Financial statements

Consolidated statement of comprehensive income

for the year ended 31 December 2017

	Note	For the year ended 31 December 2017			For the year ended 31 December 2016		
		Ordinary activities before exceptional items £m	Exceptional items and fair value movements (Note 7) £m	Total £m	Ordinary activities before exceptional items £m	Exceptional items and fair value movements (Note 7) £m	Total £m
Total revenue	5	**2,663.7**	**–**	**2,663.7**	2,689.9	–	2,689.9
Physical fuel		**(548.6)**	**–**	**(548.6)**	(435.2)	–	(435.2)
Fuel hedging		**4.4**	**(4.4)**	**–**	(179.2)	179.2	–
Airline traffic direct operating costs		**(533.7)**	**–**	**(533.7)**	(518.8)	–	(518.8)
Aircraft costs		**(276.7)**	**(7.7)**	**(284.4)**	(268.0)	(25.6)	(293.6)
Tour and other marketing costs		**(521.5)**	**(6.6)**	**(528.1)**	(497.6)	(19.8)	(517.4)
Employee remuneration	8	**(378.1)**	**–**	**(378.1)**	(364.5)	–	(364.5)
Other operating and overhead costs		**(229.1)**	**(1.7)**	**(230.8)**	(196.2)	(20.4)	(216.6)
Engineering and maintenance costs		**(139.5)**	**–**	**(139.5)**	(140.6)	–	(140.6)
Other depreciation and amortisation		**(54.6)**	**–**	**(54.6)**	(51.9)	–	(51.9)
Other income		**1.6**	**–**	**1.6**	1.9	–	1.9
Operating (loss) / profit		**(12.1)**	**(20.4)**	**(32.5)**	39.8	113.4	153.2
Profit on disposal of property, plant and equipment		**0.8**	**11.7**	**12.5**	1.5	23.2	24.7
Restructuring		**–**	**(6.6)**	**(6.6)**	–	(2.7)	(2.7)
		0.8	**5.1**	**5.9**	1.5	20.5	22.0
Finance income		**5.1**	**–**	**5.1**	3.7	–	3.7
Finance expense		**(22.2)**	**–**	**(22.2)**	(22.0)	–	(22.0)
Net finance costs	9	**(17.1)**	**–**	**(17.1)**	(18.3)	–	(18.3)
Fair value (losses) / gains on derivative contracts		**–**	**(15.3)**	**(15.3)**	–	74.7	74.7
(Loss) / profit before tax	6	**(28.4)**	**(30.6)**	**(59.0)**	23.0	208.6	231.6
Tax credit / (charge)	10			**10.5**			(44.3)
(Loss) / profit for the year				**(48.5)**			187.3
Other comprehensive income (items that will not be reclassified to the income statement):							
Exchange translation differences				**0.2**			(0.9)
Total comprehensive (loss) / income for the year				**(48.3)**			186.4

The loss for the year for the Company is £0.2m (2016: £0.2m loss).

All amounts relate to continuing operations.

The notes on pages 60 to 86 form part of these financial statements.

Consolidated statement of financial position

as at 31 December 2017

	Note	As at 31 December 2017 £m	As at 31 December 2016 £m
Non-current assets			
Intangible assets and goodwill	11	**170.1**	164.2
Property, plant and equipment	12	**702.8**	672.1
Investments	14	**0.0**	0.0
Derivative financial instruments	15	**5.1**	8.5
Trade and other receivables	16	**16.9**	31.1
		894.9	875.9
Current assets			
Inventory	17	**31.3**	30.2
Trade and other receivables	16	**273.5**	250.1
Derivative financial instruments	15	**30.2**	47.0
Cash and cash equivalents	18	**444.8**	525.9
Restricted cash	18	**49.1**	42.5
		828.9	895.7
Total assets		**1,723.8**	1,771.6
Current liabilities			
Borrowings	19	**(17.6)**	(17.2)
Trade and other payables including deferred income	20	**(1,125.8)**	(1,050.5)
Provisions	21	**(35.8)**	(47.6)
Derivative financial instruments	15	**(20.8)**	(8.5)
		(1,200.0)	(1,123.8)
Net current (liabilities)		**(371.1)**	(228.1)
Total assets less current liabilities		**523.8**	647.8
Non-current liabilities			
Borrowings	19	**(453.8)**	(462.8)
Deferred tax	13	**(12.9)**	(23.9)
Trade and other payables including deferred income	20	**(10.4)**	(50.0)
Provisions	21	**(68.3)**	(83.6)
Derivative financial instruments	15	**(3.4)**	(4.2)
		(548.8)	(624.5)
Net (liabilities) / assets		**(25.0)**	23.3
Equity			
Ordinary share capital		**100.0**	100.0
Preference share capital		**50.0**	50.0
Other reserves		**(232.7)**	(230.3)
Retained earnings		**57.7**	103.6
Total equity		**(25.0)**	23.3

These financial statements were approved by the Board of Directors on 14 March 2018 and were signed on its behalf by:

Tom Mackay
Director
Registered number: 08867781

The notes on pages 60 to 86 form part of these financial statements.

Company statement of financial position
as at 31 December 2017

	Note	As at 31 December 2017 £m	As at 31 December 2016 £m
Non-current assets			
Investments	14	**289.4**	289.4
		289.4	289.4
Current assets			
Trade and other receivables	16	**–**	–
		–	–
Total assets		**289.4**	289.4
Current liabilities			
Trade and other payables	20	**(0.8)**	(0.6)
		(0.8)	(0.6)
Net current assets / (liabilities)		**(0.8)**	(0.6)
Net assets / (liabilities)		**288.6**	288.8
Equity			
Ordinary share capital		**100.0**	100.0
Preference share capital		**50.0**	50.0
Other reserves		**139.4**	139.4
Retained earnings		**(0.8)**	(0.6)
Total equity		**288.6**	288.8

These financial statements were approved by the Board of Directors on 14 March 2018 and were signed on its behalf by:

Tom Mackay
Director
Registered number: 08867781

The notes on pages 60 to 86 form part of these financial statements.

Consolidated statement of changes in equity
as at 31 December 2017

	Ordinary Share Capital £m	Preference Share Capital £m	Share Premium £m	Other Reserves £m	Retained Earnings £m	Total £m
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**
Balance at 1 January 2017	100.0	50.0	(0.0)	(230.3)	103.6	23.3
Loss for the year	–	–	–	–	(48.5)	(48.5)
Exchange translation differences	–	–	–	0.2	–	0.2
Adjustment arising from transfer of trade and assets	–	–	–	(2.6)	2.6	–
Balance at 31 December 2017	**100.0**	**50.0**	**(0.0)**	**(232.7)**	**57.7**	**(25.0)**

In 2016, a project was undertaken to simplify the Virgin Atlantic Limited Group structure. As a result a number of entities within the VAA Group were placed into voluntary liquidation (note 22), and the trade and assets of Bug Leasing Limited were transferred to Fit Leasing Limited at historic cost. Whilst no adjustment arose at Group level, the transaction led to the reclassification of £6.0m to the capital contribution reserve. In 2017, a true up of the tax liability in Bug Leasing Limited led to the reclassification of £2.6m to the capital contribution reserve.

Company statement of changes in equity
as at 31 December 2017

	Ordinary Share Capital £m	Preference Share Capital £m	Other Reserves £m	Retained Earnings £m	Total £m
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**
Balance at 1 January 2017	100.0	50.0	139.4	(0.6)	288.8
Loss for the year	–	–	–	(0.2)	(0.2)
Balance at 31 December 2017	**100.0**	**50.0**	**139.4**	**(0.8)**	**288.6**

Allotted, called up and fully paid share capital includes 100,000,000 (2016: 100,000,000) ordinary shares of £1 each and 50,000 (2016: 50,000) preference shares of £1,000 each, linked to LIBOR plus 2.5%.

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

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

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

The notes on pages 60 to 86 form part of these financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2017

	Note	For the year ended 31 December 2017 £m	For year ended 31 December 2016* £m
Net cash from operating activities before exceptional items	28	**90.9**	128.4
Adjustments for exceptional items	28	**(10.6)**	(2.6)
Net cash from operating activities	28	**80.3**	125.8
Purchase of property, plant and equipment		**(220.3)**	(292.2)
Purchase of intangible assets		**(19.4)**	(60.4)
Proceeds from sale of property, plant and equipment and intangible assets		**104.5**	181.3
Interest received		**5.1**	3.7
Net cash used in investing activities		**(130.1)**	(167.6)
Payment of long term borrowings		**(5.8)**	(42.4)
Proceeds from issue of new bonds		**31.4**	–
Payment of finance lease instalments		**(12.9)**	(10.3)
Net cash from / (used in) financing activities		**12.7**	(52.7)
Net decrease in cash and cash equivalents		**(37.1)**	(94.5)
Cash and cash equivalents at beginning of year (including restricted cash)	18	**568.4**	595.6
Effect of foreign exchange rate changes		**(37.4)**	67.3
Cash and cash equivalents at end of year (including restricted cash)	18	**493.9**	568.4

* The presentation of certain items within the cash flow statement has been restated for the prior year ended 31 December 2016. See note 28.

The notes on pages 60 to 86 form part of these financial statements.

Notes forming part of the financial statements

1 General information

Virgin Atlantic Limited, (the 'Company') and its subsidiaries (the 'Group') is principally a passenger airline with a significant tour operations component, operating primarily from the United Kingdom. Further details on the nature of the Group's operations and its principal activities can be found within the Strategic Report on pages 12 to 41.

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 51.

2 Statement of compliance with IFRSs

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

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 ('FRS 100') issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2017 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 liability position, which could impact the business, consider that the preparation of the financial statements on a going concern basis remains appropriate. The Group has adequate resources to be able to meet its current obligations for the foreseeable future.

The 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.

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.

3 Accounting policies (continued)

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.

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 22).

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

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

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

Frequent flyer programme revenue

For miles earned by members of the Group's Frequent Flyer Programme 'Flying Club', an element of revenue representing the 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; determined by reference to the Group's interline rate

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

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

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 either income or as reduction of costs in the income statement. Income will be recognised where it is over and above the costs suffered, when all performance obligations are met, including when a contractual entitlement exists, it can be reliably measured and it is probable that economic benefits will accrue to the Group. When compensation is received to specifically cover additional costs suffered, it will be offset against those corresponding costs. 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.

3 Accounting policies (continued)

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

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

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

Employee benefits

Pension

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

Share based payments: Long-term incentive scheme

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

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

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

Intangible assets

Intangible assets are held at cost and amortised on a straight-line basis over their economic life, or where deemed to have an indefinite economic life and are not amortised, but tested annually for impairment. The carrying value of intangibles is reviewed for impairment if and when events or changes in circumstances indicate the carrying value may not be recoverable.

Landing rights

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

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

Goodwill

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

Software

The cost of purchase or development of computer software that is separable from an item of related hardware is capitalised separately. Core system assets are amortised over a period of twelve years; other software is amortised over a period not exceeding six years on a straight-line basis. Computer software and systems are carried at cost less accumulated amortisation. Development expenditure on activities is capitalised if the product or process is technically and commercially feasible and the Group intends to, and has the technical ability and sufficient resources to, complete development and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials and direct labour. Other development expenditure is recognised in the income statement as an expense as incurred.

3 Accounting policies (continued)

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

Property plant and equipment ("PPE")

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

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

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

Fleet

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

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.

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

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

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

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

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

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

Fixtures and fittings	20% – 25% on cost
Plant and equipment	10% – 33% on cost
Computer equipment and software	8% – 33% on cost
Motor vehicles	25% on cost
Leasehold improvements	lower of useful economic life or period of lease

Non-current assets held for sale

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

Impairment of non-current assets

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

Aircraft deposits

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

3 Accounting policies (continued)

Leases

Operating leases

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

Sale and leaseback

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

Finance lease

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

Inventories

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

Provisions

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

Leased aircraft maintenance provisions

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

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

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

- No charge is recorded during the initial period of lease agreements where no compensation or maintenance is required prior to hand-back.
- After a component or maintenance interval has passed the trigger point such that the Group is contractually obliged to carry out the specified work (in order to meet the return conditions), a full provision for the cost of work is recorded. To the extent that this provision represents an increase to any provision accrued for usage up to the trigger point, a maintenance asset is recorded within property, plant, and equipment. The asset is depreciated over the expected period to the next half-life compensation point, or the end of the lease, whichever is sooner.

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

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

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

Restructuring provisions

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

Property provisions

Leasehold dilapidations and onerous lease provisions are discounted only when the interest rate has a material impact on the provision. Any associated unwinding of the discount is taken to the income statement.

Passenger delay compensation

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

3 Accounting policies (continued)

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.

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

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

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

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

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

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

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

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

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.

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

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

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

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

Impact of new International Financial Reporting Standards and interpretations
The following standards and interpretations issued by the International Accounting Standards Board have been implemented for the year ended 31 December 2017; however the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

IFRS 15 Revenue from contracts with customers – effective for the year ending 31 December 2018.

The Group adopted IFRS 15 on 1 January 2018 and will apply the fully retrospective transition method.

The standard provides a single model for measuring and recognising revenue arising from contracts with customers. It supersedes all existing revenue requirements in IFRS, including IAS18 Revenue, IAS11 Construction Contracts and IFRC13 Customer Loyalty Programmes. Under IFRS 15, revenue is recognised when customers obtain control of goods or services and so are able to direct the use, and obtain the benefits, of those goods or services.

3 Accounting policies (continued)

The Group has reviewed all revenue streams as part of its IFRS 15 impact assessment. Whilst the majority of revenues are already recognised in line with the requirements of the new standard, revenue recognition from the Frequent Flyer Programme 'Flying Club' is impacted due to the way in which the fair value of a mile is calculated. As a consequence, this also impacts the amount of revenue deferred on to the balance sheet. On adoption, the Group expects an increase in the deferred revenue liability of between £6m and £12m due to an increase in the fair value of a mile.

Revenue on change and booking fees will also be deferred from service date to departure date resulting in an increase in the amount of revenue deferred at the end of 2017. This impact is not expected to be material.

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

The Group is expecting to adopt IFRS 16 on 1 January 2019 and based on current modelling, is likely to apply a modified transition method.

The standard provides a single lessee accounting model, specifying how leases are recognised, measured, presented and disclosed. Under IFRS 16, the Group will capitalise all aircraft and properties currently held under operating leases. Operating lease expenses will be replaced by a depreciation expense on right of use assets recognised and an interest expense as the interest rate implicit in the lease liabilities unwind.

The full impact of adoption of the standard is still being evaluated, but is likely to have a material impact to both the balance sheet net liability position, and the income statement, particularly as for future reporting periods after adoption, foreign exchange movements on lease obligations, which are predominantly denominated in US dollars, will be measured at each balance sheet date, however the right of use asset will be recognised at the historic exchange rate. This will create volatility in the income statement.

IFRS 9 Financial Instruments – effective for the year ending 31 December 2018

The Virgin Atlantic Group adopted IFRS 9 on 1 January 2018 and will apply the standard prospectively with no retrospective adjustments required.

The Group does not anticipate any material change in the classification or measurement of its financial instruments or in its hedging activities on adoption of the standard.

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

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS12
- Disclosure Initiative – Amendments to IAS7

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 20)
For the Group's frequent 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.

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

	Group	
Revenue	**For year ended 31 December 2017 £m**	For year ended 31 December 2016 £m
Airline traffic and cargo operations	**2,186.1**	2,240.6
Holiday tour operations	**611.7**	606.7
Other revenue	**11.1**	9.9
Intra-group revenue	**(145.2)**	(167.3)
	2,663.7	2,689.9
Operating (loss) / profit		
Airline traffic and cargo operations	**(40.4)**	154.8
Holiday tour operations	**8.0**	(1.5)
Other and intra-group eliminations	**(0.1)**	(0.1)
	(32.5)	153.2
Net (liabilities) / assets		
Airline traffic and cargo operations	**47.8**	91.7
Holiday tour operations	**53.9**	58.6
Other and intra-group eliminations	**(126.7)**	(127.0)
	(25.0)	23.3

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

	Group	
	For year ended 31 December 2017 £m	For year ended 31 December 2016 £m
Revenue by source		
United Kingdom	**1,838.6**	1,942.6
North America and the Caribbean	**640.3**	621.8
Far East	**91.6**	107.4
Africa	**66.4**	59.9
Other	**172.0**	125.5
Intra-group revenue	**(145.2)**	(167.3)
	2,663.7	2,689.9
Revenue by destination		
North America	**1,810.9**	1,891.9
Caribbean	**379.1**	402.8
Far East	**267.5**	304.6
Africa	**161.1**	142.0
Other	**190.3**	115.9
Intra-group revenue	**(145.2)**	(167.3)
	2,663.7	2,689.9

The Company had no income in the current year (2016: £nil).

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

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

6 Loss before tax

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

	Group		Company	
	For year ended 31 December 2017 £m	For year ended 31 December 2016 £m	**For year ended 31 December 2017 £m**	For year ended 31 December 2016 £m
Depreciation of property, plant and equipment (note 12)	**(83.4)**	(96.2)	**–**	–
Amortisation of intangible assets (note 11)	**(21.8)**	(20.4)	**–**	–
Rentals under operating leases:				
Aircraft and related equipment	**(225.3)**	(215.1)	**–**	–
Plant and machinery	**(12.8)**	(11.7)	**–**	–
Land, buildings and retail space	**(29.0)**	(29.8)	**–**	–
Contribution to pension schemes	**(28.4)**	(26.5)	**–**	–
Remuneration of the auditors and their associates:				
Audit services	**(0.5)**	(0.5)	**(0.1)**	(0.1)
Other services	**(0.9)**	(1.0)	**–**	–

Fees payable to the Company's auditor and its associates for audit services are £97,000 (2016: £101,000). Fees payable to the Group's auditor and its associates for services other than the statutory audit of the company and subsidiaries are as follows:

	Group	
Fees payable for:	**For year ended 31 December 2017 £m**	For year ended 31 December 2016 £m
Tax compliance	**(0.1)**	(0.2)
Tax advice	**(0.1)**	(0.4)
Other non-audit services	**(0.1)**	(0.1)
Other assurance services	**(0.2)**	(0.0)
Customer analysis	**(0.4)**	(0.3)
Total fees for other services	**(0.9)**	(1.0)

7 Exceptional items

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

	Group	
	For year ended 31 December 2017 £m	For year ended 31 December 2016 £m
Aircraft costs	**(7.7)**	(25.6)
Accelerated depreciation on aircraft equipment (i)	**(3.1)**	(14.9)
Impairment of aircraft rotables stocks (ii)	**–**	(10.7)
Onerous lease (vi)	**(4.6)**	–
Fuel hedging reclassified to fair value (gains) / losses on derivatives (iii)	**(4.4)**	179.2
Forex derivative (gains) / losses reclassified to fair value (gains) / losses on derivatives (iii)	**(8.3)**	(40.2)
Reclassified from other operating income / expense	**(1.7)**	(20.4)
Reclassified from tour and other marketing costs	**(6.6)**	(19.8)
Profit on disposal of aircraft equipment (iv)	**11.7**	23.2
Restructuring costs (v)	**(6.6)**	(2.7)
Fair value (losses) / gains on derivatives (iii)	**(15.3)**	74.7
	(30.6)	208.6
The fair value (losses) / gains on derivatives can be analysed as follows:		
(Loss) / gain on fair value movements	**(28.0)**	213.7
(Loss) / gain on fuel derivatives settled during the year (reclassified – see above)	**4.4**	(179.2)
Gain on forex derivatives settled during the year (reclassified – see above)	**8.3**	40.2
	(15.3)	74.7

7 Exceptional items (continued)

The Group separately presents certain items as exceptional. These are items which in the judgement 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 £3.1m (2016: £14.9m) on its A330-300 fleet. The acceleration relates to cabin components which are scheduled to exit the fleet earlier than anticipated and replaced with a new cabin interior.

(ii) During the prior 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 recognised a loss of £10.7m in 2016.

(iii) Fuel costs include gains of £4.4m (2016: losses of £179.2m) recognised on maturity of fuel derivative contracts. Other operating and overhead costs includes gains of £1.7m (2016: gains of £20.4m) and tour and other marketing costs include £6.6m (2016: £19.8m) 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 separately within the statement of comprehensive income as an exceptional item.

(iv) The Group purchased and subsequently entered into a sale and operating leaseback of one (2016: two) Boeing 787 aircraft. Profits on sale and leaseback amounted to £11.7m (2016: profits of £23.2m). The profits arising from the sale and operating leaseback of the aircraft have been reclassified and are shown net of any supplier compensation received. See note 12 for further details.

(v) Restructuring costs of £6.6m (2016: £2.7m) 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. This programme has involved a fundamental appraisal of how the business operates in both front and back office functions over a number of years; it is expected to be completed in 2018.

(vi) Onerous lease costs of £4.6m (2016: £nil) have been recognised in the year relating to rentals incurred on an A346 aircraft which was parked for a portion of the year as it was surplus to requirements.

8 Employee remuneration

(i) Head count and total remuneration

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

	Group	
	2017 Number	2016 Number
Management and administration	1,294	1,325
Flight crew	812	781
Cabin crew	3,130	3,244
Reservations and sales	2,104	2,163
Engineering, cargo and production	963	961
	8,303	8,474

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

	Group	
	2017 £m	2016 £m
Wages and salaries	324.8	316.8
Social security costs	34.4	30.9
Other pension costs	28.7	27.9
	387.9	375.6

Included in the above are amounts included within tour and other marketing costs within the Statement of Comprehensive Income (2017: £9.9m, 2016: £11.1m) which relate to retail staff costs.

The Virgin Atlantic Limited Group operates a defined contribution pension scheme. The pension cost charged to the income statement for the year represents contributions payable by the Group to the scheme. The assets of the schemes are held separately from those of the Group in independently administered funds. There were outstanding contributions of £3.7m at 31 December 2017 (2016: £3.8m).

The Company has no salaried employees (2016: nil).

8 Employee remuneration (continued)

(ii) Aggregate directors' remuneration

During the year / period of their service, the emoluments of the directors (2017: 3, 2016: 2) of the Group and Company were:

	Group	
	For year ended 31 December 2017 £m	For year ended 31 December 2016* £m
Total emoluments		
Aggregate emoluments	**2.3**	1.8
Company contributions to money purchase pension schemes	**0.2**	0.1
	2.5	1.9
Highest paid director		
Aggregate emoluments and other benefits	**1.1**	1.0
Company contributions to money purchase pension schemes	**0.1**	0.1
	1.2	1.1

* The 2016 comparatives have been restated to include amounts for services rendered in 2016.

Retirement benefits are accruing to 3 (2016: 2) directors under money purchase pension schemes.

During the year an amount of £0.2m (2016: £0.2m) was paid to shareholders in respect of the services of certain shareholder-appointed non-executive directors of the Company.

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

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

In May 2015, the Group granted 108,561 (38,420 A1 shares of £1 each and 70,141 A2 shares of £0.01 each) Share Appreciation Rights ("SARs") within Virgin Atlantic Two Limited, to employees that entitle them to a cash payment after four years of service. The SARs expire at the end of the four-year period after grant date. The amount of the cash payment is determined based on the increase in the earnings valuation of the Group between the grant date and the time of exercise. The valuation of the SARs is made on an annual basis using external third parties. The fair value of the SARs is £nil as at 31 December 2017 (2016: £nil).

9 Net finance costs

		Group	
	Note	**For year ended 31 December 2017 £m**	For year ended 31 December 2016 £m
Finance income			
Bank deposits		**4.6**	3.5
Unlisted investments	14	**0.5**	0.2
		5.1	3.7
Finance expense			
Finance leases and hire purchase contracts	19	**(13.8)**	(12.1)
Unwinding of discount on provisions	21	**(0.3)**	(0.9)
External loans	19	**(10.3)**	(9.2)
		(24.4)	(22.2)
Interest capitalised on aircraft progress payments	12	**2.2**	0.2
		(22.2)	(22.0)
Net finance costs		**(17.1)**	(18.3)

10 Tax

Analysis of the tax expense during the period:

	Group	
	For year ended 31 December 2017 £m	For year ended 31 December 2016 £m
Current tax		
Adjustments in respect of prior periods	**(0.3)**	1.9
Non – UK current tax	**(0.2)**	(0.3)
Total current tax (charge) / credit	**(0.5)**	1.6
Deferred tax		
Origination and reversal of timing differences	**9.0**	(48.5)
Adjustments in respect of prior periods	**2.0**	(1.6)
Effect of decrease in tax rate	**–**	4.2
Total deferred tax credit / (charge)	**11.0**	(45.9)
Tax credit / (charge)	**10.5**	(44.3)

The standard rate of UK corporation tax for the period is 19.25% (2016: 20%). The total tax credit of 17.80% 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 credit / (charge) for the period differs from that computed by applying the standard tax rate to the profit before tax as reconciled below:

	Group	
	For year ended 31 December 2017 £m	For year ended 31 December 2016 £m
(Loss) / Profit before taxation	**(59.0)**	231.6
Tax at the standard rate at 19.25% (2016: 20%)	**11.4**	(46.3)
Factors affecting the credit / (charge) for the year:		
Income not taxable	**0.2**	1.4
Expenses not deductible for tax purposes	**(2.3)**	(0.9)
Effect of reduction in deferred tax rate	**(1.2)**	4.2
Fixed asset differences	**(0.3)**	1.2
Adjustments in respect of prior periods	**1.6**	0.3
Impairment not deductible for tax purposes	**–**	(1.1)
UK government reliefs	**5.0**	4.7
Permanent differences	**(1.4)**	(2.9)
Holdover relief	**(2.5)**	(4.9)
Total current tax credit / (charge)	**10.5**	(44.3)

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

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

11 Intangible assets and goodwill

	Group				
	Goodwill £m	Landing Slots £m	Other intangibles £m	Assets under construction £m	Total £m
Cost					
At 1 January 2017	8.7	91.1	190.9	–	290.7
Additions	–	–	–	19.5	19.5
Disposals	–	–	(0.9)	–	(0.9)
Transfers from property, plant and equipment	–	–	–	8.3	8.3
Reclassifications	–	–	18.5	(18.5)	–
At 31 December 2017	8.7	91.1	208.5	9.3	317.6
Amortisation					
At 1 January 2017	3.7	10.6	112.2	–	126.5
Amortisation	–	–	21.8	–	21.8
Disposals	–	–	(0.8)	–	(0.8)
At 31 December 2017	3.7	10.6	133.2	–	147.5
Carrying amount					
At 31 December 2017	5.0	80.5	75.3	9.3	170.1
Carrying amount					
At 31 December 2016	5.0	80.5	78.7	–	164.2

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

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

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

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

Goodwill
At 31 December 2017 the goodwill balance was attributable to Virgin Vacations Inc. (purchased 13 April 2011), Bales Worldwide Limited (purchased 14 December 2009) and Virgin Holidays Cruises Limited (purchased 8 October 2007).

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

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

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

Software
Core systems are amortised on a straight line basis over their useful life of twelve years, and other software amortised over a period not exceeding six years. The carrying amount relates mainly to AIR4, the passenger service system.

The Company did not have any intangible assets (2016: £nil).

12 Property, plant and equipment

	Group			
	Aircraft, rotable spares and ancillary equipment £m	Other £m	Assets under construction £m	Total £m
Cost				
At 1 January 2017	953.3	188.6	40.1	1,182.0
Additions	194.3	3.1	28.3	225.7
Disposals	(156.8)	(7.1)	–	(163.9)
Transfers to intangible assets	–	–	(8.3)	(8.3)
Reclassifications	8.3	12.3	(20.6)	–
At 31 December 2017	999.1	196.9	39.5	1,235.5
Accumulated depreciation				
At 1 January 2017	395.1	114.8	–	509.9
Depreciation for the year	69.4	14.0	–	83.4
Disposals	(53.7)	(6.9)	–	(60.6)
At 31 December 2017	410.8	121.9	–	532.7
Carrying amount				
At 31 December 2017	588.3	75.0	39.5	702.8
Carrying amount				
At 31 December 2016	558.2	73.8	40.1	672.1

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

	Group	
	2017 £m	2016 £m
Carrying amount		
Aircraft, rotable spares and ancillary equipment	171.6	181.8
Depreciation charged for the year		
Aircraft, rotable spares and ancillary equipment	11.9	11.8

Freehold land with a cost of £4.4m (2016: £4.4m) has not been depreciated. Included in aircraft, rotable spares and ancillary equipment are progress payments of £122.1m (2016: £34.3m). These amounts are not depreciated. Interest capitalised by the Group on aircraft progress payments included in additions during the year amounted to £2.2m (2016: £0.2m).

During the year, the Group purchased, and subsequently, entered into a sale and operating leaseback of one Boeing 787 aircraft, and also purchased one Airbus A340 aircraft.

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. For finance lease obligations, see note 19.

No impairments arose on the disposal of any aircraft. The total profit on the disposal of aircraft above (excluding supplier settlements – see note 7 for further details) was £0.8m (2016: £1.2m).

The Company did not have any property, plant and equipment (2016: £nil).

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% (2016: 17%):

	Group	
	2017 £m	2016 £m
Accelerated capital allowances	**0.6**	(12.3)
Other timing differences	**(1.1)**	(3.9)
UK tax losses	**4.4**	6.9
Holdover relief	**(16.8)**	(14.6)
	(12.9)	(23.9)

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 2016	21.6
Charged to statement of comprehensive income	(45.9)
Charged to other comprehensive income	0.4
Balance as at 1 January 2017	**(23.9)**
Charged to statement of comprehensive income	**11.0**
Balance as at 31 December 2017	**(12.9)**

The Company did not have any deferred tax (2016: £nil).

14 Investments

	Group		Company	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Non-current				
Investment in Airline Group Limited	**0.0**	0.0	**–**	–
Interest in subsidiaries	**–**	–	**289.4**	289.4
	0.0	0.0	**289.4**	289.4

The unlisted investment represents the Group and Company's investment in Airline Group Limited which consists of equity held at cost of £1,575 (2016: £1,575).

For further information on the subsidiaries of the Group, see note 22.

Investments in subsidiaries are carried at cost.

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	
	2017 £m	2016 £m
Non-current assets		
Foreign currency	**0.1**	2.6
Fuel	**5.0**	5.9
	5.1	8.5
Current assets		
Foreign currency	**6.8**	31.5
Fuel	**23.4**	15.5
	30.2	47.0
Current liabilities		
Foreign currency	**(19.3)**	(3.1)
Fuel	**(1.5)**	(5.4)
	(20.8)	(8.5)
Non-current liabilities		
Foreign currency	**(1.1)**	(0.8)
Fuel	**(2.3)**	(3.4)
	(3.4)	(4.2)
	11.1	42.8

	Group	
	2017 Quantity (million)	2016 Quantity (million)
Nominal amounts		
Foreign currency (USD)	**539.8**	492.4
Foreign currency (Other, represented in GBP)	**11.0**	13.5
Fuel (Barrels)	**4.9**	5.9

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

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

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

15 Derivative financial instruments (continued)

	Group		
	Gross amount £m	Amount not set off £m	Net amount £m
For the year ended 31 December 2017:			
Derivative financial instruments			
Assets	**35.3**	**(19.0)**	**16.3**
Liabilities	**(24.2)**	**19.0**	**(5.2)**
	11.1	**–**	**11.1**

	Group		
	Gross amount £m	Amount not set off £m	Net Amount £m
For the year ended 31 December 2016:			
Derivative financial instruments			
Assets	55.5	(12.3)	43.2
Liabilities	(12.7)	12.3	(0.4)
	42.8	–	42.8

The Company did not hold any derivative financial instruments (2016: £nil).

16 Trade and other receivables

	Group		Company	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Non-current				
Other receivables	**16.9**	31.1	**–**	–
	16.9	31.1	**–**	–
Current				
Trade receivables	**149.2**	143.1	**–**	–
Provision for doubtful receivables	**(0.8)**	(5.8)	**–**	–
Net trade receivables	**148.4**	137.3	**–**	–
Other receivables	**72.1**	54.0	**–**	–
Prepayments and accrued income	**53.0**	58.8	**–**	–
	273.5	250.1	**–**	–

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

	2017 £m	2016 £m
Ageing of past due but not impaired receivables		
1-30 days	**14.6**	13.6
31-60 days	**0.8**	0.9
61-90 days	**0.2**	0.0
91-120 days	**0.0**	0.0
120+ days	**0.7**	1.6
Total	**16.3**	16.1

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

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

17 Inventories

	Group	
	2017 £m	2016 £m
Aircraft consumable spares	**26.3**	22.9
Inflight stock	**4.8**	7.1
Fuel	**0.2**	0.2
	31.3	30.2

During the year, the inventories of £17.4m (2016: £10.7m) were recognised as an expense and included within engineering and maintenance costs.

The Company did not have any inventories (2016: £nil).

18 Cash, cash equivalents and restricted cash

	Group	
	2017 £m	2016 £m
Cash at bank and in hand	**445.0**	530.1
Bank overdrafts	**(0.2)**	(4.2)
Cash and cash equivalents	**444.8**	525.9
Restricted cash	**49.1**	42.5
	493.9	568.4

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 (2016: £nil).

19 Borrowings

	Group	
	2017 £m	2016 £m
Non-current		
Obligations under finance leases (i)	**(222.8)**	(257.4)
Senior Bonds – A-1 (ii)	**(175.5)**	(178.9)
Senior Bonds – A-2 (ii)	**(25.1)**	(26.5)
Senior Bonds – A-3 (ii)	**(30.4)**	–
	(453.8)	(462.8)
Current		
Obligations under finance leases (i)	**(12.1)**	(12.6)
Senior Bonds – A-1 (ii)	**(3.3)**	(3.2)
Senior Bonds – A-2 (ii)	**(1.4)**	(1.4)
Senior Bonds – A-3 (ii)	**(0.8)**	–
	(17.6)	(17.2)

(i) See note 25 for a full breakdown of all commitments under finance leasing and hire purchase agreements.

(ii) In December 2015, the Group issued £220m of Senior Bonds to bond investors (£190m Class 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. 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 occurring in part over the life of the bonds and £16m payable after 14 years. The value of the bonds is stated after transaction costs.

19 Borrowings (continued)

	Group		
	Sterling £m	US dollars £m	Total £m
Analysis of borrowings by currency as at 31 December 2017:			
Obligations under finance leases and hire purchase agreements (i)	**–**	**(234.9)**	**(234.9)**
Senior Bonds – A-1 (ii)	**(178.8)**	**–**	**(178.8)**
Senior Bonds – A-2 (ii)	**(26.5)**	**–**	**(26.5)**
Senior Bonds – A-3 (ii)	**(31.2)**		**(31.2)**
	(236.5)	**(234.9)**	**(471.4)**
Analysis of borrowings by currency as at 31 December 2016:			
Obligations under finance leases and hire purchase agreements (i)	–	(270.0)	(270.0)
Senior Bonds – A-1 (ii)	(182.1)	–	(182.1)
Senior Bonds – A-2 (ii)	(27.9)	–	(27.9)
	(210.0)	(270.0)	(480.0)

The maturity profile of borrowings is disclosed in note 27.

The Company did not have any borrowings (2016: £nil).

20 Trade and other payables including deferred income

	Group		Company	
	2017 £m	2016 £m	2017 £m	2016 £m
Non-current				
Forward sales of passenger carriage and holidays	**(0.9)**	–	**–**	–
Accruals	**(0.0)**	(2.3)	**–**	–
Other revenue received in advance	**(9.5)**	(47.7)	**–**	–
	(10.4)	(50.0)	**–**	–
Current				
Trade payables	**(64.0)**	(36.8)	**–**	–
Forward sales of passenger carriage and holidays	**(503.6)**	(472.1)	**–**	–
Unredeemed revenue: customer loyalty programme	**(148.2)**	(146.9)	**–**	–
Other revenue received in advance	**(44.3)**	(16.7)	**–**	–
Flight and airport charges	**(99.1)**	(86.1)	**–**	–
Amounts owed to other Group companies	**(4.3)**	(4.4)	**(0.8)**	(0.5)
Corporate tax payable	**0.0**	(0.1)	**–**	–
Other taxes and social security	**(12.3)**	(12.5)	**–**	–
Other payables	**(2.8)**	(4.4)	**–**	–
Accruals	**(247.2)**	(270.5)	**–**	(0.1)
	(1,125.8)	(1,050.5)	**(0.8)**	(0.6)

Included within current other payables is an amount of £nil (2016: £2.3m) relating to margin calls on fuel and foreign currency derivative positions.

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 (2016: £nil).

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

21 Provisions

	Group 2017 £m	2016 £m
Non-current		
Maintenance	**(61.4)**	(81.7)
Leasehold dilapidation	**(6.9)**	(1.9)
	(68.3)	(83.6)
Current		
Maintenance	**(19.1)**	(22.3)
Onerous leases	**(1.8)**	(6.9)
Leasehold dilapidation	**(1.1)**	(6.9)
Legal claims	**(12.2)**	(11.5)
Restructuring costs	**(1.6)**	–
	(35.8)	(47.6)

	Group					
	Maintenance £m	Onerous leases £m	Leasehold dilapidations £m	Legal claims £m	Restructuring costs £m	Total £m
As at 1 January 2017	**(104.0)**	**(6.9)**	**(8.8)**	**(11.5)**	**–**	**(131.2)**
Amounts (provided) / released in the year	**(8.4)**	**(4.6)**	**(1.7)**	**(8.3)**	**(1.6)**	**(24.6)**
Amounts utilised in the year	**22.3**	**9.7**	**2.8**	**8.0**	**–**	**42.8**
Other movements	**9.6**	**–**	**–**	**(0.4)**	**–**	**9.2**
Unwinding of discount	**–**	**–**	**(0.3)**	**–**	**–**	**(0.3)**
At 31 December 2017	**(80.5)**	**(1.8)**	**(8.0)**	**(12.2)**	**(1.6)**	**(104.1)**

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. In the current year, a provision was also created (and subsequently utilised and released) for a parked aircraft which was surplus to requirement for part of the year (for further details, see note 7).

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 (2016: £nil).

22 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 2017 are:

	Country of incorporation or registration	% Ordinary issued shares	Principal activity
Subsidiaries			
Virgin Atlantic Two Limited	England and Wales	100	Holding company
Virgin Travel Group Limited	England and Wales	100	Holding company
Virgin Atlantic Airways Limited	England and Wales	100	Airline operations
Virgin Holidays Limited	England and Wales	100	Tour operations
Barbados Enterprises plc	England and Wales	0	Investment company
Bug Leasing Limited	Jersey	100	Leasing of aircraft
Fit Leasing Limited	Jersey	100	Leasing of aircraft
VA Cargo Limited	England and Wales	100	Cargo management
VAA Holdings Jersey Limited	Jersey	100	Holding company
VAA Holdings UK Limited	England and Wales	100	Holding company
Virgin Atlantic International Limited	England and Wales	100	Trading
Virgin Incoming Services Incorporated	United States of America	100	Tour Operator
Virglease (3) Limited	England and Wales	100	Leasing of aircraft
Virgin Vacations Incorporated	United States of America	100	Travel Agency
Junopart Limited	England and Wales	100	In liquidation
Virglease Limited	England and Wales	100	In liquidation
Public Eye Promotions 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 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*
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	Non-trading company

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.
All other trading subsidiaries	The VHQ, Manor Royal, Crawley, West Sussex, RH10 9DF.
All companies in liquidation	9th Floor, 25 Farringdon Street, London EC4A 4AB

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.

* Companies in liquidation that were dissolved on 7 February 2018.

23 Related party transactions

The Group had transactions in the ordinary course of business during the year ended 31 December 2017 and 31 December 2016 with related parties.

	Group		Company	
	For year ended 31 December 2017 £m	For year ended 31 December 2016* £m	For year ended 31 December 2017 £m	For year ended 31 December 2016* £m
Parent				
Purchases from parent	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Related parties under common control				
Sales to related parties	**1.4**	1.3	**–**	–
Purchases from related parties	**(19.7)**	(18.5)	**–**	–
Amounts owed by related parties	**0.1**	0.1	**–**	–
Amounts owed to related parties	**(4.6)**	(4.5)	**–**	–
Subsidiaries				
Amounts owed to subsidiaries	**–**	–	**(0.8)**	(0.6)

* Transactions and balances with related parties have been restated for the prior year ended 31 December 2016.

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 ten years in relation to the Group's Airline and Holiday tour operation businesses, for which royalties are determined on an arms-length basis. Prior to the group reorganisation in March 2014 the Group had licenses from Virgin Enterprises Limited that were without term limit, mostly royalty free and exclusive subject to licences granted to Virgin America Incorporated and Virgin Australia Airlines PTY Ltd. All transactions have been concluded at arm's length.

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

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

On 31 December 2017 the Group owed Delta Air Lines Inc. £38.4m (2016: £40.5m) with respect to the joint operation agreement. Costs incurred in relation to the joint arrangement are presented within other operating and overhead costs. Total sales to Delta Air Lines Inc. during the year amounted to £7.2m (2016: £6.0m); total purchases were £94.5m (2016: £91.4m). Outstanding receivable balances amounted to £1.2m (2016: £1.7m) and outstanding payables (excluding amounts owed under the joint arrangement) were £0.6m (2016: £1.8m).

As at 31 December 2017, the directors consider the ultimate holding company to be Virgin Group Holdings Limited, a company registered in the British Virgin Islands. The sole shareholder of Virgin Group Holdings is Sir Richard Branson. Sir Richard Branson has interests directly or indirectly in certain other companies, which are considered to give rise to related party disclosures under IAS 24.

24 Ultimate holding

The Directors consider that the Group's ultimate and immediate parent company and its controlling party is Virgin Group Holdings Limited, a company incorporated in the British Virgin Islands, the accounts of which are neither consolidated nor publicly available. The Directors consider that Sir Richard Branson is the ultimate controlling party of the Company. The results of the Company are not consolidated into any higher group whose financial statements are publicly available.

In July 2017, the Directors announced that subject to regulatory approval, 31% of shares in Virgin Atlantic Limited would be sold to Air France-KLM S.A, a company registered in France. As at the balance sheet date, the agreement had not been finalised.

25 Commitments

(i) Commitments under finance leases

The capital element of the future minimum lease payments to which the Group is committed at 31 December 2017 under finance lease and hire purchase contract obligations incurred in the acquisition of aircraft, engines, spares and other equipment are as follows:

	Group	
	2017 £m	2016 £m
Future minimum lease payments		
Not later than one year	**12.1**	12.6
Later than one year and not later than five years	**55.6**	57.7
Later than five years	**167.2**	199.7
	234.9	270.0

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

25 Commitments (continued)

(ii) Commitments under operating leases

As at 31 December 2017, the Group had annual commitments under non-cancellable operating leases as set out below:

	Group			
	2017		2016*	
	Land and buildings £m	Aircraft and other £m	Land and buildings £m	Aircraft and other £m
Commitments under non-cancellable operating leases				
Not later than one year	**24.2**	**199.7**	24.2	230.9
Later than one year and not later than five years	**54.0**	**608.8**	60.1	608.8
Later than five years	**60.9**	**513.7**	69.1	575.8
	139.1	**1,322.2**	153.4	1,415.5

* The 2016 comparatives have been restated to be consistent with 2017 presentation.

(iii) Capital commitments

	Group	
	2017 £m	2016 £m
Capital commitments at the balance sheet date for which no provision has been made:	**2,902.3**	3,405.5

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

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

26 Financial instruments

(i) Financial instruments by category

	Group	
	2017 £m	2016 £m
Financial assets		
Cash and bank balances	**444.8**	525.9
Restricted cash	**49.1**	42.5
Fair value through profit and loss:		
Derivative financial instruments	**35.3**	55.5
Loans and receivables at amortised cost:		
Investments	**0.0**	0.0
Trade and other receivables (excl. prepayments and accrued income)	**237.4**	222.4
	766.6	846.3
Financial liabilities		
Fair value through profit and loss:		
Derivative financial instruments	**(24.2)**	(12.7)
Financial liabilities at amortised cost:		
Borrowings	**(471.4)**	(480.0)
Trade and other payables (excl. deferred income)	**(429.7)**	(414.8)
	(925.3)	(907.5)

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

The Company holds £0.8m (2016: £0.5m) of financial instruments that consist of amounts owed to Group companies. These are carried at amortised cost.

26 Financial instruments (continued)

(ii) Fair values of financial assets and liabilities

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs for the asset or liability that are not based on observable market data.

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

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

There were no transfers between levels during the year.

27 Financial risk management

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

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

(i) Fuel price risk

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

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

	Group	
	2017 £m	2016 £m
Increase in fuel price by a fixed percentage	**30%**	30%
Increase in profit before tax	**60.9**	63.5
Decrease in fuel price by a fixed percentage	**(30%)**	(30%)
Decrease in profit before tax	**(31.7)**	(35.7)

27 Financial risk management (continued)

(ii) Foreign currency risk

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

Currency risk is reduced through the matching of receipts and payments in individual currencies and holding foreign currency balances to meet future obligations. 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 foreign exchange hedging policy allows for the use of a number of derivatives available on the over-the-counter (OTC) markets with approved counterparties.

The Group has substantial liabilities denominated in US dollars.

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

	Group	
	2017 £m	2016 £m
Strengthening in currency exchange rate by a fixed percentage	**10%**	10%
Decrease in profit before tax	**(35.4)**	(41.5)
Weakening in currency exchange rate by a fixed percentage	**(10%)**	(10%)
Increase in profit before tax	**42.9**	53.4

(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 37 leases in place at 31 December 2017 (2016: 36), 62% were based on fixed interest rates and 38% were based on floating interest rates (2016: 64% fixed, 36% floating). This includes three operating leases on A330-200 aircraft signed in December 2017 and due to enter service in 2018.

(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 26. As at 31 December 2017 the Group held £nil (2016: £2.3m) of collateral to mitigate this exposure (see note 20).

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.

27 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 a 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 arrangements with its counterparties to manage liquidity requirements relating to derivatives trading activities.

In January 2017, the Group issued an additional £32m of notes secured against its Heathrow slot portfolio. The proceeds are to be used for general corporate purposes.

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

Group	2017			
	Within 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
Trade and other payables (excl. deferred income)	**(429.7)**	**–**	**–**	**–**
Derivative financial instruments	**(20.8)**	**(3.4)**	**–**	**–**
Borrowings:				
Obligations under finance leases & hire purchase agreements	**(12.1)**	**(12.8)**	**(42.8)**	**(167.2)**
Senior Bonds – A-1	**(3.3)**	**(3.5)**	**(17.0)**	**(155.0)**
Senior Bonds – A-2	**(1.4)**	**(1.5)**	**(4.3)**	**(19.4)**
Senior Bonds – A-3	**(0.8)**	**(0.8)**	**(3.2)**	**(26.4)**
	(468.1)	**(22.0)**	**(67.1)**	**(368.0)**

Group	2016			
	Within 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m
Trade and other payables (excl. deferred income)*	(414.8)	(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 – A-1	(3.2)	(3.3)	(13.7)	(161.9)
Senior Bonds – A-2	(1.4)	(1.4)	(4.4)	(20.7)
	(440.5)	(24.5)	(62.5)	(382.3)

* The comparatives for 2016 have been restated to include flight and airport charges.

(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.

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

	Group	
	2017 £m	2016* £m
(Loss) / profit for the year	**(48.5)**	187.3
Adjustments for:		
Depreciation	**83.4**	96.2
Amortisation	**21.8**	20.4
(Gain) / loss on unrealised forex	**(2.4)**	2.8
Profit on disposal of property, plant and equipment and intangible assets	**(12.5)**	(24.7)
Taxation	**(10.5)**	44.3
Movement in provision for bad debts	**(5.0)**	0.4
Unrealised fair value movement in derivatives	**31.6**	(214.4)
Net finance costs	**17.1**	18.3
Other exceptional items (i)	**0.6**	10.8
Working capital changes		
Inventory	**(1.1)**	(2.1)
Trade and other receivables	**(9.2)**	70.6
Trade and other payables	**51.5**	(69.4)
Provisions	**(13.5)**	(3.4)
Interest paid	**(22.5)**	(18.0)
Income taxes (paid) / recovered	**(0.5)**	6.7
Net cash from operating activities	**80.3**	125.8
Adjustments for other exceptional items (i)	**10.6**	2.6
Net cash from operating activities before exceptional items	**90.9**	128.4

* The presentation of certain items within the cash flow statement has been restated for the prior year ended 31 December 2016 to better reflect the operating cash flows of the Group.

(i) Other exceptional items consists of the following (see note 7):

	2017		
Group	Cash £m	Non cash £m	Total £m
Restructuring costs	**(6.4)**	**(0.2)**	**(6.6)**
Onerous lease	**(4.2)**	**(0.4)**	**(4.6)**
	(10.6)	**(0.6)**	**(11.2)**

	2016		
Group	Cash £m	Non cash £m	Total £m
Impairment of aircraft rotables stocks	–	(10.7)	(10.7)
Restructuring costs	(2.6)	(0.1)	(2.7)
	(2.6)	(10.8)	(13.4)

29 Subsequent events

As part of the Group's management of liquidity risk (see note 27), on 17 January 2018, the Group entered into a multicurrency revolving credit facility of $150m with a number of financial institutions. At the date of this report, nothing was drawn down against the facility. The facility will be secured against the Group's unencumbered aircraft and engines prior to drawdown.