Delivering our strategy

We continued to deliver great experiences for our customers while being focused on building the platform for sustainable growth.

2017 was the third year of delivery of our Plan to Win programme. The strategy has continued to deliver great benefits operationally and to our customers. These improvements are the bedrock of our plan to build a sustainable business.

Our transatlantic Joint Venture partnership with Delta again performed very well. We took advantage of the strong Dollar to welcome more Americans to the UK and adjusted our networks so to best serve the markets for our different brands.

We continued our four year £300m programme of investment to improve customer experience which will complete in 2018. We maintained industry-leading on-time performance, efficiently managed the disruptions caused by the Caribbean Hurricane season and launched more than 300 new Virgin Holidays Experiences. A core principle of our business is to create the conditions which enable our people to be at their best in delivering the service that our customers love. Our people engagement score has improved. Achieving further improvement in 2018 is a top priority.

We have been very pleased by the positive feedback from customers which our efforts have earned. Virgin Atlantic and Delta maintained the #1 and #2 spots in customer satisfaction rankings for UK-US traffic. Virgin Holidays' NPS score increased by a further 3 points.

While investing in customer experience, we have also continued to improve efficiency and unit costs. Airline operating costs before exceptional items have reduced year on year by £103.5m[1], and airline unit operating cost improved by 2.9%. Lower fuel prices made a contribution to this, but improved operating efficiency also made a significant contribution. The fit.nimble efficiency programme started in 2015 has achieved annual savings of over £82m at this point.

Our results

There were many challenges in 2017 for UK-based airlines. The declining value of Sterling dampened demand for travel from the UK and increased the cost of imported items. Lower Sterling means higher domestic inflation and this will erode discretionary incomes in the UK at a time of continuing political and economic uncertainty, as the Brexit issue remains unresolved. However our success so far in executing Plan to Win means that we are more resilient in adverse environments than we were. Our 2017 performance demonstrated this. Nevertheless, after four years of consistent improvement and three successive years of profit, it is most frustrating to report a loss of £28.4m on ordinary activities before tax and exceptional items.[2]

There were three big external issues in 2017 for us to deal with which were not in our plan for the year. First, the impact of weaker Sterling; second, unforeseen engine supply issues; and third, the severe disruption to traffic caused by a terrible hurricane season in the Caribbean.

Virgin Holidays was affected by the same issues, but it is pleasing to report that it produced a profit before tax and exceptional items of £15.5m (compared to £19.1m in 2016). This was an impressive performance. Our cargo operation was a beneficiary of the weaker currency which made UK exports more competitive and so increased revenue by 9.3% year on year.

I am very glad to be able to report that we continued to improve our environmental performance. We achieved a 1.8% reduction in our headline carbon efficiency measure in 2017, and reduced our total carbon emissions by 2.5% compared to last year. The arrival of our last three 787s on order in 2018, to be followed by 12 A350s from 2019 will deliver further carbon efficiencies and reductions in our noise impact.

Our customers and our people continue to provide most generous support for our charity and non-profit partnerships. Virgin Atlantic Foundation's onboard Change for Children appeal raised £680,000 and our annual employee fundraising campaign raised almost £170,000 for our much-loved partner WE. Thanks to the generosity of Virgin Holidays customers, we donated £200,000 to the Caribbean Branson Centre for Entrepreneurship in Jamaica and £48,000 to the Travel Foundation to support sustainable tourism projects.

Looking ahead with confidence

As we enter the final year of Plan to Win, the finishing touches are being put on the next stage of our strategy, which will take us into the 2020s. There is much to look forward to.

Partnerships will continue to be the foundation of our success. Our immediate priority is to conclude agreements and to secure the necessary regulatory approvals for our planned expanded transatlantic Joint Venture with Delta and Air France-KLM announced in July 2017. Completion should follow in 2019.

The expanded transatlantic Joint Venture would enable the four airlines to offer consumers improved choice and competition, an enhanced customer experience, and convenient flight schedules with competitive fares and reciprocal frequent flyer benefits.

To support the success of the Joint Venture, Air France-KLM will acquire a 31% stake in Virgin Atlantic currently held by Virgin Group; Virgin Group will retain a 20% stake and Chairmanship; and Delta will retain its 49% stake.

As we said when the deal was announced, Virgin Atlantic will continue to be an independent UK airline, flying under the Virgin brand, headquartered in the UK, and operating with a UK Air Operating Certificate. We will continue to invest in our people, the iconic Virgin Atlantic brand and our unique customer experience.

Further ahead is the prospect of Heathrow expansion. While a new runway and terminal facilities may not be open until 2025 or beyond, work on the design of a future Heathrow is well underway. We will continue to support expansion at Heathrow provided that it will enable a significant increase in airline competition at the airport and offer value in cost terms. Our intention is to play an even bigger role in delivering choice and outstanding value for money to consumers at an expanded Heathrow.

Governance

My Board colleagues have made a great contribution during the year. In parting, I would like to thank Nathaniel Pieper and wish him very well in his new role at Delta as Senior Vice President – Global Alliances. I welcome from Delta Corneel Koster, Senior Vice President – Europe, Middle East, Africa and India to the Board, and Tom Mackay, our CFO, as an Alternate Executive Director.

Our people

On behalf of the Board and shareholders I thank Craig Kreeger, his executive team, and all of the people of Virgin Atlantic and Virgin Holidays for their hard work and outstanding commitment to creating amazing experiences for our customers. There have been some great achievements during 2017 as we confronted some very serious external issues. This meant that our final result was significantly better than it might otherwise have been. But underpinning all these efforts is the service which our people provide day in, day out, throughout the customer journey. This is what makes Virgin Atlantic and Virgin Holidays so special.

Peter Norris
Chairman

14 March 2018

Partnerships will continue to be the foundation of our success.

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

Delivering for our customers in a challenging environment

Virgin Atlantic faced significant macroeconomic and operational challenges in 2017. Here Chief Executive Officer Craig Kreeger explains how the business is responding to these issues while remaining focused on meeting the needs of its customers.

What were Virgin Atlantic's key achievements this year?

What drives our people is ensuring we deliver our unique Virgin Atlantic experience for our customers. So, in a year of many highlights, it is fantastic to see both Virgin Atlantic and Virgin Holidays achieve high customer satisfaction scores despite significant operational challenges and the difficult economic backdrop.

Once again, with our Joint Venture partners Delta, we have the highest overall passenger satisfaction scores across the Atlantic from Heathrow. I believe this is because our customers love the warm, friendly, personalised service provided by our people, and they are also responding positively to our continued investment in our product and experience. From refreshed aircraft and a fantastic new combined v-room and Clubhouse at Gatwick, through to being the first European airline to have fleet wide Wi-Fi and the launch of Virgin Holidays Experiences, we continued to give customers even more reasons to travel with us. We've announced we'll even offer them the choice to check in at the beach in 2018, a truly unique experience at our Departure Beach in Barbados.

With the continuing success of our Delta Joint Venture and the newly announced future strategic partnership with Air France-KLM and Delta, we are also looking ahead to an exciting future. We want to offer customers access to the most comprehensive transatlantic route network, promising expanded flight choices and enhanced loyalty programme rewards.

What makes Virgin Atlantic special?

For me the answer is simple – our people. They are both our magic ingredient and our greatest strength. From the very beginning we have sought to enable them to put the customer at the heart of everything they do. Our people are empowered to be themselves, so that everyone who travels with us receives a unique, memorable and human experience. Our purpose is to embrace the human spirit and let it fly, and the way that our people deliver this is really what makes us stand out from the pack.

With the uncertain political and economic situation and currency fluctuations, how has being based in the UK affected the business this year?

Revenue was affected by the depreciation of Sterling, attributable to the continuing uncertainty following the vote to leave the EU. This not only impacted UK-based customers' appetite for international travel, it also increased our costs, with the majority priced in US Dollars.

On the flipside, we were able to take positive and decisive action to capitalise on the fact the UK became much more attractive to customers inbound to the UK. From strategic pricing to marketing campaigns, the team worked hard to grow revenues in our US and rest of world markets. Thanks to the extended network of our Joint Venture partner Delta in the US, along with their sales presence and brand recognition, we have seen 20% more US-based travellers onboard Virgin Atlantic flights.

The weaker Sterling benefited UK exporters which meant our cargo division performed well, with an increase in tonnage of 6%. Overall, the cargo team had an exceptional last quarter resulting in a revenue performance of £56m, 16% higher than the fourth quarter of 2016.

It was also heartening to maintain the great momentum in Virgin Holidays. This is testament to the strength of our business model which places customer service, choice, value and experience at the centre. New initiatives included the launch of a new 'Experience' range which gives travellers the ability to create their own bespoke trips. In addition, we launched our groundbreaking 'single parent holidays' offering, a first for the long haul holiday market and something I am particularly proud of.

Once again, with our Joint Venture partners Delta, we have the highest overall passenger satisfaction scores across the Atlantic from Heathrow.

What benefits are you seeing from the Delta Joint Venture?

I see 2017 as marking a step change in how we have worked together. I've described how we worked together to take advantage of the weaker Sterling, but the closeness of our partnership was also reflected in our decision to relocate our US Head Office alongside Delta's in Atlanta. Furthermore, we mutually agreed to swap two of our US services, with daily flights to Seattle now operated by Virgin Atlantic, and both London to Detroit services by Delta, to better meet customer demand. This shows how we can be adaptable with the Joint Venture to benefit our customers and, ultimately, our business. Most of all, we share a focus on putting our customers first. This year in light of some operational challenges, Delta stepped in at short notice, providing aircraft to help us operate services and get our customers to their destinations as planned.

Were there any particular challenges that the team had to contend with this year?

Operationally, as with many airlines with Rolls-Royce Trent 1000 engines on their Boeing 787s, we were required to adjust to an engine supply issue, brought on by shorter replacement schedules. This required some of our fleet to be out of service for longer periods than originally expected.

To ensure our customers continued to enjoy the best possible service, we leased three additional aircraft that will enter service during 2018. Combined with the impact of hurricanes Irma and Harvey and fuel price increases, our bottom line was affected by these factors.

Importantly, as part of our Plan to Win strategy, we have removed over £80 million in costs from our business over the past three years. This puts us in a far stronger position to mitigate these issues and the other inevitable challenges that can confront our industry. In addition, our passenger revenue per available seat kilometre (PRASK) in the fourth quarter of 2017 was up, reversing several years of PRASK decline. In fact, November and December gave us two consecutive months of PRASK growth, for the first time since 2014. I am optimistic that this trend will continue in 2018.

Why is the business strategy the right one?

Our faith in the competitive advantage of enabling our people to provide a uniquely Virgin experience at both Virgin Atlantic and Virgin Holidays continues to bring rewards. This strategy really gives us a unique identity in a crowded and highly competitive marketplace. It is this key strength that gives me great confidence as we face steadily growing competition from our traditional competitors as well as low fare long haul operators.

Do you have the right team in place to succeed?

I made a number of changes to the executive team at the start of the year to ensure we had the right senior management structure in place to support our longer-term vision of a stronger, more agile organisation. I was pleased to achieve several internal moves, including Mark Anderson joining the airline from Virgin Holidays and Joe Thompson moving in the opposite direction as part of our strategy to realise the potential from closer cooperation between Virgin Atlantic and Virgin Holidays. I was delighted to welcome Nikki Humphrey who joined us as Senior Vice President – People, and brings over 20 years' HR leadership experience across multiple sectors.

What does doing the right thing mean to you and Virgin Atlantic?

Doing business for good is in our Virgin DNA.

As an airline, we love being able to bring people together, delivering incredible experiences and supporting a globally connected world. However this does not come without environmental impacts. Reducing our carbon emissions is not only the right thing to do for the environment and generations to come, with fuel our largest single cost, it also makes perfect business sense. For this reason, along with enhancing our customers' experience, we have undertaken a massive investment programme, to replace our entire fleet over a ten year period and switch from four-engine aircraft to a full two-engine aircraft fleet.

This year we took delivery of an additional 787 and preparations for introducing our new 12 A350s got underway in earnest. Since launching our Change is in the Air sustainability programme in 2007, we have reduced total CO_2 emissions from our fleet by 23.7%.

Ultimately, doing business for good supports our culture and is part of our brand values – we know our reputation is something that attracts our customers and engages our people. Across the world, I am proud of the commitment all our people have to living our values. This was no more in evidence than when our teams stepped up and worked shoulder to shoulder with our Delta partners to support customers and communities in the aftermath of Hurricane Irma. But it isn't just about addressing short-term emergencies; we want to make a positive long-term difference in our own communities and the destinations we serve. Virgin Atlantic Foundation's support for WE and Virgin Holidays' support for the Branson Centre of Entrepreneurship in Jamaica are our ways of trying to do just that.

How would you sum up 2017?

In a challenging external environment, impacted by consumer uncertainty, currency and fuel price fluctuations, and increasing competition and capacity across the Atlantic, we performed well ahead of our expectations. As this was in large part due to the hard work of our people, and their unwavering focus on looking after our customers, I want to thank them all for their exceptional commitment to putting the customer at the heart of our business.

What does the future look like for Virgin Atlantic?

Looking to 2018 and beyond, I'm truly excited about the possibilities for Virgin Atlantic and Virgin Holidays. The two parts of our business are working ever more closely together. There is still great opportunity to realise the full potential from closer co-operation, to share our resource, experiences and ideas to achieve even more joint success in the future. Our partnership with Delta remains a key part of our strategy for the long term, and we are looking forward to entering into an expanded transatlantic Joint Venture with Air France-KLM and Delta. It will mean working with great partners, to fill our planes with more customers, from more places.

Meanwhile, we will keep our constant focus on delighting our customers and continue to put them at the heart of everything we do. We'll complete our £300m investment programme in 2018, while also looking for new opportunities to invest in the areas which have the most impact and that help us to differentiate.

Most of all, the future, in the same way as our 34 year past, will continue to be about our people. They are our greatest strength, delivering a level of service and experience that helps us to stand out from our competitors and means we continue to hold a unique position in the industry. I'd like to personally thank all of them for bringing those little moments of Virgin magic to their roles day in and day out.

Craig Kreeger
Chief Executive Officer

14 March 2018

We will keep our constant focus on delighting our customers and continue to put them at the heart of everything we do.

Building a sustainable future

Our Joint Venture partners helped to successfully increase sales from our US point of sale, partially offsetting the weakness in UK leisure demand. We increased the number of US-based passengers on board our flights by 20%.

Result highlights[1]:

- Total revenue of £2.7bn for the year, down 1% driven by airline passenger unit revenue decline of 1.5%
- Airline operating costs have been further reduced by £103.5m, driven by lower fuel prices and year on year efficiencies
- Non-fuel unit costs are 2.2% worse year on year driven by 2.2% less capacity
- Loss before tax and exceptional items of £28.4m in the year from £23m profit last year
- Virgin Holidays made a profit before tax and exceptional items of £15.5m. This is £3.6m lower year on year due to softer consumer demand caused by the weakness of Sterling and the impact of hurricane disruption
- Cargo tonnage increased by 5.8% driving revenues up by 9.3% to £199.3m
- Return on invested capital at 4.1%, a decline of 2.9pts
- The statutory loss for the year is £48.5m (2016: profit of £187.3m)

	2017	2016
EBIT[2]	**(11.3)**	41.3
EBITDAR[2]	**316.1**	358.1
Leverage	**4.9x**	4.0x
Net Debt	**1,554.4**	1,417.2
Liquidity	**18.5%**	21.1%

1. Comparatives to 2016 with the exception of profit before tax and exceptional items are made on a constant currency basis.
2. Before exceptional items

Airline passenger revenue

Our airline passenger revenue reached £2bn, a reduction of £69m year on year mainly due to macroeconomic factors.

2017 saw a full year impact of the weakness in Sterling relative to the Dollar, making the US relatively more expensive to customers from the UK. As over 70% of our flying is transatlantic, this had a significant impact on our performance.

In addition, we continued to see oversupply in the market, with low cost carriers increasing their transatlantic market capacity by 49.5%. As a result of these factors, our load factor reduced 0.4pts to 78.3%.

The combination of a continuing low fuel cost environment being passed on to customers and a supply / demand imbalance led to market fare reductions. These were partially offset by the strength of our partnerships with a decline in yield of only 1%.

Our Joint Venture partners helped to successfully increase sales from our US point of sale, partially offsetting the weakness in UK leisure demand. We increased the number of US-based passengers on board our flights by 20%, a key strategy for growing the now, more valuable dollar revenues. Additionally, our performance outside of our transatlantic routes saw double-digit unit revenue growth.

Cargo revenue

The market remains competitive for cargo, but we have seen trading conditions improve in certain markets, most notably the UK where there was solid growth in demand for exports of perishables, e-commerce, automotive and pharmaceuticals. The US remains challenging, with demand growing much slower than supply. This is putting continuing pressure on price.

That said, on both sides of the Atlantic, the team has done a great job to continue to grow our market share through the summer and into the final quarter of 2017.

Our rest of world routes continue to perform well and revenues have improved in all markets. Overall, the cargo team had an exceptional last quarter, resulting in a fantastic revenue performance of £56m, which is 16% higher than Q4 2016.

Virgin Australia continues to be a key strategic partner and the freight outsourcing arrangement we have with them significantly expands our reach. The addition of new routes from Melbourne to LA and Hong Kong has strengthened our position in these three key markets.

Virgin Holidays

Virgin Holidays made a profit before tax and exceptional items of £15.5m. This is a £3.6m year on year decrease due to the impact on consumer demand of a weak Sterling combined with additional costs caused by hurricane disruption in the Caribbean and the United States.

Operating costs

Airline operating costs before exceptional items have successfully reduced year on year by £103.5m, driven by lower fuel prices (including the cost of hedging) and improved operating efficiency.

We have removed over £82m of cost from the business since 2015 through fit.nimble savings and further tactical cost activity. Airline unit operating cost also significantly improved by 2.9% year on year.

Fuel costs

On a unit basis, fuel costs fell by 15.7%, driven primarily by further unwinding of hedging losses and improved fleet efficiency, as we added one new Boeing 787 aircraft. This is despite a 18.9% increase in average Brent Oil from $44.6 / bbl in 2016 to $55.0 / bbl in 2017.

Non-fuel costs

Our underlying non-fuel costs were 0.3% higher than in 2016, mainly driven by an uptick in cargo direct costs as a result of increased revenue.

We had planned for a small capacity reduction in 2017, but as a result of the industry-wide engine supply issues relating to Rolls-Royce Trent 1000 engines, our capacity was 2.2% lower than in 2016. We took the decision to not significantly reduce fixed costs in reaction to this temporary decline in capacity as it would be detrimental to our longer term plans. Instead we added three former Air Berlin aircraft to increase resilience and support our flying programme in response to possible continued engine supply issues in 2018, and to provide opportunities for future profitable growth.

Aircraft costs

We took delivery of one new Boeing 787 and retired one A346 aircraft during 2017, taking our total Boeing 787 fleet to 14 so far, representing over one third of our fleet. We entered into an operating lease for the new Boeing 787 aircraft brought into service in 2017. To further support operational resilience, we have also purchased one A346 which was previously leased to us.

Cash flow and financing

Our net cash generated from operations of £80m and financing activities of £13m were offset by £130m outflows from investing activities as we continued to invest in our fleet and the adverse translation impact of foreign currency cash of £37m. The £32m inflow from our successful upsizing of our senior secured note financing transaction was used to make pre-delivery payments for the A350s which will commence delivery in 2019.

Our investments are focused on customer valued differentiation and driving further efficiencies in the business.

Our total cash remains robust with close to £500m cash in the Group at the end of 2017. Total cash (including restricted cash) fell £74m compared to last year. While the decrease in our cash position is in part due to operating performance, half of the change is as a result of foreign exchange translation.

Our net debt has increased by £137m compared to last year, with over half of this movement due to decreased total cash with the remainder of the increase due to higher capitalised leases.

Outlook

2018 is expected to be another challenging year due to increasing fuel prices compounded with UK inflation being at a five year high.

Whilst 2017 was our third consecutive year of unit passenger revenue decline, there were significant signs of improvement in Q4 which saw underlying unit passenger revenue (adjusted for the impact of metal swaps) 1.1% higher year on year; the first time this has happened since 2014. We have a number of exciting revenue initiatives planned for 2018 including expanding our codeshare portfolio to increase feed onto our network. From a cargo revenue perspective, we will continue to develop our premium product offering, with particular focus on the life sciences sector as well as optimising our partnerships with Virgin Australia and Delta to increase our market share.

Whilst the focus is now shifting towards revenue growth, we will continue to practise strong cost control as we conclude our fit.nimble programme and other tactical initiatives. Our investments will remain focused on customer valued differentiation and driving further efficiencies in the business.

Virgin Holidays will focus on customer growth through 2018, by supporting the airline through an increase of its share of the plane and revenue. We are continuing to invest in the long-term growth of the business specifically in experiential travel, cruise and Virgin Vacations, our US outbound holiday company.

We will be launching our new long-term plan, as a successor to Plan to Win in 2018 which will include details of our revenue initiatives as well as our planned expanded transatlantic Joint Venture with Air France-KLM and Delta. I am confident that the combination of these factors will help us to maintain and continue to build a solid platform for future success..

Tom Mackay
Chief Financial Officer

14 March 2018