virgin atlantic

Fly safe, fly well

Annual Report & Financial Statements

Our vision is to become the **most loved** travel company

Our values

Think Red

When we think red we connect to the true spirit of Virgin. Innovation, passion, positivity. From day one we've hunted new ways to champion our customers, changing the game with style and a smile. We don't just push boundaries, we break through them. We are our future and we think about that in every decision we take. Red is us at our blazing best.

Make Friends

Virgin loves people. It's how we treat one another that makes us special. We embrace our team-mates, customers and partners. We celebrate everyone's individuality and look for the good in everyone – while following through on what we say we'll do. And we never forget what makes us special.

Be Amazing

When you're a Virgin brand, people expect more from you. So we expect more from ourselves. The small details are as important to us as the grand gestures. We act with the greater good of the business in mind. We're here to be amazing. Because life's too short to be anything less.

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Our purpose

Everyone can take on the World

Our corporate purpose reflects both our business activities and our corporate culture of **inclusivity, activism** and **challenger spirit** which has defined Virgin Atlantic throughout its existence.

Our promise

To create **thoughtful** experiences that feel **brilliantly different**, at every **opportunity.**

Chairperson's statement

2020 was Virgin Atlantic's 36th year of continuous operation and the most difficult in the company's history. Covid-19 ruined lives and devastated economies globally. Aviation has been one of the worst affected industries, and within aviation, the long-haul sector, of which VAA is part, has been the most damaged.

For more than 12 months now, we have been locked in a daily fight for survival. That we have come so far is due to the great qualities of leadership shown by our senior leadership team, led by Shai Weiss, to the unstinting and brave contributions of all our staff, and to the great support of our partners in business, who joined us in a successful and comprehensive solvent recapitalisation scheme in September last year. We are now planning on the basis of a phased exit to the pandemic in the second half of the year and a return to profitable operation in 2022.

There is much to celebrate in this prospect, but this celebration has to be tempered by our sorrow and great regret for the human cost of our fight for survival. Enormously hard decisions have had to be taken to reduce operations and therefore make permanent headcount reductions, in order to survive. We are a significantly diminished team as a result. Our thoughts are with those affected, and our great thanks are due to them for their loyal service.

At the end of February 2021, the UK Government published its roadmap to a progressive reopening of the economy and removal of social restrictions. This roadmap underpins our own plan to restart passenger services at scale in time for the second half of the year. However, much remains to be done in terms of planning to enable travel to resume fully. There are decisions to be taken about the requirements for Covid testing, passporting and certification.

Virgin Atlantic is completely focused on delivering a safe, secure and healthy environment for our staff and customers, and we have been working hard to assist Government in formulating practical and effective measures to deliver this. We will know more in April and May, after the Government's task force reports.

The 2020 financial year was a story of vastly reduced flying, prodigious losses, financial restructuring to preserve liquidity, and operational restructuring to reduce our establishment in order to meet the new market environment.

Passenger numbers and revenue fell by 80%. We carried 1.2 million passengers compared to nearly 6 million in the previous year. Passenger revenue was £446m compared to over £2bn in 2019. The only bright spot was the performance of our cargo operation which grew revenue by nearly 50% to £319m, a remarkable achievement in the circumstances.

Our response to the crisis involved consolidating flight operations at Heathrow and Manchester, reducing our fleet and streamlining all areas of the company, which sadly also included a 41% reduction in our workforce by the end of 2020.

The sudden and prolonged restrictions imposed on travel in March 2020 created enormous logistical difficulties for all passenger carriers, as literally millions of ticketed passengers sought to re-arrange or cancel flights in a short period of time, a contingency for which no operational plan existed.

We ourselves refunded 220,000 bookings with more than £600m between January and December. As was the case for all operators, we were not able to process the requests to the timescales normally in force, which we much regret. However, we did catch up in the shortest time achievable, due to extraordinary efforts by the customer teams, and our procedures have been amended, to hopefully avoid a repetition of last year's problems.

The first half of 2021 is all about the continuing fight for survival, as most long-haul routes remain closed. We continue to husband resources and to preserve cash. Following the roadmap announcement on 22 February, we look forward to a second half year of resumed operations at scale. There is even the prospect, if the roadmap timetable is adhered to, of more substantial flight operations re-starting at the end of May.

The forecast that all UK adults aged over 18 will have been vaccinated by the end of July certainly underpins our optimism about reopening. Subject of course to that fundamental assumption, there are real grounds for optimism at Virgin Atlantic.

We have shown great agility in re-shaping the airline's operations and transforming the cost base. In 2022, we will make further progress towards our ambition to be the most loved travel company, while being sustainably profitable.

On behalf of the whole Board and of our shareholders, I can safely say that the one truly bright aspect of an otherwise dreadful year in 2020 was the performance and commitment of our people. Whether in work or on furlough, all pulled together to support each other and the national effort to respond to Covid-19.

We worked with the Foreign and Commonwealth Office to repatriate UK citizens. We partnered with the Department of Health and the NHS to transport crucial medical supplies to the UK, including 7,000 tonnes of PPE, test kits and other medical supplies.

Whilst on furlough, more than 350 cabin crew volunteered to work at NHS Nightingale and other hospitals, the ambulance services and as NHS Volunteer Responders. Now, in the vaccination phase, our frontline staff with medical training are supporting the vaccine roll-out.

We also owe great thanks to all our partners in business, our suppliers and our financiers. The support they have given our efforts to get through the crisis has been outstanding. At Virgin Atlantic, a core objective is to be "best in partnering"; I believe that the deep trust evidenced by the support of all concerned in our restructuring last September is a testament to the value of our approach to business over the years.

Chairperson's statement *continued*

2020 was a very difficult year for very many company boards, and ours was no exception. I thank all my Board colleagues for their great contribution. I also welcome Klaus Heinemann as independent Board Observer, on behalf of our creditors. Klaus has a wealth of aviation experience, having previously served as CEO of Aercap and as Chair of Finnair. During the year, Tom Mackay, our CFO, and Ian de Sousa, our Company Secretary of more than 20 years, stepped down. We give them our great thanks and very best wishes for the future.

In conclusion, on behalf of the Board and shareholders, I give our most profound thanks and appreciation to every employee of Virgin Atlantic. This has been the hardest year for very many of us and our families, and the spirit and dedication you have displayed is remarkable. Survival depended on it.

Through this dark period, the contribution of the leadership team and the inspiration they have given to us all has been amazing. Shai Weiss our CEO has epitomised the Virgin ethos. He has led by example and by sheer force of character and generosity of spirit, and Shai's efforts have been matched by his colleagues in leadership. We cannot thank you all enough. Let's all look forward to better times together, Covid-19 permitting.

Peter Norris

Recent awards

Virgin Atlantic was voted Britain's only Global Five Star Airline by *APEX – Airline Passenger Experience Association* for the fourth year running in the Official Airline Ratings. We also received Diamond status, the highest possible standard by *APEX* and *SimpliFlying*, for delivering the highest standards of cleanliness and demonstrating an unwavering commitment to keeping our customers and teams safe.

We were named as the Best Airline in Europe, and landed the top spot in four out of the eight categories within the 2020 *KAYAK* Travel Awards, These customer-rated awards are based on over 20,000 reviews spread across airlines in Europe, including winning Europe's Best Airline Crew Award.

2020: A year like no other

Velocity

2019 Performance puts us on course to return to profitability in 2020 – a year ahead of plan

End Jan
Expanded JV launch announced for 13 Feb

Covid-19

1 Feb
First passenger flight suspended: London Heathrow - Shanghai

5 Mar
Flybe goes into administration

16 Mar
US borders close to UK flights

23 Mar
UK goes into national lockdown – lasts until 15 June

23 Mar
First Cargo only flight operated

21 April
Passenger flights grounded – lasts 90 days

5 May
Velocity 21 announced: fleet optimised, LGW base closed, unified brand and 3,150 jobs losses

20 Jul
Passenger flying restarts with VS206 LHR - Hong kong

Survival, love, profitability

4 Sep
Completion of £1.2bn solvent recapitalisation & announcement of further 1,150 job losses

1 Oct
Crew testing launched

12 Oct
3-tier system of alert levels for England introduced

3 Nov
New route to St Vincent announced for Summer 21

5 Nov
UK goes into 2nd national lockdown until 2 Dec

2 Dec
UK authorises Pfizer/BioNTech vaccine

13 Dec
New routes to Pakistan launch

30 Dec
UK authorises Oxford / AstraZeneca vaccine

4 Jan
UK goes into further national lockdown - 8 March before schools return

7 Jan
$230m sale and leaseback of two Boeing 787s

18 Jan
Testing in place for all inbound and outbound passengers and all outbound crew

CEO Review of 2020

The Covid-19 pandemic presents the biggest crisis since the Second World War, affecting public health, economies and communities globally. Aviation was one of the first industries to be affected and will be one of the last to fully recover. Despite facing the most challenging year in our 36 year history I am proud and humbled to have led Virgin Atlantic's response to the crisis.

Since February, we have been guided by the single mission of ensuring Virgin Atlantic's survival, so that we can continue to serve our people, customers and communities for decades to come. It was only achieved through a laser focus on reducing our costs, preserving cash and protecting as many jobs as possible.

Undoubtedly the airline has undergone a transformation that no one could have predicted at the beginning of the year and it has come at a huge cost to many of our people, with nearly 1 in 2 jobs lost. But as demand for travel returns, which it will, it's our greatest hope that we will be able to welcome many of our amazing former colleagues back.

As we started 2020, we were on course to return to profitability, a year ahead of plan. This followed a foundational year in 2019, the first year of Velocity; a three-year plan to remove the impediments that prevented customers from flying with us and translating preference for our brand and service into purchase. Returning to profitable growth through an expanded network, improving corporate relevance and continuing to delight our customers with the best in class end to end journey experience, whilst keeping our cost discipline.

Our expanded joint venture with Delta and Air France KLM launched in January 2020, creating a $13bn transatlantic partnership of choice for millions of people and businesses. But as events began to unfold, on 1 February, when we took the decision to suspend our flights between London Heathrow and Shanghai, few could have predicted the scale of the global crisis that we would witness.

It is worth highlighting some of the key events in 2020 which have had a lasting impact on our Company.

The first business casualty of the crisis was our investment in Flybe, which entered administration on 5 March, despite the efforts of all involved to turn Europe's largest regional airline around. The impact of Covid-19 on Flybe's trading meant it was unable to secure a viable basis for its continuing operation. As a 30% shareholder in the Connect Airways consortium that acquired Flybe in January 2019, this was a devastating outcome. But with the impact of Covid-19 intensifying on airlines around the world, it was right to focus efforts on ensuring Virgin Atlantic was in the best possible position to weather the storm.

On 16 March the US closed its borders to the UK, already having closed them to Schengen countries. A year later and these restrictions remain. On the same day, the UK Government advised those who could work from home to do so. With the health, safety and security of our people and customers our number one priority, a large proportion of Virgin Atlantic's workforce has operated remotely since 17 March. With our place of work a plane and our unit of time a flight, many of our front-line teams continued to travel into work including our pilots, crew, engineers and those in operational or safety critical roles.

On the 23 March, the UK entered its first national lockdown, and, on the same day, we launched our first cargo only flight, bringing PPE from Shanghai, to support our NHS on the frontline. From 21 April, for a period of 90 days, Virgin Atlantic passenger flights were grounded, and our cargo operations became the primary revenue driver of the airline. The determination and resilience of our teams making this happen provided a much-needed lifeline.

Our vision remains to be the most loved travel company and a sustainability leader in our industry but the path to achieve it has changed. On 5 May we announced plans to reshape and resize Virgin Atlantic, including a planned reduction of 3,150 jobs across all functions.

We optimised the network and simplified the fleet through the early retirement of three Airbus A340s and seven Boeing 747s. We consolidated flying at London Heathrow and Manchester, with the ambition to rebuild at Gatwick as demand returns.

We announced plans for the Company to operate under a single brand, with Virgin Holidays becoming Virgin Atlantic Holidays, meaning that for the first time ever, all our revenue generating activities – airline, holidays and cargo - will be consolidated under single leadership to drive a 10x growth mindset when recovery begins.

Our actions in 2020 delivered more than £300m of cost reductions and reduces our fleet capex by £880m over the next five years, culminating in the completion of a privately funded, solvent recapitalisation of the airline on 4 September. Through a court sanctioned Restructuring Plan under the new Part 26A of the Companies Act 2006 and with the unanimous support of our shareholders and creditors, we delivered a refinancing package worth £1.2bn.

CEO Review of 2020 *continued*

This included shareholder support of c.£600m over the life of the business plan to 2025, £170m of secured financing from Davidson Kempner Capital Management LP and more than £450m of support and deferrals from creditors. Again, this came with a devastating impact on our people as we announced a further reduction of 1,150 jobs.

During Q3 we saw a recovery in passenger flying, with industry leading measures in place for our people and customers through our innovative Fly Safe, Fly Well programme. Despite the amazing advancements in vaccine development, following a rise in Covid-19 cases in the UK, restrictive tiers were introduced in mid-October, followed by a second national lockdown from 5 November.

These were further tightened on 20 December, including a ban on non-essential travel. With tiered restrictions in force for much of the UK in Q4, our teams responded quickly, removing passenger flying and replacing it with cash contributing cargo operations.

2020 ended with the realization that recovery would take longer and that Virgin Atlantic, like the rest of the nation, would face further challenges through a tough winter. In December, at the same time many of us faced increased restrictions on our day to day lives, the UK approved the Pfizer/BioNTech and Oxford/AstraZeneca vaccines. This reignited hope of a turning point in the fight against Covid-19 as we entered 2021.

Performance in 2020. A year like no other
We witnessed dramatic year on year declines in key performance metrics, with revenue and passenger numbers 80% below 2019. ASKs were 73% down on 2019 – driven by the reduction in passenger flying, smaller average fleet gauge and substantial cargo only flying. As a result, sectors did not fall as materially, reducing from 23.5k to 10.6k (or 45% of 2019 levels).

Agility in passenger operations. Our passenger flying programme in 2020 was subject to constant change in line with ever changing global travel restrictions. Throughout 2020 we pivoted passenger flying to serve VFR (visiting friends and relatives) and leisure markets, particularly the Caribbean, India and Nigeria.

In December, we launched three new services to Pakistan: London Heathrow to Lahore and Islamabad and Manchester to Islamabad. In November, we announced a new service from London Heathrow to St Vincent, launching in Summer 2021, making Virgin Atlantic the first European carrier to offer direct flights to St Vincent. With a strong heritage in premium leisure, we are well positioned to capitalise on leisure demand as travel at scale returns.

Record year for cargo. Against a volatile outlook for international travel, our cargo team has delivered a record performance. Utilising our passenger configured Boeing 787s and Airbus A350s, they operated nearly 4,000 cargo only sectors, carried more than 7,000 tonnes of PPE and delivered £319m in revenues, a 49% increase on 2019 performance.

Although overall tonnage declined 32% from 227m in 2019 to 156m tonnes in 2020, contribution increased 148% to £261m due to improved yield. With our Pharma Secure product launched in Q4 and our state-of-the-art purpose-built cargo facility at London Heathrow, we expect growth to continue into 2021 and eventually support global distribution of vaccines.

Virgin Atlantic Holidays performance mirrored the airline.
With UK restrictions on non-essential retail in place for much of 2020, the Virgin Holidays retail estate has remained largely closed since March. In May 2020, 7 of the Vroom stores closed permanently. Having started the year with 55 stores, we ended the year with 50 (36 Next concessions and 14 Vrooms). Revenue declined 85% to £96m (down from £627m), with customer numbers at 58,500, falling 85% on 2019. At a Group level, Virgin Holidays contributed £18.3m of flight revenue and £8.7m of hotel and ancillary margin.

Our Customers. For our customers who did not take to the skies in 2020 due to cancellations caused by Covid-19, it was a challenging period and one where we did not live up to our brand promise. The huge volume of refund requests at the height of the pandemic, combined with constraints on our teams and systems during that period, lengthened our processing times. In 2020, our customer service teams dealt with more than 220,000 requests across our Airline and Holiday businesses and refunded over £600m.

To do so, we increased our service teams five-fold and introduced automation to improve efficiency. By the end of November, we returned to normal operations in line with our commitment to customers. I want to thank our customers for their patience and support and our people for their dedication to getting us back to our very best. Virgin Atlantic now has one of the most flexible booking policies in the industry.

For all new bookings for travel up to 30 April 2022, or those with a cancelled flight up until 31 August 2021, our customers can make as many free of charge changes to their travel dates, origin or destination as needed, until 30 April 2023.

Fly Safe, Fly Well. The health, safety and security of our people and customers is our number one priority. Always. As passenger flying resumed in July, we put in place a robust and industry leading programme to ensure peace of mind for our passengers whilst retaining the Virgin Atlantic service we are known for.

Across the customer journey, we reduced the physical touch points, from check in at the airport to food and beverage service on board. We introduced anti-bacterial fogging, increased the frequency of cleanliness checks throughout our flights, required masks on board and ensured each passenger received a personal hygiene kit for their flight. Our Covid-19 insurance for all new bookings was the first in UK aviation and we led from the front on testing for our crew and passengers.

Throughout we have been at the forefront of innovation and advancements to improve and evolve in order to deliver the safest flying experience possible. From 1 October, we introduced pre-departure rapid LAMP testing in place for our crew on certain routes. A first in the UK. In December, we trialled outbound, rapid pre-departure testing for our customers and, since 18 January 2021 every single passenger and crew member is tested pre-departure.

CEO Review of 2020 *continued*

Accordingly, our customer satisfaction scores as measured by Net Promoter Score (NPS) reflected the measures we put in place, increasing five points on 2019 from 46 to 51.[1] In December, we were awarded 2021 APEX 5* Global airline rating for the fourth year in a row, making us the only British airline to achieved this milestone. Maintaining this rating during the most challenging year in our history is testament to the efforts of our teams on the ground and in the air, to delight our customers every single day. We are especially honoured to have been awarded the Diamond status by APEX Health & Safety powered by SimpliFlying for our comprehensive set of multi-layered measures offering the highest standards of health protection.

Survival, love, profitability

As global economies emerge from Covid-19, Virgin Atlantic has a vital role to play in the UK's economic recovery and a future Global Britain. Supporting vaccine distribution, global supply chains and safely flying our customers to the places they love to travel as soon as they are ready to take to the skies. The only way for Virgin Atlantic to survive 2020, was to resize and reshape so that we can emerge as a sustainably profitable airline from 2022. We went further than most. In 2021, achieving our vision to become the most loved travel company, is anchored on three critical missions: survival, love, profitability.

Survival. Throughout this crisis we have been an industry first mover. The actions taken in 2020 to reduce costs, preserve cash and operate cash positive flying have given us a runway into the summer. With the earliest date for the resumption of international travel at scale now 17 May, we have taken further steps to bolster our cash position. On 15 March 2021 we agreed further financial support from our shareholders and creditors, to the tune of £160m and we remain confident in Virgin Atlantic's survival.

Love. In 2021, we must get back to our best for our people and customers. Rebuilding trust and confidence in our brand and reassuring our customers to fly safe, fly well.

Profitability. The impact of Covid-19 on global aviation will be felt for many years to come, with demand unlikely to return to 2019 levels before 2023. Yet, for Virgin Atlantic, the outlook is transformative. A 10x mindset to revenue growth underpins our commercial plan to regrow revenues to 2019 levels by 2023. Powered by technology transformation, digital first retailing and a right to win in a leisure led recovery. By 2022 we expect to fly more sectors than in 2019 with efficiencies across our fleet, network and non-fuel costs delivering more than £200m of recurring fixed cost improvement.

[1] Based on a sample size of 104,000 responses (c.25% compared to 2019).

In February 2021 Virgin Red launched a true lifestyle loyalty programme in the UK which, alongside the strength of our transatlantic joint venture with Delta and Air-France KLM, expands our network reach and improves corporate relevance.

Becoming most loved

Our vision to become the most loved travel company comes with great responsibility and goes beyond providing best in class service to our customers. As an airline we bring huge social and economic benefits to the economies and societies we serve. The need to go further, to serve our people, the planet on which we all live and the communities in which we operate, is unabated by the pandemic.

Our people remain our secret sauce and the thing that sets us apart. For our crew and pilots, we have put in place an innovative holding pool structure for 1,780 colleagues. This means that as demand returns and we scale up our flying programme, we are able to welcome back as many of our people as possible. The desire to see them back with us keeps us going.

In 2019, we launched our Passport to Change programme working with local schools in our community to promote studies in Science, Technology, Engineering and Maths (STEM). In 2020, following events related to the WE Charity in Canada, we mutually agreed to terminate our partnership.

In 2021, we will be relaunching our Passport to Change programme. With over 100 active volunteers at Virgin Atlantic and many more who have registered their interest, we know our people are passionate about improving the opportunities for all our communities.

In 2020, we continued on our path to become a sustainability leader, becoming a signatory of Sustainable Aviation's commitment to Net Zero by 2050. In July we also became a member of the Jet Zero Council, a dynamic partnership between the UK Government and industry focused on developing UK capabilities to deliver net zero emission commercial flying through the acceleration of sustainable aviation fuel and supporting zero emission aircraft R&D.

Over the last 14 years, we have transitioned to a cleaner, greener, twin-engined fleet; reducing our CO_2/RTK by 18% between 2007-2019. In 2020 we retired the last of our four-engine aircraft and our current, simplified fleet is forecast to be 10% more fuel and carbon efficient per km flown when compared to our fleet profile in 2019. In 2021, we will renew our focus and energy on industry thought leadership and innovation to achieve meaningful change in the years ahead.

A big red thank you

2020 has been a year like no other and devastating for so many. Without a doubt, it has been the toughest year in Virgin Atlantic's 36-year history. Yet, for all its hardship, 2020 has produced some exceptional moments to be proud of. In many ways we have made the impossible, possible. I have been inspired by amazing people of Virgin Atlantic. By their heroic efforts, extraordinary commitment to our survival, our customers and each other. A special thank you to my leadership team, our partners and shareholders for their unwavering belief, determination, and camaraderie.

Our purpose has never been more relevant – everyone can take on the world. We are facing up to the challenge, and as a team we will continue do whatever it takes to ensure our airline keeps proudly flying.

Shai Weiss
Chief Executive Officer
26 March 2021

CFO Review of 2020

Our financial results for 2020 are a stark reflection of the immense challenges that the airline industry has faced from the COVID-19 pandemic. IATA predicts the airline industry to lose $118bn in 2020 with global passenger demand down by 66%. Demand across the transatlantic, which made up 70% of Virgin Atlantic's capacity in 2019, is estimated to have been down by 77%.[1]

The year had started on plan with January and February in line with targets. From March onwards the pandemic had a dramatic impact on passenger operations. The closure of US borders combined with the UK entering its first lockdown in March led to the temporary cessation of passenger flying from 21 April to 20 July. Q2 ASKs fell to 0.2bn, a drop of 99% on the prior year. Despite passenger flying recommencing in July, ASKs for the second half of 2020 dopped by 87% vs 2019 as demand for international travel remained highly constrained due to travel and border restrictions. Full year passenger revenue fell to £446m, 80% lower than the prior year and passenger numbers fell to 1.2m, 80% lower than the prior year.

Despite the challenging passenger demand environment our Cargo business thrived and played a vital role in bringing critical medical supplies to the UK. Cargo revenue grew to £319m, up 49% on the prior year. Total revenue fell 70% on the prior year to £868m.

The scale of revenue reduction and speed at which it occurred forced an immediate shift in priority during February to preserving liquidity. Throughout the year this was achieved through: (1) Disciplined capacity management ensuring only flights contributing positively to cash were flown, (2) Reducing fixed costs and capital expenditure through taking bold and decisive actions to reshape and resize Virgin Atlantic, and (3) Reducing cash burn and raising new capital through the privately funded, solvent recapitalisation of Virgin Atlantic. Together these actions helped reduce overall costs, before exceptional items, by £1,473m to £1,382m and raise £370m of new financing, drawn in September. The 80% reduction in passengers drove an unprecedented increase in customer refunds with more than £600m of refunds processed during the year.

Overall, this resulted in an operating loss before exceptional items of £514m, £586m worse than 2019, and a statutory loss before tax of £858m, £794m worse than 2019.

At 31 December 2020, the Group's financing consisted of total cash balances of £191m (including unrestricted cash of £115m) compared to £449m at the end of 2019. After the year end and during Q1 2021 further financing has been secured leading to c.£200m of additional cash support for the business throughout 2021. This comprises proceeds from a sale & leaseback in January of two Boeing 787s and further support from our largest creditors, underpinned by £97m of further shareholder support.

Resizing and reshaping Virgin Atlantic

Significant action was taken throughout 2020 to reduce the cost base and position Virgin Atlantic to become sustainably profitable once passenger demand recovers. Actions reduced operating costs by more than £300m and include over £200m of recurring fixed cost savings. The key actions taken comprised:

- **Consolidated network:** Consolidation of flying at London Heathrow and Manchester while retaining the flexibility to restart Gatwick operations as passenger demand returns. As well as reducing costs this will improve Heathrow slot and aircraft utilisation, improving future profitability.
- **Simplified fleet:** As part of a rationalisation of the fleet we retired all our 4-engined aircraft and brought forward the retirement of an A330-200. This reduced our fleet from 45 to 37 aircraft, through the retirement of 7 Boeing 747-400s and 3 Airbus A340-600s and the arrival of 3 more fuel efficient A350-1000s. Looking forward we will operate one of the youngest and most fuel efficient long haul fleets in the sky.
- **Reduced headcount:** Over the course of the year we reduced our total headcount by 41% to 5,907 at year end, while retaining a holding pool structure for nearly 1,800 pilots and crew in preparation for the resumption of significant flying activity anticipated in mid-2021. Headcount reductions were felt across the company with non-customer facing and management headcount reduced by 30%.

[1] Source: IATA & Oxford Economics, Air Passenger Forecast

- **One brand focus:** The planned unification of Virgin Holidays under one master brand as Virgin Atlantic Holidays will deliver an aligned brand to customers and enabled efficiencies across marketing and operations; and
- **Crew productivity:** We negotiated ground-breaking agreements with our pilot and crew unions providing the foundation for enhanced operational stability and productivity.

Privately funded, solvent recapitalisation

The completion of the privately funded, solvent recapitalisation of the airline on 4 September delivered a refinancing package worth £1.2bn with a further £880m reduction to fleet capital expenditure. The key elements comprised:

- Shareholder support of c.£600m over 2020-25, including a £200m investment from Virgin Group and c.£400m of deferred shareholder payments;
- £170m of secured financing from Davidson Kempner Capital Management LP, a global institutional investment management firm; and
- More than £450m of additional deferrals from our largest creditors alongside the support of our credit card acquirers (Merchant Service Providers).

Refunding our customers

The customer refund situation in the early summer was unprecedented, with our customer teams receiving over 10,000 queries per day, and refund requests reaching 10 times the level experienced at any time before the pandemic. Our response was to massively increase the team to over 240 people in 8 countries, as well as offer a market-leading flexibility and incentives programme, which saw over 40% of airline customers choosing to rebook on to future flights. We processed more than £600m in cash refunds relating to over 220,000 claims.

Financial results & Key metrics

£m	2020	2019
Revenue	868	2,927
EBITDA[1]	(260)	340
EBIT[1]	(511)	74
PBTEI[2]	(659)	(22)
EBIT margin (%)[1]	(59)	3
Loss for the year	(864)	(55)
Total sectors	10,601	23,551
Cargo only sectors	3,897	0
ASK (km bn)	13.04	48.83
Passengers (000)	1,192	5,877
Load factor (%)	61.1	81.1
PRASK (p)	3.18	4.27

Passenger revenue

Passenger revenue declined 80% to £446m from £2.2bn in the prior year, driven by passenger numbers falling 80%. The revenue decline followed the temporary cessation of passenger services on 21 April. Passenger services restarted 90 days later on 20 July, and July to October saw gradual month on month growth in passenger flying. The UK lockdown in November and tightening of travel restrictions during December saw passenger flying reduce again. Despite the reduction in passenger demand three new routes were successfully launched in December from London and Manchester to Pakistan.

Passenger reductions were seen across the network with UK-US routes down 83% and UK – Non-US routes down 72%. UK-Caribbean routes saw strong demand in the autumn between the periods of UK lockdown however passengers were down 70% for the full year.

[1] Earnings before interest, tax, depreciation and amortisation and before exceptional items.

[2] Profit before tax and exceptional items.

CFO Review of 2020 *continued*

Cargo revenue
Our Cargo operations were the standout performer of the year, with revenues up 49% to £319m. The revenue performance reflected a significant shortage in capacity within the global air-cargo market. As the no.2 cargo operator from London Heathrow, we were able to service a broad range of customers with scheduled cargo-only flights on key existing routes such as Shanghai, Hong Kong and our US destinations.

We also added new routes including short haul destinations in Norway and Belgium. Our pharmaceutical capabilities were enhanced with the launch of Pharma Secure, a new product designed specifically to cater for the growth in vaccine distribution.

Unit price metrics rose on average by 130%, and freight charter flights made up 20% of our cargo operations. Although overall traffic declined 25% on the prior year due to a significant decline in belly capacity on passenger flights, traffic per sector increased significantly to 14 tonnes.

Virgin Holidays
Virgin Holidays revenue fell 85% to £96m reflecting the restrictions on non-essential travel present for much of 2020. With Holiday departures declining 80%, holiday distribution, marketing and selling costs were similarly reduced, and the operations were streamlined as part of the single brand unification programme, with Virgin Holidays due to become Virgin Atlantic Holidays. The retail store network was also reduced by 5 stores as part of the restructuring and totalled 50 stores at year end.

Fuel costs
Physical fuel costs of £185m were down £502m, reflecting the significant reduction in sectors flown and the retirement of our 4-engined aircraft. Throughout 2020 the operation focused on flying fuel-efficient Airbus A350 and Boeing 787 fleets to minimise fuel costs and maximise cash contribution on cargo and passenger flights.

A charge of £105m relating to the closing of out-of-the-money fuel price protection hedges, put in place in 2019 to cover expected levels of 2020 flying, was partially offset by foreign exchange and unrealised fair value movements; the net £81m charge (2019: £37m credit) was recognised in exceptional items in the income statement, consistent with our usual accounting policies.

Aircraft costs
Aircraft and engineering costs together totalled £258m, £91m lower than the prior year. Aircraft costs fell £15m to £158m due to the reduction in the size of our fleet. Engineering and maintenance costs of £100m were significantly lower than the prior year, reflecting both reduced flying hours and the retirement of the oldest aircraft in our fleet.

Other non-fuel costs
Non-fuel, non-aircraft costs of £835m, were 54% lower than the prior year. Within this, employee remuneration of £277m was £145m lower than the prior year, reflecting the in-year savings from our restructuring programme which saw headcount at 31 December of 5,907 compared to 10,016 at the beginning of the year. It also reflects employee participation in the UK Government's Coronavirus Job Retention Scheme (CJRS) of £70m. The reduction in other operating and overhead costs of £149m vs £176m in 2019 reflect the in-year actions on our fixed costs such as indirect staff costs and volume-based reductions in operating costs.

Finance costs
Net finance costs of £148m were £52m higher than in 2019. This was mainly driven by a £27m increase in finance lease interest and £12m increase in interest payable on external debt.

Result for the year
The statutory loss after tax for the year was £864m, £809m less than 2019. EBITDA loss for the year was £260m, £600m lower than the prior year, and EBIT loss for the year was £511m, £585m below 2019.

The reported Group loss before tax, equity-accounted investees, exceptional items and fair value movements totalled £659m, compared to a £22m loss in 2019, together with an exceptional charge of £189m (2019: £32m charge). These are made up of £78m of Covid-related exceptional costs and £111m of other exceptional costs. These include £7.8m relating to the write down of loans made early in the year to Flybe including an offset for post-administration recoveries.

Balance sheet, cash flow and financing

£m	2020	2019
Cash from operating activities	(713)	217
Cash used in investing activities	(23)	(558)
Cash from financing activities	472	317
Cash decrease	(272)	(25)
Effects of exchange rate differences	15	(15)
Unrestricted cash	115	353
Total cash	191	449
Debt	(2,479)	(2,215)
Net debt	(2,287)	(1,766)
Net (liabilities)	(576)	(190)

CFO Review of 2020 *continued*

Adjusted balance sheet metrics

£m	2020	2019
Reported net (liabilities)	(576)	(190)
Slot portfolio valuation (fair value, less cost)	423	350
Adjusted net (liabilities)/assets	(153)	160
Reported free cash	115	353
Unremitted cash	13	70
Adjusted free cash	128	423

Cash at the end of the year totalled £191m vs £449m in 2019, including £77m (2019: £97m) of restricted cash, but excluded £14m of unremitted cash which is recognised within our receivables balances. The decrease reflected the significant cash outflow resulting from refunds and operating activities of £716m, partially offset by new borrowings of £591m. Cash from operating activities was an outflow of £713m and was driven by the £260m EBITDA loss and refunds.

Net cash used in investing activities of £23m reflects the success of the strong cash control measures put in place early in the year, together with the proceeds of the disposal of our Crawley-based facility, The Base. Within the fleet, we acquired an additional A350, while a further 2 A350s joined the fleet under leasing contracts.

Cash inflow from actions taken in the year totalled £456m relating principally to new borrowings of £591m from the recapitalisation programme described earlier, offset by £100m of repayments, principally relating to aircraft leases. Movements within the balance sheet principally reflect the various actions undertaken as part of our solvent recapitalisation.

Shareholder payment deferrals over the period 2020 to 2025 were recognised through a £376m preference share issuance and are reflected in the capitalisation of intangible assets relating to contracts. The increase in long term payables is also a result of revised repayment terms on contracts with both shareholders and with lessors.

Long-term borrowings rose as a result of the recapitalisation and deferral of items previously classified as short-term borrowings, including the conversion of the existing RCF to a term loan. Deferred revenue fell, reflecting lower flying activity and reduced future bookings due to the continued uncertainty over Covid restrictions on international travel later in the year. A portion of our long-term borrowings are secured against our UK slot portfolio which had a year-end market value in excess of £500m.

Outlook

With the recently announced path to exit UK lockdown restrictions, there is a roadmap to recovery and to the recommencement of international passenger flying at scale. Factors such as the emergence of new variants of the Covid-19 virus and the risk of a third wave of infections continue to create significant uncertainties and Virgin Atlantic is not able to provide certainty that there will not be a more severe downside recovery scenario.

In the event that such a scenario were to occur, Virgin Atlantic would need to take further actions and would likely need to secure additional funding beyond what has been achieved to date, however certainty that it will be able to achieve further funding cannot be provided. Please see note 3 'Basis of preparation' for more information.

While material uncertainties remain as to the timing and shape of recovery, the actions taken in 2020 to reshape and resize Virgin Atlantic have positioned the airline to capitalise on the recovery when it takes hold. The discipline and focus on cost and liquidity management will continue, to help ensure Virgin Atlantic's survival and return to profitability.

Oliver Byers
Chief Financial Officer
26 March 2021

Our Key Performance Indicators

Key performance indicators
The directors have outlined below the key performance indicators that they rely on to manage the business. These key metrics focus on volume, efficiency and cost performance within our business operations. The financial indicators are stated at constant currency.

Virgin Atlantic

	2018	2019	2020	YoY
Passenger numbers (m)	5.5	5.9	1.2	-80%

A key volume measure used to assess volume growth and relative market share. Calculated as the total number of passengers who flew on Virgin Atlantic Aircraft.

	2018	2019	2020	YoY
ASK (km m)	47,747	48,832	13,043	-73%

An industry standard measure of passenger carrying capacity. Calculated as the number of available seats in each flown sector multiplied by the sector distance in km.

	2018	2019	2020	YoY
PRASK (p)	4.12	4.27	3.18	-26%

An industry measure of operational efficiency that encompasses both passenger yield and load factor performance. Calculated as the total passenger revenue divided by total ASKs.

	2018	2019	2020	YoY
Load factor (%)	78.7	81.1	61.1	-20.0pts

An industry standard capacity utilisation measure that assesses how efficiently we fill our aircraft seats. Calculated as the total number of passengers divided by total available seats.

	2018	2019	2020	YoY
Fuel CASK (p)	1.45	1.44	2.22	+54%

A key fuel metric, Fuel CASK (p) measures our unit fuel spend and assesses our aircraft fuel efficiency and fuel hedging effectiveness. Calculated as the total fuel spend divided by total ASKs.

	2018	2019	2020	YoY
Non-fuel CASK (p)	3.49	3.39	7.72	+128%

Our key volume-adjusted operational cost metric that indicates our cost control performance excluding fuel. Calculated as the total operational costs and overheads (ex-financing costs) divided by total ASKs.

Virgin Holidays

	2018	2019	2020	YoY
Total customers ('000)	397	390	59	-85%

A key measure of volume and activity which drives holiday revenues. Calculated as the total number of customers served in the year, across all holiday types.

	2018	2019	2020	YoY
Contribution (£m)	5.8	5.5	(39.2)	n/a

This represents the operating margin achieved by the Holiday business from its travel and package holiday operations. Calculated as the profit before tax and exceptional items (PBTEI) contribution.

Virgin Atlantic Cargo

	2018	2019	2020	YoY
Tonnage (m)	244	227	156	-31%

Utilisation of bellyhold cargo capacity helps drive overall profitability of the airline. Calculated as the revenue generating chargeable weight carried on VA Cargo's network measured in kg.

	2018	2019	2020	YoY
Yield (£/kg)	0.92	0.94	2.05	+118%

Used to measure revenue performance (£) per kilogram carried on VA Cargo's network. It's a measure of pricing execution that has a direct impact on the overall profitability of the business.

Our business model
Virgin Atlantic Limited comprises three principal lines of business: Virgin Atlantic Airlines, Virgin Atlantic Cargo and Virgin Holidays.

Virgin Atlantic Airlines uses a mixed fleet of Airbus and Boeing aircraft to carry passengers to destinations across North America, the Caribbean, Africa, the Middle East and Asia from its main bases in London and Manchester, with award winning clubhouses at 7 airports.

Virgin Atlantic Cargo trades and retails the bellyhold capacity of Virgin Atlantic's cargo-friendly fleet, connecting manufacturers, growers, retailers and consumers across the globe. It has the ability to transport specialist and time-critical cargo ranging from the most temperature-sensitive pharmaceuticals and fresh produce to a beloved family pet.

Virgin Holidays offers predominantly package holidays to destinations worldwide for customers principally in the UK. It has significant market positions in holidays to major US destinations including Florida and to the Eastern Caribbean. The business offers holidays through online, call centres and retail stores across the UK. Over 90% of Virgin Holidays customers also fly on Virgin Atlantic planes.

Creating value for our stakeholders

Our people
At 31 December 2020 we had over 5,900 people based in the UK and in key destinations around the world. Of this, 9% were pilots and 41% cabin crew.

How we engage: We promote a transparent, two-way multimedia communication approach with our people, utilising an enterprise social media platform; Workplace from Facebook. Workplace provides an open forum where over 96% of our people regularly contribute, keep up to date on the newsflow of the company, and can engage in discussions with their colleagues and leaders. This includes a highly active 'Ask Shai' CEO Q&A group, regular Workplace Live town hall broadcasts, and check ins with our people through a fortnightly pulse survey. We engage in formal communications with our people through trade union and employee committee representation.

In 2020: Effective communication with our people has been critical given the uncertainty of the pandemic and the impact it has had on all our working and personal lives. We have provided a wide range of support for employees' Covid-safety in particular, and their physical and mental well-being, regardless of work location. We have been very conscious of the challenges of homeworking, home-schooling, and periods where many of our team were on furlough, while others were working intensively to respond to the rapidly changing environment.

We conducted extensive consultations as part of the restructuring exercises including discussion with the recognised unions; worked to minimise the impact on our people; and assisted those looking to find roles elsewhere with a comprehensive redeployment programme, including supporting the NHS Covid-19 care and vaccination programmes.

Customers
Our customers are at the heart of everything we do. We served over 1.2 million passengers and significantly increased our Cargo customer base to over 430 major customers.

How we engage: Virgin Atlantic has built its reputation on unique and individual customer experience and engagement. As well as our people's direct personal engagement every day, we listen to our customers through a range of satisfaction and market research surveys, with NPS scores being a key measure of success used across the company.

In 2020: Covid-safety and the impact of changing Government travel guidance has been of huge concern to our customers and we put in place a range of measures to address these. Our 'Fly Safe, Fly Well' programme ensured a highly bio-secure on-board environment; we provided flexible booking policies and greatly increased the resources in our call centres and programmes to respond to requests for flight changes and refunds. We worked closely with our corporate and travel trade customers to ensure close dialogue as we navigated the changing landscape.

As a result we increased flexibility through our commercial policies ensuring we maintained demand for future travel and now we continue to work closely as traffic restarts in 2021. We also enhanced the flexibility and support offered to our most loyal customers through our Flying Club offering. Our customer satisfaction scores for safety were significantly higher than the prior year reflecting our efforts to keep customers safe when flying with us, and recognised across the industry by the APEX 'diamond' status health & safety award.

Joint Venture partners and other airline partners
Our airline partners include the expanded Joint Venture with Delta, Air France and KLM, together with 70 codeshare and interline partners.

How we engage: Our Partnership with Delta is in its 7th year, and in 2020 we formed a new expanded Joint Venture with Delta, Air France and KLM. This relationship is active at every level in the organisation ensuring that we have strong operational and strategic engagement throughout.

In 2020: We were able to collaborate effectively with our partners Delta, Air France and KLM on both operational and strategic matters. We focused on ensuring that our collective customers were and continue to be able to experience aligned customer journeys despite the rapidly changing travel environment. We have worked closely on our network plans and preparations to recommence travel at scale across the transatlantic, and navigating the challenges that Covid-19 has bought to the airline industry.

Suppliers
Our key suppliers include airframe and engine manufacturers, airports and specialist airside support and critical technology suppliers, together with over 20,000 suppliers worldwide.

How we engage: We seek to have open and constructive relationships across our supplier network as they are integral to our ability to serve our customers. We have a structured supplier relationship framework, and identified relationship managers for key suppliers. Supplier's policies and standards are regularly reviewed to ensure they align with our supply chain sustainability criteria.

In 2020: The importance of our strong supplier relationships was critical as we worked together to manage our response to the Covid-19 pandemic, our solvent recapitalisation and our restructuring, which encompassed reducing costs and reflecting lower demand for flying. Discussions ranged from managing new aircraft delivery schedules with Airbus through to the rapid development of the new bio-secure on-board catering service. Our cargo business built new and deeper relationships as it expanded its operations to new cities and new industries.

Industry peers on sustainability goals and other industry issues
We participate in a number of national and international associations, including IATA and Sustainable Aviation, where collaboration enables the development of industry-wide approaches to key issues such as sustainable aviation fuel and carbon offsetting as well as trade and consumer issues.

How we engage: We seek to take an active and thought leadership role in the industry associations we participate in. We also work to embed best practice and responsible behaviour across our business and supply chain in partnership with RoundTable on Sustainable Biomaterials, World Cetacean Alliance and The Sustainable Restaurant Association.

In 2020: We supported a number of industry initiatives, both on responding to the Covid-19 pandemic, and also on longer term aviation sustainability goals. We are an active participant in the UK Government's Jet Zero Council and its working groups, which are seeking to support the development of frameworks and initiatives to accelerate the availability of commercially viable and scalable sustainable aviation fuel.

Communities
We engage with the local communities in each major location we have a presence, including local schools, business groups and community organisations.

How we engage: Our Passport2Change programme focuses on outreach into schools near our main operations centres to help inspire the next generation, particularly on STEM skills. We supplement these actions with charitable and business network activities in many of our locations and holiday destinations.

In 2020: This included supporting pupil home-schooling through the donation of laptops to local schools.

Finance Partners
We have close relationships with a range of finance capital providers and counterparties, including banking and credit card providers, aircraft and airport slot financing investors.

How we engage: Our treasury team maintain regular contact with all our finance partners, providing updates, commentary and information on specific issues and financial performance on request, as well as press releases on key newsflow.

In 2020: We have undertaken regular and significant engagement with our financing partners who have provided very substantial support through the most challenging year in Virgin Atlantic's history. We engaged with all our creditors as part of the solvent recapitalisation and worked with them to achieve a court-approved restructuring. We have welcomed an independent VAA Board Observer representing our creditor groups, and provide regular updates to all our financial partners.

Regulators and governments
We are regulated by the Civil Aviation Authority and engage with governments, policy makers, airline associations and tourism bodies.

How we engage: Our government affairs and operations teams are in regular and close contact with relevant regulatory bodies and across UK Government departments. We are highly active in engaging with governments, policy makers, regulators and political stakeholders on issues which impact our ability to operate, reputation, and are important to our customers.

In 2020: This was primarily related to Covid-19 and subsequent global travel restrictions. We engaged with stakeholders on customer refunds and restart issues such as quarantine, travel corridors, new health and safety protocols, the Test to Release scheme, and other operating restrictions.

Sustainability

Overview
Becoming the most loved travel company comes with huge responsibility. A responsibility to our people, our customers, the communities we operate in and the planet on which we all live. It pervades everything we do and how we do it.

In 2020, a year like no other, the Covid-19 pandemic has affected every aspect of our operation and impacted every one of our stakeholders. But the strength of our values to make friends, think red and be amazing has seen us through the toughest year in our history.

People

Our people are at the heart of everything we do. Meaning the focus and rigour we apply to our customer journeys is mirrored in our people journeys too. Creating a workplace that is based on equality of opportunity, recognises each individual and celebrates diversity of perspective without limit.

Our people create unrivalled experiences for our customers, across every touchpoint. Throughout the people journey and across the airline, we support our people to be at their very best and to bring their true selves to work. We attract and retain talented, enthusiastic and collaborative people across a broad range of skills, backgrounds and experiences.

We approach career development and promotion in the same, meritocratic way. Meaning our people don't come to work to just do a job. They come to laugh, learn and lean in to the Virgin Atlantic spirit. A performance-led airline that is committed to excellence and values the contribution of every single person.

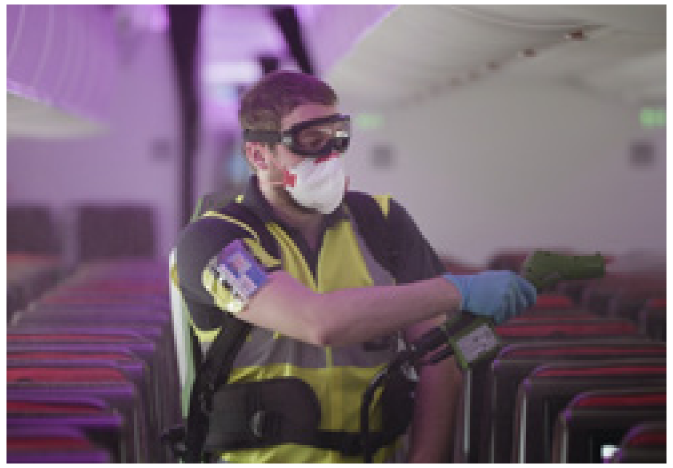
In 2020 we took difficult decisions to ensure the survival of Virgin Atlantic and to protect as many jobs as possible. But sadly, we could not save every job. In May and September we announced redundancies affecting 4,300 roles in total. Difficult decisions for any company to take but heart-breaking for Virgin Atlantic where our people are at the centre of everything we do.

The loss of jobs affected every level of the organisation, from our cabin crew and pilots, our engineers and airport staff, through to our back office and leadership team. Across our workforce, the devastating impact of Covid-19 and the loss of livelihoods, colleagues and friends affected everyone working at Virgin Atlantic.

Throughout the year, our focus was on ensuring transparency in our redundancy processes, fair treatment of all our people and providing support for those placed at risk and/or who sadly left the airline.

We put in place a full suite of resources for managers having to resize their teams including comprehensive support to equip them for selection and online interview processes. Ensuring consistency and fairness for our people. For those placed at risk of redundancy, we developed in house resources to offer support for interview, CV and profile building alongside active promotion of internal job boards and direct engagement with external employers actively recruiting.

For those who left us or moved into one of our holding pools this enabled many to move into other employment. For our people who spent large amounts of time on furlough in 2020, we promoted volunteering opportunities with organisations such as the NHS and many were able to put their invaluable skills to use supporting the UK's frontline response to Covid-19.



Given the impact of Covid-19 on our passenger flying programme in 2020, our direct workforces, particularly cabin crew and pilots, have been widely impacted. As passenger demand returns and we retake to the skies at scale, we hope to welcome back as many of our former colleagues as possible. To make this possible, and in conjunction with our union representatives, we introduced innovative holding pools for many of our pilots and crew. An industry first.

At the end of 2020, we had over 310 pilots and 1,450 cabin crew in our holding pools. This will allow Virgin Atlantic to scale back up as quickly and efficiently as possible, as demand returns. For our former colleagues, the holding pools provide clarity on how and when, they can retake to the skies with Virgin Atlantic, if they choose to do so.

We welcomed the introduction of the Coronavirus Job Retention Scheme (CJRS) in April 2020 and have accessed the scheme since its inception. We expect to do so until international travel resumes at scale and in order to protect more than 5,000 jobs. At its peak, over 70% of our workforce were on furlough leave, declining to around 40% by the end of 2020.

Throughout, we have focused on rotating our teams to respond to our flying programme and to support as many people as possible to feel connected with their colleagues, customers and roles at Virgin Atlantic. We have put in place targeted support for those on furlough, including financial wellbeing and one-to-one support tools for our leaders. We have been consistently measuring the happiness of both our colleagues in work and colleagues on furlough in a fortnightly pulse survey, to understand and take action for teams and individuals requiring additional support.

Safety and well being
For our people and customers, health, safety and security is our number one priority. Always. Our people focused Be Safe, Be Well, programme mirrors our customer facing Fly Safe, Fly Well programme. Delivering a Covid-19 safe environment for all our teams. Whether on board, at the airport, in our hangar or at our offices, we have industry leading measures in place so that our people feel safe when working and have the tools needed to work safely and effectively from home.

We were the first UK airline to introduce rapid pre-flight Covid-19 testing for our crew and pilots from October, supported our ground teams through regular Covid testing, undertaking over 7,000 tests by the end of the year. Our onboard protocols and cleaning were there for the safety of our people as well as customers and we provided comprehensive support to crews when travelling and staying overseas.

But our Be Safe, Be Well programme goes beyond just physical health and safety. We have established knowledge libraries and virtual toolkits to equip our leaders and managers with wellbeing resources. Encouraging them to reach out to and support their teams, whether in work or on furlough. To raise awareness and understanding around the impact of Covid-19 on mental health and fatigue, both physically and emotionally. Providing our teams with digital resources and regular communications to ensure our people remain connected, despite more than a year of remote working and furlough across the Company.

Our Employee Assistance Programme provides 24/7 comprehensive support to every individual and their families, alongside a series of webinars to ensure our people have meaningful access to mental, financial, emotional and social support. For what has universally been one of the toughest years professionally and personally for so many, no-one at Virgin Atlantic stands alone.

Sustainability *continued*

Getting back to our best in 2021
As we enter 2021, the talent and creativity of our people must continue to be recognised and developed. To retain and build our pipeline of future leaders, we must support all our people to embrace a growth mindset. To think like a start-up and act like an owner of Virgin Atlantic and to live our values, every day.

During 2020 we transformed the way we delivered training, for example, moving much of our operational training online. Reducing costs, increasing flexibility, and driving improved learning satisfaction scores.

For example, our cabin crew learning satisfaction scores improved by 14 ppts since adopting digital learning. Similarly, we have received very positive feedback from many colleagues, which highlighted benefits such as greater flexibility and enabling our teams to learn on their terms, when their energy is at its highest and in the comfort of their home environment.

In a year where most in-person experiences have been lost, we have focused on new ways to retain the connectivity of our people. Undoubtedly the human touchpoints of the journey are what make Virgin Atlantic most loved – for our people, as well as our customers.

In October we launched a re-connect platform across the airline, targeted at those who have spent long periods on furlough to provide a re-entry point for all our people, given the transformation of the airline in 2020. Helping our teams get up to speed with how Virgin Atlantic 2.0 looks today, to understand our three critical missions of Survival, Love and Profitability, and to reconnect all our teams with our vision, values and plans as we head into 2021.

Diversity, equity and inclusion
Ensuring we have the right mix of people with the right skills to do the role will enable us to become the most loved travel company.

Virgin Atlantic has a long-established reputation for championing diversity and inclusion. For us, this commitment goes beyond the workplace. It must permeate the industry and the societies in which we live and work.

Our 'Be Yourself' initiative launched in 2019. Focused on awareness, inclusion and recognising the value of difference and diversity. At Virgin Atlantic, we know this breadth of perspective, experience and opinion improves our decision making. Extending our reach and allowing our people to know they belong. No matter where they come from, the colour of their skin, their sexual orientation or their religious beliefs.

Initiatives both within the organisation and in the community have included LGBTQ+ education for our holiday destination partners, supporting Pride festivals in the United States, France and across the United Kingdom, and the development of an inclusive hiring toolkit.

Despite a headcount reduction of 41% in 2020, there has been limited impact on our diversity and inclusion targets. But with recruitment largely frozen and with our holding pool structure in place, our levers of change are limited in the shorter term. In 2021, we will be refreshing our target - recognising current constraints but unwilling to compromise on driving positive change. Change that makes us better for our people, our customers, our communities.

% Female	End 2019	End 2020
Total headcount	62%	60%
Management grade D+	42%	40%

Our planet

At Virgin Atlantic, we have been pioneering sustainability leadership for over a decade. In 2020, we became a signatory of Sustainable Aviation's commitment to Net Zero carbon emissions by 2050. We also joined the UK's Jet Zero Council, a cross industry and UK Government working group, established to reduce barriers and accelerate solutions to decarbonise the aviation sector.

Between 2007 and 2019 we reduced our aircraft carbon emissions by 20%. As a result of the early retirement of our four engine aircraft in 2020 and the improved efficiency of our newer, modern fleet; we estimate that our CO_2 /km will reduce by a further 10% in 2021 (compared to 2019).

In 2020, global aviation capacity fell by 57%[1] and IATA is currently forecasting that longhaul travel will not return to 2019 levels until 2024.[2] This has impacted the first stage of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) which was designed by ICAO to achieve the global aspiration for carbon neutral growth. Under the agreement, the baseline year has been reset to 2019 and offsetting is now not expected under the scheme until industry growth surpasses 2019 levels. These changes do not diminish our determination to find innovative and effective ways to reduce our carbon emissions.

We are long term supporters of technology innovation and development to achieve the commercialisation of sustainable aviation fuel (SAF) in the UK and internationally, as shown by our long standing partnership with Lanzatech since 2011. We actively support their efforts to scale up their technology to convert industrial waste gases into various low carbon products, including jet fuel. We are also engaging with suppliers, researchers and industry partners to promote collaboration on SAF development.

Industry and Government leadership is now essential to deliver meaningful change in the years ahead. The Jet Zero Council and the COP26 climate summit taking pace in Glasgow in November present an opportunity for the UK Government, alongside UK aviation, to build momentum in the global effort to reduce carbon emissions.

Our carbon footprint and metrics in 2020
Our total carbon footprint in 2020 was 2.2m tonnes of CO_2e, a third of our 2019 footprint and a direct result of the reduction in operations due to the Covid-19 pandemic.[3]

The carbon and fuel efficiency of our aircraft remains the number one environmental priority, accounting for more than 99% of operational (Scope 1 and 2) carbon emissions. When taking into account our operational emissions and scope 3 indirect emissions from across our value chain, aircraft carbon still represents nearly 90% of our full footprint.

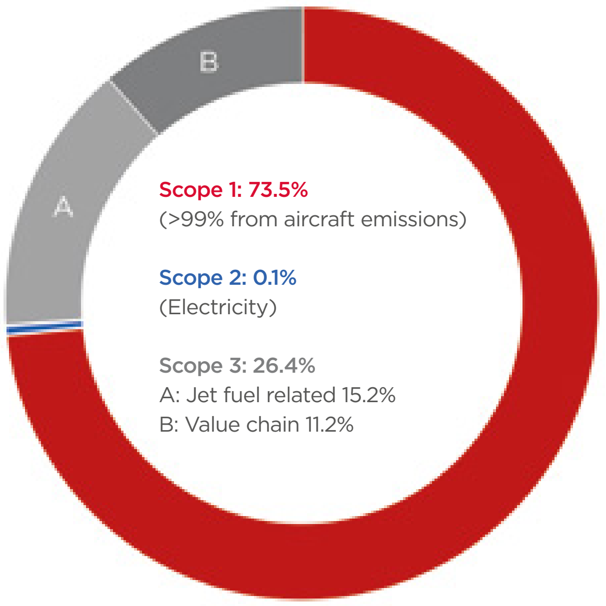
The aircraft we operate makes the biggest difference to our fuel use and carbon emissions. For over ten years we've been transitioning to a cleaner, greener fleet. Our entire fleet now comprises twin engine aircraft including Airbus A350s, A330s and Boeing 787s.

We reduced our CO_2/RTK by 18% between 2007-2019. In 2020, our metrics were impacted by Covid-19 as reduced passenger numbers meant our CO_2/RTK increased, as this is a measure of carbon emissions relative to the passengers and cargo we carry. However, our current, simplified fleet will be c10% more fuel and carbon efficient per km flown when compared to our fleet in 2019, and we will see improvements in the CO_2/RTK metric as demand returns and our load factors increase.

[1] IATA analysis based on available seat kilometres flown (domestic and international) **iata.org/en/pressroom/pr/2021-02-03-02/**
[2] IATA economic analysis 'Covid-19 outlook for air transport and the airline industry' November 2020 **iata.org/en/iata-repository/publications/economic-reports/airline-industry-economic-performance-november-2020---presentation/**
[3] CO_2e, or carbon dioxide equivalent, is a standard unit for measuring carbon footprints. The idea is to express the impact of each different greenhouse gas in terms of the amount of CO_2 that would create the same amount of warming

Sustainability *continued*

2020 carbon emissions



Our full footprint, energy usage, intensity metrics and methodology are set out overleaf.

Our actions
Our long term initiatives to improve the carbon efficiency of our operations have centred on three key areas: fleet, sustainable fuels and CORSIA. A short film 'Three steps to tackle our footprint' can be viewed on our website **virginatlantic.com/changeisintheair/climateaction**

In 2020 non fleet actions to reduce our energy usage and carbon emissions have largely been a result of the resizing and re-shaping of Virgin Atlantic in response to Covid-19. Despite some of these actions being geared towards survival, we expect these decisions to deliver carbon savings beyond 2020.

Our non fleet actions include moving our flying programme from Gatwick to Heathrow and preparing for the closure of our Gatwick hangar, and other airport properties. We revised our two main office buildings in Crawley into one. And from January 2021, the VHQ becomes a single head office as we wind down and exit The Base. The VHQ is significantly more energy efficient, utilises heat pumps instead of gas, and the base build was rated excellent by BREAAM on completion. Across our car fleet, we also accelerated the transition to hybrid and returned all petrol and diesel cars to the lessor in the year.

We seek to do business responsibly and continually strive to improve our environmental behaviours and footprint, going beyond carbon emissions to encompass waste and water management, human rights and animal welfare, both in our business and within our supply chain. For more information, you can keep up to date with our activities and news on our website: **virginatlantic.com/changeisintheair**

Community

Our flagship community programme, Passport to Change, focuses on supporting and inspiring young people into the world of STEM, aviation and travel. Up until March 2020, hundreds of our people engaged with students from schools in our local communities of Crawley, Swansea and Atlanta. Virgin Atlantic pilots, cabin crew, engineers and people from our finance, people technology, and communications teams, took part in one-to-one mentoring support, sharing their career stories and taking over the classroom to offer lessons in wide ranging topics. These ranged from CV building to the theory of flight (complete with paper aeroplane competitions).

With the onset on Covid-19 and school closures we paused Passport to Change, pivoting to support local and national efforts in response to the pandemic. Our cargo operations provided vital transportation links – bring PPE and test kits into the UK to support frontline NHS staff. Our people volunteered across the NHS, including at NHS Nightingale and other hospitals, ambulance services across the UK, building respiratory equipment and more.

We also got in touch with our local partner schools to donate no-longer-used iPads, laptops and monitors to disadvantaged students. Enabling them to access virtual home-schooling and supporting efforts to reduce the vast numbers of children unable to access education whilst schools were closed.

Alongside this work, our people have continued inspiring the next generation into STEM and aviation. We've partnered with Fantasy Wings, an organisation that encourages more women and young people from the Black, Asian and Minority Ethnic (BAME) communities, to consider a career in the aviation industry and to add diversity to the flight deck where currently only 5% are women and 7% BAME.

We also work closely across industry networks that support female career development in our sector. Virgin Atlantic is an active member of *Women in Aviation* and *Women in Hospitality, Travel and Leisure*. Our participation includes board and committee representation alongside many of our senior leaders providing mentoring and contribution to development programmes.

Sustainability *continued*

Type of emissions	Activity	2019 emissions (tCO_2e)	2020 emissions (tCO_2e)	2020 emissions (%)	YoY change (%)
Direct (Scope 1)	Aircraft fuel	4,190,727	1,597,904	73.4%	-61.9%
	Natural gas	2,428	1,808	0.1%	-25.5%
	Ground vehicles	608	164	0.01%	-73.1%
	Refrigerant	0	827	0.04%	-
	Other fuels	466	229	0.01%	-50.9%
	Subtotal	**4,194,229**	**1,600,933**	**73.5%**	**-61.8%**
Indirect energy (Scope 2)	Purchased electricity[1]	3,225	2,101	0.1%	-34.9%
	Subtotal	**3,225**	**2,101**	**0.1%**	**-34.9%**
Indirect other (Scope 3)	Category 1 - Purchased goods and services	240,503	126,511	5.8%	-47.4%
	Category 2 - Capital goods	211,469	39,009	1.8%	-81.5%
	Category 3 - Fuel and energy related, well to tank (WTT)	869,019	331,601	15.2%	-61.8%
	Category 4 - 9[2]	158,433	39,608	1.8%	-75.0%
	Category 11 - Use of sold products	249,844	37,676	1.7%	-84.9%
	Subtotal	**1,729,268**	**574,495**	**26.4%**	**-66.8%**
Total emissions (tCO_2e)		**5,926,722**	**2,177,529**	**100%**	**-63.2%**

Carbon Footprint Methodology
In line with the Greenhouse Gas Protocol, we compile our carbon footprint by 'Scope'. This enables us to calculate and understand the sources of our direct and indirect emissions and to identify our most important carbon impacts. In order to report greenhouse gas emissions we must convert 'activity data' such as distance travelled, litres of fuel used or tonnes of waste disposed into carbon emissions. Emission conversion factors are used for this purpose and each year we use the published DEFRA emission factors:
www.gov.uk/government/collections/government-conversion-factors-for-company-reporting.

Our aircraft carbon emissions are independently verified each year for submission to EU Emissions Trading Scheme (EU ETS) and the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

For Scopes 1 and 2 we use actual data collated from our operations. However, due to fewer people actively working in the business during 2020 and 2021 due to the Covid-19 pandemic there is some estimated data this year. Where categories have been estimated they have been based on a % of the 2019 consumption. Estimated categories in 2020 are ground vehicles, retail stores and some airport properties which represents <0.5% of our total footprint.

Scope 3 emission calculations rely on some modelling techniques using financial data as well as actual data. The largest contributor, category 3, uses actual data and the appropriate DEFRA emissions factors. Categories 1, 2 and 11 are modelled using financial data and 2019 Comprehensive Environmental Data Archive emissions factors. Categories 4-9 have not been directly calculated as typically they contribute <1% individually to our footprint, and these activities were all greatly reduced in 2020. Instead we have estimated their contribution as 25% of the 2019 figure.

[1] We purchase 100% of our electricity from green energy tariffs (REGO scheme backed suppliers) although we still count this consumption within our carbon footprint calculations.
[2] Categories 4 – 9 includes things like business travel, commuting, onward customer travel and waste.

Sustainability Metric	2019 data	2020 data	YoY % change
Aircraft CO_2 (kg) per revenue tonne kilometre	0.719	0.823	14.5%
Total CO_2 emissions (tonne) from aircraft operations	4,148,970	1,581,962	-61.9%
Aircraft CO_2 (g) per passenger kilometre	78.9	119	50.8%
Aircraft CO_2 (g) per cargo tonne kilometre	470	496	5.4%
Electricity use, kWh	12,409,002	9,011,904	-27.4%
Gas use, kWh	8,524,419	8,749,654	2.6%
Combined Electricity and Gas, (tonnes) CO_2e	4,739	3,710	-21.7%
Average aircraft noise (decibels)	95.1	93.3	-1.9%

Methodology
- For our aircraft carbon metrics, we used following methodology:

i. Total CO_2 emissions: Calculated using the aviation turbine fuel CO_2 conversion factor multiplied by the amount of fuel used from all flights.

ii. CO_2/Revenue Tonne km. As above, CO_2 is calculated using the aviation turbine fuel CO_2 conversion factor multiplied by the amount of fuel used. RTK is calculated from all revenue (paying) passengers and freight (cargo) flown multiplied by the total number of kilometres flown. The airport to airport distance is calculated using the Great Circle Distance (the shortest distance between two points on a sphere). This is then increased by 8% to allow for 'real world' distances flown. By way of example: including sub optimal routing and queueing to land at airports during periods of heavy congestion. Our methodology for 2019 and 2020 intensity metrics (CO_2/RTK and CO_2/PK) differs from previously published data due to a correction to our GCD calculation.

iii. CO_2/Passenger km. As above, CO_2 is calculated using the aviation turbine fuel CO_2 conversion factor multiplied by the amount of fuel used. PK is calculated from all passengers ("PAX") flown multiplied by the total number of kilometres flown (Great Circle Distance + 8%). A passenger to cargo weighting is also applied so that emissions can be allocated between passengers. This takes into account luggage, seats, etc. excluding the emissions associated with transporting cargo. The passenger cargo weighting is calculated as follows:

Total PAX Weight (100kg per PAX, includes bags) + Total Seat Weight (50kg per seat) divided by the Total Weight (PAX + seats + cargo). We have taken this formula from the ICAO Carbon emissions calculator methodology: **icao.int/environmental-protection/CarbonOffset/Documents/Methodology%20ICAO%20Carbon%20Calculator_v10-2017.pdf**

iv. CO_2/Cargo Tonne km. As above, CO_2 is calculated using the aviation turbine fuel CO_2 conversion factor multiplied by the amount of fuel used. A passenger to cargo weighting is also applied as described above. CTK is calculated from the weight of cargo flown multiplied by the total number of kilometres flown (Great Circle Distance + 8%).

- Energy use relates to sites where we are billed directly for our energy use and is derived predominantly from our main sites which are The VHQ, The Base, Heathrow and Gatwick Hangers and the Swansea Customer Centre. Electricity also includes smaller airport properties. Gas values differ from our carbon footprint assessment, as for the footprint we also include estimated gas usage associated with our airport lounges.

- Average aircraft noise is modelled using the number of flights performed by each aircraft type multiplied by the aircraft noise specifications for take-off, lateral and approach respectively. We then create an average across all aircraft by dividing by the total number of flights performed in the year. During 2021 we expect to review and update our methodology for assessing and reporting noise.

Risk management

Our Risk Management Philosophy
We believe corporate risk processes create value and protect the organisation by: allowing us to be better prepared and more flexible; providing oversight of opportunities; helping us prioritise and deploy limited resources; and minimising the impacts of risks that subsequently materialise into bigger issues.

During the past year, our risk processes have been reviewed and re-aligned to focus on speed of response and agility in a period of unprecedented change for the business, especially in light of the threat the Covid-19 brought to our industry. We have put a particular focus on strengthening cash and covenant-related risk processes, and established a number of new governance bodies charged with the management of these critical risks.

At the same time we have ensured that the health and safety of our people, customers and suppliers remain at the heart of our decision making, so as to ensure these central objectives and values are not impaired or degraded in any way.

The combination of resizing and reshaping Virgin Atlantic, operating flights during an active pandemic and the necessity for homeworking for the majority of our people, has naturally led to an increased risk in operational issues. In response, we have deployed additional technology solutions and processes to help mitigate these heightened operational risks.

Throughout the changes made we have ensured our overall control objectives remain central to the business, and maintained a close involvement with the risk function in the planning of all key projects. Our Head of Audit & Risk has been appraised of and kept involved in all key business decisions which had the potential to impact critical control objectives ensuring the maintenance of a robust control environment.

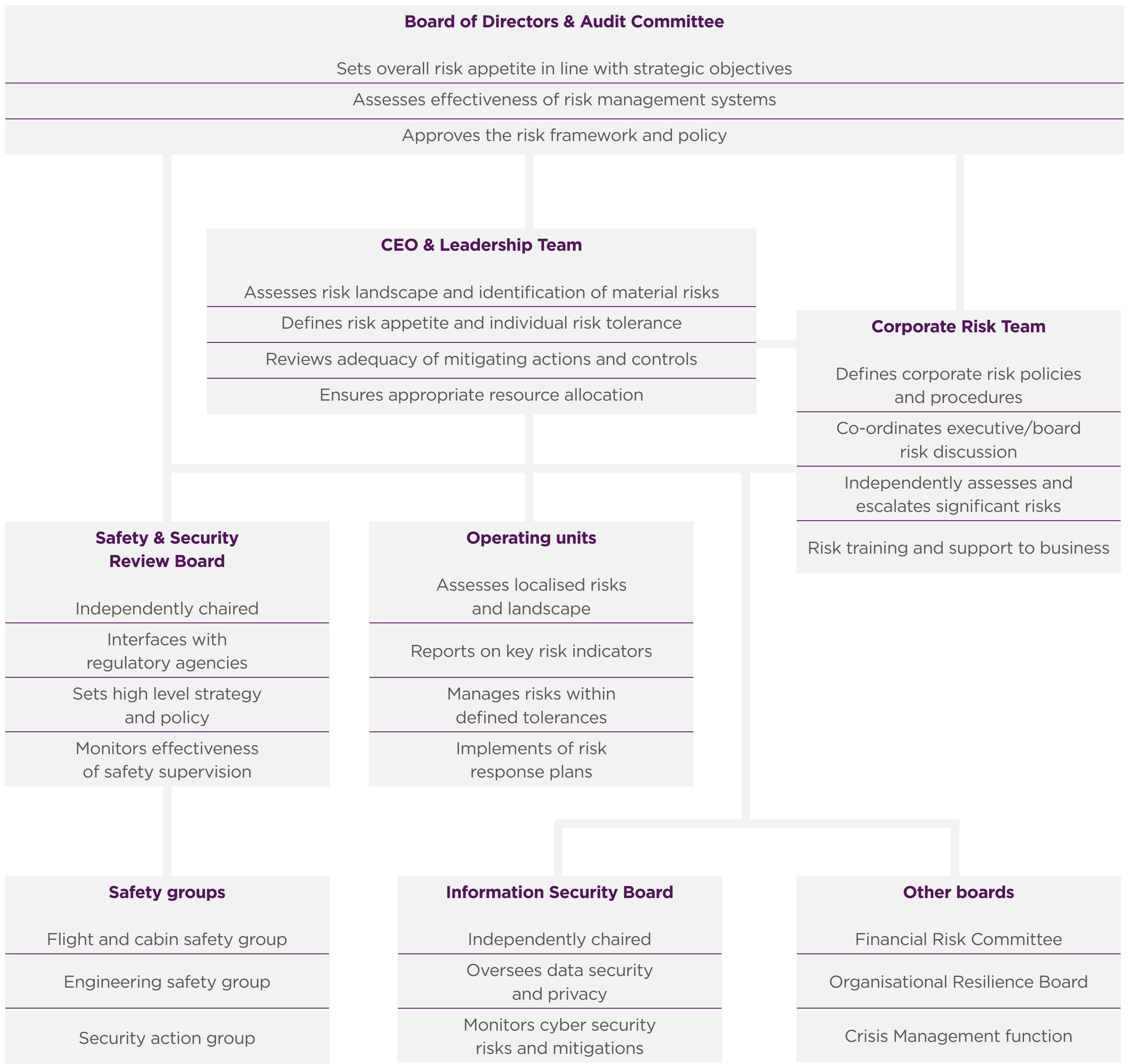
Risk Management Processes
Our risk processes are dynamic, allowing for risk escalation and de-escalation from divisional, project and process risk registers into a central Top Risk Register. Top Risks are assessed for likelihood of occurrence, and impact on corporate objectives and strategy by using a number of lenses. Risk taxonomy, risk language and risk assessment scales are aligned and deployed consistently across the business.

This provides a consistent and comparative method to focus attention on the aspect of risk management that matters the most, namely identifying additional mitigation activity and/or investment needed to maintain our risk profile within our agreed appetite.

As health, safety and security is our number one priority, underpinning everything we do, this risk category has its own reporting structure and escalation procedures. These integrate with our corporate risk processes through shared membership, aligned frameworks and a cadence of regular meetings.
A number of additional risk committees and working groups have been established where needed to provide additional governance over Top Risks, such as information security or crisis management.

Our risk governance model can be seen in the table on the next page:

Risk governance model



Risk management *continued*

Risk management *continued*

Principal risks and uncertainties
In 2020 we defined our Top Risks across seven categories, being (i) Health, Safety and Security (ii) Financial & Macro-Economic (iii) Crisis Management & Business Continuity (iv) Sustainability (v) Technology & Data Security (vi) People and Brand and (vii) Regulatory and Legislative.

Our approach to evaluating the risks and their impact on our business generated by the Covid-19 pandemic has been to consider the pandemic against these seven risk categories. We have therefore assessed what mitigations are managing and controlling the potential risk impacts in each risk category, rather than including a standalone risk category for the pandemic.

Several of our key risks have seen changes in their profile during the year, as identified in the table below. Whilst we do not disclose any new emerging risks, the aggregate impact of the Covid-19 pandemic across the past year means that the risk landscape for the Group as a whole has nonetheless become materially more challenging.

Increased	Decreased
Health & pandemic protection	Industrial relations
Liquidity & financing risk	
Supplier failure risk	
Technology & data security	

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

Risk Category 1: Safety, terrorism and security incidents

Risk 1.1: Health & Pandemic Protection
Change in year: Materially Unchanged

Risk Context
A major flight or ground safety event could have a significant impact on our ability to operate or attract customers. In addition, all aviation and package holiday businesses are generally exposed to security threats, including the threat of terrorism.

A safety or terrorism related event would undoubtedly have a significant impact on demand or on our operational ability. Accordingly, the safety of customers, crew and staff is at the heart of all of our business processes and decisions.

Main Controls and Mitigations
Safety and security is our number one priority. It is the cornerstone of our corporate strategy and underpins everything that we do.

During 2020 and through the Covid-19 pandemic, we have seen a materially lower level of aircraft utilisation, as fewer routes and passengers were flown. In response we have launched a number of new routes, some as cargo-only routes, and our cargo business has materially increased. Despite these network and operating changes, our safety and security processes have remained consistent, robust and stringently enforced.

The CAA authorises us to conduct our activities following assessments of safety, ownership and control. In addition to complying with all regulatory and airworthiness directives and processes, we have an independently chaired Safety and Security Review Board, comprising Executives and Senior Managers from across the Group, which reports directly and regularly to our Board of Directors on our safety and security position.

To ensure the robustness of our security regime we operate a self-inspection and test programme. Joint audits and inspections are also conducted with regulators. Regulated compliance performance is monitored by way of a dedicated scorecard which is reviewed by the Safety and Security Review Board.

We adopt a holistic approach to security with the Corporate Security team having overall responsibility for security matters linked to aviation, border security, cargo, facilities, personnel and asset protection. In view of the ongoing targeting of civil aviation and the potential impacts of global geopolitical events, much focus is placed on threat monitoring and assessment to ensure that we have the most current and accurate data to make informed judgements about the security of our people and our physical assets.

Risk 1.2: Health & Pandemic Protection
Change in year: Increasing

Risk Context
During an active pandemic, there is a risk that a major outbreak of the virus in our workforce could have a significantly detrimental impact on our ability to operate and generate revenue, as well as impacting on our primary duty of care to our employees.

We have a critical and legal obligation to ensure we provide a safe working environment whether onboard, in our ground facilities or in the office. Equally, ensuring that our aircraft are safe, hygienic environments, and are seen as such, is critical to support customer confidence. A major spreading event attributable to inadequate hygiene on-board our aircraft would pose a major risk to our ability to attract customers and operate to jurisdictions.

Main Controls and Mitigations
The health of our employees and customers has always been a central consideration of our operations, and during the Covid-19 pandemic the importance of ensuring a safe operating environment for our staff, and a safe transportation environment for our passengers, has been our immediate and critical priority.

Our health protection measures include state of the art HEPA - standard filtration in all aircraft; cleaning and disinfecting between all aircraft rotations; provision of masks and other protective equipment; sanitiser, guidance and social distancing measures at all customer and employee touch points and our places of operation. We also amended our onboard offering to allow for fewer touch points and wherever possible encouraging self-service activities by customers, such as on-line check in and self-service bag drop.

The awarding of Diamond status for Health and Safety (the highest possible standard), by *APEX* and *Simpliflying*, was recognition of our unwavering commitment to keeping our people and customers safe, and our initiatives such as complimentary Covid-19 insurance cover, pre-flight testing and on board safety protocols.

We comply with all border entry requirements at all destinations and routes we operate, and we have established processes to ensure these remain up to date in the rapidly changing environment.

Risk management *continued*

Risk Category 2: Financial & Macro-Economic

Risk 2.1: Liquidity and financing risk
Change in year: Increasing

Risk Context
During the Covid-19 pandemic, the major risk to our liquidity comes from a combination of decreasing forward sales, the need to refund customers, stemming from a high volume of passenger flight cancellations together with a high degree of fixed cost, driving cash outflows.

Other risks to liquidity are driven by business performance, capital investments, our financing structures, and the timing of associated cash flows. We are also exposed to the risk of increased finance costs as a result of movements in interest rates on floating rate debt, and the general availability of financing options in a very challenging industry environment.

We have a requirement to meet a range of covenants and agreements that relate to our cash balances and third-party reporting as a result of the solvent recapitalisation which completed in September 2020. Failure to meet these requirements or deliver this information could result in the early repayment of loans and other working capital facilities.

Derivative financial instruments are used selectively for financial risk management purposes. The timing difference between derivative maturity date and current mark to market value can give rise to cash margin exposure in volatile markets.

Main Controls and Mitigations
We have taken a range of immediate short, mid and long term actions designed to protect our liquidity and working capital position during the ongoing Covid-19 pandemic.

The solvent recapitalisation provided us with a restructuring of our cost base and immediate additional liquidity of £370m. We continue to actively explore additional financing and liquidity-injection opportunities to maintain sufficient liquidity during this period of low flying activity.

Throughout 2020 we have placed significant importance on strengthening our cash management and reporting processes, including the establishment of a cash committee to oversee day to day cash management activity and strategic cash decisions, supported by more frequent and granular cash modelling and cash forecasting activity.

We have established controls and a governance body to focus on control and accurate forecasting and reporting of our counterparty credit position, supported by increasingly sophisticated modelling of ticket and revenue cash flows. Inventory valuation controls and stock forecasting to support compliance obligations related to inventory-secured loan agreements have also been established within our strategic inventory steering committee.

Our Financial Risk Committee continues to operate as previously structured, and now with an enhanced remit and focus on covenant and recapitalisation compliance obligations in addition to prior responsibilities.

The net exposure to movements in interest rates is calculated and managed with a view to reducing the impact of any potential rate increase. A mix of fixed and floating rate products is used to reduce exposure and where necessary we utilise financial instruments approved under our risk management policies.

Any hedging activities are undertaken in line with our financial risk management policies to provide a degree of certainty for future financing costs and to reduce volatility of cash flows. We do not speculatively trade and use these instruments to manage the underlying physical exposures of the business.

Risk 2.2: Foreign currency and jet fuel risk
Change in year: Materially unchanged

Risk Context
We have significant exposure to US Dollar denominated costs, most significantly for jet fuel and aircraft financing and interest costs, but also for fleet maintenance and other US Dollar financing arrangements. Adverse movements in the US Dollar to Pound Sterling rate can therefore significantly impact our financial position.

We also have a net exposure to a number of other currencies due to local currency revenues typically exceeding costs. Repatriation may be constrained in countries where exchange controls are imposed to regulate the flow of money.

In addition, jet fuel comprises a significant and material element of our cost base, and we therefore have considerable exposure to adverse movements in the base price of oil and jet fuel, independently of the foreign exchange risk outlined above.

Main Controls and Mitigations
Where possible we reduce our exposure through the matching of receipts and payments in individual currencies. For countries where remittance challenges and risks exist, we closely monitor our currency exposure to identify any issues at an early stage and to take remedial action, both operational and financial, to minimise the value of these funds. Where a significant exposure in foreign currency holdings remains, we utilise financial instruments approved under the financial risk management policies.

We aim to protect ourselves from significant near-term adverse movements in the jet fuel price. Our fuel hedging policy allows for the use of derivatives available on the over the counter (OTC) markets with approved counterparties. We do not speculatively trade and use these instruments to manage the underlying physical exposures of the business.

During the Covid-19 pandemic, our level of flying materially decreased, lowering both our required fuel volumes and the level of risk associated with jet fuel price movements in 2020. Although lower volume of fuel was purchased, a number of fuel price protection hedges taken out in 2019 for planned but unused 2020 fuel purchases meant that we did incur material increased cost to unwind our fuel hedge book. As our operations ramp back up in H2 2021, our fuel price risk will increase, at which point our appetite for hedging and the access to hedge agreements with reasonable premiums will need to be carefully balanced.

The agreement with creditors with respect to a number of financing agreements as part of the solvent recapitalisation has resulted in lower projected cash outflows for 2020-21, which has also led to a decrease in the USD foreign exchange risk element for the same period.

Risk Category 3: Crisis Management & Business Continuity

Risk 3.1: Key Supplier Failure Risk
Change in year: Increasing

Risk Context
We are dependent on suppliers for several of our principal business processes. The failure of a key supplier to deliver contractual obligations could have a significant impact on operational performance and customer delivery.

The ongoing Covid-19 pandemic has put additional pressure on our supply chain, leading to a generally heightened risk for many businesses we deal and transact with on a daily basis.

Main Controls and Mitigations
Our Organisational Resilience Board has oversight of this risk and meets regularly to assess the controls linked to our key suppliers' performance.

Risk management *continued*

We carefully assess the adequacy and resilience of our supply chain when entering into new contractual agreements and maintain close relationships with existing key suppliers to ensure we are aware of any potential supply chain disruption.

During the Covid-19 pandemic, as part of our recapitalising activity, we have worked very closely with our suppliers to balance the need for their support towards our cost savings measures, against their own economic and trading risks.

We continue to carefully monitor the impact of the Covid-19 pandemic on our supply chain, and ensure the actions we are taking do not place unnecessary stress on our valued suppliers and counter-parties.

Risk 3.2: High impact/low likelihood adverse events
Change in year: Increasing

Risk Context
Black swan and crisis management risk scenarios apply to all airline and package holiday operators, these include but are not limited to:

- Significant weather events which impact our ability to operate our flying plan or deliver on our holiday packages;
- Terrorism events which lead to a pronounced reduction in consumer demand and confidence;
- A critical safety event on a Virgin operated aircraft;
- Worldwide fleet grounding events;
- The unplanned and prolonged downtime of a critical computer system; and
- Future pandemics, or other World Health Organisation global events, which lead to widespread closure of airspace and/or territories for a short- or medium-term duration.

If any of these crisis events were to transpire, the ability of our business to respond and survive depends on having well established crisis management and business continuity processes.

There is a risk that, despite taking precautions, our preparations may not be sufficient to protect us from material damage should an actual event occur.

Main Controls and Mitigations
As the Covid-19 pandemic has demonstrated on a global scale, despite the existence of resilience plans and functions, it is very difficult for any entity to realistically and adequately plan for a widespread global event that has the potential to stop all trading activity for a sustained period of time. We instead look to mitigate to the extent possible by ensuring agility and flexibility within our business model and operations. The risk management processes we have established are designed to protect us from future short and mid-term shocks associated with crisis events, and briefly are as follows:

We have a dedicated crisis management and resilience function which constantly and consistently manages this risk from an operational perspective. We maintain a dedicated crisis management centre within our headquarters, with a continual operational readiness state 24/7/365, with clearly established protocols for engaging, escalation and resolution of potential crisis events. We also have a team of volunteers trained in crisis management situations who can be called upon for support activity at short notice.

We conduct company-wide business impact analysis, and have established Business Continuity Plans for all the critical areas of our operating and head office functions. These remain under continuous review. We test our crisis management processes regularly using a range of different and changing scenarios.

Our Organisational Resilience Board and Safety and Security Board meets regularly to assess the sub-risks associated with crisis management and business continuity. We have a number of additional domain-specific controls established for both information systems disaster recovery risks, and for health, safety and security risks – please refer to the relevant risk sections detailed in risk category 5.

Risk Category 4: Sustainability

Risk 4.1: Consumer expectations on sustainable aviation
Change in year: Materially Unchanged

Risk Context
Consumer expectations are changing, with social responsibility towards the environment playing an increasingly strong role in determining preference. As leaders in travel and aviation we have a vital role to play in addressing the climate crisis and we know that climate action is important to our customers, our people and the wider world.

In 2020 the Covid-19 pandemic led to a greatly reduced level of passenger flying. We expect as flying recovers that consumer expectations and travel choices will increasingly be influenced by the actual and perceived sustainability of the businesses they transact with.

Main Controls and Mitigations
Our actions to support a comprehensive programme of carbon reduction and other sustainability measures - such as on single-use plastics and waste/energy efficiency - demonstrates to our customers and stakeholders our continued sustainability leadership and commitment.

In 2020 we committed to net zero carbon emissions by 2050. To support this, we are developing new interim targets and reporting metrics, aligned with industry best practice, in order to provide clear and transparent monitoring of our progress. We continuously work to find ways to improve the efficiency of our operations, and regularly commission independent assessments of our environmental performance through organisations such as CDP.

We have transformed our fleet over the past decade from four-engine powered aircraft to more efficient twin-engine aircraft through a multibillion-dollar investment programme, which has delivered a material reduction of 18% in CO_2/RTK from the fleet between 2007-19. Our fleet simplification actions in 2020, moving to the operation of twin-engine-only aircraft, improves fleet efficiency/km flown by an additional 10% vs 2019.

We have supported the development of sustainable aviation fuels since 2011, including through our partnership with sustainable fuel technology business LanzaTech. We believe this development will be best achieved through industry-wide efforts and continually look to identify opportunities to support technology innovation and commercialisation of these sustainable aviation fuels.

We are active members of a number of industry groups including the Jet Zero Council and Sustainable Aviation. Together we continue to lobby for regulatory changes needed to allow initiatives to be scaled at speed, and co-ordinated industry approaches on issues which have a benefit for all.

Risk 4.2: Financial or other challenges to achieving carbon reduction commitments
Change in year: Unchanged

Risk Context
The challenges to our carbon reduction efforts include any material delay in the commercial availability, increased market costs of appropriate sustainable aviation fuel supply or carbon offset projects, as well as the risk of the proliferation of independent carbon-related taxes across the markets we serve.

New taxes and increasing price of carbon costs might impact the demand for air travel with customers choosing to reduce the times they fly. Future legislative changes could lead to an uncoordinated array of climate policies and taxes. This has the potential to create competitive distortion and increase compliance costs without effectively managing aviation emissions.

The timetable for development and commercial availability of sustainable aviation fuel remains uncertain, and the aviation industry recognises that market-based measures are also going to play a part in mitigating carbon emissions, particularly for long haul flights in the medium term.

Risk management *continued*

Risk management *continued*

There are uncertain future costs and the financial impact of market-based measures such as CORSIA (Carbon Offset and Reduction Scheme for International Aviation) could be material. Under CORSIA, airlines from participating states will be required to buy carbon offsets to compensate for the global growth in CO_2 emissions.

Main Controls and Mitigations
We actively monitor the sustainable aviation fuel (SAF) development landscape, including working with our partners at LanzaTech and other industry participants. We actively support a broad range of industry efforts to develop the right commercial and regulatory framework for SAF production, particularly in the UK.

We model our expected long-term fuel requirements and implications for our need of sustainable aviation fuel in order to achieve our net zero commitment trajectory, and will look to put in place SAF supply agreements in due course to help satisfy these requirements.

We also model the possible financial implications of CORSIA so we can effectively plan for its implementation in combination with our SAF strategy. We are actively engaging with offset providers to develop our purchasing and investment strategy, to create a diverse portfolio and spread the financial risk. Our Leadership Team regularly review the strategy and approach to ensure visibility of expected near-term costs.

Longer term we intend to focus on investing in robust carbon reduction projects with strong community benefits. Wherever possible we will be looking for projects in Virgin Atlantic and Virgin Holidays destinations, seeking those that have additional benefits such as job creation, health and wellbeing, habitat protection and storm resilience.

Risk Category 5: Technology and Data Security

Risk 5.1: Failure of a critical IT system, including from cyber-security threats

Change in year: Increasing

Risk Context
We are dependent on IT systems for most of our principal business processes. The failure of a key system through an internal or external threat (including a cyber-attack) or event may cause significant disruption to operations or result in loss of revenue.

With the changing ways of working as a result of the Covid-19 pandemic, we have a larger than usual home-based workforce, reliant on a variety of technology solutions being seamlessly and effectively delivered to them remotely. This brings a separate and heightened consideration to the resilience required, compared to previous reporting periods.

Many companies and industries are reporting an increase in targeted cyber-security threats and activity from criminal gangs in the wake of changes made to working arrangements following the pandemic, which is adding to the increased risk of a successful cyber-attack.

Main Controls and Mitigations
We have an Information Security Board with overall governance and management of our technology and information risk landscape. The board also provides oversight of the information security improvement programme.

System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure. We deploy a wide range of preventative and detective controls, including technical solutions, to minimise the threat to our systems from cyber-attacks. Ongoing investment and efforts are directed to this risk to reflect the evolving nature of the threat landscape, including the purchase of appropriate insurance products where appropriate.

We have carefully and systematically developed solutions that allow us to support home working at scale. Since the start of the Covid-19 crisis we have managed to support our changing workforce requirements effectively. Our suite of security tools are equally able to be deployed for both corporate and distributed working locations, providing ongoing security monitoring regardless of place of work.

Our technology team works closely and diligently with key system suppliers to ensure that we are operating our critical systems in a risk appropriate manner.

Risk 5.2: Information security and compliance with data protection

Change in year: Increasing

Risk Context
Unauthorised access or loss of customer or employee data could lead to significant reputation and financial damage. We have a duty and a requirement to ensure customer and employee data is only used within the legislative requirements of the Data Protection Act and for purposes to which they have consented.

The Data Protection Act 2018 became law in the UK in May 2018. This legislation works with the EU General Data Protection Regulations (GDPR) and allows for potentially significant fines to be levied for cases of serious data breach or non-compliance. Versions of the GDPR are now also being enacted in a number of destinations served by Virgin Atlantic.

As a consequence of our restructuring, in 2020 we saw higher volumes of data subject access requests. We continue to invest in this area and to work closely with the Information Commissioner's Office to ensure we are properly discharging our obligations.

Main Controls and Mitigations
We have an Information Security Board established with overall governance and management of our technology and information risk landscape. The board also provides oversight of the information security improvement programme.
Our Information Security team, supported by a Security Operations Centre, conduct a range of information security measures. Such measures include, but are not limited to: network monitoring, vulnerability scanning, penetration testing and various other proactive hardening measures to keep our data safe and secure. We invest significantly in the information security sphere each year, and continuously keep our tooling, partnerships, operating models and processes under review.

Our Data Privacy Team and Data Protection Officer for Virgin Atlantic Airways and Virgin Holidays report to our General Counsel. The Data Protection Officer has a remit of oversight ensuring compliance with data protection regulations. The Privacy Team also provides support to the business in the design and operation of processes, procedures, contracts, partnerships and campaigns that use personal data, as well as managing customer and employee privacy requests and complaints from data subjects.

To facilitate privacy regulation compliance, investment was made in 2019 to implement the One Trust privacy compliance system. We also continue to invest annually to ensure employee awareness of privacy matters. We are also compliant with the Payment Card Industry standards. There was no enforcement action in 2020 from any Data Protection regulator.

Risk management *continued*

Risk Category 6: Brand & People

Risk 6.1: Brand and Reputational Damage
Change in year: Increasing

Risk Context
The Covid-19 pandemic has had an unprecedented impact on global aviation. While our vision to become the most loved travel company remains intact, the path to achieving this has significantly changed with a reduced network, fleet, and workforce.

Main Controls and Mitigations
We continue to keep our people and customers at the heart of everything we do. Throughout the changes of the past year we have focused on retaining one powerful brand which stands out and inspires our customers to trust and transact with us. We constantly monitor a wide range of indicators to help us understand how our customers feel about us and our brand. Throughout 2020 we have seen positive movements in metrics related to cabin cleanliness and bio-security, confidence to fly, trust with the Virgin Atlantic brand, together with satisfaction with the services and products we deliver.

We have taken immediate action to help manage the short-term impact to our customer service and brand stemming from the significant level of refund requests received as a result of flight cancellations. This includes significantly increasing the size of the team dedicated to processing refunds. We recognise the importance of every single refund, and for anyone who has requested one for a cancelled flight or holiday to be paid in full.

We will continue to ensure our customers always feel confident to fly with us - and will continue to strive always to be industry leading in looking after the health, safety and security of our people and customers in a way that retains our unique and distinct brand offering. Our Diamond safety award noted in Risk 1.1 is a reflection of our significant efforts on customer safety.

Risk 6.2: Industrial Relations
Change in year: Decreased

Risk Context
We have a large unionised workforce represented by a number of different trade unions. Industrial action by key groups of employees or by the employees of key third party service providers could have potentially adverse operational and/or financial impacts on the Group.

As part of the response to the Covid-19 pandemic, we had to take the difficult decision to undergo a large scale restructuring resulting in a material reduction of our workforce during 2020. We completed the consultation on this matter with the support of our unions, and we continue to work closely and carefully with their support as our response to the ongoing pandemic evolves.

Main Controls and Mitigations
We recognise the unions Unite the Union and BALPA. Emphasis has been placed on maintaining ongoing dialogue and resolving issues early at a departmental level in order to avoid escalation. A significant level of discussion takes place during collective bargaining with unions prior to the adoption of any new policies which may impact our people and their work environment.

We have engaged fully and properly with all unions throughout the difficult decisions we have had to take on restructuring the business, and which have resulted in a materially decreased headcount going forward. As a result of the goodwill and openness demonstrated from both the Group and the unions throughout these discussions, we feel confident that our working relationships with these critical groups remains one based on achieving mutual goals, underpinned by trust and respect.

Risk 6.3: Talent acquisition, management, development and retention
Change in year: Materially Unchanged

Risk Context
We compete to attract the best talent globally. Without effective talent management and development processes we may have difficulty in attracting and retaining the people with the skills we need to deliver our strategy.

Failure to meet our ambitions to be an open, inclusive and representative company could also compromise our ability to attract and retain the best talent with critical skills and experience, ultimately impacting company performance.

The aviation industry as a whole is facing the most challenging period in living history, with a number of high profile airlines ceasing or dramatically throttling back operations. Within this context there is therefore a general heightened risk both in potential rates of attrition, and in attracting the best talent.

Main Controls and Mitigations
The strong reputation and loyalty engendered by the Virgin Atlantic brand is a core part of the value of our company, and one which continues to stand us in good stead when we compete for talent, coupled with our competitive reward packages.
We maintain a clear and equitable talent management process internally, linked to a variety of performance related pay mechanisms, which encourage and reward effective performance at both the individual and company level. We conduct succession planning to ensure that we have an effective view of our internal and external talent pipeline, to provide continuity, and to identify development opportunities for our staff.

We have ambitious BAME and gender targets, and a number of strategic initiatives are running internally to ensure we meet these. We invest in a number of local and international efforts to increase the diversity and strength of the longer-term talent pipeline.

Our initiatives include programmes designed to increase the representation of women in STEM subjects and careers; mentoring programmes to support local schools; and apprenticeships schemes which allow us to identify and attract the next generation of leaders.

We continue to rely on our brand and our people as differentiating factors to offset these challenges as we strive to retain and to attract new talent, despite the current uncertainty.

Risk Category 7: Regulatory & Legislative

Risk 7.1: Compliance with competition, anti-bribery and corruption law
Change in year: Materially Unchanged

Risk Context
We are exposed to the risk of unethical behaviour by individual employees or groups of employees resulting in fines or losses to our business. Legislation allows for potentially significant fines to be levied for cases of serious breach or non-compliance.

Main Controls and Mitigations
To mitigate this risk we have in place comprehensive training schemes and controls in place to both prevent and detect non-compliance. E-learning courses have been established covering competition, data protection and anti-bribery compliance. Completion of these courses are mandatory for everyone across the Group to complete on an annual basis, and immediately upon joining the company.

For specific areas of higher inherent risk in the area of competition law, we provide additional annual specialized training courses, led by a legal compliance expert, to ensure that the relevant teams are very clear on legal requirements and remain stringently within the bounds of acceptable behaviour.

Risk management *continued*

For our third-party relationships, all our suppliers and general sales agents specifically agree in their written contracts with us that they will comply with all applicable laws and regulations, together with adherence to our anti-bribery and ethical business policy.

We maintain right-to-audit clauses in all our key and critical supplier contracts, giving us the ability to inspect records and assure compliance where (or if) we have any concerns about supplier compliance with laws and regulations.

Risk 7.2: Compliance with other aviation regulatory authorities and government
Change in year: Materially Unchanged

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

Main Controls and Mitigations
The CAA authorises us to continue our activities following assessments of safety, ownership and control as well as financial fitness criteria. The broad framework of which is available via the CAA website (**caa.co.uk**).

During the Covid-19 pandemic, the large volume of cancellations has meant that processes designed to meet other aviation regulatory requirements - such as refunds requirements set by the CAA and CMA - have been placed under high levels of strain which such processes were never designed to manage. This has been experienced across the industry. This has led to some limited failure to meet the expected levels and timescales for refunds, with some reputational damage. We have now re-engineered processes and restored compliance with these important requirements.

We continue to engage with the UK Government to understand how its objectives are expected to impact the business and to constructively drive debate and effective policy formulation. We regularly assess the impacts of UK Government policy and objectives on our business and take appropriate action as required.

Globally, we continue to assess political risk and work with governments across the world to limit any potential regulatory impact on our operations. We retain legal counsel for all jurisdictions we operate in, as well as maintaining close relationships with our trading partners, government departments and through a network of trusted and professional advisors to ensure that our operations stay in compliance with all required legislation.

Corporate governance

Overview
The Board is responsible for the long term success of the Group. To achieve this, the Board leads and provides direction for the Leadership Team by setting our strategy. Its role includes overseeing strategic decision making, scrutinising the performance of its management in meeting the goals set by the Board and taking a proactive role in monitoring the performance of the Group as a whole.

The Board looks to convene in person regularly and where that is not possible, conference calls are held so that management can update the Board on the Group's performance. The Executive Directors also have regular meetings with representatives of both shareholders as well as with their Board representatives.

Governance Code
For the year ended 31 December 2020, under The Companies (Miscellaneous Reporting) Regulations 2019, we have applied the Wates Corporate Governance Principles for Large Private Companies ("Wates Principles").

We have adopted the Wates Principles as an appropriate framework for our corporate governance arrangements which are set out in more detail in various sections of this Report. Its key principles are reviewed in the table below.

Purpose and Leadership, stakeholder engagement	Opportunities and Risks; Remuneration
Purpose and Leadership Our corporate vision, values and strategy are described throughout this Annual Report and set out in detail in the Chairperson's statement and the Chief Executive Officer's report. The Group has adopted the longstanding Purpose of our Holiday business – 'Everyone can take on the World' – reflecting both our business activities and our corporate culture of inclusivity, activism and challenger spirit which has defined Virgin Atlantic throughout its existence.	**Strategy** The Board has provided ongoing support to the Executive Leadership Team throughout the year, and in particular in support of the successful restructuring and recapitalisation programmes, using their significant experience in key areas of relevance to provide constructive challenge and scrutiny.
Stakeholders The Board is responsible for overseeing meaningful engagement with stakeholders including the workforce, and having regard to their views when taking decisions. See page 26-27 for a summary of our stakeholder engagement.	**Risk** The Board's role is to ensure the long term success of the Group, whilst maintaining oversight for the identification and mitigation of risk. During 2020 the Board approved a realignment of the key risk categories around central topics including sustainability and liquidity. The Covid-19 pandemic impacts have been considered within the existing risk categories (see pages 34-46).
	Remuneration The Board promotes executive remuneration structures aligned to the achievement of KPIs required to deliver the long term sustainable success of the Group. Metrics which define executive director remuneration are closely aligned to key milestones and performance targets which are linked to the Group's strategy. These do not differ significantly from those of the wider leadership team.

Board Composition
The Board of Directors comprises seven Non Executive Directors and two Executive Directors. Four of the Non Executive Directors are appointed by Virgin Group (51% shareholder), and three Non Executive Directors are appointed by Delta Air Lines, Inc. (49% shareholder). As set out in the company's Articles, identified Alternate Non Executive Directors can act for certain Non-Executive Directors.

As at 31 December 2020, the two Executive Directors were the Chief Executive Officer and the Chief Customer & Operating Officer. In addition, the Chief Commercial Officer and Chief Financial Officer each act as Alternate Director to the two Executive Directors. All four are full-time employees of the Group.

Our Board composition reflects the concentrated shareholding structure of the company and does not include an identified independent director. The assessed skillset of the Board (see table below) is felt to be sufficiently broad and deep, encompassing senior experience from across a wide range of industries and disciplines.

The Board believes that when combined with the Executive Leadership team, this creates a group which has diversity, with varied and balanced experience and skills that are highly relevant to the Group's needs and challenges. This has served the Group well in the development and scrutiny of our strategic decision making and performance.

Board Composition and Skills	Directors' Responsibilities
Composition The composition of the Board is set out above and its subcommittees are set out on pages 52-53.	**Responsibilities** The Board and individual directors have a clear understanding of their accountability and responsibilities (see p57). These are underpinned by policies and procedures.
Skills The Board benefits from the significant experience of its members across a broad range of industries and disciplines. The Board representation during 2020 across five selected areas of particular importance, having identified those members who have held particular positions of significant relevant responsibility is as follows: Strategy 92% Financial 67% Airlines 92% Customer 75% Technology 42%	**Areas of Focus** The Board and its sub-committees have provided review and challenge in a number of areas, in particular: • Safety of our people and customers through the Covid-19 pandemic, including pre-testing and in-flight protocols; • Discussions with government and regulators, with topics including financial support, job protection schemes and support for the UK's PPE logistics programme; • The Group's strategic and route planning response to global travel restrictions; • Restructuring and cost management projects, including headcount right sizing, asset retirement and disposals, streamlining and consolidation of operating bases and aircraft refinancing; • Refund programme management and cyber security; • Recapitalisation and creditor engagement programmes, Flybe investment; • Corporate Purpose, Sustainability and plans for our Net Zero commitment; and • Fleet management, including the retirement of our Airbus A340 and Boeing 747 fleets.

Corporate governance *continued*

Audit Committee

Role of the Committee
The Audit Committee is responsible for: the appropriateness of accounting policies; ongoing compliance with accounting standards; and the adequacy and effectiveness of internal reporting and control systems. It also oversees the scope of the external and internal audit plans and the role of the Auditor.

Key responsibilities
- The approval of the Group's annual consolidated financial statements, including the appropriateness of accounting policies, compliance with accounting standards and material matters such as contingent liabilities;
- The scope of work for external audit, actions required as a result of the Auditors' findings and conclusions, the Auditors' remuneration and the reappointment or replacement of the Auditors; and
- The adequacy and effectiveness of the Group's internal systems concerning reporting and control; including ensuring that the internal audit function is adequately resourced, has appropriate standing within the Company with a primary reporting line to the Chairman of the Audit Committee, and to review and approve internal audit plans of activity.

The Committee receives regular updates on the audit programme from the Group Head of Internal Audit. It meets with the Group Head of Internal Audit and the external Audit Partner without Management present at least once a year.

Members of the Committee
The Audit Committee comprises two Virgin appointed Non Executive Directors and two Delta appointed Non Executive Directors. As at 31 December 2020 the Committee members were Gordon McCallum (Chairman), Peter Norris, Glen Hauenstein and Steve Sear. Steve Sear was replaced by Alain Bellemare on 11 February 2021. The Committee meets three times a year or more often if required.

Remuneration Committee

Role of the Committee
The Remuneration Committee is responsible for making recommendations to the Board on the remuneration and other employment benefits of senior management employed by the Group. The Committee also oversees the introduction and amendment of any long or short term incentive plans.

Key responsibilities
In carrying out its responsibilities the Committee seeks to fulfil the following aims.

- The setting and monitoring of a fair and appropriate remuneration policy and its application for senior management;
- To ensure that policies, plan designs and reward decisions align with business strategy, are well cost governed and support sustainable business performance; and
- To balance the needs of Executive and shareholder interests and to ensure alignment of reward policies with the Executive talent management strategy.

Members of the Committee
The Remuneration Committee is made up of two Virgin appointed Non Executive Directors and two Delta appointed Non Executive Directors. As at 31 December 2020 the Committee members were Peter Norris (Chairman), Ian Woods, Ed Bastian and Glen Hauenstein. Luigi Brambilla replaced Ian Woods (from 20 Jan 2021).

Safety and Security Review Board

Role of the Virgin Atlantic Safety and Security Review Board
The Safety and Security Review Board is responsible for: monitoring, improving and constantly enhancing safety and security management across the airline and Virgin Atlantic Holidays.

Key responsibilities
- Setting the strategy and dealing with high level issues in relation to policies, resource allocation and safety and security performance monitoring;
- Proactively reviewing data and encouraging continuous improvement, to ensure the highest standards of safety and security assurance is maintained for our people and customers;
- Monitoring the effectiveness of the Group's safety supervision processes including oversight of subcontracted operations;
- Promotion of an open and honest reporting and discussion forum, to enable the airline to learn from both internal and industry incidents;
- Ensuring that the Group continues to adopt and makes use of effective industry recognised risk management principles, to evaluate safety and security risks though a transparent risk management framework;
- Checking to ensure the business develops, maintains, reviews and tests its emergency response, threat management and resilience plans on a regular basis; and
- Providing the Board with regular updates and reports from both the Safety and Security Review Board and the Independent Chair in relation to airworthiness, safety and security standards and operations.

Members of the Safety and Security Review Board
The Safety and Security Review Board is owned and led by Virgin Atlantic's Accountable Manager and primary Post Holder and is chaired by an independent third-party advisor to the Board. It is supported by Virgin Atlantic's Nominated Post Holders and Safety and Security specialists across the Group.

Information Security Board

Role of the Virgin Atlantic Information Security Board (ISB)
The Information Security Board is responsible for information security oversight across the Group. As at 31 December 2020 the independent Chair was Stephen Head and the Executive Board member was Cornelis Koster.

Key responsibilities
Setting strategy and providing an oversight of the Group's practices and policies concerning confidentiality, integrity and availability of information.
- Providing an oversight of the Group's practices and policies relating to the protection of the Group's technology infrastructure and applications against cyber security risks;
- Providing an oversight of the Groups practices and policies relating to data protection; and
- Providing an oversight of the Group's practices and policies relating to the protection of physical assets used to process information.

The ISB brings together key stakeholders that can provide oversight, governance and informed decision-making to ensure:

- Information security risks are effectively and strategically managed;
- Plans are in place to manage all aspects of a serious information security incident;
- Monitoring of information security regulations, such as GDPR, PCI, NISD and CAP 1753; and
- Oversight of cyber incidents or risks which may have safety implications with potential impact on Corporate or Aviation Safety.

The Board receives regular updates and reports from the ISB and its Independent Chair.

Members of the Information Security Board
The Information Security Board is sponsored by the Chief Executive Officer and chaired by an independent third party advisor to the Board. Its other members comprise an Executive Board member and our Chief Information Officer. It is supported by representatives from the Leadership and technology teams.

Directors' report

Registered number: 08867781

The Directors present their annual report and the audited financial statements for Virgin Atlantic Limited ("the Company") and subsidiary companies (together with the Company, "the Group") for the year ended 31 December 2020. The comparative amounts are stated for the year ended 31 December 2019.

Pages 54-58 inclusive of this annual report comprise the Directors' report that has been drawn up and presented in accordance with English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

The Company was incorporated on 29 January 2014 as Virgin Atlantic (Holdings) Limited and changed its name to Virgin Atlantic Limited on 30 May 2014. The Group was formed as part of a reorganisation in March 2014 with the Company at its head.

The consolidated financial statements have been prepared using the principles of merger accounting and present the results for the Group.

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

Sir Richard Branson (President)
Peter Norris (Chairman)
Gordon McCallum
Ian Woods (resigned 20 January 2021)
Edward Bastian
Glen Hauenstein
Steve Sear (resigned 11 February 2021)
Shai Weiss
Tom Mackay (resigned 20 Sept 2020)
Cornelis Koster (VAA executive alternate, and then Executive Director since 21 Sept 2020)
Luigi Brambilla (Virgin nominated Director - appointed 20 January 2021)
Alain Bellemare (Delta nominated Director - appointed 11 February 2021)
Dwight James (Delta nominated alternate)
Juha Jarvinen (VAA executive alternate)
Oliver Byers (VAA executive alternate - appointed 21 September 2020)

VAA Independent Board observer
Following the successful recapitalisation in September 2020, Klaus Heinemann was appointed on behalf of certain creditors as an independent board observer to Virgin Atlantic Limited's subsidiary Virgin Atlantic Airways Limited. As part of his appointment as board observer he has rights to receive all board materials and to attend and speak at Virgin Atlantic Airways Limited board meetings, but does not hold any voting rights.

Share based payments: long term incentive plan
The Group has a Long Term Incentive Scheme for Executive Directors and other invited participants to incentivise and recognise execution of the Group's strategic plan. The details of this share appreciation rights (cash settled) scheme can be found in note 8.

Results, business review and future developments
The results of the Group for the period are set out on page 64 and are commented on within the Strategic Report which is set out on pages 6-46. The Strategic Report also contains a review of the business and the future developments.

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

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

Dividends
The Group did not pay a preference dividend during the year (2019 paid £nil). The Directors did not declare or pay interim ordinary dividends in respect of the year ended 31 December 2020 (2019: paid £nil).

The Directors recommend that no final ordinary dividend be paid in respect of the year ended 31 December 2020 (2019: £nil).

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

Political contributions
No company in the Group made any political donations or incurred any political expenditure during the year (2019: £nil).

Going concern
The Directors have satisfied themselves that it is reasonable for them to conclude it is appropriate to adopt the going concern basis for preparing these financial statements. The business activities, performance, strategy, risks and financial position of the Group are set out elsewhere in these reports and financial statements. The Directors have a reasonable expectation that the Group has adequate resources to continue operating for the foreseeable future, although material uncertainties do exist that may cast significant doubt on the Group's ability to continue as a going concern as set out in Note 3 to the financial statements.

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

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

Section 172(1) Statement
Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard to (amongst other matters) the:

- Likely consequences of any decisions in the long-term;
- Interests of the company's employees;
- Need to foster the company's business relationships with suppliers, customers and others;
- Impact of the company's operations on the community and environment;
- Desirability of the company maintaining a reputation for high standards of business conduct; and
- Need to act fairly as between members of the company.

The Directors understand that how we behave matters, not only to our people, but also to the many stakeholders who have an interest in our business.

We believe that productive business relationships with our suppliers, customers and other key stakeholders are key to the ongoing success of the Group and that the interests of relevant parties should be considered when making decisions that may impact them. Though engagement is carried out by those most relevant to the stakeholder or issue in question, the Directors receive updates on the engagement that has been undertaken, the reoccurring questions, concerns raised and the feedback provided by the Group's key stakeholders.

Directors' report *continued*

When making decisions the Directors take the course of action that they consider best leads to the success of the Group over the long-term. When doing so, they also consider the interests of the stakeholders that we interact with.

The Directors acknowledge that every decision made will not necessarily result in a positive outcome for all our stakeholders but by considering the Group's purpose and values together with its strategic priorities the Directors aim to make sure its decision is consistent and predictable.

We set out throughout the Strategic Report some examples of how the Directors have had regard to the matters set out in section 172(1) (a) to (f) when discharging their section 172 duty and the effect of that on certain of the decisions taken by them, in particular on pages 26-27.

By considering these matters the Directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 when performing their duty under section 172.

By order of the Board

Julian Homerstone, Company Secretary

Company Secretariat,
The VHQ
Fleming Way,
Crawley
West Sussex,
RH10 9DF
26 March 2021
Registered number: 08867781

Directors' responsibilities statement

Statement Of Directors' Responsibilities In Respect Of The Annual Report, Strategic Report, The Directors' Report And The Financial Statements

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant and reliable;
- State whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- Assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

Corporate structure

- **Virgin Atlantic Limited** (Company No. 08867781)
  - **Virgin Atlantic Two Limited** (Company No. 03553500)
    - **Virgin Travel Group Limited** (Company No. 02274332)
      - **Connect Airways Limited (30%)** In administration
      - **Virgin Atlantic Airways Limited** (Company No. 01600117)
        - **Fit Leasing Limited (Jersey)**
        - **VA Cargo Limited** (Company No. 02645535)
        - **VAA Holdings UK Limited** (Company No. 09744818)
          - **VAA Holdings Jersey Limited**
            - **Virgin Atlantic International Limited** (Company No. 09539561)
        - **Virglease (3) Limited** (Company No. 03791307)
        - **Virglease (4) Limited** (Company No. 12814173)
        - **Virgin Holidays Limited** (Company No. 01873815)
          - **Virgin Incoming Services Inc (USA)**
          - **Virgin Vacations Inc (USA)**

Notes: All companies are wholly owned by Virgin Atlantic Limited and are registered in England and Wales unless otherwise indicated.

Independent Auditor's Report

Independent auditor's report to the members of Virgin Atlantic Limited

Opinion
We have audited the financial statements of Virgin Atlantic Limited ("the company") for the year ended 31 December 2020 which comprise the Consolidated statement of comprehensive income, Consolidated statement of financial position and Company statement of financial position, Consolidated statement of changes in equity and Company statement of changes in equity, Consolidated statement of cash flows and related notes, including the accounting policies in note 3.

In our opinion:
- The financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's loss for the year then ended;
- The group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- The parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern
We draw attention to note 3 to the financial statements which indicates that under certain severe but plausible downside scenarios, as a result of the Coronavirus pandemic, and its associated long term impact on air travel and leisure industries, there is a risk as to whether the group and parent company are able to meet liquidity requirements, such that they can continue to operate as a going concern. The scenarios modelled by the company assume a gradual return to passenger flying below historic levels, and includes all refinancing measures completed to date. Note 3 sets out the uncertainties regarding the ongoing impacts of the Coronavirus pandemic and the directors' assumptions for the resumption of passenger flying. If the UK enters into further national lockdowns over the Summer of 2021 and Winter months and if travel restrictions continue for longer than expected during 2021 or into 2022 in the group's key markets, the group may need to obtain additional funding in the future to maintain liquidity. These events and conditions, along with the other matters explained in note 3, constitute a material uncertainty that may cast significant doubt on the group's and the parent company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Going concern basis of preparation
The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or company, or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic for at least a year from the date of approval of the financial statements ("the going concern period"). As stated above, they have also concluded that there is a material uncertainty related to going concern.
In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period.

We performed the following procedures:
- Critically assessed assumptions in the 'Plan of Record' and 'Severe but plausible Case' scenarios relevant to liquidity and covenant metrics, by comparing to external forecasts for the aviation industry's recovery from the impacts of the Covid-19 pandemic and economic forecasts, overlaying our knowledge of the company's plans based on approved budgets and our knowledge of the company and the sector in which it operates.
- We specifically challenged the assumptions underpinning the 'Severe but plausible Case' scenario prepared by the directors to evaluate whether this represented a sufficiently severe but plausible downside scenario.
- We inspected confirmations from lenders of the level of committed financing, and the associated covenant requirements.
- We evaluated the achievability of the actions the directors consider they would take to improve the position should the risks from the 'Severe but plausible Case' materialise, which include review and rationalisation of the group's network, an increased focus on the group's Cargo business and new route opportunities, further significant restructuring and cost reduction activities, further deferral of expenditure and securing additional shareholder support, taking into account the extent to which the directors can control the timing and outcome of these actions.
- We considered whether the going concern disclosure in note 3 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks, dependencies, and related sensitivities.

Our conclusions based on this work:
- We consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- We found the going concern disclosure in note 3 to be acceptable.

Fraud and breaches of laws and regulations – ability to detect
Identifying and responding to risks of material misstatement due to fraud
To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:
- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.

We communicated identified fraud risks to all members of the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, including the impact on the company of the significant business disruptions experienced as a result of the Covid-19 pandemic, we performed procedures to address the risk of management override of controls, in particular the risk that group management may be in a position to make inappropriate accounting entries.
On this audit we do not believe there is a fraud risk related to revenue recognition because sales transactions are high volume, low value and non-complex in nature occurring in a largely automated, routine environment, thus reducing opportunities for systematic material fraudulent revenue recognition to occur.
We also identified a fraud risk related to impairment of assets in response to possible pressures to use favorable forecasts when determining the value in use of the assets, therefore avoiding a potential impairment.

Independent Auditor's Report *continued*

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the group and company-wide fraud risk management controls.

We performed procedures including:

- Identifying journal entries and other adjustments to test all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted with descriptions that could be indicative of a risk of fraud.
- Evaluated the business purpose of significant unusual transactions.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, UK Civil Aviation Authority regulations and Association of British Travel Agents regulations and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

For the failure, in certain instances, to meet required timescales for refunds discussed in the Strategic Report, we assessed disclosures against our understanding from inspecting regulatory correspondence.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- We have not identified material misstatements in the strategic report and the directors' report;
- In our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- In our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 57, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at **frc.org.uk/auditorsresponsibilities**.

The purpose of our audit work and to whom we owe our responsibilities

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

Jonathan Downer (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

26 March 2021

Consolidated statement of comprehensive income

for the year ended 31 December 2020

	Note	For the year ended 31 December 2020 Ordinary activities before exceptional items £m	Exceptional items and fair value movements (note 7) £m	Total £m	For the year ended 31 December 2019 Ordinary activities before exceptional items £m	Exceptional items and fair value movements (note 7) £m	Total £m
Total revenue	5	**868.0**	**-**	**868.0**	2,927.1	-	2,927.1
Physical fuel		**(184.6)**	**-**	**(184.6)**	(686.3)	-	(686.3)
Fuel hedging		**(104.8)**	**104.8**	**-**	(17.8)	17.8	-
Airline direct operating costs		**(239.7)**	**-**	**(239.7)**	(592.9)	-	(592.9)
Aircraft costs		**(157.9)**	**(25.1)**	**(183.0)**	(173.2)	(1.3)	(174.5)
Holiday distribution, marketing and selling costs		**(118.0)**	**(15.7)**	**(133.7)**	(564.9)	(14.4)	(579.3)
Employee remuneration	8	**(277.4)**	**-**	**(277.4)**	(421.9)	-	(421.9)
Other operating and overhead costs		**(148.5)**	**(89.1)**	**(237.6)**	(176.1)	(19.8)	(195.9)
Engineering and maintenance costs		**(100.0)**	**-**	**(100.0)**	(175.5)	-	(175.5)
Other depreciation and amortisation		**(64.4)**	**-**	**(64.4)**	(76.8)	(0.3)	(77.1)
Other income		**13.2**	**-**	**13.2**	30.8	-	30.8
Operating (loss)/profit		**(514.1)**	**(25.1)**	**(539.2)**	72.5	(18.0)	54.5
Profit on disposal of property, plant and equipment		**3.1**	**15.9**	**19.0**	1.4	-	1.4
Restructuring		**-**	**(78.4)**	**(78.4)**	-	(10.4)	(10.4)
Impairment of assets		**-**	**(20.6)**	**(20.6)**	-	(40.5)	(40.5)
		3.1	**(83.1)**	**(80.0)**	1.4	(50.9)	(49.5)
Finance income		**3.3**	**-**	**3.3**	10.7	-	10.7
Finance expense		**(151.3)**	**-**	**(151.3)**	(107.0)	-	(107.0)
Net finance costs	9	**(148.0)**	**-**	**(148.0)**	(96.3)	-	(96.3)
Fair value (losses)/gains on derivative contracts		**-**	**(80.7)**	**(80.7)**	1.4	37.0	37.0
Loss before equity accounted investees and tax	6	**(659.0)**	**(188.9)**	**(847.9)**	(22.4)	(31.9)	(54.3)
Share of (loss) from equity accounted investees		**(10.1)**	**-**	**(10.1)**	(7.1)	(2.3)	(9.4)
Loss before tax		**(669.1)**	**(188.9)**	**(858.0)**	(29.5)	(34.2)	(63.7)
Tax (charge)/credit	10			**(6.1)**			9.0
Loss for the year				**(864.1)**			(54.7)
Other comprehensive income (items that will not be reclassified to the income statement):							
Exchange translation differences				**(0.7)**			(0.1)
Other comprehensive income (items that may be reclassified subsequently to the income statement):							
(Losses)/gains arising during the year on cash flow hedges				**(0.2)**			82.6
Total comprehensive (loss)/income for the year				**(865.0)**			27.8
(Loss)/profits attributable to:							
Owners of the company							27.7
Non-controlling interests							0.1
Total (losses)/profits				**(865.0)**			27.8

The profit/(Loss) for the year for the Company is £nil (2019: £nil).
All amounts relate to continuing operations.
The notes on pages 70 to 121 form part of these financial statements.

Consolidated statement of financial position

As at 31 December 2020

	Note	As at 31 December 2020 £m	As at 31 December 2019 £m
Non-current assets			
Intangible assets and goodwill	11	**460.0**	182.5
Property, plant and equipment	12	**1,951.7**	2,228.0
Deferred tax	13	**2.9**	8.7
Investments	14	**0.0**	0.0
Derivative financial instruments	15	**-**	4.4
Trade and other receivables	16	**15.7**	17.8
		2,430.3	2,441.4
Current assets			
Inventory	17	**30.3**	38.8
Trade and other receivables	16	**162.0**	288.3
Derivative financial instruments	15	**2.0**	20.2
Cash and cash equivalents	18	**114.8**	352.6
Restricted cash	18	**76.6**	96.5
		385.7	796.4
Total assets		**2,816.0**	3,237.8
Current liabilities			
Borrowings	19	**(110.8)**	(248.2)
Trade and other payables	20	**(346.4)**	(515.5)
Deferred revenue on air travel and holidays	21	**(263.4)**	(523.4)
Provisions	22	**(39.7)**	(30.4)
Derivative financial instruments	15	**(13.0)**	(34.1)
		(773.3)	(1,351.6)
Net current (liabilities)		**(387.6)**	(555.2)
Total assets less current liabilities		**2,042.7**	1,886.2
Non-current liabilities			
Borrowings	19	**(2,368.6)**	(1,966.6)
Trade and other payables	20	**(192.0)**	(3.6)
Deferred revenue on air travel and holidays	21	**(3.3)**	(1.9)
Provisions	22	**(54.6)**	(99.6)
Derivative financial instruments	15	**-**	(4.9)
		(2,618.5)	(2,076.6)
Net (liabilities)		**(575.8)**	(190.4)
Equity			
Ordinary share capital		**100.0**	100.0
Preference share capital		**425.9**	50.0
Hedging reserve		**82.3**	82.5
Other reserves		**(269.0)**	(372.0)
Retained earnings		**(915.0)**	(50.9)
Equity attributable to owners of the Company		**(575.8)**	(190.4)
Non-controlling interests	24	**-**	-
Total equity		**(575.8)**	(190.4)

The notes on pages 70 to 121 form part of these financial statements.
These financial statements were approved by the Board of Directors on 26 March 2021 and were signed on its behalf by:

Oliver Byers, Director.
Registered number 08867781

Company statement of financial position

for the year ended 31 December 2020

	Note	As at 31 December 2020 £m	As at 31 December 2020 £m
Non-current assets			
Investments	14	665.3	289.4
		665.3	289.4
Current assets			
Trade and other receivables		0.1	-
		0.1	-
Total assets		**665.4**	289.4
Current liabilities			
Trade and other payables	20	**(0.9)**	(0.8)
		(0.9)	(0.8)
Net current liabilities		**(0.8)**	(0.8)
Net assets		**664.5**	288.6
Equity			
Ordinary share capital		**100.0**	100.0
Preference share capital		**425.9**	50.0
Retained earnings		**138.6**	138.6
		664.5	288.6

The notes on pages 70 to 121 form part of these financial statements.

These financial statements were approved by the Board of Directors on 26 March 2021 and were signed on its behalf by:

Oliver Byers,
Director
Registered number 08867781

Consolidated statement of changes in equity

As at 31 December 2020

	Ordinary Share Capital £m	Preference Share Capital £m	Hedging Reserve £m	Other Reserves £m	Retained Earnings £m	Total £m	Non-controlling interest £m	Total Equity £m
Balance at 1 January 2019	100.0	50.0	(0.1)	(232.5)	(223.5)	(306.0)	0.9	(305.1)
Bonus share issue, and subsequent capital reduction	-	-	-	(139.4)	139.4	-	-	-
Demerger of subsidiary (note 23)	-	-	-	-	87.9	87.9	(1.0)	86.9
Loss for the year	-	-	-	-	(54.8)	(54.8)	0.1	(54.7)
Exchange translation differences	-	-	-	(0.1)	-	(0.1)	-	(0.1)
Other comprehensive income/(expense) for the year	-	-	82.6	-	-	82.6	-	82.6
Total comprehensive income/(expense) for the year	-	-	82.6	(0.1)	(54.8)	27.7	0.1	27.8
Balance as at 31 December 2019	100.0	50.0	82.5	(372.0)	(50.9)	(190.4)	-	(190.4)
Balance as at 1 January 2020	100.0	50.0	82.5	(372.0)	(50.9)	(190.4)	-	(190.4)
Capital contribution	-	-	-	103.7	-	103.7	-	103.7
Preference share issue	-	375.9	-	-	-	375.9	-	375.9
Loss for the year	-	-	-	-	(864.1)	(864.1)	-	(864.1)
Other comprehensive income/(expense)	-	-	(0.2)	(0.7)	-	(0.9)	-	(0.9)
Total comprehensive income/(expense)	-		(0.2)	(0.7)	(864.1)	(865.0)	-	(865.0)
Balance at 31 December 2020	**100.0**	**425.9**	**82.3**	**(269.0)**	**(915.0)**	**(575.8)**	**-**	**(575.8)**

The Group demerged a subsidiary in 2019. Virgin Red Limited (formally Virgin Group Loyalty Company Limited) was transferred via a dividend to the Group's shareholders, Virgin Holdings Limited and Delta Airlines Incorporated. See note 23.

The notes on pages 70 to 121 form part of these financial statements.

Consolidated statement of changes in equity

As at 31 December 2020

	Capital	Preference Share Capital	Other Reserves	Retained Earnings	Total
	£m	£m	£m	£m	£m
Balance at 1 January 2019	100.0	50.0	139.4	(0.8)	288.6
Bonus share issue and subsequent capital reduction	-	-	(139.4)	139.4	-
Loss for the year	-	-	-	-	-
Balance at 31 December 2019	100.0	50.0	-	138.6	288.6
Balance at 1 January 2020	**100.0**	**50.0**	**-**	**138.6**	**288.6**
Preference share issue	**-**	**375.9**	**-**	**-**	**375.9**
Loss for the year	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2020	**100.0**	**425.9**	**-**	**138.6**	**664.5**

Allotted, called up and fully paid share capital includes 100,000,000 (2019: 100,000,000) ordinary shares of £1 each and 50,000 (2019: 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.

During the year, as part of the Group's solvent recapitalisation, certain liabilities were novated to the Company by subsidiary entities, resulting in an increase in investments (see note 14). The Company then exchanged preference shares issuable to its shareholders for payments of these liabilities over the period 2020 – 2025. At 31 December 2020, VAL had issued a total of £77.8m preference shares.The remaining preference shares will be issued annually based on the actual amounts incurred in the preceding financial year.

At 31 December, there are £298.1m of preference shares issuable included in the column above. £10.1m were issued in February 2021 in relation to payments relating to 2020.

In September 2020, Virgin Investments Limited advanced a £200m loan to the Group, repayable in January 2026. This loan has been recognised at fair value, with the difference between nominal and fair value resulting in a capital contribution of £103.7m.

The Group demerged a subsidiary in 2019. Virgin Red Limited (formally Virgin Group Loyalty Company Limited) was transferred via a dividend to the Group's shareholders, Virgin Holdings Limited and Delta Airlines Incorporated. See note 23.

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.

In 2019, the Company, Virgin Atlantic Limited capitalised its merger reserve via bonus issue of shares, which were subsequently cancelled via a reduction of capital.

The notes on pages 70 to 121 form part of these financial statements.

Consolidated statement of cashflows

As at 31 December 2020

	Note	For year ended 31 December 2020	For year ended 31 December 2019
		£m	£m
Net cash from operating activities before exceptional items	29	**(715.7)**	226.7
Adjustments for exceptional items	29	**2.8**	(10.0)
Net cash (used in)/from operating activities	29	**(712.9)**	216.7
Purchase of property, plant and equipment		**(78.8)**	(533.4)
Purchase of intangible assets		**(9.1)**	(34.0)
Proceeds from sale of property, plant and equipment and intangible assets		**53.1**	6.2
Interest received		**3.3**	8.4
Investment in associate		**-**	(5.6)
Net cash used in investing activities		**(31.5)**	(558.4)
Payment of long term borrowings		**(57.0)**	(6.2)
Drawdown from revolving credit facility		**216.2**	51.3
Payment of leases		**(56.4)**	(173.7)
New borrowings		**375.1**	-
Proceeds from asset financing arrangements		**-**	480.5
New finance leases		**2.0**	-
Loan to associate		**(7.8)**	(34.9)
Net cash from financing activities		**472.1**	317.0
Net decrease in cash and cash equivalents		**(272.3)**	(24.7)
Cash and cash equivalents at beginning of year (including restricted cash)	18	**449.1**	488.9
Effect of foreign exchange rate changes		**14.6**	(15.1)
Cash and cash equivalents at end of year (including restricted cash)	18	**191.4**	449.1

The notes on pages 70 to 121 form part of these financial statements.

Financial statements *continued*

Notes forming part of the financial statements

As at 31 December 2020

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 6 to 48.

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 56.

2. Statement of compliance with IAS
The Group has prepared its consolidated financial statements in accordance with international accounting standards (IAS) in conformity with the requirements of the Companies Act 2006.

The separate financial statements of the Company were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006, 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
In determining the appropriate basis of preparation of the financial statements for the year ended 31 December 2020, the Directors are required to consider whether the Group and Company can continue in operational existence for the foreseeable future. The Board has concluded that it is appropriate to adopt the going concern basis, having undertaken an assessment of the financial forecasts with specific consideration to the trading position of the Group and Company in the context of the current Coronavirus pandemic ('Covid-19'), for the reasons set out below.

Since March 2020 the Coronavirus pandemic has had a severe and unprecedented impact on the whole aviation and travel sector. For Virgin Atlantic this impact has included a reduction of 80% in passenger revenue.

The Directors secured a privately funded, solvent recapitalisation in September 2020 which delivered a refinancing package worth c.£1.2bn over the following 18 months:

- Our shareholders are providing c.£600m in support over the life of the plan including a £200m investment from Virgin Group and the deferral of c.£400m of shareholder payments such as brand fees and JV related costs.
- Davidson Kempner provided £170m of secured financing and our largest suppliers contributed an additional £450m by way of deferrals.

In addition, the Directors acted at pace to reduce the cost base and simplify the fleet and network, as well as delivering £335m in cost savings in 2020 (with over £200m of recurring cost reductions).

At 31 December 2020, the Group's financing consisted of total cash balances of £191m (including unrestricted cash of £115m). At 28 February 2021 the Group had total cash balances of £194m (including unrestricted cash of £104m).

To assess Going Concern the Directors have prepared a series of dynamic downside scenarios that cover rolling 12-month financial forecasts for the Group, comprising profit and loss, balance sheets and projected cash flows through to 31 March 2022. All scenarios also considered the impact of movements in the US dollar exchange rate and the price of jet fuel. Two scenarios are key for the assessment of going concern - the 'Plan of Record' and 'Severe but plausible' scenarios.

3. Accounting policies *continued*
As there is still significant uncertainty around the resumption of material levels of flying, the Directors have taken a prudent approach to assessing the expected scenario. The sensitivities within this scenario (the 'Plan of Record') are more severe than the announcements made by the UK Government on 22 February 2021. The Plan of Record scenario includes the following assumptions:

- Travel bans in place in all key markets until at least June, with the US border remaining closed until July 2021.
- A further extension of travel restrictions and enhanced enforcement of the UK non-essential travel ban.
- Full restrictions on overseas holidays until July 2021.
- Subdued passenger demand into Q3 2021, reflecting uncertainty around border re-openings and broader confidence in air travel.
- Border restrictions start to be lifted in Q3 2021, with a slow ramp up in passenger revenue from Q3 2021 onwards.
- Some level of travel restrictions in place in all operated markets throughout 2021 with a phased return to mild restrictions from Q3 2021.
- A cautious approach to increasing passenger capacity in Q3.

This scenario results in H1 2021 passenger revenue at 6% of 2019 and total 2021 revenues at 27% of 2019 levels.

This scenario indicated that the unrestricted cash would be insufficient to ensure the survival of the business for at least the 12-month period from March 2021. However, post the additional mitigating actions set out below the cash low point under such a scenario would be £115m and the Group would meet liquidity and slot covenant requirements, and continue to operate for the foreseeable future.

Mitigating actions already taken by the Group after the balance sheet date to secure this outcome include:

- The sale and leaseback of two 787 aircraft which generated a net increase in cash of £40m (with $110m of the proceeds being used to reduce our external debt with Davidson Kempner Capital Management). This will support future liquidity through a reduction in interest payable.
- On 15 March 2021 we completed a further solvent recapitalisation finance package worth £160m. This package comprised:
  - A further £97m shareholder funding from Virgin Group.
  - Further support from creditor groups, including operating lease lessors, totalling £63m.
- Other mitigations include:
  - Further utilisation of the Government Coronavirus Job Retention Scheme, with over 50% of our staff furloughed between January and April 2021.
  - Proactively focusing on customer incentives to achieve at least a c.50% rebook rate.
  - Continued suspension of discretionary overhead and capex spend.
  - Proactive management of the supplier cost base resulting in reductions in cash liability and future cost rates.

Due to the high level of uncertainty as to how the global aviation industry will emerge from the Covid-19 pandemic the Directors have also modelled a more severe, but plausible downside scenario (the 'Severe but plausible' scenario). This includes assumptions relating to the estimates of the impact of factors including:

- The potential for further UK lockdowns over the summer and winter months, resulting in the grounding of our fleet.
- Phased return to mild travel restrictions across operated markets delayed until March 2022.
- Significant relaxation of travel restrictions not coming into effect until herd immunity is reached in the relevant regions. Assumptions include some regions not reaching herd immunity until Q2 2022 or beyond.

In this 'severe but plausible' scenario our free cash levels would breach current liquidity and slot covenant levels in July 2021. The Group would also be exposed to further working capital outflows through refunds because of the return of customer advance payments on cancelled departures. However, in this scenario, and based on experience to date, the Directors expect a significant portion of sales in advance will be retained, in return for discount vouchers and offers on future departures. At 28 February 2021 the value of forward sales across both the Airline and Holidays businesses was £325m of which around £99m related to departures from July 2021 to the end of the year and a further £15m related to departures in 2022.

In the unlikely event that this scenario transpires, the Directors considered additional potential mitigating actions. These included:

- Review and rationalisation of our network.
- Increased focus on our Cargo business and new route opportunities.
- Further significant restructuring and cost reduction activities.
- Deferral of expenditure.
- Securing additional shareholder support.

However, there is no guarantee that the Directors will be able to mitigate all potential eventualities; therefore the Directors consider the 'severe but plausible' scenario represents a material uncertainty and could cast significant doubt upon the Group's ability to continue as a going concern. Notwithstanding this material uncertainty caused by the current Coronavirus pandemic, the Directors do not consider this additional 'severe but plausible' scenario to be likely.

Based on the above indications the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, this material uncertainty may cast significant doubt on the Group's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Notes forming part of the financial statements *continued*

3. Accounting policies *continued*

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.

Interests in equity accounted investees

The Group's interests in equity-accounted investees comprises interest in a joint venture. Joint ventures are those entities in which the Group has joint control over the financial and operating policies. Interests in joint ventures are accounted for using the equity method. They are initially measured at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees.

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. The merger reserve is presented within other reserves on the statement of changes in equity.

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.

3. Accounting policies *continued*

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 FRS 6.

The consolidated financial statements have been prepared using the principles of merger accounting for the inclusion of Virgin Travel Group Limited since 1993, although it did not meet all of the conditions of the Companies Act 1985 for merger accounting.

The Companies Act 1985, now superseded by the Companies Act 2006, was overridden at the time to give a true and fair view. The Group arose through a reconstruction of a former Group which did not alter the relative rights of the ultimate shareholders of the Company's subsidiaries and hence it was considered inappropriate to account for the transaction using acquisition accounting principles, which would have been the required treatment if the Companies Act had not been overridden.

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

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

Revenue and revenue recognition

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

Passenger revenue

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

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

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 thedate the performance obligation is fulfilled, typically the date of transportation.

Holidays revenue

The Group records revenue on a net basis after deducting customer discounts and value added tax. For revenue relating to travel services arranged by the Group's travel providers, the performance obligation is the provision of a holiday package; this is treated as a single performance obligation which is delivered over the duration of the holiday. Revenue is taken to the income statement on the date of holiday and flight departure, this is deemed to materially reflect recognition over the duration of the holiday, apart from at the year end when an adjustment is made to ensure revenue is recognised in the relevant financial year. Where the Group's role in the transaction is that of an Agent, revenue is recognised on a net basis with revenue representing the margin earned. The revenue is recognised on the date of booking.

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

Financial statements *continued*

Notes forming part of the financial statements *continued*

3. Accounting policies *continued*

Frequent flyer programme revenue

For miles earned by members of the Group's Frequent Flyer Programme 'Flying Club', an element of revenue representing the value of the miles issued is deferred until the miles are utilised. The amount of the deferral is based on the redemption value method permitted under IFRS 15. 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 IFRS 15 'Revenue from contracts with customers', the apportioned standalone selling price of the awarded Flying Club mile in 2018 was deferred as a liability and recognised as revenue at the point the performance obligation has been satisfied by the Group (typically flight date). During 2019 the frequent flyer programme was demerged from the Group.

Marketing revenue received from participating companies with the issuance of miles is recognised at the point (or over the period that) the performance obligation has been satisfied by the Group.

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 netted against applicable lines in the income statement. 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 to reflect the substance of the transaction.

Translation of foreign currencies

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

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

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

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are notre-translated.

3. Accounting policies *continued*

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 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 scheme, a liability is recognised for the goods or services acquired, measured initially at the fair value ofthe 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 theyear.

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.

Notes forming part of the financial statements *continued*

3. Accounting policies *continued*

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. This has not changed with the UK leaving the EU.

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 annual impairment reviews as part of the airlines CGU, refer to note 11.

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.

Agreements: Delta Air France-KLM transatlantic contract and brand license

The cost of entering into an agreement which will give rise to future economic benefits are capitalised and amortised on a straight line basis over the length of the agreement. These agreements relate to access to the joint arrangement with Delta and Air France-KLM and the use of the Virgin Atlantic brand (see note 11 and note 24). The carrying value is reviewed for impairment when events or changes in circumstances indicate 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.

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

3. Accounting policies *continued*

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 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 is then included as part of the asset.

Notes forming part of the financial statements *continued*

3. Accounting policies *continued*

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 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.

Leases
Lease contracts, as defined by IFRS 16 'Leases', are recorded on the balance sheet, leading to the recognition of a right-of-use asset representing the Group's right to use an asset during the term of the lease contract and a lease liability relating to the payment obligation.

Measurement of the Right-of-use asset
Right-of-use assets are measured at cost and comprise the amount equal to the initial measurement of the lease liability, adjusted for (if applicable) lease incentives, initial direct costs incurred for the arrangement of the contract, estimated costs for returning the leased asset to the condition required by the terms of the contract, discounted to reflect the present value on initial recognition.

3. Accounting policies *continued*

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date over the useful life of the underlying asset (lease term for the rentals). The Group has included restoration costs in the right of use asset as required by IFRS 16 (see provisionspolicy).

The Group presents right-of-use assets in 'property, plant and equipment' in the statement of financial position.

Measurement of the lease liability
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease if readily available, or otherwise the Group's incremental borrowing rate.
Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments;
- Variable lease payments that depend on an index (such as LIBOR), initially measured using the index in force at the commencement of the lease;
- Amounts expected to be payable by the lessee under residual value guarantees; and
- Payments for options to purchase, or for terminating the lease if the lease term reflects these options.

The lease liability is subsequently measured based on a process similar to the amortised cost method:

The liability is increased by accrued interest resulting from the discounting of thelease liability at the beginning of the lease period; and

- The liability is reduced by lease paymentsmade.

In addition, the lease liability may be remeasured in the following situations:

- Change in the leaseterm;
- Modification related to the assessment of the likelihood of an option beingexercised;
- Remeasurement linked to residual value guarantees;
- Adjustment to the indices on which the rents are calculated when rent adjustmentsoccur; and
- Changes in foreign exchange rate, for lease liabilities due in foreigncurrency.

On the modification date, a revised discount rate is applied, resulting in an adjustment to the right of use asset and lease liability.

The Group presents lease liabilities in 'borrowings' in the statement of financial position.

Sale and leaseback
In sale and leaseback transactions where the Group sells and then leases back aircraft, provided it meets the criteria of a sale per IFRS 15, the Group measures the right of use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Group. If a sale has not occurred, the asset is retained on balance sheet within property, plant & equipment with a corresponding finance liability recognised under IFRS 9.

Short term leases and leases of low-value assets The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets, with a value equal to or less than $5,000, and shorter-term leases, with a duration equal to or less than 12 months. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the leaseterm.

Notes forming part of the financial statements *continued*

3. Accounting policies *continued*

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. Any full write off for a specific fleet type is considered to be an impairment charge. 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 treated as right of use assets 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. The Group has included restoration costs in the right of use asset as required by IFRS16.

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; and
- 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.

3. Accounting policies *continued*

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. Compensation related to delayed or cancelled flights are treated as deductions from revenue in line with IFRS interpretation committee (IFRIC) conclusions pursuant to IFRS 15.

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 IFRS 9 Financial Instruments, 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.

Cash flow hedging
The Group applies cash flow hedging to certain financial liabilities held in foreign currency in accordance with IFRS 9.

The Group determines the existence of an economic relationship between the hedging instruments and hedged item based on the currency, amount and timing of their respective cash flows. The hedge ratio applied is 1:1.

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.

Notes forming part of the financial statements *continued*

3. Accounting policies *continued*

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.

The 'expected credit loss' approach is taken when calculating impairments on financial assets. All financial assets are reviewed for historic write-offs and this proportion is applied to its class of financial assets to calculate the required provision.

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.

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 ongoingbasis.

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

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

Leased aircraft maintenance provisions (note 22)

For aircraft treated as right of use assets, 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.

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

When a lease substantially transfers all the risk and rewards of ownership to the Group the aircraft is treated as owned, such leases include but are not limited to JOLCO and asset backed finance leasing arrangements. 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 the 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.

Classification of income and expense between exceptional and underlying items (note 7)

The Group seeks to present a measure of underlying performance which is not impacted by material non-recurring items or items which are not considered to be reflective of the trading performance of the business. This measure of profit is described as 'profit before tax and exceptional items' (PBTEI) and is used by the Directors to measure and monitor performance. The excluded items are referred to as 'exceptional' items.

Exceptional items may include impairments, expenditure on major restructuring programmes, fair value adjustments on financial instruments and other particularly significant or unusual non-recurring items. Items relating to the normal trading performance of the business will always be included within the underlying performance.

Judgement is required in determining the classification of items between exceptional and underlying. In line with Financial Reporting Council (FRC) guidance, the Group have not attempted to identify additional exceptional items as a direct or indirect result of Covid-19, other than those items which clearly meet our existing definition of exceptional, such as the restructuring and asset impairment.

Notes forming part of the financial statements *continued*

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

	Group	
Revenue	For year ended 31 December 2020 £m	For year ended 31 December 2019* £m
Passenger	**445.7**	2,068.4
Cargo	**318.7**	213.9
Holidays	**95.8**	626.6
Other	**7.8**	18.2
	868.0	2,927.1
Operating (loss)/profit		
Passenger, cargo and holidays operations	**(549.3)**	49.3
Other including intra-group eliminations	**10.1**	5.2
	(539.2)	54.5
Net (liabilities)/assets		
Passenger, cargo and holidays operations	**(225.0)**	159.8
Other and intra-group eliminations	**(350.8)**	(350.2)
	(575.8)	(190.4)

*2019 has been re-presented to be consistent with current year presentation.

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

The Company had no income in the current year (2019: £nil).

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 areas and accordingly no geographical analysis of assets or net liabilities is disclosed.

6. Loss before tax for the year

Loss for the year has been arrived at after charging the following:

	Group		Company	
	For year ended 31 December 2020 £m	For year ended 31 December 2019 £m	For year ended 31 December 2020 £m	For year ended 31 December 2019 £m
Depreciation of property, plant and equipment (note 12)	**(203.6)**	(243.6)	**-**	-
Amortisation of intangible assets (note 11)	**(42.4)**	(23.0)	**-**	-
Contribution to pension schemes	**(27.5)**	(35.3)	**-**	-
Remuneration of the auditors and their associates:				
Audit services	**(0.7)**	(0.6)	**(0.2)**	(0.1)
Other services	**(0.2)**	(0.3)	**-**	-

Fees payable to the Company's auditor and its associates for audit services are £0.2m (2019: £0.1m). 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;

Fees payable for:

	Group	
	For year ended 31 December 2020 £m	For year ended 31 December 2019 £m
Tax compliance	**(0.02)**	(0.02)
Tax advice	**(0.18)**	(0.20)
Other non-audit services	**-**	(0.04)
Other assurance services	**(0.02)**	(0.04)
Total fees for other services	**(0.22)**	(0.30)

Financial statements *continued*

Notes forming part of the financial statements *continued*

7. Exceptional items

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

	Group For year ended 31 December 2020 £m	For year ended 31 December 2019 £m
Fleet exit costs (i)	**(25.1)**	-
Aircraft ownership costs (ii)	**-**	(1.3)
Impairments (iii)	**(12.8)**	(0.3)
Fuel hedging reclassified to fair value (gains) / losses on derivatives (iv)	**104.8**	17.8
Forex derivative (gains) / losses reclassified to fair value (gains) / losses on derivatives (iv)	**(18.5)**	(34.2)
Reclassified from other operating income / expense	(2.8)	(19.8)
Reclassified from distribution, marketing and selling costs	(15.7)	(14.4)
Restructuring and recapitalisation costs (v)	**(78.4)**	(10.4)
Profit on disposal of property, plant and equipment (vi)	**15.9**	-
Share of loss from equity accounted investees, net of tax (vii)	**-**	(2.3)
Discounts received (viii)	**7.9**	-
Fair value (losses) / gains on derivatives (iv)	**(80.7)**	37.0
Unrealised losses on other payables (ix)	**(94.2)**	-
Other impairments of financial assets (x)	**(7.8)**	(40.5)
	(188.9)	(34.2)
The fair value (losses) / gains on derivatives can be analysed as follows:		
(Loss) / gain on fair value movements	**5.6**	20.6
(Loss) / gain on fuel derivatives settled during the year (reclassified – see above)	**(104.8)**	(17.8)
Gain on forex derivatives settled during the year (reclassified – see above)	**18.5**	34.2
	(80.7)	37.0

The Group separately presents certain items as exceptional. These are items which in the judgment of the Directors need to be disclosed separately by virtue of their size or incidence in order for the reader to obtain a proper understanding of the financial information. In addition, in order to assist the reader to understand the underlying business performance, the Group separately discloses within the income statement specific IFRS 9 mark to market movements:

(i) Fleet exit costs of £25.1m (2019: £nil) have been recognised in the year as the Group took decisive action to exit fully from its Boeing 747-400 fleet and to bring forward the retirement of the Airbus A330-200 fleet earlier than planned, both as a result of the Covid-19 pandemic.

(ii) Aircraft ownership costs of £1.3m were recognised in the prior year.

(iii) The Group has recognised an impairment charge of £1.1m relating to goodwill in a holiday touring division which is no longer operational (2019: £0.3m), as well as impairments of £11.7m (2019: £nil) on assets which were part of the Group's London Gatwick hub and Virgin Holidays retail estate.

(iv) Fuel costs include losses of £104.8m (2019: £17.8m) recognised on maturity of fuel derivative contracts. Other operating and holiday distribution, marketing and selling costs include gains of £18.5m (2019: £34.2m) relating to movements on maturity of foreign currency derivative contracts. Fair value movements in relation to the Group's fuel and foreign currency derivatives are reclassified as an exceptional item through fair value gains/(losses) on derivative contracts, to ensure that the operating costs of the Group can be reflected at an unhedged rate as the Group does not apply hedge accounting.

The Group discloses specific IFRS 9 mark-to-market movements separately within the statement of comprehensive income as an exceptional item.

(v) The business undertook a restructuring and recapitalisation process in response to the impact of Covid-19 resulting in a charge of £78.4m. The charge relates primarily to severance, advisory and financing costs. Restructuring costs of £10.4m were recognised in the prior year.

(vi) As part of the restructuring and fleet exit programmes noted above, a gain of £15.9m has been recognized (2019: £nil). This has arisen on the sale of two Boeing 747-400 aircraft and the Base, one of the Group's office locations near Gatwick.

(vii) Share of loss from equity accounted investees in the prior year included one-off transaction costs of £2.4m incurred by Connect Airways Ltd during the purchase of Flybe.

(viii) Support from trade creditor groups as part of the Group's solvent recapitalisation resulted in discounts of £7.9m being recognised (2019: £nil).

(ix) Unrealised losses of £94.2m relating to fuel and foreign exchange on payables balances (2019: £nil).

(x) A related party, Flybe Limited, entered administration in March 2020. At that date, the Group had provided loans and guarantees to Flybe Limited. The Group fully impaired the loans and has netted any amounts recovered against the write down. The net write down in 2020 was £7.8m (2019: £39.2m).

Notes forming part of the financial statements *continued*

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	
	2020 number	2019 number
Management and administration	**1,431**	1,263
Flight crew	**914**	966
Cabin crew	**2,844**	3,178
Reservations and sales	**1,413**	1,926
Engineering, cargo and production	**835**	1,024
	7,437	8,357

At 31 December 2020 total headcount was 5,907 (10,016 at 31 December 2019).

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

	Group	
	2020 £m	2019 £m
Wages and salaries	**226.7**	358.0
Social security costs	**26.4**	38.5
Other pension costs	**27.5**	35.4
	280.6	431.9

Included within Holiday distribution, marketing and selling costs within the Statement of Comprehensive Income are employee costs amounting to £3.1m (2019: £9.9m) 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 £2.1m at 31 December 2020 (2019: £4.9m).

During the year, the Group made use of the Coronavirus Job Retention Scheme implemented by the UK government, where those employees designated as being "furloughed workers" are eligible to have 80% of their salary costs paid up to a maximum of £2,500 per month. The total amount of such relief received by the Group amounted to £69.8m (2019: £nil) and is offset within employee remuneration within the statement of comprehensive income and within the figures above. The employee figures above include those on furlough during the year

The Company has no salaried employees (2019: nil).

(ii) Aggregate Directors' remuneration

During the year/period of their service, the emoluments of the 4 Directors (2019: 4) of the Group and Company were:

	Group	
	For year ended 31 December 2020	For year ended 31 December 2019
Total emoluments	£m	£m
Aggregate emoluments	**2.7**	3.9
Company contributions to money purchase pension schemes	**0.1**	0.1
Aggregate amounts receivable under Long Term Incentive Scheme	**-**	0.7
	2.8	4.7
Highest paid Director		
Aggregate emoluments and other benefits	**1.5**	2.7
Company contributions to money purchase pension schemes	**0.1**	0.1
Aggregate amounts receivable under Long Term Incentive Schemes	**-**	0.5
	1.6	3.3

Retirement benefits are accruing to 4 (2019: 4) Directors under money purchase pension schemes. During the year an amount of £nil (2019: £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) Long term incentive scheme

In 2020, the Group established a new long term incentive scheme for Executive Directors and other invited participants to incentivise and recognise execution of the 'Velocity' plan. The scheme consists of a cash payment at the end of the three year term of the grant. Payments are based on the Group's performance against pre-agreed financial and non-financial measures which are linked to the Group's long term objectives.

Included above are cash payments made to directors relating to services rendered during 2020.

Notes forming part of the financial statements *continued*

9. Net finance costs

	Group	
	For year ended 31 December 2020	For year ended 31 December 2019
	£m	£m
Finance income		
Bank deposits	**2.3**	7.9
Unlisted investments (note 14)	**-**	0.5
Interest on loan to equity accounted investee	**0.6**	2.3
Amounts due from Group companies	**0.4**	-
	3.3	10.7
Finance expense		
Amounts due to Group companies	**(0.4)**	-
Interest on leases (note 19)	**(12л.у)**	(98.6)
Other finance charges	**(3.5)**	-
External loans (note 19)	**(2ф.c)**	(13.6)
	(154.3)	(112.2)
Interest capitalised on aircraft progress payments (note 12)	**3.0**	5.2
	(151.3)	(107.0)
Net finance costs	**(148.0)**	(96.3)

10. Tax

Analysis of the tax expense during the period:

	Group	
	For year ended 31 December 2020	For year ended 31 December 2019
	£m	£m
Current tax		
Adjustments in respect of prior periods	**(0.4)**	0.3
Non-UK current tax	**-**	(0.1)
Total current tax (charge)/credit	**(0.4)**	0.2
Deferred tax		
Origination and reversal of timing differences	**(28.1)**	2.3
Adjustments in respect of prior periods	**22.4**	6 .5
Total deferred tax (charge)/credit	**(5.7)**	8.8
Tax (charge)/credit	**(6.1)**	9.0

The standard rate of UK corporation tax for the period is 19.0% (2019: 19.0%). Despite a loss for the Group, there is a tax charge for the period which is driven by deferred tax assets not recognised and permanent differences.

Notes forming part of the financial statements *continued*

10. Tax *continued*

The actual current tax (charge)/credit 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 2020 £m	For year ended 31 December 2019 £m
Loss before taxation	**(858.0)**	(63.7)
Tax at the standard rate at 19.00% (2019: 19.00%)	**163.0**	12.1
Factors affecting the credit for the year:		
Income not subject to corporation tax	**2.2**	0.4
Expenses not deductible for tax purposes	**(38.4)**	(2.1)
Effects of difference in deferred tax rate	**3.0**	0.6
Fixed asset differences	**-**	(19.4)
Adjustments in respect of prior periods	**19.8**	6.5
UK Government reliefs	**-**	3.8
Permanent differences	**-**	-
Current tax deduction where deferred tax not recognised on adoption of IFRS 16	**-**	6.0
Recognition of deferred tax not recognised on adoption of IFRS 16	**-**	8.5
Recognition of previously unrecognised deferred tax	**(155.7)**	(7.4)
Total current tax credit / (charge)	**(6.1)**	9.0

The deferred tax asset at 31 December 2020 has been calculated based on 19.0%. This will reduce the Group's future current tax charge accordingly.

11. Intangible assets and goodwill

	Group					
	Goodwill £m	DL AFKL transatlantic agreement and brand licence £m	Landing Rights £m	Other intangibles £m	Assets under construction £m	Total £m
Cost						
At 1 January 2020	8.3	-	94.3	238.7	30.3	371.6
Additions	-	316.3	-	-	9.0	325.3
Impairment	-	-	-	-	-	-
Disposals	-	-	-	(3.6)	-	(3.6)
Reclassifications	-	-	-	22.0	(22.0)	-
At 31 December 2020	**8.3**	**316.3**	**94.3**	**257.1**	**17.3**	**693.3**
Amortisation						
At 1 January 2020	3.3	-	10.6	174.9	-	188.8
Amortisation	-	20.6	-	21.8	-	42.4
Impairment	1.1	-	2.1	1.9	-	5.9
Disposals	-	-	-	(3.0)	-	(3.0)
At 31 December 2020	**4.4**	**20.6**	**12.6**	**195.6**	**-**	**233.3**
Carrying amount						
At 31 December 2020	**3.9**	**295.7**	**81.6**	**61.5**	**17.3**	**460.0**
Carrying amount						
At 31 December 2019	5.0	-	83.7	63.5	30.3	182.5

During the year, the Group entered in to agreements that give access to benefits from the Joint Arrangement with Delta and Air France-KLM, and license to use the Virgin Atlantic and Virgin Holidays brands with a cost of £316m (2019: £nil). The joint arrangement asset is being amortised over its contract term of 15 years, and the brand asset is being amortised over its contract term of 5 years.

During the year, the decision was taken not to offer touring holidays to customers going forward. The goodwill at 1 January 2020 included £1.1m in relation to Bales Worldwide Limited (purchased 14 December 2009) which offered touring holidays; this has therefore been fully written off.

Financial statements *continued*

Notes forming part of the financial statements *continued*

11. Intangible assets and goodwill *continued*

An annual impairment review is conducted on all intangible assets that have an indefinite economic life. 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.

On this basis, management have determined that the Group has two CGUs;

1) Its airline route network, comprising landing rights, access to the Virgin Atlantic brand, Delta Air France/KLM joint venture synergies, aircraft, spare engines and related assets and liabilities; and
2) The holidays business comprising access to the Virgin Holidays brand, the sales channels including retail stores and any related goodwill. Not included in the CGUs are assets which are not expected to contribute cash flows to future operations; specifically aircraft from retired fleet types such as the Boeing 747-400 aircraft. See note 12 for further detail.

The significant impact of the Covid-19 pandemic on passenger travel, holidays and ongoing demand has resulted in an impairment trigger during the year, and as such, an impairment review has been conducted on both the airline and holiday business CGUs. There were no impairment triggers identified in 2019.

The recoverable amounts of these CGUs have been measured based on their value in use, using a discounted cash flow model. Cash flow projections are based on the forecasts approved by the Board covering a five-year period, and projections are in line with the Group's strategic plans and recovery from the Covid-19 pandemic.

Assumptions:

	Airline CGU	Holidays CGU
Pre-tax discount rate	12%	7%
Terminal growth rate	2%	2%
No. years before terminal growth rate applied	5	5
Exchange rates USD	1.32	1.32
Fuel prices ($/bbl)	53.5	N/A

The discount rate has been calculated based on the weighted average cost of capital of the Group, using external inputs where relevant and the current debt structure of the Group. Given the uncertainty of the impact and timing of Covid-19, the Group has adjusted the cash flows for these uncertainties rather than the discount rate.

The impairment review did not identify an impairment for either CGU as the value in use was greater than the carrying value (2019: no impairment).

Sensitivity analysis

The Group has conducted sensitivity analyses on each CGU's value in use. This included either increasing the discount rates, reducing the terminal growth rate, or reducing the anticipated future cash flows through changes to the EBITDA in each of the years through to the terminal year. The sensitivity assumptions applied to the VIU calculations are set out in the table below. These are considered to be reasonably possible, but not likely.

Increase in discount rate	2 pts
Reduction in long term growth rate applied in terminal year	1 pts
Decrease in forecasted adjusted EBITDA in each year	20%
Increase in fuel price	40%

None of the individual reasonably possible scenarios listed above resulted in an impairment in either of the CGUs.

12. Property, plant and equipment

	Group					
	Aircraft, rotable spares and ancillary equipment		Other		Assets under construction	Total
	Owned	Leased	Owned	Leased		
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2020	1,628.4	1,930.2	196.6	178.6	33.0	3,966.8
Additions	69.4	253.4	1.8	10.3	19.5	354.4
Disposals	(347.3)	(475.1)	(51.5)	(7.6)	-	(881.5)
Reclassifications	19.1	-	10.5	-	(29.6)	-
Other movements	-	(341.8)	-	(1.0)	-	(342.8)
At 31 December 2020	**1,369.6**	**1,366.7**	**157.4**	**180.3**	**22.9**	**3,096.8**
Accumulated depreciation						
At 1 January 2020	498.8	1,015.7	135.7	88.6	-	1,738.8
Depreciation for the year	73.5	100.6	13.7	15.7	-	203.5
Impairments	17.8	12.9	3.3	7.0	-	41.0
Disposals	(336.1)	(473.5)	(23.2)	(5.4)	-	(838.3)
At 31 December 2020	**254.1**	**655.7**	**129.5**	**105.9**	**-**	**1,145.1**
Carrying amount						
At 31 December 2020	**1,115.5**	**711.0**	**27.9**	**74.4**	**22.9**	**1,951.7**
At 31 December 2019	1,129.6	914.2	60.9	90.0	33.0	2,228.0

Other movements relate to lease extensions which do not constitute a new lease addition pursuant to IFRS 16, and in addition relate to asset adjustments resulting from variable lease rentals which are linked to the prevailing LIBOR at a point in time as per the lease agreements.

During 2020 the IASB issued 'Covid-19 related rent concessions – amendment to IFRS 16 Leases' to provide a practical expedient to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions for those lease modifications arising as a direct result of Covid-19. The Group has applied this practical expedient on all qualifying modifications in the preparation of the consolidated financial statements. The net impact on the income statement for 2020 has been a credit of £0.5 million reflecting the changes to lease payments that arose from such concessions.

Within Other Movements is an adjustment on Leased Aircraft resulting from rent deferrals for which the Group could not apply the IASB 'Covid-19 related rent concessions – amendment to IFRS 16 leases' practical expedient. On 10 March 2021 the IASB approved an extension to amend IFRS 16 Leases to allow a one-year extension to the practical expedient available to lessees when accounting for 'Covid-19-related rent concessions'. The IASB agreed to extend the relief to rent concessions that reduce lease payments originally due on or before 30 June 2022. However this is subject to UKEB endorsement and as such as at the date of approval of these Financial Statements is not yet available to the Group. In the current period the Group has adopted the original amendment to IFRS 16 Leases, with no effect on our Leased Aircraft. The Group will determine whether it will apply the extension once endorsed by the UKEB.

Notes forming part of the financial statements *continued*

12. Property, plant and equipment *continued*

During the year, the Group took delivery of three Airbus 350-1000; two under lease arrangements and one owned.

Part of the Group's response to the Covid-19 pandemic has been to rationalize the aircraft fleet; as a result five Boeing 747-400 aircraft were returned to the lessor early. The recoverable amount of the right of use assets were determined to be zero and they were written down in full. A further two 747-400 aircraft were sold and all remaining spares and ancillary equipment were also written down to nil leading to a full year impairment charge of £26.6m (2019: £nil).

The total profit on the disposal of aircraft above was £11.0m (2019: £1.4m relating to disposal of aircraft). Further write downs were also made to property and equipment in locations such as airport facilities, offices and retail spaces which will no longer be used as a result of the pandemic.

The impact of the pandemic on the aviation industry has given rise to an impairment trigger, and as such, management has conducted an impairment review. Please refer to note 11 for details. The review has not led to any impairments at an airline or holidays' business CGU level (2019: nil).

Included in aircraft, rotable spares and ancillary equipment are progress payments of £21.7m (2019: £78.1m). These amounts are not depreciated.

Interest capitalised by the Group and Company on aircraft progress payments included in additions during the year amounted to £3.0m (2019: £5.2m).

The Group holds certain owned assets as collateral against the RCF term loan facility. This includes one owned aircraft and eight engines (2019: two owned aircraft, eight engines).

The Company did not have any property, plant and equipment (2019: £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 19.00% (2019: 19.00%):

	Group	
	For year ended 31 December 2020	For year ended 31 December 2019
	£m	£m
Accelerated capital allowances	**24.0**	15.5
Other timing differences	**(5.7)**	8.1
UK tax losses	**3.6**	2.0
Holdover relief	**(19.0)**	(16.9)
	2.9	8.7

The group has restricted its recognition of deferred tax assets to equal the amount of deferred tax liabilities at the period end, as permitted by IAS 12. The gross temporary differences not recognised by the company total £1,019.2m, which equates to a deferred tax asset not recognised of £193.6m.

A reduction in the UK corporation tax rate to 17% (effective 01/04/2020) was substantively enacted in 2019. This reduction was reversed in the Finance Act 2020 (enacted on 22/07/2020) which has led to the remeasurement of the deferred tax balances at a rate of 19%. The increase in the rate of deferred tax has increased the tax charge for the year.

In March 2021, the UK government announced its intention to raise the Corporation Tax rate to 25% by 2023. Once the rate change has been enacted, this will increase the value of the group's deferred tax assets.

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

Movement in deferred tax asset

	£m
Balance at 1 January 2020	**8.7**
Charged to statement of comprehensive income	**(5.8)**
Balance as at 31 December 2020	**2.9**

The Company did not have any deferred tax (2019: £nil).

Notes forming part of the financial statements *continued*

14. Investments

	Group		Company	
	For year ended 31 December 2020	For year ended 31 December 2019	For year ended 31 December 2020	For year ended 31 December 2019
	£m	£m	£m	£m
Investments				
Investment in Airline Group Limited	**0.0**	0.0	-	-
Interest in subsidiaries	**-**	-	**665.3**	289.4
	0.0	0.0	**665.3**	289.4

The unlisted investment represents the Group's investment in Airline Group Limited which consists of equity held at cost of £1,575 (2019: £1,575). For further information on the subsidiaries of the Group, see note 23.

	Company Investment in subsidiaries
	£m
Balance at 1 January 2020	**289.4**
Additions during the year	**375.9**
Balance at 31 December 2020	**665.3**

Additions during the year relate to capital contributions made into subsidiaries as a result of the novation of certain liabilities from the subsidiaries to the Company (see Statement of Changes in Equity).

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	
	For year ended 31 December 2020	For year ended 31 December 2019
	£m	£m
Non-current assets		
Foreign currency	-	1.1
Fuel	-	3.3
	-	4.4
Current assets		
Foreign currency	**0.5**	10.4
Fuel	**1.5**	9.8
	2.0	20.2
Current liabilities		
Foreign currency	**(1.0)**	(21.9)
Fuel	**(12.0)**	(12.2)
	(13.0)	(34.1)
Non-current liabilities		
Foreign currency	-	(2.9)
Fuel	-	(2.0)
	-	(4.9)
	(11.0)	(14.4)

	Group	
	2020 Quantity (million)	2019 Quantity (million)
Nominal amounts		
Foreign currency (USD)	**18.2**	755.6
Foreign currency (Other, represented in GBP)	**0.4**	6.9
Fuel (Barrels)	**3.2**	6.5

Notes forming part of the financial statements *continued*

15. Derivative financial instruments *continued*

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.

	Group		
	Gross amount £m	Amount not set off £m	Net amount £m
For the year ended 31 December 2020:			
Derivative financial instruments			
Assets	2.0	(2.0)	0.0
Liabilities	(13.0)	2.0	(11.0)
	(11.0)	**-**	**(11.0)**

	Group		
	Gross amount £m	Amount not set off £m	Net amount £m
For the year ended 31 December 2019:			
Derivative financial instruments			
Assets	24.6	(23.4)	1.2
Liabilities	(39.0)	23.4	(15.6)
	(14.4)	-	(14.4)

The Company did not hold any derivative financial instruments (2019: £nil).

16. Trade and other receivables

	For year ended 31 December 2020 £m	For year ended 31 December 2019* £m
Non-current		
Other receivables	**15.7**	17.8
	15.7	17.8
Current		
Trade receivables	**52.0**	91.3
Provision for doubtful receivables	**(3.9)**	(2.6)
Net trade receivables	**48.1**	88.7
Unremitted cash	**13.7**	69.8
Other receivables	**79.8**	89.0
Accrued income	**9.4**	3.8
Group relief receivables	**0.5**	-
Prepayments	**10.5**	37.0
	162.0	288.3

*2019 balances have been re-presented to be consistent with current year presentation.

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

	2020 £m	2019 £m
Ageing of past due but not impaired receivables		
1-30 days	**17.2**	15.3
31-60 days	**1.9**	3.0
61-90 days	**1.0**	4.6
91-120 days	**1.9**	0.2
120+ days	**1.0**	0.1
	23.0	23.2

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 value.

17. Inventories

	For year ended 31 December 2020 £m	For year ended 31 December 2019* £m
Aircraft consumable spares	**24.5**	34.0
Inflight stock	**5.6**	4.6
Fuel	**0.2**	0.2
	30.3	38.8

Consumable spares have reduced during the year due to impairments against inventory related to Boeing 747 and Airbus 346 aircraft which have been removed from service and either sold or returned to their lessors – see note 12. The Company did not have any inventories (2019: £nil).

Notes forming part of the financial statements *continued*

18. Cash, cash equivalents and restricted cash

	For year ended 31 December 2020 £m	For year ended 31 December 2019 £m
Cash at bank and in hand	**114.8**	352.6
Cash and cash equivalents	**114.8**	352.6
Restricted cash	**76.6**	96.5
	191.4	449.1

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 collateralised borrowings and cash collateral relating to finance and merchant banking facilities.

In addition to the above cash balances there was £12.9m of unremitted cash owed to the Group in transit at 31 December 2020 (2019: £69.8m), comprised of £13.7m receivable (refer to note 16) and £0.8m payable. The Company did not have any cash and cash equivalents (2019: £nil).

19.Borrowings

	Group	
	For year ended 31 December 2020 £m	For year ended 31 December 2019 £m
Non-current		
Obligations under leases (i)	**(1,749.8)**	(1,747.1)
Senior Bonds – A1 (ii)	**(161.7)**	(168.6)
Senior Bonds – A2 (ii)	**(20.8)**	(22.1)
Senior Bonds – A3 (ii)	**(27.6)**	(28.8)
Senior Bonds – A4 (ii)	**(54.4)**	-
Other loans (iv)	**(354.3)**	-
	(2,368.6)	(1,966.6)
Current		
Obligations under leases (i)	**(17.2)**	(190.9)
Senior Bonds – A1 (ii)	**(6.9)**	(3.7)
Senior Bonds – A2 (ii)	**(1.4)**	(1.5)
Senior Bonds – A3 (ii)	**(1.2)**	(0.8)
Senior Bonds – A4 (ii)	**(2.9)**	-
Drawdown on revolving credit facility (iii)	**-**	(51.3)
Other loans (iv)	**(81.2)**	-
	(110.8)	(248.2)

19. Borrowings (continued)

i. See below for a full breakdown of all commitments under leasing agreements.

ii. In December 2015, the Group issued £220m ofSenior Bonds to bond investors (£190m Class A1 bonds and £30m of Class A2 bonds). The terms are such that repayment of the principal will occur in part over the life of the bonds such that £112m (£100m Class A1 bonds and £12m of Class A2 bonds) is only payable on the maturity of the bonds after 15 years. In January 2017, the Group issued anadditional £32m of Senior Bonds to investors (Class A3). The maturation date of the bonds matches that of the A1 and A2 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.
In September 2020, the Group issued £60m of Senior Bonds to investors (Class A4). The bonds mature after three years, with repayment of the principal occurring in part of the term and £50m repayable in 2023.

iii. The Group had drawn down £51.3m on its revolving credit facility at 31 December 2019. During 2020 the Group drew down £207m, being the full amount of the facility and it was converted to a term loan.

iv. During 2020, the Group raised £393m from external investors as well as shareholders; £103.9m of this has been accounted for as a capital contribution and is not included in the amounts above. Refer to the statement of changes in equity.

	Group					
	Sterling £m	US dollars £m	Chinese Yuan £m	Hong Kong dollar £m	South African rand £m	Total £m
Analysis of borrowings by currency as at 31 December 2020:						
Obligations under leases	(81.4)	(1,684.4)	(0.2)	(0.3)	(0.7)	(1,767.0)
Senior Bonds - A1	(168.6)	-	-	-	-	(168.6)
Senior Bonds - A2	(22.1)	-	-	-	-	(22.1)
Senior Bonds - A3	(28.8)	-	-	-	-	(28.8)
Senior Bonds – A4	(57.5)	-	-	-	-	(57.5)
Other loans	(207.0)	(228.4)	-	-	-	(435.4)
	(565.4)	**(1,912.8)**	**(0.2)**	**(0.3)**	**(0.7)**	**(2,479.4)**
Analysis of borrowings by currency as at 31 December 2019:						
Obligations under leases	(57.7)	(1,878.5)	(0.4)	(0.7)	(0.7)	(1,938.0)
Senior Bonds - A1	(172.2)	-	-	-	-	(172.2)
Senior Bonds - A2	(23.7)	-	-	-	-	(23.7)
Senior Bonds - A3	(29.6)	-	-	-	-	(29.6)
Drawdown on revolving credit facility	-	(51.3)	-	-	-	(51.3)
	(283.2)	(1,929.8)	(0.4)	(0.7)	(0.7)	(2,214.8)

Notes forming part of the financial statements *continued*

19.Borrowings (continued)

Analysis of leased debt by maturity:

	Group				
	Within 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m	Total £m
Analysis of leased debt by maturity					
as at 31 December 2020:					
Leased aircraft & engines	-	(168.5)	(539.8)	(934.7)	(1,643.0)
Leased property	(15.1)	(12.8)	(22.0)	(43.1)	(93.0)
Leased - other	(2.1)	(2.1)	(5.8)	(21.0)	(31.0)
	(17.2)	**(183.4)**	**(567.6)**	**(998.8)**	**(1,767.0)**
Analysis of leased debt by maturity					
as at 31 December 2019:	(172.2)	(175.4)	(467.5)	(980.4)	(1,795.5)
Leased aircraft & engines	(16.1)	(15.0)	(29.8)	(45.9)	(106.8)
Leased property	(2.6)	(2.5)	(6.4)	(24.2)	(35.7)
Leased - other					
	(190.8)	(193.0)	(503.8)	(1,050.5)	(1,938.0)

Change in lease debt:

	Group						
	1 January 2020 £m	New contracts & renewal of contracts £m	Other movements £m	Payment of lease rental £m	Revaluation £m	Interest £m	31 December 2020 £m
Leased aircraft & engines	(1,795.5)	(237.2)	274.7	151.8	76.3	(113.1)	(1,643.0)
Leased property	(106.8)	(7.3)	4.9	22.3	(0.2)	(5.9)	(93.0)
Leased - other	(35.7)	1.4	0.3	4.2	0.6	(1.8)	(31.0)
	(1,938.0)	**(243.1)**	**279.9**	**178.4**	**76.7**	**(120.8)**	**(1,767.0)**

	Group						
	1 January 2019 £m	New contracts & renewal of contracts £m	Other movements £m	Payment of lease rental £m	Revaluation £m	Interest £m	31 December 2019 £m
Leased aircraft & engines	(1,581.3)	(480.5)	23.5	238.1	96.3	(91.6)	(1,795.5)
Leased property	(109.8)	(5.0)	(9.7)	22.9	1.2	(6.4)	(106.8)
Leased - other	(28.0)	(11.5)	-	4.0	1.5	(1.7)	(35.7)
	(1,719.1)	(497.0)	13.8	265.0	99.0	(99.7)	(1,938.0)

The Company did not have any borrowings (2019: £nil).

20.Trade and other payables

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

	Group		Company	
	For year ended 31 December 2020 £m	For year ended 31 December 2019 £m	For year ended 31 December 2020 £m	For year ended 31 December 2019 £m
Non-current				
Other revenue received in advance	**(3.6)**	(3.6)	-	-
Trade payables	**(13.7)**	-	-	-
Other payables	**(174.7)**	-	-	-
	(192.0)	(3.6)	-	-
Current				
Trade payables	**(122.0)**	(117.1)	-	-
Other revenue received in advance	**(17.4)**	(22.3)	-	-
Flight and airport charges	**(71.2)**	(114.5)	-	-
Amounts owed to other Group companies	-	(5.7)	**(0.9)**	(0.8)
Other taxes and social security	**(8.4)**	(14.9)	-	-
Other payables	**(8.2)**	(10.1)	-	-
Accruals	**(119.2)**	(230.9)	-	-
	(346.4)	(515.5)	**(0.9)**	(0.8)

Notes forming part of the financial statements *continued*

21.Deferred revenue on air travel and holidays

	Group For year ended 31 December 2020 £m	Group For year ended 31 December 2019 £m
Non-current	**(3.3)**	(1.9)
Current	**(263.4)**	(523.4)
Total deferred revenue on air travel and holidays	**(266.7)**	(525.3)

	Forward sales of passenger carriage and holidays £m
Balance at 1 January 2020	**(525.3)**
Revenue recognised in income statement	**553.8**
Cash received from customers*	**(295.2)**
Balance at 31 December 2020	**(266.7)**

*Cash received from customers is net of refunds.

Deferred revenue relating to customer loyalty programmes consisted primarily of revenue allocated to performance obligations associated with Flying Club points. Flying Club points are issued by the Group's airlines through their loyalty programmes. Cash received from customers is presented net of refunds. The customer loyalty programme was demerged from the Group in 2019 see note 23.

Deferred revenue in respect of forward sales of holidays consists of revenue allocated to tour operations. These tickets can typically be purchased eighteen months from the date of travel. The Company did not have any deferred income (2019: £nil).

22. Provisions

	Group 2020 £m	Group 2020 £m
Non-current		
Maintenance	**(33.4)**	(92.4)
Onerous leases	**(0.2)**	(0.4)
Leasehold dilapidations	**(13.8)**	(6.8)
Restructuring costs	**(7.2)**	-
	(54.6)	(99.6)
Current		
Maintenance	**(15.9)**	(15.7)
Onerous leases	**(0.2)**	(0.2)
Leasehold dilapidations	**(1.5)**	(0.2)
Legal claims	**(14.4)**	(14.3)
Restructuring costs	**(7.7)**	-
	(39.7)	(30.4)

Maintenance included in provisions relates to the costs to meet the contractual return conditions on aircraft treated as right of use assets. Cash outflows on aircraft and engine maintenance occur when the maintenance events take place on future dates not exceeding June 2032. The utilisation during the year includes £63m relating to the return of the five leased Boeing 747-400s. Maintenance provisions are discounted only when the interest rate has a deemed material impact on the provision.

Notes forming part of the financial statements *continued*

22. Provisions (continued)

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

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

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

The Company did not have any provisions (2019: £nil).

	Group					
	Maintenance £m	Onerous contracts £m	Leasehold dilapidations £m	Legal claims £m	Restructuring costs £m	Total £m
As at January 2019	(103.2)	(1.2)	(7.0)	(16.3)	(1.8)	(129.5)
Amounts (provided)/released in the year	(22.3)	-	-	(12.1)	0.4	(34.0)
Amounts utilised in the year	16.4	0.2	-	13.1	1.4	31.1
Other movements	1.0	0.4	-	1.0	-	2.4
As at 31 December 2019	(108.1)	(0.6)	(7.0)	(14.3)	-	(130.0)
As at 1 January 2020	**(108.1)**	**(0.6)**	**(7.0)**	**(14.3)**	**-**	**(130.0)**
Amounts (provided)/released in the year	(10.9)	-	(8.3)	(4.8)	(36.1)	(60.1)
Amounts utilised in the year	76.4	0.2	-	5.0	21.2	102.8
Other movements	(6.7)	-	-	(0.3)	-	(7.0)
As at 31 December 2020	**(49.3)**	**(0.4)**	**(15.3)**	**(14.4)**	**(14.9)**	**(94.3)**

23. Interest in subsidiaries and associates

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 2020 are:

	Country of incorporation or registration	% Ordinary issued shares	Principal activity
Subsidiaries and associates			
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	Sale of holidays
Barbados Enterprises plc	England and Wales	0	Investment company
Fit Leasing Limited	Jersey	100	Leasing of aircraft
VA Cargo Limited	England and Wales	100	Ceased trading
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	Ceased trading
Virglease (3) Limited	England and Wales	100	Ceased trading
Virglease (4) Limited	England and Wales	100	Leasing of aircraft
Connect Airways Limited	England and Wales	30	Airline operations
Significant holdings			
Air Nigeria Development Limited (formerly Virgin Nigeria Airways Limited)	Nigeria	49	Airline operations

Subsidiary and Associates	Registered Office Addresses
Fit Leasing Limited, VAA Holdings Jersey Limited	47 Esplanade, St Helier, Jersey, JE1 0BD
Virgin Vacations Inc, Virgin Incoming Services Inc	5787 Vineland Road, Suite 204, Orlando, Florida, 32819
Barbados Enterprise PLC	35 Great St Helen's, London EC3A 6AP
Connect Airways Limited	1 More London Place, London SE1 2AF
All other trading subsidiaries	The VHQ, Manor Royal, Crawley, West Sussex RH10 9DF

Notes forming part of the financial statements *continued*

Virgin Vacations Incorporated ceased trading on 31 March 2019. VA Cargo Limited ceased trading on 30 June 2020 and Virglease (3) Limited ceased trading on 31 December 2020.

During 2015, Barbados Enterprises plc and Virgin Atlantic International Limited became newly incorporated subsidiaries of the Group. Virgin Atlantic International Limited is a 100% owned subsidiary, whilst 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.

The proportion of voting rights held by the Group in each of its subsidiaries is the same as the proportion of ordinary shares held. All subsidiaries have been included in the consolidation. All entities in the consolidation have the same accounting reference date.

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.

Demerger of a subsidiary

On 31 March 2019 the Group demerged a subsidiary, Virgin Red Limited (previously Virgin Group Loyalty Company), which had a non-controlling interest. The shares of Virgin Red were transferred via a dividend of shares to the Group's shareholders, Virgin Group Holdings Limited & Delta Airlines Incorporated.

24. Related party transactions

The Group had transactions in the ordinary course of business during the year ended 31 December 2020 and 31 December 2019 with related parties.

	Group		Company	
	For year ended 31 December 2020 £m	For year ended 31 December 2019 £m	For year ended 31 December 2020 £m	For year ended 31 December 2019 £m
Parent				
Purchases from parent	**-**	(0.1)	**-**	(0.1)
Purchases from associate	**-**	(1.0)	**-**	-
Related parties under common control				
Sales to related parties	**16.6**	58.0	**-**	-
Purchases from related parties	**(25.7)**	(72.8)	**-**	-
Amounts owed by related parties	**22.2**	13.0	**-**	-
Amounts owed to related parties	**(32.1)**	(9.9)	**-**	-
Subsidiaries				
Amounts owed to subsidiaries	**-**	-	**(0.8)**	(0.8)

Notes forming part of the financial statements *continued*

24. Related party transactions *continued*

Revenue from related parties primarily relates to airline ticket sales and sales of frequent flyer miles. Purchases from related parties represent goods and services purchased for use within the business. All of the above transactions are on an arm's length basis.

Not included in the table above is a balance of £7.3m (2019: £8.3m) within deferred income at the balance sheet date. Revenue also includes £1.8m (2019: £1.0m) of sales to the related party Virgin Money UK PLC. These transactions were at arms' 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.

In January 2020, the Group entered into a joint arrangement with Delta Air Lines Inc. and Air France-KLM S.A., which 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. This joint arrangement, for which the Group received anti-trust immunity from the US Department of Transportation in November 2019, replaces the joint arrangement which previously existed between the Group and Delta Air Lines Inc. As a result of terminating the previous joint arrangement, the Group has a liability owed to Delta over the period 2020 - 2028, which is fair valued at £298m at 31 December 2020. The portion relating to 2020 – 2024 has been converted to preference shares, leaving an outstanding liability of £120m for the periods 2025-2028.

On 31 December 2020 the Group owed Delta Air Lines Inc. £32.8m (2019: £32.4m) with respect to the joint arrangement 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 £1.3m (2019: £5.5m); total purchases were £37.9m (2019: £98.4m). Outstanding receivable balances amounted to £1.3m (2019: £0.2m) and outstanding payables (excluding amounts owed under the joint arrangement) were £40.3m (2019: 7.2m).

In March 2019, a £30.0m facility was made available by the Group's shareholders; Delta Air Lines committed 49% of this facility and Virgin Investments Limited committed 51%. This facility was fully drawn down in 2020 and the Group also accrued commitment fees of £0.4m to Delta Air Lines and £0.4m to Virgin Investments Limited in respect of this facility. On 4 September 2020, the balances owed to each party were novated to Virgin Atlantic Limited (VAL), resulting in a capital contribution from VAL. VAL then converted these balances owed to each party to preference shares.

In addition, the following liabilities were novated to VAL resulting in a capital contribution. VAL then converted the liabilities to preference shares:

- £56.1m for amounts owed to Delta Airlines relating to the 2019 joint operation settlement, and other invoices payable.
- £21.7 for amounts owed to Virgin Investments Limited relating to royalties incurred in 2020 and other liabilities owed

In September 2020, Virgin Investments Limited advanced a £200m facility to the Group, repayable in January 2026. This loan has been recognised at fair value, with the difference between nominal and fair value resulting in a capital contribution of £103.7m.

In January 2019, Virgin Atlantic Airways Limited's parent company, Virgin Travel Group Limited, with partners Stobart Aviation and Cyrus Capital ('the Consortium') established a separate entity named Connect Airways Limited, with each having ownership of 30%, 30% and 40% respectively. In February 2019 Connect Airways Limited acquired Flybe Limited. During 2019, the Company entered into a commercial agreement with Flybe Limited to receive all revenue generated from and settle all operating costs of certain routes operated by Flybe Limited, resulting in a net settlement of £10.1m (2019: £5.2m) to Flybe in the year, presented separately on the statement of comprehensive income. The Group also committed up to £7.6m, secured on certain fleet and other assets of Flybe Limited. The Group accrued interest under these loan agreements amounting to £0.6m during the year, presented within Finance income. All transactions have been concluded at arm's length.

On 5th March 2020, Flybe Limited filed for administration. Whilst the Group expects to recover material amounts of the loan from the administrator, the amount and likely timing of such recoveries are too uncertain to accurately quantify at the balance sheet date, and therefore do not meet the 'virtually certain' recognition criteria per IAS 37. Accordingly, the Group impaired the full value of the loans receivable balance held to £nil, (refer to note 7).

25. 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.

26. Commitments

As at 31 December 2020, the Group and Company had the following annual commitments under non-cancellable leases, which are outside the scope of IFRS 16:

	Group			
	2020		2019	
	Land and buildings £m	Aircraft and other £m	Land and buildings £m	Aircraft and other £m
Commitments under non-cancellable leases				
Not later than one year	**2.0**	**-**	2.4	0.6
Later than one year and not later than five years	**0.3**	**-**	2.5	-
	2.3	**-**	4.9	0.6

Capital commitments

	Group	
	2020 £m	2019 £m
Capital commitments at the balance sheet date for which no provision has been made	**3,198.7**	3,433.1

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

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

Notes forming part of the financial statements *continued*

27. Financial instruments

(i) Financial instruments by category

	Group	
	2020 £m	2019 £m
Financial assets		
Cash and bank balances	**114.8**	352.6
Restricted cash	**76.6**	96.5
Fair value through profit and loss:		
Derivative financial instruments	**2.0**	24.6
Loans and receivables at amortised cost:		
Investments	**-**	-
Trade and other receivables (excl. prepayments and accrued income)	**157.8**	269.1
	351.2	742.8
Financial liabilities		
Fair value through profit and loss:		
Derivative financial instruments	**(13.0)**	(39.0)
Financial liabilities at amortised cost:		
Borrowings (including lease liabilities)	**(2,479.4)**	(2,214.8)
Trade and other payables	**(538.4)**	(519.1)
	(3,030.8)	(2,772.9)

(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.

28. Financial risk management

The Group is exposed to a variety of financial risks including: market risk (including foreign currency risk, interest rate risk and fuel price risk), credit risk, capital risk and liquidity risk.

The overall financial risk management processes focus on managing the exposures arising from unpredictable financial markets, to keep them within the Group's risk appetite, and to minimise potential adverse effects on financial performance.

The Group's financial risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate limits and controls, and to monitor risks and adherence to limits.

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.

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 also identifies, evaluates and hedges financial risks within the appetite and boundaries established by the financial risk committee and financial risk policies. The Group does not speculatively trade and when instruments are used, this is to manage the underlying physical exposures of the business.

(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:

Financial statements *continued*

Notes forming part of the financial statements *continued*

(i) Fuel price risk *continued*

	Group	
	2020 £m	2019 £m
Increase in fuel price by a fixed percentage Increase	**30%**	30%
in profit before tax	**31.8**	97.1
Decrease in fuel price by a fixed percentage	**(30%)**	(30%)
Decrease in profit before tax	**(41.4)**	(80.7)

(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 dollars, 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. In addition, the Group designates certain Aircraft Lease contracts as cash flow hedges.

Any exposure that cannot be naturally hedged, or is not designated in a cash flow hedge is managed through application of the foreign exchange hedging policy.

The Group has designated certain US dollar Aircraft Lease payments to hedge exposure in highly probable forecast US dollar revenue. The transactions are considered highly probably based on past performance (USD revenues received in prior years), forecast cash flows and the Group's business model ie. an emphasis on transatlantic flying. These are designated as cash flow hedges, and the hedge ratio applied is 1:1. The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the Aircraft Lease designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method. In these hedge relationships, the main sources of ineffectiveness are:

- Changes in the timing of thehedged transactions; and
- Non-alignment between the exchange rate ruling at the balance sheet date and the exchange rate ruling at the date the forecast revenue is recognised.

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 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	
	2020 £m	2019 £m
Strengthening in the USD to GBP currency exchange rate by a fixed percentage	**10%**	10%
Decrease in profit before tax	**(1.2)**	(51.7)
Weakening in currency exchange rate by a fixed percentage	**(10%)**	(10%)
Increase in profit before tax	**1.5**	51.9

(iii) Interest rate risk

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

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

Aircraft leases are a mix of fixed and floating rates. Of the 34 leases in place at 31 December 2020 (2019: 38), 73% were based on fixed interest rates and 27% were based on floating interest rates (2019: 66% fixed, 34% floating).

A significant proportion of US dollar liabilities by value are matched with US dollar cash.

(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 27.

Eligible currencies are USD and GBP. Interest return on the collateral is based on Effective Fed Fund rates for USD and Overnight Sonia for GBP.

Notes forming part of the financial statements *continued*

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

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

The maturity profile of financial liabilities based on undiscounted gross cash flows and contractual maturities can be found in note 19.

(ii) 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 ie. net debt to EBITDA. Net debt is defined as the total loans and borrowings, leases, (for calculation purposes) net of cash and cash equivalents.

29. Reconciliation between loss for the year and cash generated by operations

	Group	
	2020 £m	2019 £m
(Loss)/profit for the year	**(864.1)**	(54.7)
Adjustments for:		
Depreciation	**203.7**	243.6
Amortisation	**42.4**	23.0
(Gain) / loss on unrealised forex	**(41.1)**	(2.2)
Profit on disposal of property, plant and equipment and intangible assets	**(4.2)**	(1.4)
Profit/loss from equity accounted investees	**-**	9.4
Taxation	**-**	(9.0)
Movement in provision for bad debts	**1.4**	0.4
Unrealised fair value movement in derivatives	**(3.3)**	(23.2)
Net finance costs	**145.9**	96.3
Other exceptional items (i)	**137.0**	44.8
Working capital changes		
Inventory	**8.5**	(5.2)
Trade and other receivables	**129.3**	(17.3)
Trade and other payables	**(66.3)**	29.1
Deferred revenue on air travel and tour operations	**(258.6)**	4.2
Provisions	**(20.4)**	(13.4)
Interest paid	**(128.8)**	(108.1)
Income taxes (paid) / recovered	**5.6**	0.4
Net cash (used in)/from operating activities	**(712.9)**	216.7
Adjustments for other exceptional items (i)	**(2.8)**	10.0
Net cash from operating activities before exceptional items	**(715.7)**	226.7

Notes forming part of the financial statements *continued*

29. Reconciliation between (loss)/profit for the year and cash generated by operations *continued*

(i) Adjustments of other exceptional items

Group	2020		
	Cash £m	Non cash £m	Total £m
Discounts received	(2.9)	(5.0)	**(7.9)**
Fleet exit costs	(13.6)	34.1	**20.5**
Impairments	0.8	12.1	**12.9**
Other impairments	(0.9)	8.7	**7.8**
Profit on disposal of property, plant and equipment	(38.2)	26.9	**(11.3)**
Restructuring costs	52.0	26.3	**78.3**
Unrealised losses on other payables	-	94.2	**94.2**
	(2.8)	197.3	**194.5**

Group	2019		
	Cash £m	Non cash £m	Total £m
Restructuring costs	(7.7)	(2.7)	(10.4)
Share of equity accounted investees exceptional items	(2.3)	-	(2.3)
Aircraft costs	-	(1.3)	(1.3)
Goodwill impairment	-	(0.3)	(0.3)
Other impairments	-	(40.5)	(40.5)
	(10.0)	(44.8)	(54.8)

Financial statements *continued*

30. Subsequent events

In January 2021, VAA completed the sale and leaseback of two 787s. The net income statement impact of the two sale and leasebacks was £3.4m.

On 15 March 2021 the Group completed a further solvent recapitalisation finance package worth £160m. This package comprised:

- A further £97m shareholder funding from Virgin Group.
- Further support from creditor groups, including operating lease lessors, totalling £63m.