

Virgin Holidays Limited and subsidiary companies

Annual report and consolidated financial statements

For the year ended 31 December 2023

Registered number 01873815



Virgin Holidays Limited and subsidiary companies
Annual report and consolidated financial statements for the year ended 31 December 2023

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Strategic report

The Directors present their annual report and the audited financial statements of Virgin Holidays Limited ("the Company") and its subsidiary companies (together "the Group") for the year ended 31 December 2023.

Principal activity

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. 90% of Virgin Holidays customers also fly on Virgin Atlantic planes.

The subsidiaries impacting the profits and net assets of the Group in the year are listed in note 20 to the financial statements.

Results

A strong recovery in demand for holidays followed an extensive period of uncertainty which impacted the longer booking curves typically seen before the pandemic. Revenue reached 75% of 2019 at £471m (2019: £627m) as the demand for premium leisure travel remained strong. Overall, capacity is lower to our fortress market of Florida and some of our Caribbean destinations, reflecting network and aircraft changes. This has meant the return to pre-Covid revenues is slower than in the airline.

Cost discipline has remained tight, with overhead and distribution costs over 30% lower than 2019 following actions taken in 2020 to rationalise our retail estate and streamline operations under the unified brand programme. Overhead and distribution costs were 12% higher than 2022 however costs of sales were 8% lower. This performance translates to an improved operating profit for 2023 of £6.4m (2022: loss of £7.4m).

The Group's trading results are stated on page 11 of the consolidated financial statements. Revenue for the year was £471m (2022: £487m). The profit before tax and exceptional items was £31.8m (2022: £2.8m), with a statutory profit before tax of £31.9m, up from a £2.1m loss before tax in 2022.

Future outlook

Demand for travel has remained strong through the first quarter of 2024, including record daily bookings in the Winter sale, and we anticipate seeing a 9% increase in passengers from 2023. 2024 will bring further focus on our core Florida and Caribbean destinations as we continue to grow capacity in these markets, as well as new destinations now served by Virgin Atlantic including the Maldives and Dubai.

We remain confident our plan is working and are resolutely focused on managing our costs and liquidity, on serving our customers and our people, on fulfilling our vision of becoming the most loved travel company, as well as sustainably profitable.

Key Performance Indicators

The directors have outlined below the key performance indicators that we rely on to manage the Group's activities. The financial indicators are on a 12-month basis to December for comparability.

	2022	2023	YoY
Total Customers ('000)	250	231	(19)
PBTEI (£m)	2.8	31.8	29.0

The significant increase of the PBTEI despite a 7.6% drop in customers reflects the effective cost cutting controls and improved margins. The gross profit margin increased by 4.5%, from 6.7% in 2022 to 11.2% in 2023.

Principal risks and uncertainties


In 2023 we defined our Top Risks across seven categories, being (i) Health, Safety and Security (ii) Financial & Macro-Economic (iii) Third Party Relationships (iv) Sustainability (v) Technology and Cyber Security (vi) People and Brand and (vii) Regulatory and Legislative.

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In light of how rapidly the risk environment has changed over the past three years, we have not included a schedule of changes in risks year on year. The risks are so dynamic at present, and the relative movement is constantly in flux, as to make such a schedule of little additional use to readers of the report.

Refer to the Virgin Atlantic Limited annual report for full details of the risks and uncertainties deemed to have the most significant impact on the long-term performance of the Group.

The strategic report was approved by the Board of Directors on 27 March 2024 and signed on its behalf by:



Julian Homerstone, Company Secretary

27 March 2024

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

Directors' Report

The directors present their annual report and the audited financial statements for Virgin Holidays Limited and subsidiary companies for the year ended 31 December 2023.

Directors and directors' interests

The directors who held office during the year and to the date of this report were as follows:

Sir Richard Branson	(President)
Peter Norris	(Chairman)
Shai Weiss	
Edward Bastian	
Cornelis Koster	
Luigi Brambilla	(Virgin nominated Director)
Alain Bellemare	(Delta nominated Director)
Oliver Byers	
Juha Jarvinen	
Peter Carter	
Andreea Ene	

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 7.

Results, business review and future developments

The results of the Group for the period are set out on page 11 and are commented on within the Strategic Report which is set out on page one. The Strategic Report also contains a review of the business and the future developments.

Employees

In considering applications for employment from disabled people Virgin Holidays Limited 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 (2022: £nil). The Directors did not declare or pay interim ordinary dividends in respect of the year ended 31 December 2023 (2022: £nil).

The Directors recommend that no final ordinary dividend be paid in respect of the year ended 31 December 2023 (2022: £nil).

Political contributions

No company in the Group made any political donations or incurred any political expenditure during the year (2022: £nil).

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Financial risk management

The Board of Directors is responsible for setting financial risk management policies and objectives, and for approving the parameters within which the various aspects of financial risk management are operated. The Directors have delegated powers to the Financial Risk Committee to ensure that the policies and objectives are fully implemented in line with their approved policy.

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

Foreign currency risk

Exposure to US Dollar denominated costs including hotel costs result in a short US Dollar position. The Group is exposed to foreign currency risk and utilises a range of hedging instruments, arranged on its behalf by a subsidiary company of Virgin Atlantic Limited, to minimise its foreign exchange exposure. The key foreign currency risk arises in respect of US Dollar.

Derivative financial instruments

The Group's policy is not to trade in derivatives on a speculative basis but to use these instruments to hedge anticipated exposures, arranged through a subsidiary company of Virgin Atlantic Limited. 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.

Going concern

The accounts have been prepared on a going concern basis; for full disclosure refer to the going concern section in note 3.

Auditor

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

Directors' and Officers' liability insurance

The Group has purchased Directors' and Officers' liability insurance for the benefit of the Directors and Officers of the Company and its subsidiaries.

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 Auditor is 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 Auditor 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:

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

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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.

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 Directors' 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 one and two.

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.

Other information

An indication of likely future developments in the business and particulars of significant events that have occurred since the end of the financial year have been included in the Strategic report on page 1.

The Directors' report was approved by the Board of Directors on 27 March 2024 and signed on its behalf by:



Julian Homerstone, Company Secretary

27 March 2024

Registered number: 01873815

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

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 the Group financial statements in accordance with UK-adopted international accounting standards and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of 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, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

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

Opinion

We have audited the financial statements of Virgin Holidays Limited ("the Group") for the year ended 31 December 2023 which comprise the Consolidated statement of Profit and Loss and Other Comprehensive Income, Consolidated Group Balance Sheet and Company Balance sheet, 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 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted IFRS;
- 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 the Group's ability to continue as a going concern is dependent on the flight operations of the immediate parent company Virgin Atlantic Airways Limited. The financial statements of Virgin Atlantic Airways Limited include a material uncertainty related to going concern and therefore the continuation of the flight operations of that company may be in doubt in the going concern assessment period. 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 states above, they have concluded that a material uncertainty related to going concern exists.

Our conclusion based on our financial statements audit work: we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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,

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and the Group and parent company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud; and

- Reading Board minutes.

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, 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 did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test for 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 fraud.

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 Group and parent 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 Group and parent 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.

Secondly, the Group and parent Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on the amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, data protection laws, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognizing the nature of the Group and parent Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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 fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are

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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 6, 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 www.frc.org.uk/auditorsresponsibilities.

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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.



Nicholas Hartley (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
27 March 2024

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Consolidated Statement of Profit and Loss and Other Comprehensive Income
for the year ended 31 December 2023

		2023	2022
	Note	£'000	£'000
Total revenue	5	470,978	487,181
Cost of sales		(418,299)	(454,675)
Gross profit		52,679	32,506
Distribution, marketing and selling credits		222	98
Employee remuneration	7	(756)	(570)
Other operating and overhead costs		(30,710)	(25,152)
Depreciation and amortisation		(8,981)	(10,219)
Loss on disposal of property, plant and equipment		250	-
Impairments		-	57
Fair value (losses)/gains on derivative contracts		(6,280)	(4,116)
Operating profit/(loss)		6,424	(7,396)
Finance income		25,745	5,650
Finance expense		(304)	(372)
Net finance income	8	25,441	5,278
Profit/(loss) before tax	6	31,865	(2,118)
Tax credit/(charge)	9	(6,404)	40
Profit/(loss) for the year		25,461	(2,078)
Other comprehensive income (<i>items that will not be reclassified to the income statement</i>):			
Exchange translation differences		(182)	7
Total comprehensive profit/(loss) for the year		25,279	(2,071)

All amounts relate to continuing operations. The notes on pages 16 to 40 form part of these financial statements.

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Consolidated Group Balance Sheet at 31 December 2023

	Note	As at 31 December 2023 £'000	As at 31 December 2022 £'000
Non-current assets			
Intangible assets	10	17,474	24,624
Property, plant and equipment	11	4,199	7,295
Trade and other receivables	14	20	21
		<u>21,693</u>	<u>31,940</u>
Current assets			
Derivative financial instruments	13	95	775
Trade and other receivables	14	283,915	267,203
Cash and cash equivalents	15	686	981
		<u>284,696</u>	<u>268,959</u>
TOTAL ASSETS		<u>306,389</u>	<u>300,899</u>
Current liabilities			
Borrowings	16	(1,301)	(1,315)
Trade and other payables	17	(117,116)	(144,271)
Deferred revenue on air travel and holidays	18	(149,822)	(142,800)
Derivative financial instruments	13	(3,357)	(907)
Provisions	19	(1,294)	(1,134)
		<u>(272,890)</u>	<u>(290,426)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>11,806</u>	<u>(21,467)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>33,499</u>	<u>10,472</u>
Non-current liabilities			
Borrowings	16	(3,528)	(6,309)
Deferred revenue on air travel and holidays	18	(1,755)	(1,319)
Derivative financial instruments	13	(92)	-
Provisions	19	(80)	(80)
		<u>(5,455)</u>	<u>(7,708)</u>
NET ASSETS		<u>28,044</u>	<u>2,765</u>
Equity			
Share capital		2,457	2,457
Capital contribution reserve		79,596	79,596
Currency translation reserve		181	363
Retained earnings		(54,190)	(79,651)
Equity attributable to owners of the Company		<u>28,044</u>	<u>2,765</u>

These financial statements were approved by the Board of Directors on 27 March 2024 and were signed on its behalf by:

Oliver Byers

Oliver Byers

Director

27 March 2024

The notes on pages 16 to 40 form part of these financial statements.

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Company Balance Sheet at 31 December 2023

		As at 31 December 2023 £'000	As at 31 December 2022 £'000
	Note		
Non-current assets			
Intangible assets	10	14,551	21,701
Property, plant and equipment	11	4,194	7,282
Investments	12	1	288
Trade and other receivables	14	20	21
		<u>18,766</u>	<u>29,292</u>
Current assets			
Trade and other receivables	14	287,572	267,173
Derivative financial instruments	13	95	775
Cash and cash equivalents	15	540	943
		<u>288,207</u>	<u>268,891</u>
TOTAL ASSETS		<u>306,973</u>	<u>298,183</u>
Current liabilities			
Borrowings	16	(1,301)	(1,315)
Trade and other payables	17	(120,031)	(144,312)
Deferred revenue on air travel and holidays	18	(149,822)	(142,800)
Derivative financial instruments	13	(3,357)	(907)
Provisions	19	(1,294)	(1,134)
		<u>(275,805)</u>	<u>(290,468)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>12,402</u>	<u>(21,577)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>31,168</u>	<u>7,715</u>
Non-current liabilities			
Borrowings	16	(3,528)	(6,309)
Deferred revenue on air travel and holidays	18	(1,755)	(1,319)
Derivative financial instruments	13	(92)	-
Provisions	19	(80)	(80)
		<u>(5,455)</u>	<u>(7,708)</u>
NET ASSETS		<u>25,713</u>	<u>7</u>
Equity			
Share capital		2,457	2,457
Capital contribution reserve		79,596	79,596
Retained earnings		(56,340)	(82,046)
Equity attributable to owners of the Company		<u>25,713</u>	<u>7</u>

The profit for the year for the Company is £25,706k (2022: loss of £2,073k).

These financial statements were approved by the Board of Directors on 27 March 2024 and were signed on its behalf by:

Oliver Byers

Oliver Byers

Director

27 March 2024

The notes on pages 16 to 40 form part of these financial statements.

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Consolidated statement of changes in equity

	Share Capital £'000	Capital Contribution Reserve £'000	Currency Translation Reserve £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2022	2,457	79,596	356	(77,567)	4,842
Loss for the year	-	-	-	(2,078)	(2,078)
Other comprehensive income/(expense) for the year	-	-	7	-	7
Balance at 31 December 2022	2,457	79,596	363	(79,652)	2,765
Balance at 1 January 2023	2,457	79,596	363	(79,652)	2,765
Profit for the year	-	-	-	25,461	25,461
Other comprehensive income/(expense) for the year	-	-	(182)	-	(182)
Balance at 31 December 2023	2,457	79,596	181	(54,190)	28,044

Share capital includes 2,456,774 (2022: 2,456,774) ordinary shares of £1 each.

The notes on pages 16 to 40 form part of these financial statements.

Company statement of changes in equity

	Share Capital £'000	Capital Contribution Reserve £'000	Retained Earnings £'000	Total £'000
Balance at 1 January 2022	2,457	79,596	(79,973)	2,080
Loss for the year	-	-	(2,073)	(2,073)
Balance at 31 December 2022	2,457	79,596	(82,046)	7
Balance at 1 January 2023	2,457	79,596	(82,046)	7
Profit for the year	-	-	25,706	25,706
Balance at 31 December 2023	2,457	79,596	(56,340)	25,713

Share capital includes 2,456,744 (2022: 2,456,774) ordinary shares of £1 each.

During 2020, as part of the Virgin Atlantic Group's solvent recapitalisation, certain liabilities were novated to the parent company, Virgin Atlantic Limited (VAL), resulting in a capital contribution of £42,184k. VAL then exchanged preference shares issuable to its shareholders for payments of these liabilities over the period 2020 – 2025. At 31 December 2023, VAL had issued a total of £21,293k preference shares relating to Virgin Holidays liabilities, with a further £7,751k issued in February 2024 in relation to payments relating to 2023. The remaining preference shares will be issued annually based on the actual amounts incurred in the preceding financial year.

The notes on pages 16 to 40 form part of these financial statements.

Virgin Holidays Limited and subsidiary companies
Annual report and consolidated financial statements for the year ended 31 December 2023

Consolidated statement of cash flows
for the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Net cash (used in)/from operating activities	26	(24,578)	(5,879)
Purchase of PPE		-	1
Purchase of intangible assets		-	(206)
Proceeds from sale of PPE and intangible assets		-	1
Interest received		25,745	5,649
Net cash from investing activities		25,745	5,445
Payment of lease liabilities		(1,280)	(1,250)
Net cash from/(used in) financing activities		(1,280)	(1,250)
Net (decrease)/increase in cash and cash equivalents		(113)	(1,684)
Cash and cash equivalents at beginning of year	15	981	2,657
Effect of foreign exchange rate changes		(182)	8
Cash and cash equivalents at end of year	15	686	981

The notes on pages 16 to 40 form part of these financial statements.

Notes to the financial statements

1 General information

Virgin Holidays Limited ('VHL'), (the 'Company') and its subsidiaries (the 'Group') is a holiday tour operator, 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 1 to 2.

The Company is a private limited company incorporated, domiciled and registered in England in the United Kingdom under the Companies Act 2006. The registered company number is 1873815 and the address of its registered office is given on page 36.

2 Statement of compliance with IAS

The Group financial statements have been prepared and approved by the directors in accordance with international accounting standards ("UK-adopted IFRS").

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. Under section s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly-owned subsidiaries.

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

3 Accounting policies

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

a. Basis of preparation

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

The Group's consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company ('its subsidiaries') made up to 31 December each year. Control is achieved where the Company is exposed, or has the rights, to variable returns from an investee and has the ability to affect those returns through its power over the investee.

The financial statements of subsidiaries are deconsolidated from the date that control ceases. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Notes to the financial statements *(continued)*

b. Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The principal activity of the Company is to provide package holidays to destinations worldwide for customers principally in the UK. 90% of the Company's customers use the flight operations of Virgin Atlantic Airways Limited, the Company's immediate parent in the Group headed by Virgin Atlantic Limited, the ultimate parent Company. The Company's cash flows are therefore dependent on the continuation of Virgin Atlantic Airways Limited's flight operations. Virgin Holiday Limited's cashflows are consolidated into Virgin Atlantic Airways Limited's business plan and assessment of going concern.

As a result, the directors have considered Virgin Atlantic Airways Limited's business plan, which was approved by the Group board in January 2024 and include the operations of the Company.

The directors have performed a going concern assessment over the consolidated cashflows which indicates that the Group will have sufficient funds to meet its liabilities as they fall due during 12 month period from the date of approval of the financial statements, the going concern assessment period. However, this assessment is dependent on the continuation of Virgin Atlantic Airways Limited's flight operations due to the nature of the company's business model.

The directors have identified that Virgin Atlantic Airways Limited's financial statements have disclosed that there is a material uncertainty over going concern due to the anticipated continuing economic uncertainty driven by high interest rates, fuel prices and ongoing geopolitical uncertainty in Ukraine and the Middle East.

Having reviewed the Group's going concern assessment, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis for the year ended 31 December 2023. However, economic uncertainties represent a material uncertainty that 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.

c. Revenue and revenue recognition (note 5)

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 of tour operations revenue.

The Group records revenue on a net basis after deducting customer discounts and VAT. Holiday sales are paid for in advance of travel, and are recorded within deferred revenue until the performance obligation has been satisfied. 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, and as such revenue is recognised in the income statement pro rata across the duration of the holiday. The Group considers whether it is an agent or a principal in relation to package holiday services by considering whether it has a performance obligation to provide services to the customer or whether the obligation is to arrange for the services to be provided by a third party. 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. Revenue from expired holiday vouchers are recognised when the ticket is no longer valid and the customer has lost their right to travel, validity is determined by the terms and conditions of the holiday.

Revenue relating to other services provided by the Group is taken to the income statement as earned.

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

Notes to the financial statements *(continued)*

d. 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 not re-translated.

All other profits or losses arising on translation are dealt with through the income statement. Any gains or losses arising on the re-translation of foreign currency cash balances held in the short-term to meet future trading obligations are reported in the income statement.

e. Employee benefits (note 7)

Pension (Defined Contribution Plans)

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.

f. Taxation (note 9)

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

Current tax

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

Deferred tax

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

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

Notes to the financial statements *(continued)*

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and it is the intention to settle these on a net basis.

g. Intangible assets (note 10)

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.

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.

Brand license agreement

The Group has the use of the Virgin Holidays brand giving rise to future economic benefits, the cost of which is capitalised and amortised on a straight-line basis over the length of the agreement (see note 10). 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 and amortised over a period not exceeding six years on a straight-line basis.

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.

h. Property plant and equipment (note 11)

Property, plant and equipment (PPE) 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.

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

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	10% - 33% on cost

Notes to the financial statements *(continued)*

i. Impairment of non-current assets (note 10 & 11)

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.

j. Cash and cash equivalents (note 15)

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.

k. Leases (note 16)

Lease contracts, as defined by IFRS 16 'Leases', are recorded on the balance sheet, leading to the recognition of a right-of-use asset 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, discounted to reflect the present value on initial recognition and the cost of restoring asset to its original state, in accordance with IFRS 16. The right-of-use asset is subsequently depreciated using the straight line basis over the shorter of the lease period or the estimated useful life of the right-of-use asset.

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.

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 the lease liability at the beginning of the lease period and the liability is reduced by lease payments made.

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

- Change in the lease term;
- Modification related to the assessment of the likelihood of an option being exercised;
- Remeasurement linked to residual value guarantees;
- Adjustment to the indices on which the rents are calculated when rent adjustments occur; and
- Changes in foreign exchange rate, for lease liabilities due in foreign currency.

When there is a change in the lease term, change in assessment of purchase option or change in floating interest rate, 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.

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 lease term.

Notes to the financial statements *(continued)*

I. Provisions (note 19)

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation as a result of a past event at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

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 restructuring provision includes only the direct expenditures arising from the restructure.

Leasehold dilapidations provisions

On inception of a new lease, where there is an obligation to restore the property to its original condition, a leasehold dilapidation provision is recognised amounting to the estimated cost of restoration. Leasehold dilapidations 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.

m. Financial instruments (note 24)

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument.

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. Derivative financial instruments are initially recognised and subsequently re-measured at fair value through profit or loss ('FVTPL'). Gains and losses arising from the remeasurement of such instruments are accounted for through the income statement.

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

Non-derivative financial assets

Non-derivative financial assets are deemed to be assets which have no fixed or determinable payments that are not quoted in an active market and would therefore be classified as 'loans and receivables'. Such non-derivative financial assets are measured at amortised cost using the effective interest method, less any impairment and include trade and other receivables. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Cash and cash equivalents (note 15)

Cash comprises cash held in bank accounts and money market deposits repayable on demand with no access restrictions, less overdrafts payable on demand.

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 potential prospective losses and an impairment applied accordingly.

Notes to the financial statements (continued)**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. These 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.

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.

n. Investments in subsidiaries (note 20)

The Company's investments in subsidiaries are held at cost less accumulated impairments.

4 Significant judgements, estimates and accounting policies

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

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

The following judgements and estimates are considered significant as the results are material to the Group's financial statements.

Significant judgements:**Revenue recognition**

A key judgement in recognising revenue is to distinguish where the Group's activities act in the capacity of principal or agent so as to determine the accounting as either gross or net respectively, in line with IFRS 15 revenue recognition principles. The Group exercises judgement to assess principal or agency by considering if it obtains control in the revenue arrangements, has pricing discretion and is exposed to inventory risk, in which case the Group will be principal to the arrangement.

Impact of new International Financial Reporting Standards and Interpretations not yet adopted

The following UK-adopted IFRSs have been issued for year ended 2023 but are not expected to have a material effect on the financial statements:

- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statements 2 Making Materiality Judgements (effective date 1 January 2023).

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Notes to the financial statements (continued)

- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to introduce a new definition for accounting estimates (effective date 1 January 2023).
- Amendments to IAS 12 Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (effective date 1 January 2023).
- IFRS 17 Insurance Contracts, Amendments to IFRS 17 and Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective date 1 January 2023).

The following UK-adopted IFRSs have been issued but are not yet effective. Their adoption is not expected to have a material effect on the financial statements:

- Amendments to IAS 1 Presentation of Financial Statement, classification of liabilities as current or non-current (effective date 1 January 2024).
- Amendments to IAS 16 Lease liability in sale and leaseback (effective date 1 January 2024).
- Amendments to IAS 1 Presentation of Financial Statements non-current liabilities with covenants (effective 1 January 2024).
- Amendments to IAS 21 The Effects of Change in Foreign Exchange Rates for Lack of Exchangeability (effective 1 January 2025).

5 Revenue analysis

	Group 2023 £'000	2022 £'000
Holidays	470,978	487,181

No segmental analysis of turnover or operating loss is provided as the directors consider that the Group is in all material respects engaged in the single integrated business of a tour operator.

6 Profit/ (Loss) before tax

Profit/ (loss) for the year has been arrived at after charging the following:

	Group 2023 £'000	2022 £'000
Depreciation of Property, plant and equipment (note 11)	(1,832)	(1,976)
Amortisation of intangible assets (note 10)	(7,150)	(8,218)
Contribution to pension schemes (note 7)	(80)	(54)
Impairment (note 11)	-	57
Remuneration of the auditors and their associates		
Audit of these financial statements	(248)	(225)
Other assurance services	(39)	(45)

Virgin Holidays Limited and subsidiary companies
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Notes to the financial statements *(continued)*

7 Employee remuneration

Headcount and total remuneration

From 1 July 2020, all employees of Virgin Holidays Limited transferred via a Transfer of Undertakings (Protection of Employment) (TUPE) process to Virgin Atlantic Airways Limited (the immediate parent of the Group). The only employees as at the end of December 2023 were in the subsidiary entity, Virgin Incoming Services Inc.

The average monthly number of full-time equivalent employees (including directors) was:

	Group 2023	2022
Operations	16	13

The aggregate payroll costs of these persons were as follows:

	Group 2023 £'000s	2022 £'000s
Wages and salaries	519	387
Social security costs	157	129
Other pension costs	80	54
	756	570

Aggregate Directors' remuneration

No directors are remunerated in Virgin Holidays Limited or its subsidiaries. Group directors are remunerated in Virgin Atlantic Airways Limited. Details of filings for Virgin Atlantic Airways Limited can be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.

During the year of their service, the emoluments of the 4 directors (2022:4) of the Virgin Atlantic Airways Limited Group were:

	Group 2023 £'000s	2022 £'000
Total emoluments		
Aggregate emoluments	3,608	3,614
Company contributions to money purchase pension schemes	179	169
Aggregate amounts receivable under Long Term Incentive Schemes	3,775	2,741
	7,562	6,524
Highest paid director		
Aggregate emoluments and other benefits	1,867	1,958
Company contributions to money purchase pension schemes	71	70
Aggregate amounts receivable under Long Term Incentive Schemes	2,100	1,680
	4,038	3,708

Virgin Holidays Limited and subsidiary companies
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Notes to the financial statements *(continued)*

Retirement benefits are accruing to 4 (2022: 4) directors under money purchase pension schemes.

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

Long-term incentive scheme

In 2019, the Virgin Atlantic Airways Limited Group (VAAL Group) established a new long term incentive scheme for Executive Directors and other invited participants to incentivise and recognise execution of the 'Velocity_x' plan. The scheme consists of a series of three-year rolling grants, with a cash payment at the end of each grant. Payments are based on the VAAL Group's performance against pre-agreed financial and non-financial measures which are linked to the VAAL Group's long-term objectives. Included above are cash payments made to Directors relating to services rendered during 2023.

8 Finance costs

	Group 2023 £'000	2022 £'000
Finance income		
Bank deposits	518	74
Interest on amounts due from Group companies	25,227	5,576
	<u>25,745</u>	<u>5,650</u>
Finance expense		
Interest on leases	(304)	(372)
Net finance income	<u>25,441</u>	<u>5,278</u>

9 Tax

Analysis of the tax expense during the year:

	Group 2023 £'000	2022 £'000
Current tax		
UK corporation tax	(6,404)	(40)
Total current tax (credit)/charge	<u>(6,404)</u>	<u>(40)</u>
Tax credit/(charge)	<u>(6,404)</u>	<u>40</u>

Virgin Holidays Limited and subsidiary companies
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Notes to the financial statements (continued)

The standard rate of UK corporation tax for the year increased to 25% from 19% on 01 April 2023 (2022: 19%). There is a tax charge for the period which is driven by the Group's profit before tax.

The actual current tax charge for the period differs from that computed by applying the standard tax rate to the profit before tax as reconciled below:

	Group	
	2023 £'000	2022 £'000
Profit/(Loss) before taxation	31,865	(2,118)
Tax at the standard rate at 23.52% (2022: 19%)	(7,495)	403
Factors affecting the credit/(charge) for the year:		
Income not subject to corporation tax	-	62
Expenses not deductible for tax purposes	39	(301)
Adjustments in respect of prior periods	(583)	40
Losses	1,174	-
Amounts not recognised	(1,040)	(164)
Fixed asset differences	1,614	-
Effects of difference in deferred tax rate	(17)	-
Non-qualifying asset	(96)	-
Total tax credit/(charge)	(6,404)	40

The Group continues to be directly and indirectly affected by new tax legislation. Changes in such legislation, regulation or interpretation could have an effect on the Group's operating results and financial position.

10 Intangible assets

	Group					
	Goodwill £'000	Software and other £'000	Assets under construction £'000	Other intangibles £'000	Brand license £'000	Total £'000
Cost						
At 1 January 2023	6,743	52,134	-	1,615	35,931	96,423
Disposals	-	(507)	-	-	-	(507)
At 31 December 2023	6,743	51,627	-	1,615	35,931	95,916
Amortisation						
At 1 January 2023	2,870	51,587	-	1,615	15,727	71,799
Amortisation	-	414	-	-	6,736	7,150
Disposals	-	(507)	-	-	-	(507)
At 31 December 2023	2,870	51,494	-	1,615	22,463	78,442
Carrying amount						
At 31 December 2023	3,873	133	-	-	13,468	17,474
At 31 December 2022	3,873	547	-	-	20,204	24,624

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Notes to the financial statements (continued)

	Goodwill £'000	Software and other £'000	Group Assets under construction £'000	Other intangibles £'000	Brand license £'000	Total £'000
Cost						
At 1 January 2022	6,743	52,222	-	1,615	35,931	96,511
Additions	-	-	206	-	-	206
Disposals	-	(294)	-	-	-	(294)
Reclassifications	-	206	(206)	-	-	-
At 31 December 2022	6,743	52,134	-	1,615	35,931	96,423
Amortisation						
At 1 January 2022	2,870	50,400	-	1,615	8,990	63,875
Amortisation	-	1,481	-	-	6,737	8,218
Disposals	-	(294)	-	-	-	(294)
At 31 December 2022	2,870	51,587	-	1,615	15,727	71,799
Carrying amount						
At 31 December 2022	3,873	547	-	-	20,204	24,624
At 31 December 2021	3,873	1,822	-	-	26,941	32,636

In 2020, the Group capitalised the rights to use the Virgin Holidays brand over the period 2020 – 2025. This is amortised on a straight-line basis over the life of the contract.

	Goodwill £'000	Software and other £'000	Company Assets under construction £'000	Brand license £'000	Total £'000
Cost					
At 1 January 2023	1,355	53,605	-	35,931	90,891
Disposals	-	(507)	-	-	(507)
At 31 December 2023	1,355	53,098	-	35,931	90,384
Amortisation					
At 1 January 2023	405	53,059	-	15,727	69,190
Amortisation	-	414	-	6,736	7,150
Disposals	-	(507)	-	-	(507)
At 31 December 2023	405	52,966	-	22,462	75,833
Carrying amount					
At 31 December 2023	950	132	-	13,469	14,551
At 31 December 2022	950	546	-	20,204	21,701

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Notes to the financial statements (continued)

	Goodwill £'000	Software and other £'000	Company Assets under construction £'000	Brand license £'000	Total £'000
Cost					
At 1 January 2022	1,355	53,690	-	35,931	90,976
Additions	-	-	206	-	206
Disposals	-	(291)	-	-	(291)
Reclassifications	-	206	(206)	-	-
At 31 December 2022	1,355	53,605	-	35,931	90,891
Amortisation					
At 1 January 2022	405	51,869	-	8,990	61,263
Amortisation	-	1,481	-	6,737	8,218
Disposals	-	(291)	-	-	(291)
At 31 December 2022	405	53,059	-	15,727	69,190
Carrying amount					
At 31 December 2022	950	546	-	20,204	21,701
At 31 December 2021	950	1,821	-	26,941	29,713

The Directors have conducted an impairment review at 31 December 2023, based on which no impairment needs to be recognised.

Goodwill arises when the Group acquires a business for consideration that exceeds the fair value of the separately identifiable assets of the acquiree. At 31 December 2023, the goodwill balance was attributable to Virgin Holidays Cruises Limited (purchased 8 October 2007).

In accordance with accounting standards, the Group tests the carrying value of goodwill for impairment annually and whenever events or circumstances change. The impairment review is carried out at the level of a 'cash-generating unit' (CGU), defined as the smallest identifiable group of assets, liabilities and associated intangible assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. On this basis, management have determined that the Group has one CGU, namely its holiday tour operation. Impairment testing is performed by comparing the carrying value of the CGU to the recoverable amount, determined on the basis of the CGU's value in use. The value in use is based on the net present value of future cash flow projections discounted at post-tax rates appropriate for each CGU.

The recoverable amount of the CGU has been measured based on its 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 in line with the Group's strategic plans and current climate of macroeconomic uncertainty.

Assumptions:

	Holidays CGU
Pre-tax discount rate	5%
Terminal growth rate	2%
No. years before terminal growth rate applied	3

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 macroeconomic environment, the Group has adjusted the cash flows for these uncertainties rather than the discount rate.

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Notes to the financial statements (continued)

The impairment review did not identify an impairment for either CGU as the value in use was greater than the carrying value (2022: no impairment).

Sensitivity analysis

The Group conducted a sensitivity analysis on the 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 calculation are set out in the table below. These are considered to be reasonably possible, but not likely.

Increase in discount rate	5 pts
Reduction in long term growth rate applied in terminal year	5 pts
Decrease in forecasted adjusted EBITDA in each year	20%

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

11 Property, plant and equipment

	Fixtures and fittings Owned £'000	Plant and equipment Owned £'000	Group ROU asset Motor Vehicles Leased £'000	ROU asset Property Leased £'000	Assets in the course of construction £'000	Total £'000
Cost						
At 1 January 2023	7,611	2,006	23	12,224	-	21,864
Additions	-	-	-	495	-	495
Disposals	(506)	(3)	(23)	(1,384)	-	(1,916)
Other movements	-	-	-	(1,056)	-	(1,056)
At 31 December 2023	7,105	2,003	-	10,279	-	19,387
Accumulated depreciation						
At 1 January 2023	6,567	1,991	23	5,988	-	14,569
Depreciation for the year	682	13	-	1,137	-	1,832
Disposals	(506)	(3)	(23)	(681)	-	(1,213)
At 31 December 2023	6,743	2,001	-	6,444	-	15,188
Carrying amount						
At 31 December 2023	362	2	-	3,835	-	4,199
At 31 December 2022	1,044	15	-	6,236	-	7,295

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Notes to the financial statements (continued)

	Group					
	Fixtures and fittings Owned £'000	Plant and equipment Owned £'000	ROU asset Motor Vehicles Leased £'000	ROU asset Property Leased £'000	Assets in the course of construction £'000	Total £'000
Cost						
At 1 January 2022	8,896	2,067	184	12,541	-	23,688
Additions	-	-	-	-	-	-
Disposals	(1,285)	(61)	(161)	(186)	-	(1,693)
Other movements	-	-	-	(131)	-	(131)
At 31 December 2022	7,611	2,006	23	12,224	-	21,864
Accumulated depreciation						
At 1 January 2022	7,048	2,050	174	5,071	-	14,343
Depreciation for the year	804	2	10	1,160	-	1,976
Impairment reversal	-	-	-	(57)	-	(57)
Disposals	(1,285)	(61)	(161)	(186)	-	(1,693)
At 31 December 2022	6,567	1,991	23	5,988	-	14,569
Carrying amount						
At 31 December 2022	1,044	15	-	6,236	-	7,295
At 31 December 2021	1,848	17	10	7,470	-	9,345

	Company					
	Fixtures and fittings Owned £'000	Plant and equipment Owned £'000	ROU asset Motor Vehicles Leased £'000	ROU asset Property Leased £'000	Assets in the course of construction £'000	Total £'000
Cost						
At 1 January 2023	7,559	1,901	23	12,222	-	21,705
Additions	-	-	-	495	-	495
Disposals	(506)	(3)	(23)	(1,384)	-	(1,916)
Reclassifications	-	-	-	-	-	-
Other movements	-	-	-	(1,056)	-	(1,056)
At 31 December 2023	7,053	1,898	-	10,277	-	19,228
Accumulated depreciation						
At 1 January 2023	6,523	1,889	23	5,988	-	14,423
Depreciation for the year	674	12	-	1,138	-	1,824
Impairment reversal	-	-	-	-	-	-
Disposals	(506)	(3)	(23)	(681)	-	(1,213)
At 31 December 2023	6,691	1,898	-	6,445	-	15,034
Carrying amount						
At 31 December 2023	362	-	-	3,832	-	4,194
At 31 December 2022	1,036	12	-	6,234	-	7,282

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Notes to the financial statements (continued)

	Fixtures and fittings Owned £'000	Plant and equipment Owned £'000	Company ROU asset Motor Vehicles Leased £'000	ROU asset Property Leased £'000	Assets in the course of construction £'000	Total £'000
Cost						
At 1 January 2022	8,851	1,968	184	12,539	-	23,542
Additions	-	-	-	-	-	-
Disposals	(1,292)	(67)	(161)	(186)	-	(1,706)
Reclassifications	-	-	-	-	-	-
Other movements	-	-	-	(131)	-	(131)
At 31 December 2022	7,559	1,901	23	12,222	-	21,705
Accumulated depreciation						
At 1 January 2022	7,007	1,939	174	5,073	-	14,193
Depreciation for the year	805	17	10	1,160	-	1,992
Impairment charge	-	-	-	(57)	-	(57)
Disposals	(1,289)	(67)	(161)	(188)	-	(1,705)
At 31 December 2022	6,523	1,889	23	5,988	-	14,423
Carrying amount						
At 31 December 2022	1,036	12	-	6,234	-	7,282
At 31 December 2021	1,844	29	10	7,466	-	9,349

In accordance with accounting standards, the Group tests the carrying value of assets including right-of-use assets for impairment if there is an indicator of impairment. The review has not led to any impairments (2022: £nil).

12 Investments

	Company 2023 £'000	2022 £'000
Investment in subsidiaries carried at cost	1	288
		Company investment in subsidiaries £'000
Balance as at 1 January 2023		288
Disposals during the year		(287)
Balance as at 31 December 2023		1

Disposals during the year relate to a dormant subsidiary which was dissolved. For further information on the Subsidiaries of the Group, see note 20.

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Notes to the financial statements (continued)

13 Derivative financial instruments

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

	Group and Company	
	2023	2022
	£'000	£'000
Current assets		
Foreign currency	95	775
Current liabilities		
Foreign currency	(3,357)	(907)
Non-current liabilities		
Foreign currency	(92)	-
	(3,354)	(132)

Nominal Amounts:

	Group and Company	
	2023	2022
	£'000	£'000
Foreign currency (USD, represented in USD)	191,850	155,673

For currency contracts, quantity represents the nominal value of currency contracts held (in thousands).

14 Trade and other receivables

	Group		Company	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Non-current				
Other receivables	20	21	20	21
	20	21	20	21
Current				
Trade receivables	4,292	3,220	4,292	3,220
Provision for doubtful receivables	(229)	(637)	(229)	(637)
Net trade receivables	4,063	2,583	4,063	2,583
Other receivables	1,586	1,139	1,586	1,139
Unremitted cash	8,837	6,632	8,975	6,632
Prepayments and accrued income	25,476	24,029	25,463	23,999
Amounts owed by group companies	243,953	232,821	247,485	232,821
	283,915	267,204	287,572	267,174

Prepayments and accrued income include prepaid accommodation and flight costs relating to the following year.

Amounts owed by group companies include intercompany loan arrangements and are repayable on demand. These attract an interest rate of the Bank of England base.

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Notes to the financial statements (continued)

	Group and Company	
	2023	2022
	£'000	£'000
Ageing of past due but not impaired receivables		
1-30 days	782	595
31-60 days	105	149
61-90 days	23	2
90+ days	297	469
Total	1,207	1,215

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

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

15 Cash, cash equivalents and restricted cash

	Group		Company	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Cash and bank balances	686	981	540	943

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.

16 Borrowings

	Group and Company	
	2023	2022
	£'000	£'000
Non-current		
Obligations under leases	(3,528)	(6,309)
Current		
Obligations under leases	(1,301)	(1,315)

Group and Company

	Within 1 year £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
Analysis of contractual undiscounted cash flows by maturity as at 31 December 2023					
Leased property	(1,519)	(1,214)	(2,262)	(419)	(5,414)
Analysis of contractual undiscounted cash flows by maturity as at 31 December 2022					
Leased property	(1,624)	(1,643)	(3,748)	(1,640)	(8,655)

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Notes to the financial statements (continued)

Change in lease debt:

Group and Company			
	Leased property £'000	Leased other £'000	Total £'000
as at 01 January 2023	(7,614)	(10)	(7,624)
New contracts & renewal of contracts	(495)	-	(495)
Other movements	2,000	10	2,010
Payment of lease rental	1,280	-	1,280
Interest paid	304	-	304
Non-cash movements:			
Interest expense	(304)	-	(304)
as at 31 December 2023	(4,829)	-	(4,829)

Group and company			
	Leased property £'000	Leased other £'000	Total £'000
as at 01 January 2022	(8,984)	(20)	(9,004)
New contracts & renewal of contracts	-	-	-
Other movements	130	-	130
Payment of lease rental	1,240	10	1,250
Interest paid	372	-	372
Non-cash movements:			
Interest expense	(372)	-	(372)
as at 31 December 2022	(7,614)	(10)	(7,624)

17 Trade and other payables

	Group		Company	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Current				
Trade payables	(2,428)	(2,096)	(2,269)	(2,169)
Amounts owed to other group companies	(79,709)	(97,880)	(78,855)	(94,248)
Group relief payable	(5,555)	(15,987)	(5,555)	(15,988)
Other payables	(1,089)	(1,493)	(1,089)	(1,492)
Accruals	(28,325)	(26,785)	(32,258)	(30,396)
Other revenue received in advance	(5)	(19)	(5)	(19)
Corporate tax payable	(5)	(11)	-	-
	(117,116)	(144,271)	(120,031)	(144,312)

Amounts owed to other group companies includes intercompany loan arrangements and are repayable on demand. These attract an interest rate of Bank of England base rate.

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

Virgin Holidays Limited and subsidiary companies
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Notes to the financial statements (continued)

18 Deferred revenue on air travel and holidays

	Group		Company	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Non-current	(1,755)	(1,319)	(1,755)	(1,319)
Current	(149,822)	(142,800)	(149,822)	(142,800)
Total deferred revenue on air travel and holidays	(151,577)	(144,119)	(151,577)	(144,119)

	Group	Company
	£'000	£'000
Balance at 1 January 2023	(144,119)	(144,119)
Revenue recognised in income statement	470,978	470,978
Cash received from customers	(478,436)	(478,436)
Balance at 31 December 2023	(151,577)	(151,577)

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.

19 Provisions

	Group and Company	
	2023	2022
	£m	£m
Non-current		
Leasehold dilapidation	(80)	(80)
	(80)	(80)
Current		
Leasehold dilapidation	(137)	(549)
Legal claims	(737)	(454)
Other Provisions	(420)	(131)
	(1,294)	(1,134)

	Group and company			
	Leasehold dilapidations	Legal claims	Other Provisions	Total
	£'000	£'000	£'000	£'000
As at 1 January 2023	(629)	(454)	(131)	(1,214)
Amounts (provided)/ released in the year	391	(394)	(1,147)	(1,150)
Amounts utilised in the year	21	111	858	990
At 31 December 2023	(217)	(737)	(420)	(1,374)

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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 holidays were significantly delayed, unless the airline can prove that the delay was caused by circumstances beyond its control.

Other provisions represent the amounts held for the frequent flyer mileage program.

20 Interest in subsidiaries

The Group consists of a parent company, Virgin Holidays Limited, incorporated in the UK and a number of subsidiaries. The subsidiaries of the Company as at 31 December 2023 are:

Subsidiaries	Country of Incorporation or registration	Ordinary issued shares (%)	Principal activity
Virgin Incoming Services Incorporated	United States of America	100	Tour operator

Virgin Vacations Incorporated ceased trading in 2019 and was fully dissolved during 2023.

All subsidiaries have been included in the consolidation. The proportion of voting rights held by the Group in each of its subsidiaries is the same as the proportion of ordinary shares held. The registered office Virgin Incoming Services Incorporated is 5787 Vineland Road, Suite 204, Orlando, Florida, 32819.

21 Related party transactions

The Group had transactions in the ordinary course of business during the year ended 31 December 2023 and 31 December 2022 with related parties.

	Group		Company	
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Parent				
Purchases from parent	(150,294)	(144,675)	(150,294)	(144,675)
Amounts owed by parent	177	303	-	-
Amounts owed to parent	(79,276)	(98,276)	(79,276)	(98,273)
Related parties under common control				
Sales to related parties	15,901	6,919	15,901	6,919
Purchases from related parties	1,040	3,054	1,040	3,054
Amounts owed by the related parties	245,951	233,474	245,951	233,474
Amounts owed to the related parties	711	1,492	711	1,492
Subsidiaries				
Amounts owed by subsidiaries	-	-	636	310

Revenues from related parties primarily relate to the sale of holidays and holiday vouchers. Purchases from related parties represent goods and services purchased for use within the business. All transactions have been concluded at arm's length.

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Notes to the financial statements (continued)

22 Ultimate holding company

As at 31 December 2023, the largest group in which the results of the Group are consolidated is that headed by Virgin Atlantic Limited, a company registered in England and Wales.

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

As at 31 December 2023, the Directors consider the ultimate holding company to be Virgin Group Holdings Limited, a company registered in the British Virgin Islands. The sole shareholder of Virgin Group Holdings Limited is Sir Richard Branson. Sir Richard Branson has interests directly or indirectly in certain other companies, which are considered to give rise to related party disclosures under IAS 24.

23 Commitments

As at 31 December 2023 the Group and Company had the following annual commitments under non-cancellable leases which are outside the scope of IFRS 16:

	Group and Company			
	2023		2022	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Commitments under non-cancellable leases				
Not later than one year	1,478	-	1,589	-
Later than one year and not later than five years	1,843	-	3,418	-
	3,321	-	5,007	-

24 Financial instruments

	Group		Company	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Financial assets				
Cash and cash equivalents	686	981	540	943
Fair value through profit and loss:				
Derivative financial instruments	95	775	95	775
Loans and receivables at amortised cost:				
Trade and other receivables (excluding prepayments and accrued income)	258,439	243,175	262,109	243,175
	259,220	244,931	262,744	244,893
Financial liabilities				
Fair value through profit and loss:				
Derivative financial instruments	(3,449)	(907)	(3,449)	(907)
Financial liabilities at amortised cost:				
Borrowings (including lease liabilities)	(4,829)	(7,624)	(4,829)	(7,624)
Trade and other payables	(117,116)	(144,271)	(120,031)	(144,312)
	(125,394)	(152,802)	(128,309)	(152,843)

Notes to the financial statements *(continued)*

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

Fair values of financial assets and liabilities

The fair values of the Group and Company 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 and Company are the derivative financial instruments that consist of foreign exchange derivatives. These are listed at level 2 on the fair value hierarchy. Discounted cash flow is the valuation technique used to arrive at fair value. Future cash flows are estimated based on forward exchange rates (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.

25 Financial risk management

The Group and Company is exposed to a variety of financial risks; market risk (including foreign currency risk and interest rate risk), credit risk, capital risk and liquidity risk. The Group and Company is not exposed to any commodity price risk. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

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

Foreign currency risk

The Group and Company is exposed to currency risk on hotel and other costs that are denominated in a currency other than sterling. The key foreign currency risk arises in respect of a shortfall of US dollars. Currency risk is reduced through matching receipts and payments in individual currencies and holding foreign currency balances to meet future obligations. Any exposure that cannot be naturally hedged is managed through application of the foreign exchange hedging policy.

The foreign exchange hedging policy aims to provide protection against sudden and significant movements in exchange rates. The policy allows Virgin Holidays to hedge currency payments using forward foreign exchange contracts arranged on its behalf by the Group's parent Virgin Atlantic Airways Limited.

The Group and Company has substantial liabilities denominated in US dollars.

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

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	Group and Company	
	2023	2022
Strengthening in currency exchange rate by a fixed percentage (%)	10	10
Decrease in profit before tax (£'000)	(13,309)	(2,606)
Weakening in currency exchange rate by a fixed percentage (%)	-10	-10
Increase in profit before tax (£'000)	16,267	5,687

Interest rate risk

The Group and Company has no external borrowings on which interest is payable. Cash balances are swept to the Group's parent company Virgin Atlantic Airways Limited that manages the larger Group interest rate risk and pays interest at market rates.

Credit risk

The Group and Company is exposed to credit risk to the extent of non-performance by its counterparties in respect of financial assets receivable and/or in the money positions for derivatives transactions. The main cash investments and all derivative transactions are held with the Group's parent Virgin Atlantic Airways Limited.

The maximum exposure to credit risk is limited to the carrying value of each class of asset as summarised in note 25. The Group and Company does not hold any other collateral to mitigate this exposure.

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. Cash balances are swept to the Group's parent, Virgin Atlantic Airways Limited.

The maturity profile of financial liabilities based on undiscounted gross cash flows and contractual maturities can be found in note 16.

Capital risk

The objective of capital management is to ensure that the Group and Company is able to continue as a going concern whilst delivering shareholder expectations of a strong capital base as well as returning benefits for other stakeholders and optimising the cost of capital.

The Group and Company generates favourable cash inflows from advanced holiday payments and has no external loans and borrowings. Cash balances are swept and managed by the Group's parent, Virgin Atlantic Airways Limited that manages capital risk for the larger group.

Note there are no off-balance sheet arrangements within the Group.

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Notes to the financial statements *(continued)*

26 Reconciliation between profit/(loss) for the year and cash (used in)/generated from operations

	Group 2023 £'000	2022 £'000
Profit/ (Loss) for the period	25,461	(2,079)
Adjustments for:		
Depreciation (of owned and right-of-use assets)	1,832	1,976
Amortisation	7,150	8,218
Taxation	6,404	(40)
Movement in provision for bad debts	(408)	-
Unrealised fair value movement in derivatives	(5,638)	(10,339)
Interest paid on leases	(304)	(372)
Net finance income	(25,441)	(5,278)
Impairment	-	(57)
Profit on disposal of PPE and intangible assets	(250)	-
Derivative financial instruments	3,222	132
Movement in restricted cash	-	5,630
Working capital changes		
Trade and other receivables	(14,117)	2,277
Trade and other payables	(30,107)	(4,538)
Deferred revenue on air travel and holidays	7,458	(1,460)
Provisions	160	22
Income taxes paid	-	29
Net cash (used in)/from operating activities before other exceptional items	(24,578)	(5,879)

27 Subsequent events

There were no subsequent events required to be disclosed as at the date of this report.

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Alternative performance measures

The performance of the Group is assessed using a number of alternative performance measures (APMs) as outlined below. These measures are not defined under International Financial Reporting Standards (IFRS) and should be considered in addition to IFRS measurements.

The definition of each APM, together with a reconciliation to the nearest measure prepared in accordance with IFRS is presented below.

(a) PBTEI

profit/(loss) before tax, excluding the impact of exceptional items;

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.

The following table contains a reconciliation between PBTEI and the statutory income statement for the Group:

	2023			2022		
	Ordinary activities before exceptional items	Exceptional items and non-underlying items	Total	Ordinary activities before exceptional items	Exceptional items and non-underlying items	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Total revenue	470,978	-	470,978	487,181	-	487,181
Cost of sales (i)	(424,639)	6,340	(418,299)	(453,772)	(903)	(454,675)
Gross profit/(loss)	46,339	6,340	52,679	33,409	(903)	32,506
Distribution, marketing and selling credits	222	-	222	98	-	98
Employee remuneration	(756)	-	(756)	(570)	-	(570)
Other operating and overhead costs	(30,710)	-	(30,710)	(25,152)	-	(25,152)
Depreciation and amortisation	(8,981)	-	(8,981)	(10,219)	-	(10,219)
Loss on disposal of property, plant and equipment	250	-	250	-	-	-
Impairments (ii)	-	-	-	-	57	57
Fair value (losses)/gains on derivative Contracts (iii)	-	(6,280)	(6,280)	-	(4,116)	(4,116)
Operating profit/(loss)	6,364	60	6,424	(2,434)	(4,962)	(7,396)
Finance income	25,745	-	25,745	5,650	-	5,650
Finance expense	(304)	-	(304)	(372)	-	(372)
Net finance income/(costs)	25,441	-	25,441	5,278	-	5,278
Profit/(Loss) before tax	31,805	60	31,865	2,844	(4,962)	(2,118)

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Alternative performance measures (continued)

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.

- i. Cost of sales include gains of £6,340k (2022: losses of £248k) relating to movements on maturity of foreign currency derivative contracts.

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

- ii. The Group partially reversed an impairment relating to the closure of retail space in the previous year.
- iii. Fair value movements in relation to the Group's 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.

(b) Underlying EBITDA

profit/(loss) for the year/period before net finance costs, tax, depreciation, amortisation, exceptional items and unrealised foreign exchange gain/(loss);

	2023 £'000	2022 £'000
Profit/ (Loss) before tax	31,865	(2,118)
Add: Exceptional items	(60)	4,962
Net finance costs	(25,441)	(5,277)
Depreciation, amortisation and impairment charge	8,981	10,219
Underlying EBITDA	15,345	7,786