and improve practices, environmental performance and business ethics. We'll use this information to focus on more key suppliers, seeking evidence of the practices we demand in our Responsible Supplier Policy. We'll be publishing more details in June (in accordance with the Modern Slavery Act 2015), and in our 2017 *Change is in the Air* report.

In 2016 we feathered a new nest, and the Virgin Atlantic and Virgin Holidays teams began moving in together at 'The VHQ' - our new head office building in Crawley. The VHQ base build has already been rated excellent by BREEAM (BREEAM is the world's leading sustainability assessment method for master planning buildings). Sustainable features include a full building management system, LED lighting throughout and heat-pump technology (to remove the need for gas heating). The data we've logged so far shows some great energy savings compared to our older head office buildings, which we'll vacate during 2017.

The progress of our *Change is in the Air* programme was shown in our Carbon Disclosure Project (CDP) scores for 2016. CDP is a global disclosure system where businesses assess the environmental impacts of their operations. We scored a 'B' (Management) for our Climate Change assessment, which has improved year on year since 2011. We also achieved an A- (Leadership) in the Forests assessment, which looks at how we manage products at particular risk of driving deforestation (such as soy, palm oil, timber and cattle products). The average for our sector is C, so we are pleased with our performance but will continue to strive to improve across the board.

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 distributing funds raised through our community investment programme including Change for Children, the airline's on-board charity appeal, and annual staff fundraising activity.

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'. Over two decades, Free The Children has evolved from a group fighting child labour into a powerful movement dedicated to change: at home, abroad and within each and every one of us and has now changed its name

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Change Is In The Air – Our Sustainable Business Programme continued

Each year we support WE Day, WE's flagship event, and on 9 March 2016, 12,000 students and teachers from schools across the UK arrived at The SSE Arena as a celebration of positive change

WE Day 2016

to 'WE' to reflect its broader focus. Since 2010 this partnership has inspired employees, partners and customers to raise over £5m for projects in the UK and overseas.

Through *Change for Children*, VAF has funded a number of WE's initiatives both domestically and abroad. This includes 'Be The Change', part of their year-long UK WE Schools programme. Be The Change provides free educational resources and support to students aged 7 to 18 years, enhancing the curriculum and empowering students to discover the causes they care about, and then providing the tools to enable them to take action and make a difference. Since 2010 Be The Change has had an impact on over 80,000 students at over 400 schools.

Each year we support WE Day, WE's flagship event, and on 9 March 2016, 12,000 students and teachers from schools across the UK arrived at The SSE Arena as a celebration of positive change. Hearing an amazing line up of speakers and performers, including singer and actress Rita Ora, Professor Brian Cox and Princess Beatrice of York, the students were encouraged and inspired to take action.

WE's international development programme, WE Villages, focuses on delivering long-term change to communities in poor, remote and rural areas. Poverty isn't the result of a single cause – if you tackle one issue, the cycle of poverty will persist, regardless of the money and resources invested. WE Villages addresses the five primary causes of poverty – lack of access to water, education, food, healthcare, and economic opportunity – in tandem, empowering these communities to be self-sustaining in the long term, and rely less and less on foreign aid.

And who could forget our incredible people, who raised over £200,000 in 2016. Over 300 of our staff and their families and friends took part in staff led *'adventures'* and lived the motto *'have fun, do good'*. These range from cycling through South Africa to climbing mountains in Transylvania. As well as crazy adventures, our people also raise tens of thousands of Pounds every year through staff sales, bake offs and the renowned *Virgineers Golf Day*.

We publish an annual sustainability report in June, which contains all the latest information on our progress in both environment and community investment. For the latest sustainability reports and updates visit www.virginatlantic.com/changeisintheair.

The Strategic Report was approved by the Board of Directors on 23 March 2017 and signed by order of the Board by

Ian de Sousa
Company Secretary

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 Commercial Officer, who are full-time employees of the Group. In addition the Chief Financial Officer has been appointed as alternate director to the two executive directors and is also a full-time employee of the Group.

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

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

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

For the year ended 31 December 2016 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.

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

When he took up this position, Peter had over 35 years' experience in investment banking and business management having worked at both Barings and Goldman Sachs, before establishing a corporate finance business which in 2007 he merged with AIM listed merchant bank Quayle Munro Holdings Plc, and remains a senior adviser.

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.

Away from Virgin, Gordon acts as a Senior Advisor to private equity firm, Searchlight Capital as well as serving as an independent non-executive director on the Board of John Swire & Sons, London and its Green Investments subsidiary.

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.

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

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Governance Board of Directors continued

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

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.

Nathaniel Pieper
– Non-Executive Director
Nathaniel (Nat) Pieper serves as Senior Vice President-Europe, Middle East and Africa for Delta Air Lines. 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. 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. His role included service 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.

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.

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

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

Dwight earned his B.A. in Business Administration from Morehouse College and a MBA from Duke University – The Fuqua School of Business.

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Governance Board of Directors continued

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

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

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

Shai accepted the position as Chief Commercial Officer from 1 January 2017, and now oversees a team responsible for Virgin Atlantic's international marketing, network and alliances, revenue management, sales and loyalty. Shai is also responsible for developing the airline's long term strategy as well as its transformation programme aimed at becoming an even more agile and nimble carrier.

Shai has extensive financial and operational expertise. Prior to joining Virgin Group, he held several senior management positions at ntl:Telewest (now Virgin Media), the UK and Europe's largest cable operator. Prior to ntl, Shai established the European office of early-stage technology venture fund JVP and was a senior associate with Morgan Stanley.

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

After the year ended 31 December 2016

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

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

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

He is a Chartered Accountant, holding an MEng in Civil Engineering from Durham University.

Group Company Secretary

Group Company Secretary
Ian de Sousa is the Group Company Secretary and 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 Risk and Insurance teams. Ian is a Fellow of the Institute of Chartered Accountants in England and Wales and holds a BSc in Economics.

Committees of The Board

Safety Governance

Joint Venture Steering Committee

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 2016 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 on 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 2016 the Committee members were Peter Norris (Chairman), Ian Woods, Edward Bastian and Glen Hauenstein. The Committee meets as required.

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

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

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

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

Joint venture steering committee
The 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 2016. The comparative amounts are stated for the year ended 31 December 2015.

Pages 1 to 35, inclusive, of this annual report comprise the directors' report that has been drawn up and presented in accordance with English company law and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

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

Directors and directors' interests

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

Sir Richard Branson
(President)

Peter Norris
(Chairman)

Gordon McCallum

Ian Woods

Edward Bastian

Glen Hauenstein

Nathaniel Pieper

Craig Kreeger

Shai Weiss

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

The director appointed after the year was as follows

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

Share based payments: Long Term Incentive Plan

Virgin Atlantic has a Long Term Incentive Plan 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) plan can be found in note 8.

Results, business review and future developments

The results of the Group for the year are set out on page 37 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 (2015: paid £nil). The directors did not declare or pay interim ordinary dividends in respect of the year ended 31 December 2016 (2015: paid £nil).

The directors recommend that no final ordinary dividend be paid in respect of the year ended 31 December 2016 (2015: £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
During the year a subsidiary of the Company made a contribution of £90,000 to Virgin Management Limited in relation to its campaign for the EU Referendum (in favour of Remain) (2015: £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
23 March 2017

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

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 the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 2016 set out on pages 37 to 90. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 35, 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 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- 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 is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in these reports; and
- in our opinion, these reports have been prepared in accordance with the Companies Act 2006.

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
23 March 2017
KPMG LLP
15 Canada Square
London
E14 5GL
United Kingdom

Financial Statements

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Note	**For the year ended 31 December 2016**			For the year ended 31 December 2015		
		Ordinary activities before exceptional items	**Exceptional items and fair value movements (Note 7)**	**Total**	Ordinary activities before exceptional items	Exceptional items and fair value movements (Note 8)	Total
		£m	**£m**	**£m**	£m	£m	£m
Total revenue	5	**2,689.9**	**-**	**2,689.9**	2,781.9	-	2,781.9
Physical fuel		**(435.2)**	**-**	**(435.2)**	(525.5)	-	(525.5)
Fuel hedging		**(179.2)**	**179.2**	**-**	(198.0)	198.0	-
Airline traffic direct operating costs		**(518.8)**		**(518.8)**	(511.2)	-	(511.2)
Aircraft costs		**(268.0)**	**(25.6)**	**(293.6)**	(246.4)	(6.7)	(253.0)
Distribution, marketing and selling costs		**(497.6)**	**(19.8)**	**(517.4)**	(472.7)	(6.8)	(479.5)
Employee remuneration	8	**(364.5)**	**-**	**(364.5)**	(355.2)	-	(355.2)
Other operating and overhead costs		**(196.2)**	**(20.4)**	**(216.6)**	(275.4)	-	(275.4)
Engineering and maintenance costs		**(140.6)**	**-**	**(140.6)**	(138.9)	-	(138.9)
Other depreciation and amortisation		**(51.9)**	**-**	**(51.9)**	(51.5)	-	(51.5)
Other income		**1.9**	**-**	**1.9**	15.4	(6.2)	9.2
Operating profit		**39.8**	**113.4**	**153.2**	22.5	178.4	200.9
Profit on disposal of property, plant and equipment		**1.5**	**23.2**	**24.7**	4.5	57.7	62.2
Restructuring		**-**	**(2.7)**	**(2.7)**	-	(31.4)	(31.4)
		1.5	**20.5**	**22.0**	4.5	26.3	30.8
Finance income		**3.7**	**-**	**3.7**	1.8	-	1.8
Finance expense		**(22.0)**	**-**	**(22.0)**	(6.3)	-	(6.3)
Net finance costs	9	**(18.3)**	**-**	**(18.3)**	(4.5)	-	(4.5)
Fair value gains/(losses) on derivative contracts		-	**74.7**	**74.7**	-	(139.7)	(139.7)
Profit before tax	6	**23.0**	**208.6**	**231.6**	22.5	65.0	87.5
Tax charge	10			**(44.3)**			(7.4)
Profit for the year				**187.3**			80.1
Other comprehensive income (items that will not be reclassified to the income statement):							
Exchange translation differences				(0.9)			0.0
Total comprehensive income for the year				**186.4**			**80.1**

The loss for the year for the Company is £0.2m (2015: £0.3m loss).

All amounts relate to continuing operations. The notes on pages 43 to 90 form part of these financial statements.

Financial Statements continued

Consolidated statement of financial position

As at 31 December 2016

	Note	**As at 31 December 2016 £m**	As at 31 December 2015 £m
Non-current assets			
Intangible assets	11	**164.2**	124.6
Property, plant and equipment	12	**672.1**	542.9
Deferred tax	13	**-**	21.6
Investments	14	**0.0**	0.0
Derivative financial instruments	15	**8.5**	5.1
Trade and other receivables	16	**31.1**	33.4
		875.9	727.5
Current assets			
Inventory	17	**30.2**	38.8
Trade and other receivables	16	**250.1**	318.8
Derivative financial instruments	15	**47.0**	16.9
Cash and cash equivalents	18	**525.9**	527.1
Restricted cash	18	**42.5**	68.5
		895.7	970.1
Total assets		**1,771.6**	1,697.6
Current liabilities			
Borrowings	19	**(17.2)**	(34.4)
Trade and other payables	20	**(328.7)**	(369.1)
Provisions	21	**(47.6)**	(61.6)
Derivative financial instruments	15	**(8.5)**	(183.7)
Deferred income	22	**(721.8)**	(722.7)
		(1,123.8)	(1,371.5)
Net current liabilities		**(228.1)**	(401.4)
Total assets less current liabilities		**647.8**	326.1
Non-current liabilities			
Borrowings	19	**(462.8)**	(363.5)
Deferred income	22	**(47.7)**	(52.8)
Deferred tax	13	**(23.9)**	-
Trade and other payables	20	**(2.3)**	(5.1)
Provisions	21	**(83.6)**	(58.8)
Derivative financial instruments	15	**(4.2)**	(9.9)
		(624.5)	(490.1)
Net assets/(liabilities)		**23.3**	(164.0)
Equity			
Ordinary share capital		**100.0**	100.0
Preference share capital		**50.0**	50.0
Other reserves		**(230.3)**	(236.3)
Retained earnings		**103.6**	(77.7)
Total equity		**23.3**	(164.0)

These financial statements were approved by the Board of Directors on 23 March 2017 and were signed on its behalf by:

Tom Mackay, *Director*
Register number 08867781

The notes on pages 43 to 90 form part of these financial statements

Financial Statements continued

Company statement of financial position

As at 31 December 2016

	Note	As at 31 December 2016 £m	As at 31 December 2015 £m
Non-current assets			
Investments	14	**289.4**	289.4
		289.4	289.4
Current assets			
Trade and other receivables	16	**0.0**	0.0
		0.0	0.0
Total assets		**289.4**	289.4
Current liabilities			
Trade and other payables	20	**(0.6)**	(0.4)
		(0.6)	(0.4)
Net current liabilities		**(0.6)**	(0.4)
Net assets		**288.8**	289.0
Equity			
Ordinary share capital		**100.0**	100.0
Preference share capital		**50.0**	50.0
Other reserves		**139.4**	139.4
Retained earnings		**(0.6)**	(0.4)
		288.8	289.0

These financial statements were approved by the Board of Directors on 23 March 2017 and were signed on its behalf by:

Tom Mackay, *Director*
Register number 08867781

The notes on pages 43 to 90 form part of these financial statements

Financial Statements continued

Consolidated statement of changes in equity

As at 31 December 2016

	Ordinary share capital	Preference share capital	Share premium	Other reserves	Retained earnings	Total
	£m	£m	£m	£m	£m	£m
Balance at 1 January 2015	100.0	50.0	(0.0)	(236.3)	(157.8)	(244.1)
Profit for the year	-	-	-	-	80.1	80.1
Balance at 31 December 2015	**100.0**	**50.0**	**(0.0)**	**(236.3)**	**(77.7)**	**(164.0)**
Balance at 1 January 2016	**100.0**	**50.0**	**(0.0)**	**(236.3)**	**(77.7)**	**(164.0)**
Profit for the year	-	-	-	-	187.3	187.3
Reclassifications	-	-	-	6.0	(6.0)	-
Balance at 31 December 2016	**100.0**	**50.0**	**(0.0)**	**(230.3)**	**103.6**	**23.3**

During the year, a project has been undertaken to simplify the Virgin Atlantic Limited Group structure. As a result a number of entities within the VAA Group were placed into voluntary liquidation (note 23), and the trade and assets of Bug Leasing Limited were transferred to Fit Leasing Limited at historic cost. Whilst no adjustment arose at Group level, the transaction has led to reclassification of £6.0m to the capital contribution reserve.

Financial Statements continued

Company statement of changes in equity

As at 31 December 2016

	Ordinary share capital	Preference share capital	Other reserves	Retained earnings	Total
	£m	£m	£m	£m	£m
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**
Balance at 1 January 2016	100.0	50.0	139.4	(0.4)	289.0
Loss for the year	-	-	-	(0.2)	(0.2)
Balance at 31 December 2016	**100.0**	**50.0**	**139.4**	**(0.6)**	**288.8**

Allotted, called up and fully paid share capital includes 100,000,000 (2015: 100,000,000) ordinary shares of £1 each and 50,000 (2015: 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 2016

	Note	**For the year ended 31 December 2016 £m**	For the year ended 31 December 2015 £m
Net cash from operating activities	30	**389.7***	256.7
Purchase of property, plant and equipment		**(277.9)**	(386.4)
Purchase of intangible assets		**(60.5)**	(0.8)
Sale of investments		**-**	0.4
Proceeds from sale of property, plant and equipment and intangible assets		**132.0***	415.7
Realised (losses) on derivatives		**(139.7)**	(182.6)
Interest received		**3.7**	1.8
Net cash (used in) investing activities		**(342.4)***	(151.9)
Repayment of long term borrowings		**(49.5)**	(18.8)
Proceeds from issue of new bonds		**-**	236.2
Payment of finance lease instalments		**(25.0)**	(22.8)
Net cash (used in)/from financing activities		**(74.5)**	194.6
Net (decrease)/increase in cash and cash equivalents		**(27.2)**	299.5
Cash and cash equivalents at beginning of year (including restricted cash)	18	**595.6**	296.2
Cash and cash equivalents at end of year (including restricted cash)	18	**568.4**	595.6

The notes on pages 43 to 90 form part of these financial statements

*Please refer to the Addendum to the notes to the statutory financial statements on page 91 for the correction of a cash flow presentational error.

Notes forming part of the financial statement

1 General Information

Virgin Atlantic Limited (the 'Company') and its subsidiaries (the 'Group') is principally a passenger airline with a significant tour operations component, operating primarily from the United Kingdom. Further details on the nature of the Group's operations and its principal activities can be found within the Strategic Report on pages 9 to 28.

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 34.

2 Statement of compliance with IFRS

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

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 ('FRS 100') issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2016 the Company has prepared its individual entity accounts under FRS 101'Reduced Disclosure Framework' as issued by the Financial Reporting Council. In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

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

3 Accounting policies

Basis of preparation

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

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

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

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

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Notes continued

3 Accounting policies (continued)

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

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

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

Notes continued

3 Accounting policies (continued)

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

Virgin Atlantic Limited consolidated the results of Air Nigeria Development Limited (formerly Virgin Nigeria Airways Limited) from the time it was set up in 2005 to 31 August 2007 on the grounds that it had a 49% equity shareholding and exercised control over the operating and financial activities of Air Nigeria Development Limited. Since 1 September 2007, Virgin Atlantic Limited's equity investment in Air Nigeria Development Limited has been accounted for as a non-current investment with a net book value of £nil (note 23).

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

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

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

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

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

Tour operations revenue
Sales of holiday packages are 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.

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.

Notes continued

3 Accounting policies (continued)

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

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

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

Compensation payments
Income resulting from claims for compensation payments/liquidated damages is recognised as 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.

Notes continued

3 Accounting policies (continued)

Employee benefits

Pension

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

Share based payments: Long Term Incentive 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

3 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

3 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 six to eight years.

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

Notes continued

3 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	8% - 33% on cost
Motor vehicles	25% on cost
Leasehold improvements	lower of useful economic life or period of lease

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

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

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

Leases

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

3 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 inventory, includes aircraft parts which are expendable and non-renewable.

Provisions

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

Leased aircraft maintenance provisions

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

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

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Notes continued

3 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

3 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.

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Notes continued

3 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

3 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 2016; 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 operating 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

4 Significant judgements, estimates and critical accounting policies

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

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

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

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

Revenue recognition – frequent flyer programme (note 22)
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 12)
The Group exercises judgement to determine useful lives and residual values of property, plant and equipment. The assets are depreciated to their residual values over their estimated useful lives.

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

Notes continued

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

	Group	
Revenue:	**For the year ended 31 December 2016 £m**	For the year ended 31 December 2015 £m
Airline traffic and cargo operations	**2,240.6**	2,352.7
Holiday tour operations	**606.7**	575.8
Other airline revenue	**9.9**	15.7
Intra-group revenue	**(167.3)**	(162.3)
	2,689.9	2,781.9
Operating profit after exceptional items		
Airline traffic and cargo operations	**154.8**	197.2
Holiday tour operations	**(1.5)**	3.6
Other and intra-group eliminations	**(0.1)**	0.1
	153.2	200.9
Net assets/(liabilities):		
Airline traffic and cargo operations	**91.7**	(114.6)
Holiday tour operations	**58.6**	35.9
Other and intra-group eliminations	**(127.0)**	(85.3)
	23.3	(164.0)

Other revenue includes income from engineering services.

Notes continued

5 Revenue analysis (continued)

	Group For the year ended 31 December 2016 £m	For the year ended 31 December 2015 £m
Revenue by source:		
United Kingdom	**1,942.6**	2,001.5
North America and the Caribbean	**621.8**	591.0
Far East	**107.4**	122.4
Africa	**59.9**	96.6
Other	**125.5**	132.7
Intra-group revenue	**(167.3)**	(162.3)
	2,689.9	2,781.9
Revenue by destination:		
North America	**1,891.9**	1,857.3
Caribbean	**402.8**	399.8
Far East	**304.6**	317.6
Africa	**142.0**	196.5
Other	**115.9**	173.0
Intra-group revenue	**(167.3)**	(162.3)
	2,689.9	2,781.9

The Company had no revenue in the current year (2015: £nil).

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

Notes continued

6 Profit before tax

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

	Group		Company	
	For the year ended 31 December 2016 £m	For the year ended 31 December 2015 £m	**For the year ended 31 December 2016 £m**	For the year ended 31 December 2015 £m
Depreciation of property, plant and equipment (note 12)	**(96.2)**	(68.0)	**-**	-
Amortisation of intangible assets (note 11)	**(20.4)**	(21.1)	**-**	-
Rentals under operating leases:				
Aircraft and related equipment	**(215.1)**	(212.0)	**-**	-
Plant and machinery	**(11.7)**	(10.4)	**-**	-
Land and buildings	**(29.8)**	(28.1)	**-**	-
Contribution to pension schemes	**(26.5)**	(26.4)	**-**	-
Remuneration of the auditors and their associates:				
Audit services	**(0.4)**	(0.5)	**(0.0)**	(0.0)
Other services	**(1.0)**	(0.5)	**-**	-

Fees payable to the Company's auditor and its associates for audit services are £4,101 (2015: £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 2016 £m	For the year ended 31 December 2015 £m
Taxation advice and compliance	**(0.6)**	(0.4)
Services related to accounting advice	**(0.4)**	(0.1)
Total fees for other services	**(1.0)**	(0.5)

Notes continued

7 Exceptional items

Exceptional items included in profit before tax include the following:

	Group For the year ended 31 December 2016 £m	For the year ended 31 December 2015 £m
Aircraft costs	**(25.6)**	(6.7)
Accelerated depreciation on aircraft equipment (i)	**(14.9)**	(6.7)
Impairment of aircraft rotables stocks (ii)	**(10.7)**	-
Fuel hedging reclassified to fair value gains/(losses) on derivatives (iii)	**179.2**	198.0
Forex derivative gains/(losses) reclassified to fair value gains/(losses) on derivatives (iii)	**(40.2)**	(12.9)
Reclassified from other operating income/ expense	**(20.4)**	(6.2)
Reclassified from distribution, marketing and selling costs	**(19.8)**	(6.8)
Profit on disposal of aircraft equipment (iv)	**23.2**	57.7
Restructuring costs (v)	**(2.7)**	(31.4)
Fair value gains/(losses) on derivatives (iii)	**74.7**	(139.7)
	208.6	65.0
The fair value losses on derivatives can be analysed as follows:		
Gain on fair value movements	**213.7**	45.4
Loss on fuel derivatives settled during the year (reclassified - see above)	**(179.2)**	(198.0)
Gain on forex derivatives settled during the year (reclassified - see above)	**40.2**	12.9
	74.7	(139.7)

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 £14.9m (2015: £6.7m), on its A-330 fleet. The acceleration relates to cabin components which are scheduled to exit the fleet earlier than anticipated.

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

(iii) Fuel costs include £179.2m (2015: £198m) relating to losses recognised on maturity of fuel derivative contracts. Other income/expense include gains of £20.4m (2015: gains of £6.2m) relating to movements on maturity of foreign currency derivative contracts. Fair value movements in relation to the Group's fuel and foreign currency derivatives are reclassified as an exceptional item through fair value gains/(losses) on derivative contracts, to ensure that the operating costs of the Group can be reflected at an unhedged rate as the Group does not apply hedge accounting.

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

→

Notes continued

7 Exceptional items (continued)

(iv) The Group purchased and subsequently entered into a sale and operating leaseback of two Boeing 787 aircraft. Profits on sale and leaseback amounted to £23.2m (2015: profits of £57.7m on four sale and operating leaseback transactions). The profits arising from the sale and operating leaseback of the aircraft have been reclassified as exceptional and are shown net of any supplier compensation received. See note 12 for further details.

(v) Restructuring costs of £2.7m (2015: £31.4m) have been recognised during the year and relate to the Group's change programme - *fit.nimble*. Costs incurred relate to employee restructuring costs as well as incremental costs associated with the implementation of the programme. 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.

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 2016 £m	For the year ended 31 December 2015 £m
Management and administration	**1,144**	1,210
Flight crew	**781**	777
Cabin crew	**3,244**	3,507
Reservations and sales	**2,344**	2,437
Engineering, cargo and production	**961**	1,074
	8,474	9,005

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

	Group	
	For the year ended 31 December 2016 £m	For the year ended 31 December 2015 £m
Wages and salaries	**306.9**	298.2
Social security costs	**30.0**	29.5
Other pension costs (note 24)	**27.6**	27.5
	364.5	355.2

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

The Company has no salaried employees (2015: nil).

Notes continued

8 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 2016 £m	For the year ended 31 December 2015 £m
Total emoluments		
Aggregate emoluments	**1.0**	1.2
Company contributions to money purchase pension schemes	**0.1**	0.1
	1.1	1.3
Highest paid director:		
Aggregate emoluments and other benefits	**0.5**	0.7
Contributions to money purchase pension schemes	**0.1**	0.1
	0.6	0.8

Retirement benefits are accruing to 2 (2015: 2) directors under money purchase pension schemes.

During the year an amount of £0.2m (2015: £0.2m) was paid to shareholders in respect of the services of certain shareholder-appointed non-executive directors of the Company.

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

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

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 2016 (2015: nil).

Notes continued

9 Net finance costs

	Group	
	For the year ended 31 December 2016 £m	For the year ended 31 December 2015 £m
Finance income		
Bank deposits	**3.5**	1.5
Unlisted investments (note 14)	**0.2**	0.3
	3.7	1.8
Finance expense		
Bank loans and overdrafts (note 19)	**-**	(1.0)
Other loans	**(9.2)**	(5.0)
Exchange loss on foreign currency borrowings less deposits	**-**	(0.7)
Finance leases and hire purchase contracts (note 19)	**(12.1)**	(3.5)
Unwinding of discount on provisions (note 21)	**(0.9)**	(0.5)
	(22.2)	(10.7)
Interest capitalised on aircraft progress payments (note 12)	**0.2**	4.4
	(22.0)	(6.3)
Net finance costs	**(18.3)**	(4.5)

Notes continued

10 Tax

Analysis of the tax expense during the year:

	Group	
	For the year ended 31 December 2016 £m	For the year ended 31 December 2015 £m
Current tax		
UK corporation tax	**-**	-
Adjustments in respect of prior periods	**1.9**	1.3
Non – UK current tax	**(0.3)**	-
Total current tax credit	**1.6**	1.3
Deferred tax		
Origination and reversal of timing differences	**(48.5)**	(3.8)
Adjustments in respect of prior years	**(1.6)**	(4.9)
Effect of decrease in tax rate	**4.2**	0.0
Total deferred tax charge	**(45.9)**	(8.7)
Tax charge	**(44.3)**	(7.4)

The standard rate of UK corporation tax for the period is 20% (2015: 20.25%). The total tax charge of 19.13% 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 2016 £m	For the year ended 31 December 2015 £m
Profit before taxation	**231.6**	87.5
Tax at the standard rate at 20% (2015: 20.25%)	**(46.3)**	(17.7)
Factors affecting the (charge) for the year:		
Income not taxable	**1.4**	-
Expenses not deductible for tax purposes	**(0.9)**	(0.7)
Effect of reduction in deferred tax rate	**4.2**	-
Effects of other tax rates	**-**	0.2
Fixed asset differences	**1.2**	-
Adjustments in respect of prior periods	**0.3**	(3.7)
Impairment not deductible for tax purposes	**(1.1)**	-
UK government reliefs	**4.7**	4.3
Permanent differences	**(2.9)**	10.2
Holdover relief	**(4.9)**	-
Total tax charge	**(44.3)**	(7.4)

Notes continued

10 Tax (continued)

A reduction in the UK corporation tax rate to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A further reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. The deferred tax liability at 31 December 2016 has been calculated based on these rates. This will reduce the Group's future current tax charge accordingly.

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

11 Intangible assets

	Group					
	Software	Goodwill	Landing slots	Carbon Allowances	Other Intangibles	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2016	134.0	8.8	91.1	0.1	1.6	235.6
Transfers from property, plant and equipment	60.5	-	-	-	-	60.5
Disposals	(5.3)	-	-	(0.1)	-	(5.4)
At 31 December 2016	**189.2**	**8.8**	**91.1**	**0.0**	**1.6**	**290.7**
Amortisation						
At 1 January 2016	95.2	3.8	10.6	-	1.6	111.2
Amortisation	20.4	-	-	-	-	20.4
Disposals	(5.1)	-	-	-	-	(5.1)
At 31 December 2016	**110.5**	**3.8**	**10.6**	**-**	**1.6**	**126.5**
Carrying amount						
At 31 December 2016	**78.7**	**5.0**	**80.5**	**0.0**	**-**	**164.2**
At 31 December 2015	38.8	5.1	80.5	0.1	-	124.5

Notes continued

11 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 cash-generating unit (CGU) to the recoverable amount, determined on the basis of the CGU's value in use. The value in use is based on the net present value of future cash flow projections discounted at post-tax rates appropriate for each CGU.

Landing slots
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 2016 the goodwill balance was attributable to Virgin Vacations Inc. (purchased 13 April 2011), Bales Worldwide Limited (purchased 14 December 2009) and Virgin Holidays Cruises Limited (purchased 8 October 2007). During 2016, Bales Worldwide Limited and Virgin Holidays Cruises Limited were placed into voluntary liquidation, having transferred all trade and assets to Virgin Holidays Limited for continued trading under the Virgin Holidays brand. Virgin Holidays Limited is therefore considered to be a single cash-generating unit (CGU) in its own right.

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 (2015: no impairment).

The Company did not have any intangible assets (2015: £nil).

Notes continued

12 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 2016	30.2	589.7	198.8	144.1	61.0	1,023.8
Additions	-	331.4	27.3	2.0	81.5	442.2
Disposals	-	(163.5)	(50.9)	(9.1)	-	(223.5)
Transfers to intangible assets	-	-	-	-	(60.5)	(60.5)
Reclassifications	9.6	15.8	4.7	11.8	(41.9)	-
At 31 December 2016	39.8	773.4	179.9	148.8	40.1	1,182.0
Accumulated depreciation						
At 1 January 2016	5.2	229.8	143.5	102.4	-	480.9
Depreciation for the year	0.7	43.0	37.2	15.3	-	96.2
Disposals	-	(7.6)	(50.8)	(8.8)	-	(67.2)
At 31 December 2016	5.9	265.2	129.9	108.9	-	509.9
Carrying amount						
At 31 December 2016	33.9	508.2	50.0	39.9	40.1	672.1
At 31 December 2015	25.0	359.9	55.3	41.7	61.0	542.9

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

	Group	
	As at 31 December 2016 £m	As at 31 December 2015 £m
Carrying amount		
Aircraft, rotable spares and ancillary equipment	181.8	124.4
Depreciation charged for the year		
Aircraft, rotable spares and ancillary equipment	11.8	5.3

Notes continued

12 Property, plant and equipment (continued)

Freehold land with a cost of £4.4m (2015: £4.4m) has not been depreciated. Included in aircraft, rotable spares and ancillary equipment are progress payments for the future purchase of aircraft of £34.3m (2015: £46.8m), these amounts are not depreciated.

During the year, the Group purchased, and subsequently, entered into sale and operating leasebacks of two Boeing 787 aircraft. The Group entered into a finance lease for a Boeing 787 aircraft that had been purchased in the prior year.

During the year the Group entered into one finance lease for a Boeing 787 aircraft with a book value of £66.3m (2015: £129.2). The net book value of assets held under finance leases includes maintenance events and modifications to the asset which have been incurred in periods following the lease inception. Finance leases obligations are shown note 19.

No impairments arose on the disposal of any aircraft. The total profit on the disposal of aircraft above was £23.2m (including supplier settlements - see note 7 for further details).

Interest capitalised by the Group on aircraft progress payments included in additions during the year amounted to £0.2m (2015: £4.4m).

At 31 December 2016, fleet assets with a carrying amount of £nil (2015: £30.3m) have been pledged as security for bank and other loans.

The Company did not have any property, plant and equipment (2015: £nil).

Notes continued

13 Deferred tax

The following are the material deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior year. Deferred taxation is provided for at 17% (2015: 20%):

	Group	
	As at 31 December 2016 £m	As at 31 December 2015 £m
Accelerated capital allowances	**(12.3)**	(31.9)
Other timing differences	**(3.9)**	36.8
UK tax losses	**6.9**	28.9
Holdover relief	**(14.6)**	(12.3)
Non-UK tax losses	**-**	0.1
	(23.9)	21.6

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

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

Movement in deferred tax asset/(liability)	
Balance as at 1 January 2015	30.3
Charged to statement of comprehensive income	(8.7)
Balance as at 1 January 2016	21.6
Charged to statement of comprehensive income	(45.9)
Charged to other comprehensive income	0.4
Balance as at 31 December 2016	**(23.9)**

The Company did not have any deferred tax (2015: £nil).

Notes continued

14 Investments

	Group		Company	
	As at 31 December 2016 £m	As at 31 December 2015 £m	**As at 31 December 2016 £m**	As at 31 December 2015 £m
Non-current				
Investment in Airline Group Limited	**0.0**	0.0	**-**	-
Interest in subsidiaries	**-**	-	**289.4**	289.4
	0.0	0.0	**-**	-
	0.0	0.0	**289.4**	289.4

The unlisted investment represents the Group's investment in Airline Group Limited which consists of equity held at cost of £1,575 (2015: £1,575).

For further information on the subsidiaries of the Group, see note 23.

Investments in subsidiaries are carried at cost.

Notes continued

15 Derivative financial instruments

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

	Group	
	As at 31 December 2016 £m	As at 31 December 2015 £m
Non-current assets		
Foreign currency	**2.6**	2.2
Fuel	**5.9**	2.9
	8.5	5.1
Current assets		
Foreign currency	**31.5**	16.9
Fuel	**15.5**	0.0
	47.0	16.9
Current liabilities		
Foreign currency	**(3.1)**	(0.7)
Fuel	**(5.4)**	(183.0)
	(8.5)	(183.7)
Non-current liabilities		
Foreign currency	**(0.8)**	-
Fuel	**(3.4)**	(9.9)
	(4.2)	(9.9)
	42.8	(171.6)

	Group	
Nominal amounts	**2016 quantity (m)**	2015 quantity (m)
Foreign currency (USD)	**492.4**	712.1
Foreign currency (Other, represented in GBP)	**13.5**	15.7
Fuel (Barrels)	**5.9**	7.5
Interest rate swap (USD)	**-**	-

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

15 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 2016	**Gross amount £m**	**Amount not set off £m**	**Net amount £m**
Derivative financial instruments			
Assets	**55.5**	**(12.3)**	**43.2**
Liabilities	**(12.7)**	**12.3**	**(0.4)**
	42.8	**-**	**42.8**

	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)

The Company did not hold any derivative financial instruments (2015: £nil)

Notes continued

16 Trade and other receivables

	Group		Company	
	As at 31 December 2016 £m	As at 31 December 2015 £m	**As at 31 December 2016 £m**	As at 31 December 2015 £m
Non-current				
Other receivables	**31.1**	33.0	**-**	-
Corporate tax recoverable	**-**	0.2	**-**	-
Prepayments and accrued income	**-**	0.2	**-**	-
	31.1	33.4	**-**	-
Current				
Trade receivables	**143.1**	141.4	**-**	-
Provision for doubtful receivables	**(5.8)**	(5.4)	**-**	-
Net trade receivables	**137.3**	136.0	**-**	-
Other receivables	**54.0**	114.4	**-**	-
Corporate tax recoverable	**-**	5.6	**-**	-
Prepayments and accrued income	**58.8**	62.8	**-**	-
	250.1	318.8	**-**	-

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 £nil (2015: £69.5m) relating to margin calls on fuel and foreign currency derivative positions.

During the year the Group wrote £0.7 million (2015: £0.4 million) of receivables off against the provision.

	Group	
	As at 31 December 2016 £m	As at 31 December 2015 £m
Ageing of past due but not impaired receivables:		
1-30 days	**13.6**	45.2
31-60 days	**0.9**	1.5
61-90 days	**0.0**	0.3
91-120 days	**0.0**	-
120+ days	**1.6**	2.0
Total	**16.1**	49.0

Notes continued

16 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.

17 Inventories

	Group	
	As at 31 December 2016 £m	As at 31 December 2015 £m
Aircraft consumable spares	**22.9**	32.2
Finished goods and goods for resale	**7.1**	5.4
Fuel	**0.2**	0.1
Uniforms	**-**	1.1
	30.2	38.8

As described in note 7, the accounting convention adopted for aircraft consumables was modified during the year to better reflect the economic consumption of value through fleet life. As a result, a loss of £10.7m has been recognised in the income statement.

The Company did not have any inventories (2015: £nil).

18 Cash, cash equivalents and restricted cash

	Group	
	As at 31 December 2016 £m	As at 31 December 2015 £m
Cash at bank and in hand	**530.1**	530.8
Bank overdrafts	**(4.2)**	(3.7)
Cash and cash equivalents	**525.9**	527.1
Restricted cash	**42.5**	68.5
	568.4	595.6

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 (2015: £nil).

Notes continued

19 Borrowings

	Group	
	As at 31 December 2016 £m	As at 31 December 2015 £m
Non-current		
Secured bank loans (i)	**-**	(10.5)
Obligations under finance leases (ii)	**(257.4)**	(143.0)
Senior bonds - A1 (iii)	**(178.9)**	(182.1)
Senior bonds - A2 (iii)	**(26.5)**	(27.9)
	(462.8)	(363.5)
Current		
Secured bank loans (i)	**-**	(26.2)
Obligations under finance leases (ii)	**(12.6)**	(5.7)
Senior bonds - A1 (iii)	**(3.2)**	(1.4)
Senior bonds - A2 (iii)	**(1.4)**	(1.1)
	(17.2)	(34.4)

(i) The secured bank loans were secured by mortgages over certain fleet assets (see note 12). The interest rates charged in the prior year in respect of these loans are in the range from 3.00% to 3.35% above US$ LIBOR.

(ii) See note 27 for a full breakdown of all commitments under finance leasing and hire purchase agreements. During the year the Group entered into one finance lease for a Boeing 787 aircraft.

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

Notes continued

19 Borrowings (continued)

	Group		
	Sterling £m	US dollars £m	Total £m
Analysis of borrowings by currency as at 31 December 2016:			
Secured bank loans (i)	-	-	-
Obligations under finance leases and hire purchase agreements (ii)	-	(270.0)	(270.0)
Senior bonds - A1 (iv)	(182.1)	-	(182.1)
Senior bonds - A2 (iv)	(27.9)	-	(27.9)
	(210.0)	(270.0)	(480.0)
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)	(398.0)

The maturity profile of borrowings is disclosed in note 29.

In January 2017, the Group issued an additional £32m of Senior Bonds to investors (Class A-3). The maturation date of the bonds matches that of the A-1 and A-2 bonds, with repayment of the principal occuring in part over the life of the bonds and £16m payable after 14 years.

The Company did not have any borrowings (2015: £nil).

Notes continued

20 Trade and other payables

	Group		Company	
	As at 31 December 2016 £m	As at 31 December 2015 £m	**As at 31 December 2016 £m**	As at 31 December 2015 £m
Non-current				
Accruals	**(2.3)**	(5.1)	**-**	-
	(2.3)	(5.1)	**-**	-
Current				
Trade payables	**(36.8)**	(45.4)	**-**	-
Amounts owed to other group companies	**(4.4)**	(19.6)	**(0.5)**	(0.2)
Corporate tax payable	**(0.1)**	-	**-**	-
Other taxes and social security	**(12.5)**	(11.3)	**-**	-
Other payables	**(4.4)**	(1.6)	**-**	-
Accruals	**(270.5)**	(291.2)	**(0.1)**	(0.2)
	(328.7)	(369.1)	**(0.6)**	(0.4)

Included within current other payables is an amount of £2.3m (2015: £nil) relating to margin calls on fuel and foreign currency derivative positions.

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

Notes continued

21 Provisions

	Group	
	As at 31 December 2016 £m	As at 31 December 2015 £m
Non-current		
Maintenance	**(81.7)**	(49.7)
Onerous leases	**-**	(3.0)
Leasehold dilapidation	**(1.9)**	(6.1)
	(83.6)	(58.8)
Current		
Maintenance	**(22.3)**	(42.7)
Onerous leases	**(6.9)**	(9.1)
Leasehold dilapidation	**(6.9)**	(1.2)
Legal claims	**(11.5)**	(8.6)
	(47.6)	(61.6)

	Group				
	Maintenance	**Onerous leases**	**Leasehold dilapidations**	**Legal claims**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
As at 1 January 2016	(92.3)	(12.1)	(7.3)	(8.6)	(120.3)
Amounts (provided)/released in the year	(42.6)	1.6	(0.6)	(7.9)	(49.5)
Amounts utilised in the year	45.8	3.6	-	6.0	55.4
Other movements	(14.9)	-	-	(1.0)	(15.9)
Unwinding of discount	-	-	(0.9)	-	(0.9)
At 31 December 2016	**(104.0)**	**(6.9)**	**(8.8)**	**(11.5)**	**(131.2)**

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

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

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 (2015: £nil).

Notes continued

22 Deferred income

	Group	
	As at 31 December 2016 £m	As at 31 December 2015 £m
Current		
Forward sales of passenger carriage and holidays	**(558.2)**	(547.2)
Unredeemed revenue: customer loyalty programme	**(146.9)**	(131.6)
Other revenue received in advance	**(16.7)**	(43.9)
	(721.8)	(722.7)
Non-current		
Other revenue received in advance	**(47.7)**	(52.8)
	(47.7)	(52.8)

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 (2015: £nil).

Notes continued

23 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 2016 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
Barbados Enterprises plc	England and Wales	0	Investment company
Bug Leasing Limited	Jersey	100	Leasing of aircraft
Fit Leasing Limited	Jersey	100	Leasing of aircraft
Junopart Limited	England and Wales	100	Leasing property
VA Cargo Limited	England and Wales	100	Cargo management
VAA Holdings Jersey Limited	Jersey	100	Holding company
VAA Holdings UK Limited	England and Wales	100	Holding company
Virgin Atlantic International Limited	England and Wales	100	Trading
Virgin Incoming Services Incorporated	United States of America	100	Tour Operator
Virglease Limited	England and Wales	100	Leasing of aircraft
Virglease (3) Limited	England and Wales	100	Leasing of aircraft
Virgin Vacations Incorporated	United States of America	100	Travel Agency
Bales Worldwide Limited	England and Wales	100	In liquidation
Campden Securities Limited	England and Wales	100	In liquidation
Openride Limited	England and Wales	100	In liquidation
Public Eye Promotions Limited	England and Wales	100	In liquidation
Speed 5024 Limited	England and Wales	100	In liquidation
Threesixty Aerospace Limited	England and Wales	100	In liquidation
Virgair Limited	England and Wales	100	In liquidation
Virgin Airways Limited	England and Wales	100	In liquidation
Virgin Atlantic Consol Limited	England and Wales	100	In liquidation
Virgin Atlantic Engineering Limited	England and Wales	100	In liquidation
Virgin Aviation Services Limited	England and Wales	100	In liquidation
Virgin Freeway Limited	England and Wales	100	In liquidation
Virgin Holidays Cruises Limited	England and Wales	100	In liquidation
Virglease (2) Limited	England and Wales	100	In liquidation
Worldwide Travel of East Anglia Limited	England and Wales	100	In liquidation
Significant holdings			
Air Nigeria Development Limited (formerly Virgin Nigeria Airways Limited)	Nigeria	49	Airline operations

During the year, a number of subsidiary entities were placed into voluntary liquidation as part of a project to simplify the Group structure.

Subsidiary Registered Office Addresses

Entity	Registered office address
Fit Leasing Limited, Bug Leasing Limited, VAA Holdings Jersey Limited	47 Esplanade, St Helier, Jersey, JE1 0BD.
Virgin Vacations Inc, Virgin Incoming Services Inc.	5787 Vineland Road, Suite 204, Orlando, Florida, 32819
Barbados Enterprises plc	35 Great St Helen's, London EC3A 6AP
All other trading subsidiaires	The VHQ, Manor Royal, Crawley, West Sussex, RH10 9DF
All companies in liquidation	9th Floor, 25 Farringdon Street, London EC4A 4AB

Notes continued

23 Interest in subsidiaries (continued)

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

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

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

Notes continued

24 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 2016 (2015: £nil).

25 Related party transactions

The Group had transactions in the ordinary course of business during the year ended 31 December 2016 and 31 December 2015 with related parties.

	Group		Company	
	For the year ended 31 December 2016 £m	For the year ended 31 December 2015* £m	**For the year ended 31 December 2016 £m**	For the year ended 31 December 2015* £m
Parent				
Sales to/purchases on behalf of parent	**0.1**	0.1	**0.1**	0.1
Purchases from parent	**(0.1)**	-	**(0.1)**	-
Related parties under common control				
Sales to related parties	**1.2**	6.5	**-**	-
Purchases from related parties	**(18.4)**	(20.5)	**-**	-
Amounts owed by related parties	**0.1**	0.4	**-**	-
Amounts owed to related parties	**(4.4)**	(18.6)	**-**	-
Subsidiaries				
Amounts owed to subsidiaries			**(0.6)**	(0.3)

*Transactions and balances with related parties have been restated for the prior year ended 31 December 2015.

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 reorganisation 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 Incorporated and Virgin Australia Airlines PTY Ltd. All transactions have been concluded at arm's length.

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

25 Related party transactions (continued)

On 31 December 2016 the Group owed Delta Air Lines Inc £40.5m (2015: £84.8m) 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 £4.2m (2015: £16.7m); total purchases were £35.5m (2015: 7.6m). Outstanding receivable balances amounted to £1.2m (2015: £3.2m) and outstanding payables were £42.3m (2015: £85.7m).

As at 31 December 2016, 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.

26 Ultimate holding

As at 31 December 2016, the Directors consider that 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 is 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

27 Commitments

(i) Commitments under finance leases

The capital element of the future minimum lease payments to which the Group is committed at 31 December 2016 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 2016 £m	As at 31 December 2015 £m
Not later than one year	**12.6**	5.7
Later than one year and not later than five years	**57.7**	26.1
Later than 5 years	**199.7**	116.9
	270.0	148.7

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

(ii) Commitments under operating leases

As at 31 December 2016, the Group had annual commitments under non-cancellable operating leases as set out below:

	Group			
	As at 31 December 2016		As at 31 December 2015	
	Land and buildings £m	**Aircraft and other £m**	Land and buildings £m	Aircraft and other £m
Not later than one year	**24.2**	**231.7**	27.5	9.0
Later than one year and not later than five years	**60.1**	**474.7**	64.0	197.5
Later than 5 years	**69.1**	**737.8**	85.0	996.5
	153.4	**1,444.2**	176.5	1,203.0

(iii) Capital commitments

	Group	
	As at 31 December 2016 £m	As at 31 December 2015 £m
Capital commitments at the balance sheet date for which no provision has been made:	**3,405.5**	1,313.0

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

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

Notes continued

28 Financial instruments

(i) Financial instruments by category

	Group	
	As at 31 December 2016 £m	As at 31 December 2015 £m
Financial assets		
Cash and cash equivalents	**525.9**	527.1
Restricted cash	**42.5**	68.5
Fair value through profit and loss:		
Derivative financial instruments	**55.5**	22.0
Loans and receivables at amortised cost:		
Investments	**0.0**	0.0
Trade and other receivables (excluding prepayments and accrued income)	**222.4**	289.2
	846.3	906.8
Financial liabilities		
Fair value through profit and loss		
Derivative financial instruments	**(12.7)**	(193.6)
Financial liabilities at amortised cost		
Borrowings	**(480.0)**	(397.9)
Trade and other payables*	**(328.7)**	(369.1)
	(821.4)	(960.6)

*The comparatives for the year ended 31 December 2015 have been restated to include accruals.

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

The Company holds £0.6m (2015: £0.4m) of financial instruments that consist of amounts owed to group companies. These are carried at amortised cost.

(ii) Fair values of financial assets and liabilities
The fair values of the Group's financial instruments are disclosed in hierarchy levels depending on the nature of the inputs used in determining the fair values as follows:

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

The only instruments carried at fair value by the Group are the derivative financial instruments that consist of fuel and foreign exchange 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.

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

29 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 Group's board of directors has the overall responsibility for the establishment and oversight of the Group's risk management framework, which focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

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

(i) Fuel price risk

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

The following table demonstrates the sensitivity of the fair value 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 2016 £m	As at 31 December 2015 £m
Increase in fuel price by a fixed percentage	**30%**	30%
Increase in profit before tax	**63.5**	50.4
Decrease in fuel price by a fixed percentage	**(30%)**	(30%)
Decrease in profit before tax	**(35.7)**	(64.3)

(ii) Foreign currency risk

The Group is primarily exposed to fluctuations in the US dollar which can significantly impact financial results and liquidity. The Group has substantial liabilities denominated in USD dollar due to Engineering Maintenance Provisions and Aircraft Leases. Currency risk is reduced through the matching of receipts and payments in individual currencies and holding foreign currency balances to meet future obligations. Any exposure that cannot be naturally hedged is managed through application of the foreign exchange hedging policy.

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

The Group has substantial liabilities denominated in US dollar. A significant proportion of these are matched with US dollar cash.

→

Notes continued

29 Financial risk management (continued)

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 before tax and equity.

	Group	
	As at 31 December 2016 £m	As at 31 December 2015 £m
Strengthening in currency exchange rate by a fixed percentage	**10%**	10%
Decrease in profit before tax	**(41.5)**	(46.4)
Weakening in currency exchange rate by a fixed percentage	**(10%)**	(10%)
Increase in profit before tax	**53.4**	56.9

(iii) Interest rate risk

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

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

Aircraft leases are a mix of fixed and floating rates. Of the 36 leases in place at 31 December 2016 (2015: 36), 64% were based on fixed interest rates and 36% were based on floating interest rates (2015: 72% fixed, 28% floating).

(iv) Credit risk

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

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

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

Disclosure relating to the credit quality of trade and other receivables is given in note 28.

As at 31 December 2016 the Group held £2.3m (2015: £nil) of collateral to mitigate this exposure. Eligible currencies are USD and GBP. Interest return on the collateral is based on Effective Fed Fund rates for USD and Overnight Sonia for GBP.

Notes continued

29 Financial risk management (continued)

(v) Liquidity risk

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

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

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

	2016			
	Within 1 year £m	**1-2 years £m**	**2-5 years £m**	**Over 5 years £m**
Group				
Trade and other payables	**(328.7)**	**(2.3)**	**-**	
Derivative financial instruments	**(8.5)**	**(4.2)**	**-**	
Borrowings:				
Obligations under finance leases & hire purchase agreements	**(12.6)**	**(13.3)**	**(44.4)**	**(199.7)**
Senior bonds - A1	**(3.2)**	**(3.3)**	**(13.7)**	**(161.9)**
Senior bonds - A2	**(1.4)**	**(1.4)**	**(4.4)**	**(20.7)**
	(354.4)	**(24.5)**	**(62.5)**	**(382.3)**

	2015			
Group				
Trade and other payables*	(369.1)	(5.1)	-	-
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)
	(602.6)	(42.7)	(86.1)	(337.1)

*The comparatives for the year ended 31 December 2015 have been restated to include accruals.

(vi) Capital risk

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

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

Notes continued

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

	Group	
	For the year ended 31 December 2016 £m	For the year ended 31 December 2015 £m
Profit for the year	**187.3**	80.1
Adjustments for:		
Depreciation	**96.2**	68.0
Amortisation	**20.4**	21.1
Loss on unrealised forex	**29.7**	13.9
Profit on disposal of property plant and equipment and intangible assets	**24.7***	(62.2)
Taxation	**44.3**	7.4
Movement in provision for bad debts	**0.4**	(0.7)
Fair value movement in derivatives	**(74.7)**	139.7
Net interest paid	**18.3**	4.5
Exceptional items	**10.8**	18.7
Working capital changes:		
Inventory	**(2.2)**	4.2
Trade and other receivables	**58.9**	29.4
Trade and other payables	**(36.9)**	(30.5)
Deferred income	**(6.1)**	50.4
Provisions	**10.7**	(73.6)
Interest received/(paid)	**1.2**	(5.1)
Income taxes recovered/(paid)	**6.7**	(8.6)
Net cash from operating activities	**389.7***	256.7

*Please refer to the Addendum to the notes to the statutory financial statements on page 91 for the correction of a cash flow presentational error.

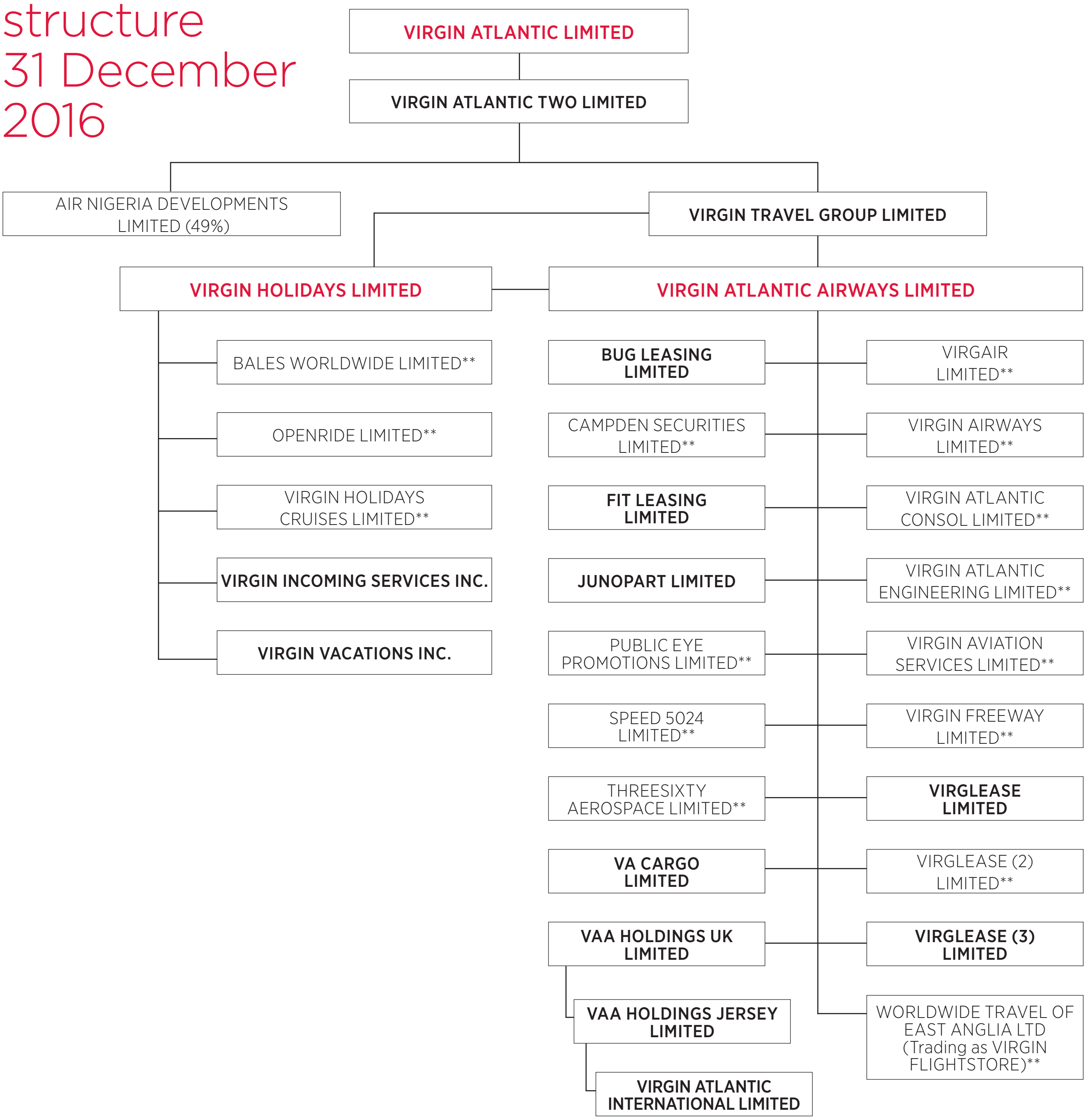
Addendum to the Notes to the Statutory Financial Statements

In Note 30, Reconciliation between profit for the year and cash generated by operations, the adjustment in order to calculate net cash from operating activities in respect of the profit or loss on disposal of property, plant and equipment and intangible assets incorrectly shows a loss on disposal of £24.7m rather than a profit on disposal of £24.7m, as presented in the consolidated income statement.

This error does not affect the amounts reported in the consolidated statement of comprehensive income or the carrying values of any financial statement balances in the consolidated statement of financial position.

The impact of correcting this presentation error is to decrease the net cash from operating activities in Note 30 from £389.7m to £340.3m and increase the proceeds from the sale of property, plant and equipment and intangible assets from £132.0m to £181.4m in the consolidated statement of cash flows.

Corporate structure 31 December 2016



Red - Principal companies
Black bold - Operating companies
Black - In liquidation

During the year, a number of subsidiary entities were placed into voluntary liquidation (as indicated by **) as part of a project to simplify the Group structure.

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 multiplied by distance flown.
Available Seat Kilometre (ASK)	Our passenger carrying capacity, calculated by seats available multiplied by distance flown.
BREEAM	BREEAM is a method of assessing, rating, and certifying the sustainability of buildings. The Building Research Establishment Environmental Assessment Method (BREEAM) was first introduced in 1990, is applied in over 70 countries worldwide and has 80% of European market share.
Change for Children	Our onboard charity appeal.
Constant currency	The restatement of our prior year revenue and cost at the average IATA five-day exchange rate for the current year.
Cost per Available Seat Kilometre (CASK)	This is how much each seat on a flight costs us for every kilometre it operates.
Departed passenger volumes	The number of customers who started a Virgin Holidays experience. They may have completed their experience after the end of the financial year.
Earnings Before Interest and Taxes (EBIT)	A measure of a company's operating income, equal to earnings before the deduction of net finance costs and taxes and before Exceptional Items.
Earnings Before Interest, Taxes, Depreciation, Amortisation and Rentals (EBITDAR)	A measure of a company's operating cash flow, equal to earnings before the deduction of depreciation, amortisation, rentals, net finance costs and taxes and before Exceptional Items.
European Aviation Safety Agency (EASA)	The European Aviation Safety Agency is an agency of the European Union (EU) whose mission is to ensure the highest levels of safety for EU citizens and environmental protection. It provides a single regulatory and certification process among member states to facilitate the internal EU aviation single market and level playing field.

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Glossary continued

Exceptional items	One off events that do not form part of business as usual activities. They include the reclassification of gains or losses on hedging, restructuring costs and some gains or losses on the disposal of property, plant and machinery.
fit.nimble	Our change programme *fit.nimble* to drive efficiency and simplicity throughout all areas of the business, while keeping the safety and security of our customers first and foremost, and delivering an even better customer experience.
Flying Club	Our customer reward proposition.
Future Flyers	Our pilot recruitment scheme, which aims to make a flying career accessible to all through an innovative funding solution.
IATA Operational Safety Audit (IOSA)	The IATA Operational Safety Audit (IOSA) is an internationally recognised and accepted evaluation system designed to assess the operational management and control systems of an airline.
International Civil Aviation Organization (ICAO)	A specialised agency of the United Nations, the International Civil Aviation Organisation was created in 1944 to promote the safe and orderly development of international civil aviation throughout the world. It sets standards and regulations necessary for aviation safety, security, efficiency and regularity, as well as for aviation environmental protection.
JOLCO	Japanese Operating Lease with Call Option. A special purpose vehicle is established with a 100% ownership by a Japanese entity, some of the equity is provided by investors and the remainder comes from lenders (banks).
Load factor	The proportion of seats filled by revenue passengers, weighted by distance flown.
Metal swaps	The transfer of a route from one joint venture partner to the other so that although the flights continue to be offered by both airlines it is operated by the other joint venture partner.
Non-fuel unit costs	This is how much each seat on a flight costs us for every kilometre it operates once the effect of fuel price and hedging is removed.

Glossary continued

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