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Virgin Atlantic Airways Limited and subsidiary companies

Directors' report and consolidated financial statements

31 December 2013

Registered number 1600117

Contents

Strategic report

Virgin Atlantic Airways ("VAA" and "Airline") is a significant UK international scheduled airline, with a focus on inter-continental routes VAA operates principally from London, with presence at Heathrow and Gatwick, together with a smaller operation in the UK regions VAA also operates a worldwide air cargo business, largely in conjunction with its scheduled passenger services VAA provides a high quality passenger service to the key international cities served by Heathrow, together with a leisure-focussed operation from Gatwick serving destinations in the USA and Caribbean

The strategic report is presented in the following three sections

- Management review
- Financial review
- Risk review

Management review

Virgin Atlantic Airways has set out a two year recovery programme to bring the business back to profitability, whilst protecting key elements of the business, such as customer service, in order to provide firm foundations for future development In the first year of that programme, we have recorded a marked improvement in financial performance and seen our customer measures improve The financial improvement is covered in more detail in the Financial review section of this report, but has been driven by our focus on

- Continuing to grow passenger revenue – despite modest capacity growth
- Implementing a series of cost efficiency initiatives
- Delivering savings in fuel and engineering costs as the A330-300 fleet was fully deployed – linked to the retirement of a number of existing four engine aircraft

These actions have produced a reduction in losses of £54m in the ten months to December 2013, compared to the same period in 2012

Delta relationship

The transaction agreed and announced in December 2012 whereby Delta Air Lines Inc ("Delta") acquire a 49% stake in the Virgin Atlantic Ltd Group from Singapore Airlines Limited successfully closed in June 2013, having received appropriate approvals from regulatory authorities in Europe and the US

The commercial relationship between VAA and Delta has strengthened as we moved through the year In July, we were able to not only offer codeshare routings across a significant number of UK to US journeys linking both key gateways, but also a large number of interior points on both sides of the Atlantic The codeshare arrangements were supported by reciprocal arrangements for Frequent Fliers from both airlines, allowing them to both earn and burn on the relevant partner airline These initiatives produced a significant uplift in connecting traffic on VAA during the second half of the year

The relationship will strengthen further from the January 2014 this marks the start of full commercial co-operation under the Anti-Trust Immunity ("ATI") clearance that was granted by U S regulators in the autumn The two airlines will be able to co-ordinate network, schedules, pricing and approach to the market this will allow a superior choice in terms of routings and product to be offered to the potential customers of both airlines on routings between the UK and the US The relationship is underpinned by a joint venture arrangement between Delta and VAA covering the joint expanded transatlantic network

Network development

The Airline has always focussed on inter-continental long-haul flights Following the acquisition of British Midland Limited ("bmi") by British Airways ("BA") in April 2012, a number of remedy slots became available to address competition issues arising from the transaction VAA successfully applied to operate a number of these slots on domestic routes, and commenced operations in spring 2013 between London Heathrow and Manchester, Edinburgh and Aberdeen These routes have been growing steadily from launch and provide true competition to BA – the only other airline serving London Heathrow from the UK Regions Our passengers are a mix of point to point travellers and those transferring onto long-haul flights at London Heathrow We have delivered high quality customer service and a significantly more punctual service than BA since the launch of these services

Strategic report *(continued)*

Management review *(continued)*

Outstanding customer service

Virgin Atlantic Airways has a very strong focus on delivering exceptional customer service it is one of the major KPIs for the business

The overall measure for customer service and brand loyalty is Net Promoter Score this measure improved by 4 points to +28 in 2013, with strong improvements across the Economy and Premium Economy cabins The impact of recent investment in new aircraft, cabin refresh and new in-flight-entertainment, plus new clubhouses in both New York airports is evident in these results lesser improvements in Upper Class measures reflect a recent focus on food in this cabin Further product enhancements are planned for the coming year

The focus on punctuality has continued in 2013, with further improvements registered over the outstanding performance achieved in 2012 On Time Performance for the year improved to 87% (*prior year 81%*) despite being impacted by extreme adverse weather on both sides of the Atlantic in December 2013 Overall year-on-year improvements were also seen in all metrics when looking at operational performance, with improved levels of crew sickness and flight completion rates

Aircraft, technology and infrastructure

The Airline did not add any new aircraft to the long-haul fleet in 2013 however, following the introduction of all ten Airbus A330-300 aircraft we were able to retire two more Airbus A340-600 aircraft, reducing the fleet size down to 13 from the original fleet of 19 All of our Airbus A330-300 fleet are now fitted with a common three class configuration allowing a high degree of flexibility in the deployment of these highly efficient aircraft

The short-haul operation serving the UK Regions is provided by four Airbus A320 aircraft these are provided by Aer Lingus under an operational contract but are dedicated to VAA, and operate in Virgin Atlantic livery

The Airline is now expecting its first Boeing 787-9 Dreamliner to be delivered in September 2014 significant preparatory work has already been completed and we are anticipating a successful introduction to service in late October The aircraft will allow us to deliver some exciting customer offerings together with excellent operating economics, principally driven by reduced fuel burn, compared to the aircraft that they will replace

The Airline has provided input to the Davies Commission which has been assessing the options for maintaining the UK's status as a global aviation hub, the Commission will make recommendations to the UK Government It is the view of the Airline that the case for extra hub airport capacity is overwhelming and long overdue

Competitive cost base

It is essential that VAA operates with an efficient cost base, it is a key element in moving the business back to a sustainable level of profitability During 2013 good progress was made in improving cost performance, although the Airline's financial performance is adversely impacted by the start of domestic services

The major cost base improvement is in fuel burn the Airbus A330-300 aircraft deliver a significant reduction in the level of fuel burn when compared to the four engine aircraft which they have replaced Unit fuel costs declined 6% in 2013 versus the prior year, more efficient aircraft were a key driver of this movement

Commitment to sustainable aviation

The Group has played a leading role in the airline industry as we adopt a responsible approach to the environmental impact of aviation In addition, we are working closely with partners on recycling technology to provide jet fuel We remain committed to reducing our carbon footprint and our reliance on traditional fuel sources

Outlook

The Airline has made good progress in 2013 and is confident that the target of profitability will be achieved in 2014 with positive impact from the Delta relationship, an improving result from the domestic services and improvements in selling activity, these gains will be supported by a strong focus on managing the cost base of the business, including fuel efficiency gains These financial improvements will be balanced by continuing to focus on customer service and employee engagement with the objective of building firm foundations for a sustainable future business

Strategic report *(continued)*

Financial review

Summary financial performance

During the period the directors took the decision to change the accounting reference date of Virgin Atlantic Airways Limited and each of its subsidiary companies from 28 February to 31 December The decision was taken in order to align with the new accounting reference date of the Virgin Group of Companies

In the ten months ended December 2013 the loss before tax was £16m, against a loss before tax of £93m for the 12 months ended February 2013 Before exceptional items this represents a loss of £16m, an improvement of £54m over the same period in 2012

Pro forma financial performance

The financial performance review provides a summary of the Group's pro forma financial results for the 12 months ended 31 December 2013 The audited financial statements cover the period for the ten months ended 31 December 2013, however, the data shown here has been adjusted to provide a full 12 month comparative period review Data on a consistent basis is also provided for 2012

For the 12 months ended December 2013 the pro forma loss before tax and exceptional items was £74m, this represented an improvement of £50m year-on-year

Profit and loss summary	**12 months ending 31 December 2013 Pro forma £m**	12 months ending 31 December 2012 Pro forma £m	Better/(Worse)
Total revenue	**2,588**	2,498	3 6%
Total expenditure on operations	**(2,664)**	(2,603)	(2 3)%
Operating loss before exceptional items	**(76)**	(105)	27 6%
Exceptional items	**35**	-	
Operating loss after exceptional items	**(41)**	(105)	
Non-operating income/(expenditure)	**2**	(19)	
Loss before tax	**(39)**	(124)	
Tax	**24**	42	
Loss after tax	**(15)**	(82)	
Loss before tax and exceptional items	**(74)**	(124)	

The exceptional item in 2013 relates to the reversal of a provision recognised in year ended 28 February 2010 in connection with on-going investigations These were closed in early 2013 and the Company was cleared of all obligations and liabilities

Strategic report *(continued)*

Financial review *(continued)*

Key statistics	12 months ending 31 December 2013 Pro forma	12 months ending 31 December 2012 Pro forma	Better/(Worse)
Available Seat Kilometres (ASK) (m)	**50,330**	50,466	(0 3)%
Revenue Passenger Kilometres (RPK) (m)	**41,092**	40,883	0 5%
Passenger load factor	**81.6%**	81 0%	0 6pt
Passenger Revenue per ASK (p)	**4.35**	4 04	7 7%
Passenger Revenue per RPK (p)	**5.33**	4 99	6 8%
Fuel cost per ASK (p)	**1.94**	2 01	3 5%
Non-fuel cost per ASK (p)	**3.35**	3 15	(6 3)%

Revenue	12 months ending 31 December 2013 Pro forma £m	12 months ending 31 December 2012 Pro forma £m	Better/(Worse)
Passenger revenue	**2,191**	2,038	7 5%
Cargo revenue	**225**	233	(3 4)%
Total traffic revenue	**2,416**	2,271	6 4%
Other revenue	**172**	227	(24 2)%
Total revenue	**2,588**	2,498	3 6%

Revenue for the year was £2,588 million, up 3 6% over the previous year This included an increase in passenger revenue of £153 million or 7 5% generated by an increase in traffic and yield Capacity (ASKs) decreased by 0 3% for the full year and traffic (RPKs) increased by 0 5%, generating an improvement of 0 6 points in network passenger load factor to 81 6%

Passenger revenue per ASK ended the year 7 7% higher than last year, driven by strong performance in the North Atlantic segment

The Group's cargo revenue declined by 3 4% as a result of a weak cargo market Load factors moved upwards but yields weakened significantly, as supply in the air freighter market continued to outstrip demand

Other revenue reduced by 24 2% compared to 2012 The decrease in other revenue is largely driven by a lower level of aircraft leasing income as three A330-300 aircraft entered service for Virgin Atlantic following a period operating for third parties

Strategic report *(continued)*

Financial review *(continued)*

Costs	12 months ending 31 December 2013 Pro forma £m	12 months ending 31 December 2012 Pro forma £m	Better/(Worse)
Staff costs	**333**	326	(2 1)%
Depreciation, amortisation and impairment	**67**	53	(26 4)%
Aircraft operating lease costs	**226**	210	(7 6)%
Fuel, oil and emission costs	**979**	1,012	3 3%
All other costs	**1,059**	1,002	(5 7)%
Total costs	**2,664**	2,603	(2 3)%

Fuel costs decreased by 3 3% year-on-year to £979m as a result of decreased fuel prices and reduced fuel burn on the long haul fleet as the more efficient A330-300 aircraft entered service, slightly offset by the introduction of short-haul operations

Non-fuel costs rose by 5 9% to £1,685m, the growth was dominated by costs associated with the short-haul operation

Non-operating income and expenditure

Non-operating income and expenditure is a credit of £2m in 2013, compared to a charge of £19m in 2012 The impact of exchange on foreign currency borrowings and deposits is the major factor in the year-on-year movement

Taxation

The tax credit for the ten months ended December 2013 was £9m This consists of a current tax credit of £1m and a deferred tax credit of £8m The tax credit included a £5m credit through the income statement due to legislation enacted during the year reducing the main rate of corporation tax from 23% to 20% by 1 April 2015 The net deferred tax liability at 31 December 2013 was £13m *(February 2013 £21m)* The year-on-year movement was primarily related to the corporation tax rate reductions

Capital expenditure

Total capital expenditure in the ten months ended December 2013 amounted to £48m This comprised £22m fleet related spend (aircraft, aircraft progress payments, spares, modifications and refurbishments), £20m on property, equipment and software, and £6m on landing rights

Liquidity

The Group's liquidity position remains healthy with £290m of cash at end December 2013 The year-end cash balance represents a low point in the annual cash cycle the average 12 month balance was £360m

Net Assets

The loss after tax for the ten month accounting period was £7m, as a result, net assets declined from £46m at the end of February 2013 to £39m at the end of December 2013

Virgin Atlantic Airways has rights to and operates a valuable landing and take-off slot portfolio at London Heathrow Airport, which consists of 26 slot pairs with an estimated market value of £300 - £380m, these slots can be traded with other airlines The current value shown on the balance sheet is £80m, reflecting only the cost of slots purchased from third parties less amortisation

Strategic report *(continued)*

Risk review

Principal risks and uncertainties

The highly regulated and commercially competitive environment, together with operational complexity, leaves the Group exposed to a number of significant risks The focus remains on mitigating these risks at all levels in the business, although many remain outside our control such as government regulation, taxes, terrorism, adverse weather, pandemics and availability of funding from the financial markets

The directors believe that the risks and uncertainties described below are the ones that may have the most significant impact on the Group's long-term performance The list presented is not intended to be exhaustive

Business and operational

Brand reputation

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

The Leadership Team regularly monitors customer satisfaction through our monthly customer survey, alongside on-going research and development of the product, in order to mitigate this risk Virgin Atlantic allocates substantial resources to safety, operational integrity, on-board product and new aircraft to maintain its strong brand position

Economic conditions

The Group's operations are particularly sensitive to economic conditions in the markets in which it operates A global economic slowdown may adversely affect the demand for business and leisure travel and cargo services which could result in a material adverse impact on the Group's financial performance

The Airline produces a regular revenue forecast this is reviewed by the Leadership Team The results of these reviews are discussed with management and the appropriate action taken

Government intervention

Regulation of the aviation and tour operator industries is increasing and covers many of the Group's activities including safety, security, route flying rights, airport slot access, environmental controls and government taxes and levies The ability to both comply with and influence any changes in these regulations is critical to maintaining operational and financial performance

Safety, terrorism and security incidents

The safety and security of our passengers, crew and staff forms the foundation of everything we do The history of terrorist attacks against aviation and tour operating industries demonstrates that Virgin Atlantic's business is exposed to the results of such action even if the attacks are not directed at the Group Failure to prevent or respond effectively to a major safety, terrorism or security incident may adversely impact operations and financial performance

Failure of a critical IT system

The Group is dependent on IT systems for most of the principal business processes The failure of a key system may cause significant disruption to operations and/or result in lost revenue System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure

Key supplier risk

The Group is dependent on suppliers for some principal business processes The failure of a key supplier to deliver contractual obligations may cause significant disruption to operations A close relationship is maintained with key suppliers in order to ensure awareness of any potential supply chain disruption

Strategic report *(continued)*

Risk review *(continued)*

Financial risk management

The directors are responsible for setting financial risk management policies and objectives, and approve the parameters within which the various aspects of financial risk management are operated Treasury and Aviation Fuel Price Exposure Management policies, which have been approved by the directors, outline the Group's approach to corporate and asset financing, interest rate risk, fuel price risk, foreign exchange risk and cash and liquidity management These policies also list the financial instruments and time periods authorised for use in managing financial risk

The directors have delegated powers for treasury risk management to the Financial Risk Committee This Committee ensures that the treasury policies and objectives approved by the directors are fully implemented

Liquidity, financing and interest rate risk

The working capital of the Group is financed by retained profit and sales in advance of carriage The major risks to liquidity are driven by business performance and cash timing differences for the Group's derivative financial instruments (see below) The former is managed by taking corrective actions in the form of amendments to fleet, network and the cost base in response to changing external factors and the latter as described in the derivative financial instruments policy (see below)

All of the Group's debt is asset related, reflecting the capital intensive nature of the airline industry and the attractiveness of aircraft as security to lenders and other financiers These factors are also reflected in the medium-term profile of the Group's loans and operating leases

The Group interest rate management policy aims to provide a degree of certainty for future financing costs, this is achieved by funding the majority of loans and operating leases on a fixed interest rate basis The Group's loans and operating leases are principally denominated in US Dollars

Foreign currency risk

The Group has a significant net US Dollar cost exposure Capital, lease and a number of operational costs, most significantly aviation fuel, are denominated in US Dollars In addition the Group is exposed to a number of other currencies The Group seeks to reduce its foreign exchange exposure arising in various currencies through matching, as far as possible, receipts and payments in individual currencies To this extent, where possible, the Group holds foreign currency balances in the short-term to meet its future trading obligations Where there is a predicted exposure in foreign currency holdings, the Group uses a limited range of hedging instruments as stipulated in the Treasury and Aviation Fuel Price Exposure Management Policies

Fuel price risk

The Group's Aviation Fuel Price Exposure Management Policy aims to provide protection against sudden and significant increases in the jet fuel price while ensuring that the Group may also benefit from price reductions, having regard to cash margin call exposure In order to provide protection the Group uses a limited range of hedging instruments, principally vanilla put and call options, collars and forwards, with approved counterparties and within approved limits

Derivative financial instruments

The Group uses derivative financial instruments selectively for foreign currency and aviation fuel price risk management purposes, as described above The Group's policy is not to trade in derivatives but to use these instruments to hedge anticipated future cash flows The Group does not permit selling currency or jet fuel options, except as part of hedging structures authorised in the Treasury and Aviation Fuel Price Exposure Management Policies All derivatives are used for the purpose of risk management and accordingly they do not expose the Group to market risk as they are matched to identified physical exposures within the Group However, the timing difference between derivative maturity date and current mark-to-market value can give rise to cash margin exposure, this risk is managed through choice of instrument, appropriate counterparty agreements and, where required, cash deposits with counterparties Counterparty credit risk is controlled through mark-to-market based credit limits

Compliance and regulatory

Compliance with competition, anti-bribery and corruption law

The Group is exposed to the risk of individual employee's or groups of employee's unethical behaviour resulting in fines or losses to the Group The Group has comprehensive policies and training schemes in place to educate all appropriate staff

By order of the Board

Ian de Sousa
Company Secretary

18 March 2014

Directors' report

Registered number. 1600117

The directors present their annual report and the audited financial statements for Virgin Atlantic Airways Limited and subsidiary companies for the ten months ended 31 December 2013 The comparative amounts are stated for the year ended 28 February 2013

Directors and directors' interests

The directors who held office during the year were as follows

Sir Richard Branson	(President)
Peter Norris	(Chairman)
David Baxby	(resigned 31 July 2013)
Chan Hon Chew	(resigned 24 June 2013)
Stephen Griffiths	(resigned 30 June 2013)
Timothy Livett	
Ng Chin Hwee	(resigned 24 June 2013)
Julie Southern	(resigned 10 May 2013)
Paul Tan Wah Liang	(resigned 24 June 2013)
Tan Pee Teck	(resigned 24 June 2013)
Yeoh Phee Teik	(resigned 24 June 2013)
Craig Kreeger	
Shai Weiss	
Gordon McCallum	(appointed 31 July 2013)
Edward Bastian	(appointed 24 June 2013)
Glen Hauenstein	(appointed 24 June 2013)
Perry Cantarutti	(appointed 24 June 2013)
Wayne Aaron	(appointed 24 June 2013)

Results

The results of the Group for the year are set out on page 12 and are commented on within the Strategic report

Employees

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

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

Environmental impacts

The Group is committed to addressing and promoting sustainable solutions for its business and the wider airline industry

Change is in the Air ("CIITA") is Virgin Atlantic Airways' sustainability programme and focuses on the Group's environmental and community investment activities The Group reports fully on these activities each year through CIITA reports which are available to download from its website

Sustainability is very much aligned with the Group's brand values, and it is in the process of being embedded firmly into the way the Group does business The Group is committed to including sustainability objectives into business plans, and regularly monitors progress against sustainability targets to ensure that commitments are being delivered

Directors' report *(continued)*

As an airline, over 99% of the Group's measurable carbon footprint comes from flying aircraft, and accordingly the Group is focused on improving fuel and carbon efficiency The Group has a target to reduce CO2 emissions by 30% per Revenue Tonne Kilometre ("RTK") between 2007 and 2020 At the end of 2012 the Group had reduced its CO2 emissions by 4% per RTK against the 2007 baseline New, more efficient aircraft offer significant fuel savings, as does efficient operation and maintenance of the aircraft For the medium to long term, finding an alternative way to power aircraft is crucial In 2011 the Group announced a world-first low carbon aviation fuel, to be delivered in partnership with LanzaTech The process converts steel waste gases (which would otherwise be flared off to the atmosphere) to produce a fuel with roughly half the total lifecycle carbon content of kerosene The Group plans to start buying commercial volumes of sustainable fuel as soon as 2015 The Group is also cutting down on ground energy use, buying renewable energy for UK ground operations, buying more fuel efficient ground vehicles, reducing, reusing and recycling waste and improving what is designed and bought CIITA also means engaging with others on the challenge of making the whole industry more sustainable

Through the Virgin Atlantic Foundation ("VAF"), the Group continues supporting its charity partner Free the Children ("FTC") FTC shares the Group's objectives of supporting sustainable communities in its destinations, as well as providing young people in the UK with the skills and support needed to get involved in the social and environmental issues that matter to them In 2013, almost £1 2 million was given in time, flights, baggage allowance and money Our onboard passenger 'Change for Children' donations totalled £0 6m and staff fundraising raised £0 2m During the 2012/13 school year 72 UK schools signed up for 'Be The Change' school programmes with 18,000 students receiving a motivational speech, 2,160 students participating in leadership workshops and 211 'Youth in Action' groups being formed The international development programme is also producing fantastic results, focusing on projects in eight communities in India, China, Ghana and Kenya These projects deliver real and sustainable improvements in education, water and sanitation, healthcare and alternative income generation in partner communities

For more information about Virgin Atlantic Airways' Change is in the Air sustainability programme and to download its CIITA sustainability reports visit www virgin-atlantic com/changeisintheair

Dividends

The directors recommend that no ordinary interim *(prior year £nil)* or final *(prior year £nil)* dividend be paid in respect of the period ended 31 December 2013

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year

Auditors

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

Disclosure of information to auditor

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

By order of the Board

Ian de Sousa
Company Secretary

Company Secretariat
The Office, Manor Royal
Crawley, West Sussex
RH10 9NU
18 March 2014

Statement of directors' responsibilities in respect of the strategic report and directors' report and the financial statements

The directors are responsible for preparing the Strategic report and Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the Group and Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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

In preparing each of the Group and Parent Company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business

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

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

We have audited the financial statements of Virgin Atlantic Airways Limited for the period ended 31 December 2013 set out on pages 12 to 36 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error This includes an assessment of

- whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the Strategic report and Directors' report and consolidated financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's loss for the period then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent Company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

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

20 March 2014

Consolidated profit and loss account
for the ten month period ended 31 December 2013

	Note	For the period ended 31 December 2013 Total £m	For the year ended 28 February 2013 Before exceptional items £m	Exceptional items (note 6) £m	Total £m
Turnover	*2*	**2,233 9**	2 505 2	-	2,505 2
Cost of sales		**(1,963 0)**	(2,288 6)	-	(2,288 6)
Gross profit		**270 9**	216 6	-	216 6
Administrative expenses		**(267 2)**	(342 4)	35 4	(307 0)
Other operating (expense)/income[1]		**(15 3)**	5 5	-	5 5
Operating (loss)/profit		**(11 6)**	(120 3)	35 4	(84 9)
Loss on disposal of fixed assets		**(0 4)**			-
Interest receivable and similar income	*4*	**3 6**			2 8
Interest payable and similar charges	*5*	**(7 7)**			(10 9)
Loss on ordinary activities before taxation	*6*	**(16 1)**			(93 0)
Tax credit on loss on ordinary activities	*8*	**8 6**			33 3
Loss for the financial year	*18*	**(7 5)**			(59 7)

There are no recognised gains and losses for the current and preceding financial periods other than the loss of £7 5m (*prior year loss £59 7m*) shown above Accordingly no statement of recognised gains and losses is presented

The notes on pages 15 to 36 form part of these financial statements

[1] Other operating (expense)/income relates to exchange gains and losses arising on re-translation of foreign currency denominated balances held in the short-term to meet future foreign currency denominated trading obligations

Consolidated balance sheet

at 31 December 2013

	Note	As at 31 December 2013			As at 28 February 2013		
		£m	£m	£m	£m	£m	£m
Fixed assets							
Intangible assets	*9*			81 4			75 4
Tangible assets	*10*			321 9			337 8
Investments	*11*			7 3			10 6
				410 6			423 8
Current assets							
Stocks	*12*		43 6			41 4	
Debtors due within one year	*13*	350 5			371 8		
Debtors due after one year	*13*	53 1			51 7		
			403 6			423 5	
Cash at bank and in hand			292 2			399 8	
			739 4			864 7	
Creditors amounts falling due within one year	*14*		(915 9)			(1,035 1)	
Net current liabilities				(176 5)			(170 4)
Total assets less current liabilities				234 1			253 4
Creditors amounts falling due after more than one year	*15*			(30 4)			(31 7)
Provisions for liabilities and charges	*16*			(165 2)			(175 7)
Net assets				38 5			46 0
Capital and reserves							
Called up share capital	*17*			4 5			4 5
Share premium account	*18*			5 0			5 0
Other reserves	*18*			25 0			25 0
Profit and loss account	*18*			4 0			11 5
Shareholders' funds	*19*			38 5			46 0

These financial statements were approved by the Board of Directors on 18 March 2014 and were signed on its behalf by

Timothy Livett
Director

The notes on pages 15 to 36 form part of these financial statements

Company balance sheet
at 31 December 2013

	Note	As at 31 December 2013			As at 28 February 2013		
		£m	£m	£m	£m	£m	£m
Fixed assets							
Intangible assets	*9*			81 4			75 4
Tangible assets	*10*			337 4			349 8
Investments	*11*			14 1			17 4
				432 9			442 6
Current assets							
Stocks	*12*		43 6			38 2	
Debtors due within one year	*13*	348 7			364 5		
Debtors due after one year	*13*	51 7			50 1		
			400 4			414 6	
Cash at bank and in hand			291 8			397 7	
			735 8			850 5	
Creditors amounts falling due within one year	*14*		(893.8)			(1,001 1)	
Net current liabilities				(158 0)			(150 6)
Total assets less current liabilities				274 9			292 0
Creditors amounts falling due after more than one year	*15*			(30 4)			(31 7)
Provisions for liabilities and charges	*16*			(193 4)			(203 7)
Net assets				51 1			56 6
Capital and reserves							
Called up share capital	*17*			4 5			4 5
Share premium account	*18*			5 0			5 0
Other reserves	*18*			25 0			25 0
Profit and loss account	*18*			16 6			22 1
Shareholders' funds	*19*			51 1			56 6

These financial statements were approved by the Board of Directors on 18 March 2014 and were signed on its behalf by

Timothy Livett
Director

The notes on pages 15 to 36 form part of these financial statements

Notes

(forming part of the financial statements)

1 Principal Accounting policies

The following accounting policies have been applied consistently in dealing with matters which are considered material in relation to the consolidated financial statements

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards

The Virgin Atlantic Airways Limited board having regard for the principle risks and uncertainties, as set out in the Directors' report, which could impact the business, consider that the preparation of the financial statements on a going concern basis remains appropriate

The Company has taken advantage of section 408 of the Companies Act 2006 and a separate profit and loss account for the Company has not been published The result for the year attributable to the Company is disclosed in note 18

Under Financial Reporting Standard 1 (Revised), the Group is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of Virgin Atlantic Limited The Group's cash flows are included within the consolidated cash flow statement of this company

Change in accounting reference date

During the period the directors took the decision to change the accounting reference date of Virgin Atlantic Airways Limited and each of its subsidiary companies from 28 February to 31 December The decision was taken in order to align with the new accounting reference date of the Virgin Group of companies

Basis of consolidation

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

In line with Financial Reporting Standard 6 the directors consider it appropriate to consolidate the results of the following subsidiaries using the principles of merger accounting Virglease (2) Limited, Virglease (3) Limited, Virgin Aviation Services Limited, Virgin Freeway Limited, Speed 5024 Limited (and its former subsidiaries Public Eye Promotions Limited, Threesixty Aerospace Limited and Worldwide Travel of East Anglia Limited) and Junopart Limited Consequently these companies are reflected in the Group accounts as if they had been part of this Group from the date on which they joined and left the Virgin Travel Group Limited or Virgin Atlantic Limited groups as appropriate

In line with Financial Reporting Standard 6 the remaining subsidiaries have been accounted for using the principles of acquisition accounting Under this method, the results of subsidiary undertakings are included in the consolidated profit and loss account from the date of acquisition

Turnover

Turnover is stated gross of commission and comprises revenue from passenger ticket sales, cargo and ancillary goods and services Revenue is recognised on the basis of flights operated in the accounting period Revenue relating to flights commencing after the accounting period, together with any commission thereon, is carried forward as deferred income Unused tickets are recognised as turnover after a period of 12 months following date of issue

Compensation payments

Income resulting from claims for compensation payments is recognised as income in the profit and loss account when all performance obligations are met, including when a contractual entitlement exists, it can be reliably measured (including the impact of the receipt, if any, on the underlying assets' carrying value) and it is probable that economic benefits will accrue to the Group

Notes *(continued)*

1 Principal accounting policies *(continued)*

Translation of foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction, or, if hedged, at the forward contract rate Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate All exchange differences are included in the profit and loss account

Any gains or losses arising on the re-translation of foreign currency balances held in the short-term to meet future trading obligations are reported as part of 'Other operating (expense)/income' in the profit and loss account

Derivative financial instruments

The Group uses various derivative financial instruments to manage its exposure to foreign exchange, jet fuel price and interest rate risks Gains and losses on hedges of revenue or operating payments, including amounts received or paid on hedges closed out in advance of maturity, are recognised in the profit and loss account of the period in which the hedged transaction matures or would have matured

Pension costs

The Group participates in defined contribution pension schemes The assets of the schemes are held separately from those of the Group in independently administered funds

The amount charged in the profit and loss account represents the contributions payable to the schemes by the Group in respect of the accounting period

Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Intangible fixed assets

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

Notes *(continued)*

1 Principal accounting policies *(continued)*

EU Emissions Trading Scheme

On 24 April 2013 the EU removed the compliance requirements on international aviation for the 2012 calendar year On 3 October 2013 the International Civil Aviation Organization decided on a roadmap for a global market-based mechanism to tackle aviation emissions to be implemented by 2020 On the same date, the EU again announced its intention to remove the compliance requirement on international aviation for the 2013 calendar year and for 2014 – 2020 to limit the EU ETS to only cover the part of the international flight within EEA airspace

Emissions on intra-EU flights

Carbon allowances received free of charge are recognised as intangible assets at market value on the date of receipt Consistent with Statement of Standard Accounting Practice 4 'Accounting for Government Grants', the value of allowances received is deferred and recognised in income on a systematic basis over the period to which the grant relates The estimated gross cost of settling the liability for CO2 emitted in the period is recognised in the profit and loss account as incurred

Emissions on international flights

Given the current global position the Directors consider there to be sufficient uncertainty surrounding the operation of the EU ETS for international flying to not recognise any net assets or liabilities under the scheme as at the balance sheet date

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment

Directly attributable financing costs on aircraft progress payments are capitalised as incurred until such time that the aircraft enters into service

Depreciation is calculated to write off the cost, less estimated residual value, on a straight-line basis over the useful life of the asset, or the period of the underlying finance lease if shorter

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 then current cost of the maintenance procedures

The balance of aircraft and engine cost is depreciated on a straight-line basis over periods of up to twenty five 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 4%

Rotable spares are depreciated 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

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

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

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

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

Notes *(continued)*

1 Principal accounting policies *(continued)*

Stocks

Stocks are stated at the lower of cost and net realisable value Provision is made for obsolete, slow-moving or defective items where appropriate

Cash and liquid resources

Cash at bank and in hand includes both cash and liquid resources Cash includes cash in hand and deposits repayable on demand held with any financial institution Liquid resources include term deposits

Leases

Rentals under operating leases are charged to the profit and loss account on a straight-line basis over the lease term, even if the payments are not made on such a basis Where operating lease charges are variable based on prevailing interest rates, costs are recognised prospectively over the remaining term of the lease

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets Depreciation is provided at rates designed to write off this cost less residual value in equal annual amounts over the shorter of the period of the lease or the anticipated useful life of the asset The capital elements of future lease obligations are recorded as liabilities and the interest element is charged to the profit and loss account over the period of the lease in proportion to the balance outstanding

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

Aircraft maintenance costs

Routine maintenance costs are charged to the profit and loss account as incurred Maintenance costs for overhauls relating to aircraft and engines held under operating leases for which there is a contractual obligation are provided for by making appropriate charges to the profit and loss account 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

Where the effect is material, the provision for maintenance costs is discounted to present value using a current pre-tax discount rate that reflects the risks specific to the liability

Development expenditure

Development expenditure, relating to the setting up of new routes and introducing new aircraft to the fleet, is charged to the profit and loss account as incurred

Frequent flyer programme

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 flights on Virgin Atlantic, selected partner airlines and other partners such as hotels and car rental companies

Where the fair value of miles issued is significant in the context of the overall underlying transaction, the fair value of miles issued at the expected redemption rate is deferred and recognised in revenue when redeemed and services are provided Where the fair value of miles issued is not significant in the context of the overall underlying transaction, no revenue is deferred and an onerous cost obligation is provided for on an incremental cost basis at the expected redemption rate

Long Term Incentive Plan (LTIP)

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

Notes *(continued)*

2 Analysis of turnover

In the opinion of the directors, there is only one core activity, that of operating international long-haul scheduled airline services from the UK Other income primarily relates to income from other airline related services

	For the period ended 31 December 2013 £m	For the year ended 28 February 2013 £m
Scheduled airline services	**2,221 5**	2,488 8
Other	**12 4**	16 4
	2,233 9	2 505 2
Scheduled airline services by source		
United Kingdom	**1,256 9**	1,420 6
North America and the Caribbean	**448 0**	460 1
Far East	**163 4**	186 5
Africa	**113 8**	145 0
Other	**239 4**	276 6
	2,221 5	2,488 8
Scheduled airline services by destination		
North America	**1,260 2**	1,333 5
Caribbean	**199 0**	230 5
Far East	**285 8**	333 2
Africa	**212.0**	289 2
Other	**264 5**	302 4
	2,221 5	2 488 8

The geographical analysis of revenue by source is derived by allocating revenue to the area in which the sale is made

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

A geographical analysis of the Group operating profit is not disclosed as it is neither practical nor meaningful to allocate the Group's operating expenditure on a geographical basis

Since the aircraft fleet (which is the major revenue-earning asset of the Group) is employed flexibly across a worldwide route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments and accordingly no geographical analysis of assets or net liabilities is disclosed

Notes *(continued)*

3 Staff numbers and costs

The average number of persons employed by the Group (including directors), analysed by category, was as follows

	For the period ended 31 December 2013	For the year ended 28 February 2013
Management and administration	1,000	982
Flight crew	779	779
Cabin crew	3,678	3,695
Reservations and sales	1,887	1,942
Cargo and handling	228	228
Engineering, cargo and production	769	854
	8,341	8,480

To ensure that the prior year figures are comparable, they have been restated on a consistent basis with the current period

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

	For the period ended 31 December 2013 £m	For the year ended 28 February 2013 £m
Wages and salaries	223 2	268 5
Social security costs	22 3	27 1
Other pension costs (note 25)	20 0	21 0
	265 5	316 6

4 Interest receivable and similar income

	For the period ended 31 December 2013 £m	For the year ended 28 February 2013 £m
Interest on bank deposits	1 2	1 9
Exchange gain on foreign currency borrowings less deposits	1 8	-
Finance income from fixed asset investments (note 11)	0 6	0 9
	3 6	2 8

Notes *(continued)*

5 Interest payable and similar charges

	For the period ended 31 December 2013 £m	For the year ended 28 February 2013 £m
Interest on bank loans, overdrafts and similar charges	5 9	6 9
Interest payable on other loans	1.1	0 2
Interest payable to group undertakings	1 1	1 3
Exchange loss on foreign currency borrowings less deposits	-	1 9
Finance charges in respect of finance leases and hire purchase contracts	0.4	0 6
Unwinding of discount on provisions (note 16)	0 3	0 2
	8 8	11 1
Interest capitalised on aircraft progress payments (note 10)	(1 1)	(0 2)
	7.7	10 9

6 Loss on ordinary activities before taxation

	For the period ended 31 December 2013 £m	For the year ended 28 February 2013 £m
Loss on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation of tangible fixed assets (note 10)	55 0	56 9
Impairment of tangible fixed assets (note 10)	-	0 7
Rentals under operating leases		
Aircraft and related equipment	190 5	210 6
Plant and machinery	11 7	14 8
Land and buildings	19 8	24 8
Loss on disposal of fixed assets	0 4	-
Exceptional items		
Administrative expenses (see below)	-	(35 4)
Other operating expense/(income) (see below)	15 3	(5 5)

Fees payable to the Group's auditor and its associates for services other than the statutory audit of the Parent Company and subsidiaries are not disclosed in Virgin Atlantic Airways Limited's accounts since the consolidated accounts of Virgin Atlantic Airways Limited's parent, Virgin Atlantic Limited, are required to disclose non-audit fees on a consolidated basis Fees payable to the Company's auditor for the audit of the Company's annual accounts are £238,300 *(prior period £198,000)* Fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation are £26,600 *(prior period £36,750)*

Other operating expense/(income) is the loss/(gain) arising on re-translation of foreign currency denominated balances held in the short-term to meet future foreign currency denominated trading obligations

Exceptional administrative expenses in the prior period relate to the reversal of a provision recognised in the year ended 28 February 2010 in connection with on-going investigations into various aspects of pricing and commercial issues in the airline industry The investigations were closed in the prior period, and the Company was cleared of all obligations and liabilities

Notes *(continued)*

7 Emoluments of directors

During the period of their service, the emoluments of the directors of the Company were

	For the period ended 31 December 2013 £m	For the year ended 28 February 2013 £m
Aggregate emoluments	0 8	1 3
Company contributions to money purchase pension schemes	0 1	0 1
Aggregate amounts receivable under Long Term Incentive Schemes	2 1	-
	3 0	1 4

Retirement benefits are accruing to 4 (*prior year 5*) directors under money purchase pension schemes

During the period an amount of £1,118,000 (*prior year £nil*) was receivable by a former director of the Company in relation to Long Term Incentive Schemes

The amounts receivable during the period by directors of the Company under Long Term Incentive Schemes arise solely as a consequence of the successful acquisition during the period by Delta Air Lines, Inc of 49% of the Company's share capital from Singapore Airlines Limited The cost of these payments arising under the Long Term Incentive Scheme has been borne by the immediate holding company, Virgin Atlantic Limited

The aggregate compensation for loss of office paid in the period, not included in the above table, was £1,308,000 *(prior year £498,000)*

No directors have share options and therefore none were exercised in the year

	For the period ended 31 December 2013 £m	For the year ended 28 February 2013 £m
Highest paid director		
Aggregate emoluments and other benefits	0 1	0 4
Aggregate amounts receivable under Long Term Incentive Schemes	1 1	-
	1 2	0 4

Notes *(continued)*

8 Tax on loss on ordinary activities

Analysis of credit in period	**For the period ended 31 December 2013 £m**	For the year ended 28 February 2013 £m
Current tax		
UK corporation tax	**3 1**	-
UK group relief receivable	**(3.9)**	(6 0)
Adjustments in respect of prior periods	**(0 2)**	0 1
Non – UK corporation tax payable	**-**	0 1
Total current tax credit	**(1 0)**	(5 8)
Deferred tax		
Origination and reversal of timing differences	**(1 6)**	(21 2)
Adjustments in respect of prior years	**(0 8)**	(0 9)
Effect of decrease in tax rate	**(5 2)**	(5 4)
Total deferred tax credit	**(7 6)**	(27 5)
Tax credit on loss ordinary activities	**(8 6)**	(33 3)

The standard rate of UK corporation tax for the period is 23% (*prior year* 24%) The total tax credit of 53% for the period is higher than the standard rate of corporation tax This is driven by a reduction in the net deferred tax liability as a result of a reduction in UK corporation tax rates

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

	For the period ended 31 December 2013 £m	For the year ended 28 February 2013 £m
Loss on ordinary activities before taxation	**(16 1)**	(93 0)
Tax at the standard rate at 23% *(prior year 24%)*	**(3 7)**	(22 3)
Factors affecting the credit for the period / year		
Income not subject to corporation tax	**(0 1)**	(8 7)
Depreciation for the year in excess of capital allowances	**9 9**	11 6
Effect of decrease in tax rate	**-**	(0 1)
Adjustments in respect of prior periods	**(0 2)**	0 1
Utilisation of UK tax losses brought forward	**(5 6)**	-
UK tax losses not utilised or recognised	**-**	11 0
Other timing differences	**(2 5)**	(0 5)
Foreign tax	**-**	0 1
Expenses not deductible for tax purposes	**1 2**	3 0
Total current tax	**(1 0)**	(5 8)

Notes *(continued)*

8 Tax on loss on ordinary activities *(continued)*

The 2013 Budget on 20 March 2013 announced that the UK corporation tax rate would reduce to 20% by 01 April 2015 The reduction in the rate from 24% (effective from 01 April 2012) to 23% (effective from 01 April 2013) was substantively enacted on 03 July 2012 The further reductions in the rate from 23% (effective from 01 April 2013) to 21% (effective from 01 April 2014) and then from 21% (effective from 01 April 2014) to 20% (effective 01 April 2015) was substantively enacted on 02 July 2013

The deferred tax liability at 31 December 2013 has been calculated based on the lower rate of 20% substantively enacted at the balance sheet date It has not yet been possible to quantify the full anticipated effect of the announced rate reductions, although this will further reduce the Group's future current tax charge, or credit, and reduce the deferred tax liability accordingly

9 Intangible assets

Group and Company	Landing slots £m	Carbon allowances £m	Total £m
Cost			
At 1 March 2013	85 1	1 0	86 1
Additions	6 0	-	6 0
Disposals	-	-	-
At 31 December 2013	**91 1**	**1 0**	**92 1**
Amortisation			
At 1 March 2013	10 7	-	10 7
Disposals	-	-	-
At 31 December 2013	**10 7**	-	**10 7**
Net book value			
At 31 December 2013	**80 4**	**1 0**	**81 4**
At 28 February 2013	74 4	1 0	75 4

Refer to note 1 for the accounting policies relating to landing slots and carbon allowances

The directors have conducted an impairment review at 31 December 2013 and based on this review no impairment adjustment need be recognised

Notes *(continued)*

10 Tangible fixed assets

Group	Land and buildings	Assets in the course of construction	Aircraft, rotable spares and ancillary equipment	Modifications to aircraft on operating leases	Plant and machinery, fixtures and fittings	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 March 2013	30 0	28 2	412 9	210 4	195 4	876 9
Additions	-	27 9	12 0	1 5	0 7	42 1
Disposals	-	(1 4)	(2 6)	(10 5)	(9 7)	(24 2)
Reclassifications	-	(31 3)	(8 0)	19 7	19 6	-
At 31 December 2013	**30 0**	**23 4**	**414 3**	**221 1**	**206 0**	**894 8**
Depreciation						
At 1 March 2013	3 6	-	245 1	150 1	140 3	539 1
Charge for the year	0 4	-	24 0	10 5	20 1	55 0
Disposals	-	-	(1 1)	(10 4)	(9 7)	(21 2)
At 31 December 2013	**4 0**	-	**268 0**	**150 2**	**150 7**	**572 9**
Net book value						
At 31 December 2013	**26 0**	**23 4**	**146 3**	**70 9**	**55 3**	**321 9**
At 28 February 2013	26 4	28 2	167 8	60 3	55 1	337 8

Included in aircraft, rotable spares and ancillary equipment are progress payments of £24 6m (*prior year £20 3m*)

Notes *(continued)*

10 Tangible fixed assets *(continued)*

Company	Land and buildings £m	Assets in the course of construction £m	Aircraft, rotable spares and ancillary equipment £m	Modifications to aircraft on operating leases £m	Plant and machinery, fixtures and fittings £m	Total £m
Cost						
At 1 March 2013	30 0	29 7	414 6	214 4	193 4	882 1
Additions	-	29 1	12 6	1 2	0 6	43 5
Disposals	-	(1 4)	(2 6)	(10 5)	(7 3)	(21 8)
Reclassifications	-	(31 2)	(8 0)	19 7	19 5	-
At 31 December 2013	**30 0**	**26 2**	**416 6**	**224 8**	**206 2**	**903 8**
Depreciation						
At 1 March 2013	3 6	-	239 4	150 5	138 8	532 3
Charge for the year	0 4	-	21 7	10 8	19 8	52 7
Disposals	-	-	(0 9)	(10 4)	(7 3)	(18 6)
At 31 December 2013	**4 0**	-	**260 2**	**150 9**	**151 3**	**566 4**
Net book value						
At 31 December 2013	**26 0**	**26 2**	**156 4**	**73 9**	**54 9**	**337 4**
At 28 February 2013	26 4	29 7	175 2	63 9	54 6	349 8

Included in aircraft, rotable spares and ancillary equipment are progress payments of £24 6m (*prior year £20 3m*)

The following fixed asset categories include assets held under finance leases and hire purchase contracts

	Group		Company	
	As at December 2013 £m	As at February 2013 £m	**As at December 2013 £m**	As at February 2013 £m
Net book value				
Aircraft, rotable spares and ancillary equipment	**33 6**	38 8	**45 0**	51 0
Depreciation charged for the year				
Aircraft, rotable spares and ancillary equipment	5 1	6 2	5 9	7 2

During the year, the Group did not enter into any new finance lease or hire purchase contract arrangements in respect of tangible fixed assets (*prior year £nil*) The net book value of assets held under finance leases includes maintenance events and modifications to the asset which have been incurred in periods following the lease inception Finance leases are shown notes 14 and 15

Interest capitalised by the Group and Company on aircraft progress payments included in additions during the year amounted to £1 1m *(prior year £0 2m)* The cumulative amount of interest capitalised in the total cost above for the Group and Company amounts to £1 3m *(prior year £0 2m)*

Notes *(continued)*

11 Fixed asset investments

	Group	Company		
	Investments £m	Investments £m	Shares in subsidiary undertakings £m	Total £m
Cost				
At 1 March 2013	10 6	10 6	10 9	21 5
Additions	0 6	0 6	-	0 6
Repayment of unsecured loan notes	(3 9)	(3 9)	-	(3 9)
At 31 December 2013	**7 3**	**7 3**	**10 9**	**18 2**
Provision for permanent diminution in value				
At 1 March 2013	-	-	(4 1)	(4 1)
Provision	-	-	-	-
At 31 December 2013	**-**	**-**	**(4 1)**	**(4 1)**
Net book value				
At 31 December 2013	**7 3**	**7 3**	**6 8**	**14 1**
At 28 February 2013	10 6	10 6	6 8	17 4

Investments represent an investment in Airline Group Limited consisting of equity and unsecured loan notes As at 31 December 2013, the Company is party to a legally binding agreement for the sale of the majority of its investment in Airline Group Limited to Universities Superannuation Scheme Limited This transaction is expected to complete during the first quarter of calendar year 2014 and is subject to clearance from the European Commission

12 Stocks

Group and Company	Group		Company	
	As at 31 December 2013 £m	As at 28 February 2013 £m	As at 31 December 2013 £m	As at 28 February 2013 £m
Raw materials	-	3 2	-	-
Aircraft consumable spares	35 4	37 0	35 4	37 0
Finished goods and goods for resale	7 5	0 3	7 5	0 3
Fuel stocks	0 2	0 2	0 2	0 2
Uniforms and other	0 5	0 7	0 5	0 7
	43 6	41 4	43 6	38 2

Notes *(continued)*

13 Debtors

Amounts falling due within one year	Group		Company	
	As at 31 December 2013	As at 28 February 2013	**As at 31 December 2013**	As at 28 February 2013
	£m	£m	**£m**	£m
Trade debtors	**152 3**	189 2	**152 3**	189 1
Amounts owed by group undertakings	**26 1**	31 7	**35 5**	33 6
Other debtors	**119 7**	104 1	**119 7**	103 5
Group relief receivable	**9 9**	5 9	**0 7**	-
Prepayments and accrued income	**42 5**	40 9	**40 5**	38 3
	350 5	371 8	**348 7**	364 5

Amounts falling due after more than one year	Group		Company	
	As at 31 December 2013	As at 28 February 2013	**As at 31 December 2013**	As at 28 February 2013
	£m	£m	**£m**	£m
Other debtors	**39 1**	36 3	**37 7**	34 7
Prepayments and accrued income	**14 0**	15 4	**14 0**	15 4
	53 1	51 7	**51 7**	50 1

14 Creditors amounts falling due within one year

	Group		Company	
	As at 31 December 2013	As at 28 February 2013	**As at 31 December 2013**	As at 28 February 2013
	£m	£m	**£m**	£m
Bank loans and overdraft	**2 2**	11 2	**0 2**	4 6
Secured bank loans (note 15)	**14 7**	11 7	**14 7**	11 7
Obligations under finance leases and hire purchase contracts (note 20)	**3 1**	3 4	**3 1**	3 4
Trade creditors	**44 3**	87 4	**44 2**	86 3
Amounts owed to group undertakings	**127 1**	163 7	**110 8**	141 6
Corporation tax	**3 0**	1 5	**3 0**	1 4
Group relief payable	**-**	-	**-**	2 1
Other taxes and social security	**11 0**	11 1	**11 1**	11 1
Other creditors	**90 3**	64 4	**90 3**	64 4
Accruals and deferred income	**620 2**	680 7	**616 4**	674 5
	915 9	1 035 1	**893 8**	1,001 1

Included within other creditors due within one year is an amount of £2 8m *(prior year £11 7m)* relating to margin calls on fuel and foreign exchange open derivative positions

Notes *(continued)*

15 Creditors: amounts falling due after more than one year

	Group		Company	
	As at 31 December 2013 £m	As at 28 February 2013 £m	**As at 31 December 2013 £m**	As at 28 February 2013 £m
Secured bank loans	**10.6**	12 1	**10 6**	12 1
Obligations under finance leases and hire purchase contracts (note 20)	**4 0**	7 7	**4 0**	7 7
Accruals and deferred income	**15 8**	11 9	**15 8**	11 9
	30 4	31 7	**30 4**	31 7

The secured bank loans totalling £25 3m (*prior year* £23 8m) are secured by mortgages over certain aircraft assets None (*prior year* £9 3m) of these loans fall due for repayment after five years The interest rates charged in the year in respect of these loans are in the range from 3 00% to 3 35% above US$ LIBOR

16 Provisions for liabilities and charges

Group

	Deferred tax £m	Maintenance £m	Onerous contracts £m	Leasehold dilapidations £m	Legal provisions £m	Total £m
At 1 March 2013	20 6	139 1	1 0	2 8	12 2	**175 7**
Foreign exchange translation	-	(9 6)	-	-	-	**(9 6)**
Amounts provided/(released) in the year	(7 6)	31 1	-	(0 2)	4 4	**27 7**
Amounts utilised in the year	-	(24 3)	(0 1)	(0 5)	(9 9)	**(34 8)**
Other movements	(0 2)	2 2	-	-	3 9	**5 9**
Unwinding of discount	-	-	-	0 3	-	**0 3**
At 31 December 2013	**12 8**	**138 5**	**0 9**	**2 4**	**10 6**	**165 2**

Notes *(continued)*

16 Provisions for liabilities and charges *(continued)*

Company

	Deferred tax £m	Maintenance £m	Onerous contracts £m	Leasehold dilapidations £m	Legal provisions £m	Total £m
At 1 March 2013	50 3	139 1	0 1	2 6	11 6	**203 7**
Foreign exchange translation	-	(9 6)	-	-	-	**(9 6)**
Amounts provided/(released) in the period	(9 3)	31 1	0 9	-	3 4	**26 1**
Amounts utilised in the period	-	(24 3)	(0 1)	(0 4)	(8 4)	**(33 2)**
Other movements	-	2 2	-	-	4 0	**6 2**
Unwinding of discount	-	-	-	0 2	-	**0 2**
At 31 December 2013	**41 0**	**138.5**	**0 9**	**2 4**	**10 6**	**193 4**

The amounts provided for deferred taxation at 20% (*prior year 23%)* are as follows

	Group		Company	
	As at 31 December 2013 £m	As at 28 February 2013 £m	**As at 31 December 2013 £m**	As at 28 February 2013 £m
Accelerated capital allowances	**36 7**	58 9	**58 1**	82 1
Other timing differences	**(3 5)**	(4 3)	**(0 3)**	(1 4)
UK tax losses	**(20 4)**	(34 0)	**(16 8)**	(30 4)
	12 8	20 6	**41 0**	50 3

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

Cash outflows on aircraft and engine maintenance provisions will occur when the maintenance events take place on future dates not exceeding November 2024

Legal provisions represent the estimated outstanding cost arising from the settlement of civil actions The information usually required by Financial Reporting Standard 12 for these provisions is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of these cases

Notes *(continued)*

17 Share capital

	As at 31 December 2013 £	As at 28 February 2013 £
Allotted, called up and fully paid		
4,497,607 *(prior year 4,497,607)* ordinary shares of £1 each (equity)	**4,497,607**	4,497,607

18 Reserves

Group	Share premium account £m	Capital contribution reserve £m	Profit and loss account £m
Balance at 1 March 2013	5 0	25 0	11 5
Loss for the financial period	-	-	(7 5)
Balance at 31 December 2013	**5 0**	**25 0**	**4 0**

Company	Share premium account £m	Capital contribution reserve £m	Profit and loss account £m
Balance at 1 March 2013	5 0	25 0	22 1
Loss for the financial period	-	-	(5 5)
Balance at 31 December 2013	**5 0**	**25 0**	**16 6**

Notes *(continued)*

19 Reconciliation of movements in shareholders' funds

Group	As at 31 December 2013 £m	As at 28 February 2013 £m
Loss for the financial period	(7 5)	(59 7)
Net reduction in shareholders' funds	(7 5)	(59 7)
Opening shareholders' funds	46 0	105 7
Closing shareholders funds	38 5	46 0

Company	As at 31 December 2013 £m	As at 28 February 2013 £m
Loss for the financial period	(5 5)	(60 8)
Net reduction in shareholders' funds	(5 5)	(60 8)
Opening shareholders' funds	56 6	117 4
Closing shareholders' funds	51 1	56 6

20 Leasing commitments

Group and Company

The capital element of the future minimum lease payments to which the Group is committed at 31 December 2013 under finance lease and hire purchase contract obligations incurred in the acquisition of aircraft, engines, spares and other equipment are as follows

	As at 31 December 2013 £m	As at 28 February 2013 £m
Amounts due within		
One year	3 1	3 4
Second to fifth year inclusive	4 0	7 7
	7 1	11 1

Rentals, net of finance charges, are included in obligations under finance leases and hire purchase contracts in notes 14 and 15 above

Notes *(continued)*

20 Leasing commitments *(continued)*

As at 31 December 2013, the Group and Company had annual commitments under non-cancellable operating leases as set out below

Group	**As at 31 December 2013**		As at 28 February 2013	
	Land and buildings £m	**Aircraft and other £m**	Land and buildings £m	Aircraft and other £m
Operating leases which expire				
Within one year	**3 8**	**4 5**	4 1	9 1
In the second to fifth year inclusive	**10 7**	**45 7**	12 9	72 9
Over five years	**10 8**	**133 3**	11 0	145 3
	25 3	**183 5**	28 0	227 3

Company	**As at 31 December 2013**		As at 28 February 2013	
	Land and buildings £m	**Aircraft and other £m**	Land and buildings £m	Aircraft and other £m
Operating leases which expire				
Within one year	**3 8**	**4 5**	4 1	9 2
In the second to fifth year inclusive	**10 7**	**46 0**	12 9	73 2
Over five years	**10 8**	**133 7**	10 9	145 7
	25 3	**184 2**	27 9	228 1

21 Commitments

Group and Company

A substantial proportion of capital expenditure, leasing commitments, fuel and other operating costs are denominated in US Dollars Foreign exchange forward purchase contracts amounting to US$1,847 0m outstanding at 31December 2013 (*prior year US$458 3m*) have been taken out to cover part of the exposure risk Of the total forward purchase contracts, $228 9m relate to deals executed on behalf of Virgin Holidays for which VAA hold corresponding deals with Virgin Holidays, and US$1,618 1m relate to external deals which VAA have executed on its own account In addition, the Group has entered into a number of other derivative financial instruments the maximum potential commitment of which at 31 December 2013 is US$317 5m (*prior year US$2,104 8m*)

The fair value at 31 December 2013 of all the derivative contracts held by the Group to meet future obligations in respect of foreign exchange, fuel hedging and interest rate swap contracts is a negative fair value of £13 3m (*prior year positive fair value £32 4m*) This is comprised of a positive fair value of £31 8m (*prior year positive fair value £16 4m*) in respect of fuel hedging derivatives, a negative fair value of £18 9m (*prior year negative fair value £33 3m*) in respect of interest rate swaps and a negative fair value of £26 2m (*prior year positive fair value £49 3m*) in respect of foreign currency derivatives

Certain foreign exchange forward purchase contracts are entered into by Virgin Atlantic Airways Limited on behalf of Virgin Holidays Limited The fair value of these foreign exchange forward purchase contracts at 31 December 2013 is a negative fair value of £7 3m These fair values have been reflected in the disclosures shown above

The timing difference between derivative maturity date and current mark-to-market value can give rise to cash margin exposure, this risk is managed through choice of instrument, appropriate counterparty agreements and, where required, cash deposits with counterparties (notes 13 and 14)

Notes *(continued)*

22 Capital commitments

Group and Company	**As at 31 December 2013 £m**	As at 28 February 2013 £m
Capital commitments at the balance sheet date for which no provision has been made	**2,273 6**	2,488 4

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

23 Subsidiary undertakings

The subsidiaries of the Company as at 31 December 2013 were

Subsidiaries	**Country of incorporation or registration**	**% Ordinary issued shares**	**Principal activity**
Virgair Limited	England and Wales	100	Non-trading
VA Cargo Limited	England and Wales	100	Cargo management
Virgin Airways Limited	England and Wales	100	Non-trading
Greenart Limited	England and Wales	100	Dormant
Virgin Atlantic Engineering Limited	England and Wales	100	Dormant
Virgin Atlantic Consol Limited	England and Wales	100	Dormant
Virglease Limited	England and Wales	100	Leasing of aircraft
Virglease (2) Limited	England and Wales	100	Dormant
Virglease (3) Limited	England and Wales	100	Leasing of aircraft
Fordbar Services Limited	England and Wales	100	Dormant
Voyager Nominees Limited	England and Wales	100	Dormant
Public Eye Promotions Limited	England and Wales	100	Dormant
Virgin Aviation Services Limited	England and Wales	100	Dormant
Virgin Freeway Limited	England and Wales	100	Dormant
Speed 5024 Limited	England and Wales	100	Dormant
Campden Securities Limited	England and Wales	100	Investment company
Fit Leasing Limited	Jersey	100	Leasing of aircraft
Bug Leasing Limited	Jersey	100	Leasing of aircraft
Threesixty Aerospace Limited	England and Wales	100	Non-trading
Worldwide Travel of East Anglia Limited	England and Wales	100	Travel agent
Junopart Limited	England and Wales	100	Leasing property

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

Campden Securities Limited, Junopart Limited, Virgin Airways Limited, and Speed 5024 Limited, whose results are included in these consolidated financial statements, have taken advantage of the audit exemption under section 479A of the Companies Act 2006 for their financial statements

e directors of Fordbar Services Limited, Greenart Limited, Public Eye Promotions Limited, Virgin ntic Consol Limited, Virgin Atlantic Engineering Limited, Virgin Aviation Services Limited, Virgin vay Limited, Virglease (2) Limited and Voyager Nominees Limited, whose results are included in onsolidated financial statements, have taken advantage of the exemption to prepare and file statements under sections 394A and 448A of the Companies Act 2006

Notes *(continued)*

24 Contingent liabilities

The Company and certain subsidiaries are parties to a Group set-off agreement in respect of certain bank accounts as a result of which any overdrawn balances of the Company or subsidiaries covered by this agreement are set-off against the cash at bank and in hand of the Group

The Company is a guarantor under certain financing arrangements of other group companies

The Company is a guarantor of the liabilities at their balance sheet date of the subsidiaries which have taken the audit exemption under section 479A of the Companies Act 2006, and the exemption for preparing and filing financial statements under sections 394A and 448A of the Companies Act 2006 (see note 23)

25 Pension schemes

The Group operates defined contribution pension schemes The assets of the schemes are held separately from those of the Group in independently administered funds There were no outstanding or prepaid contributions at 31 December 2013 *(prior year £nil)*

26 Related party transactions

As at 31 December 2013, the Company's ultimate parent company was Virgin Group Holdings Limited, whose principal shareholders are Sir Richard Branson and certain trusts, none of which individually has a controlling interest in Virgin Group Holdings Limited The principal beneficiaries of those trusts are Sir Richard Branson and/or his immediate family The shareholders of Virgin Group Holdings Limited have interests directly or indirectly in certain other companies, which are considered to give rise to related party disclosures under Financial Reporting Standard 8

The Company, being a wholly owned subsidiary undertaking of Virgin Atlantic Limited, has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions with entities which form part of the group or investees of the group qualifying as related entities

The following is a summary of material transactions and balances by the Group with related entities which are required to be disclosed by Financial Reporting Standard 8

Year Ended 31 December 2013	**Revenue £m**	**Purchases £m**	**Balances due to the Group £m**	**Balances due from the Group £m**
Companies related by virtue of common control ownership				
Virgin Australia Pty Limited	-	13 5	-	1 3
Virgin Insight Limited	-	0 1	-	-
Virgin Management Limited	-	-	0 1	-
Virgin Money Limited	14 2	-	4 0	-
Virgin Hotels Group Limited	-	0 1	-	-
West Coast Trains Limited	1 0	-	-	-
Virgin America Incorporated	0 3	0 2	-	-

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

Notes *(continued)*

27 Ultimate holding company

As at 31 December 2013, the directors consider the ultimate holding company to be Virgin Group Holdings Limited, a company registered in the British Virgin Islands

As at 31 December 2013, the largest group in which the results of the Company are consolidated is that headed by Virgin Wings Limited, a company registered in England and Wales, and the smallest group in which the results of the Company are consolidated is that headed by Virgin Atlantic Limited, a company registered in England and Wales

Copies of the financial statements for both Virgin Wings Limited and Virgin Atlantic Limited may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ