Virgin Wings Limited and subsidiary companies

Directors' report and consolidated financial statements

Registered number 03160887

31 March 2010

Contents

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 March 2010

Principal activities

Virgin Wings Limited principally acts as an investment holding company to its subsidiaries

The principal activities of the Group are air and rail transportation, holidays, mobile telecommunication, in addition to other smaller businesses

Business review

On 3 April 2009, Virgin Retail Holdings Limited transferred its 22,123,880 £0 10 ordinary shares and 22,122,880 £0 001 B ordinary shares in Virgin Hotels Group Limited to Bluebottle UK Limited, a wholly owned subsidiary of Virgin Holdings Limited, for a consideration of £90 4million As a result, the net assets of Virgin Hotels Group Limited and its subsidiaries have been included in these accounts as at 31 March 2010

The results for the year are set out on page 10 of the financial statements and the loss for the year has been transferred to reserves

Group turnover in the year was £3,175 6million (*2009 £3,266 2million*) This represents a 2 8% decrease on the prior year

The company has net liabilities However, as detailed in note 1 to the financial statements a parent undertaking, Virgin Group Holdings Limited, has formally indicated that it is its present intention to provide sufficient funding to the Company to enable it to meet its liabilities as they fall due, for at least the next twelve months The directors have no reason to believe that the parent company will not be in a position to provide this support

Furthermore, as an investment holding company, no significant changes are expected in relation to the Company's income streams or cost base at this present time As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook

The directors have a reasonable expectation that the company has adequate resources to continue in its operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

Air Travel

The Group's main airline subsidiary, Virgin Atlantic Limited and its subsidiary companies ("Virgin Atlantic Group"), recorded a loss before tax of £132 0million (*2009 profit of £68 4million*), and a decline in Virgin Atlantic Group turnover of 8 6%

Airline turnover declined by 11%, driven by large reductions in demand and yield in the first half of the year in both passenger and cargo traffic However, operating costs benefited from lower jet fuel prices, although this was partially offset by a stronger US Dollar Management response was quick and decisive Capacity was reduced with the grounding of 2 aircraft and the redeployment of a further aircraft Regrettably staff numbers were reduced by 1,046 through a redundancy programme that reflected the lower capacity and a restructure of head office positions In addition major supplier contracts were reviewed and cost savings achieved

Despite the economic downturn Virgin Holidays managed to increase turnover by 3 4% This was due in part to the full year effect of the initiatives and acquisitions made in the prior year, such as the purchase of the Travel City Direct brand, which it re-launched in January 2009, the continued roll-out of retail outlets in Debenhams, Tesco, and House of Fraser stores, and the growth of the Virgin Holiday Cruises business

The impact of cost savings, focussed cash management, a restricted capital investment programme and some recovery in demand in the latter part of the year have ensured that liquidity remains strong with an increase in cash of £141 8million within the year

Directors' report *(continued)*

Business review *(continued)*

Air Travel (continued)

The Virgin Atlantic Group has won several key awards, with both Virgin Atlantic Airways and Virgin Holidays being voted top in their respective classes in the recent Institute of Customer Service's UK Customer Satisfaction Index, 26,000 members of the public are surveyed for these awards Virgin Atlantic Airways winning the OAG transatlantic airline of the year and being Tripadvisor's favourite airline once again demonstrates our continued high standards Virgin Holidays has also been awarded Best Long Haul Tour Operator as voted by Britain's travel agents

During the year Virgin Atlantic Airways recognised £57 9million in respect of the settlement of a claim for compensation from a supplier that has not fulfilled its contractual obligations

The Virgin Atlantic Group incurred exceptional costs of £57 7million (*2009 £nil*) in respect of severance costs for staff leaving the business, a provision to cover the cost of grounded aircraft and a provision in respect of the ongoing compensation investigations into various aspects of pricing in the airline industry

The Virgin Atlantic Group continued to experience severe restrictions in its ability to exercise dominant or significant influence over the operational and financial policies of Air Nigeria Development Limited (formerly Virgin Nigeria Airways Limited) during the year under review, and the Board consider that these restrictions are irreversible

The directors continue to monitor the Virgin Atlantic Group's success, or otherwise, using a range of key performance indicators ("KPIs") A selection of these key measures are shown below

	2010	2009
Atlantic Group turnover	**£2,356.6million**	£2,578 7million
Return on sales (1)	**(5.6%)**	2 7%
Cash at bank and in hand (2)	**£450.5million**	£308 7million

(1) Return on sales – (Loss)/profit on ordinary activities before taxation as a percentage of turnover
(2) Cash at bank and in hand – Cash at bank and in hand includes both cash and liquid resources

Rail

The Virgin Rail Group Holdings Limited Group ("Virgin Rail Group") operated passenger rail services between London (Euston) and Birmingham, Wolverhampton, Holyhead, Chester, Liverpool, Manchester, Preston, Carlisle and Glasgow under the franchise operated by West Coast Trains Limited ("West Coast") The Virgin Rail Group operates these services under the terms of an original franchise agreement dated 19 February 1997, amended by the Amended and Restated Franchise Agreement ("ARFA"), which was entered into on 9 December 2006 The West Coast franchise runs to 31 March 2012

The Virgin Rail Group manages the Department for Transport ("DfT") contract for the introduction of 62 additional carriages and 4 new trains to the Pendolino fleet of the West Coast franchise Under the terms of the agreement, the DfT will order the trains and the Virgin Rail Group will provide support throughout the design, manufacture, delivery, testing and commissioning of the new vehicles

Despite the current economic conditions, the Virgin Rail Group has seen passenger revenue growth during the financial year Volumes have been increasing, largely due to increasingly strong weekend travel and marketing campaigns, but yields remain under pressure The Virgin Rail Group expects to remain profitable for the foreseeable future

The Virgin Rail Group is focused on continually improving its customer service and satisfaction levels The selection, training and encouragement of staff continues to reflect this, while management is continually reviewing operations to provide the best value for money service to customers During the financial year the Virgin Rail Group has further improved on-train mobile phone signal reception giving customers more reliable use of mobile phones, Blackberry devices and 3G Data Cards, as well as improving Wi-Fi on board all Pendolino trains

Directors' report *(continued)*

Business review *(continued)*

Rail (continued)

The Virgin Rail Group continues to experience days of significant poor infrastructure performance, despite the generally improving trend when looking at the Public Performance Measure ("PPM" being the percentage of trains that arrive at their destination within 10 minutes of their scheduled arrival time having called at all scheduled stations) Despite this, the Virgin Rail Group's National Passenger Survey results have been trending upwards and the Virgin Rail Group now sits in the top two nationally of long distance train operators in all categories The Virgin Rail Group continues to press for improvements from Network Rail's performance contract to ensure that the effects of the poor performance days are minimised

The eagerly awaited West Coast high frequency and faster timetable is now fully operational, resulting in an overall increase in train services of 30 percent and journey time reductions of up to 50 minutes The key timetable improvements were an increase from two to three trains per hour to both Birmingham and Manchester from London and an hourly service from London to Glasgow and Chester The revenue and journey growth from the new timetable has ensured that the Virgin Rail Group has bucked the trend of other long distance train operators, particularly noticeable in the current economic environment and with the poor performance by Network Rail

The Virgin Rail Group uses a range of financial and non-financial key performance indicators ("KPIs") across its activities Financial KPIs focus on profitability and cash management Revenue is a key driver of profitability levels and the result of improved journey times and comfort has contributed to a 16% increase in passenger journeys year on year

Principal risks and uncertainties

The Group faces a range of risks and uncertainties Detailed below are those specific risks and uncertainties that could have the most significant impact on the Group's long-term performance The risks and uncertainties described below are not intended to be exhaustive

Major incidents risk

As with any operator of public transportation, there is a risk that the Group's airline and rail subsidiaries are involved in a major incident which could result in injury to customers or staff The potential impact on the Group includes damage to the Group's reputation and possible claims against the Group The Group has a strong focus on its safety environment, and has procedures in place to respond to any major incident that may occur

Franchise risk

The West Coast Amended and Restated Franchise Agreement was negotiated using a range of assumptions with regards to revenue growth and cost base It is imperative that West Coast takes all actions outlined in its bid to ensure that these targets are met

The Virgin Rail Group is required to comply with certain conditions as part of its rail franchise agreements If it fails to comply with these conditions, it may be liable to penalties or the potential termination of the franchise Compliance with franchise conditions are closely managed and monitored and procedures are in place to minimise the risk of non-compliance

The West Coast franchise is due to expire on 31 March 2012 and there is a risk that the Group does not secure a new franchise on acceptable terms The bidding process is due to start within 6 months and in preparation for this the Virgin Rail Group has appointed an Executive Bid Director who will lead the re-bid

Directors' report *(continued)*

Principal risks and uncertainties *(continued)*

Failure of critical suppliers

The Virgin Rail Group has a number of key suppliers supporting various areas of the Rail business, for example, infrastructure, rolling stock and IT Failure of one of these key suppliers would impact on the financial and operational performance of the Virgin Rail Group The Virgin Rail Group has made contingency plans for each key supplier if this eventuality occurs

Financial risk management

The Board of Directors is responsible for setting financial risk management policy and objectives, and approves the parameters within which the various aspects of financial risk management are operated

Financing and interest rate risk

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

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

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

The Virgin Rail Group's policy is to invest cash assets safely and profitably To control credit risk, counterparty credit limits are set by reference to published credit ratings In addition, the Group seeks to maximise financial income from short term deposits via the monitoring of cash balances and working capital requirements

The Group uses various derivative financial instruments to manage its exposure to interest rate movements

Foreign currency risk

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

Fuel price risk

The Virgin Atlantic Group aims to provide protection against sudden and significant increases in the jet fuel price while ensuring that the Group may also benefit from price reductions In order to provide protection the Virgin Atlantic Group uses a limited range of hedging instruments, principally zero-cost collars and forwards, with approved counterparties and within approved limits

Directors' report *(continued)*

Financial risk management *(continued)*

Derivative financial instruments

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

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the Group does not significantly exceed the book values of these assets at 31 March 2010

Future prospects

Air travel

The Virgin Atlantic Group is well positioned to face any unexpected situations It has a strong management team, significant cash reserves and excellent products and services The announcement by Virgin Atlantic Airways of new services to Ghana and Las Vegas via Manchester illustrate our willingness to seek out new profitable opportunities and the recent major order for new Airbus A330 aircraft will ensure that we have the greater flexibility in the mix of aircraft within our fleet and will allow a more rapid response to future movements in the global economy

Rail

The directors remain confident that, under the terms of the ARFA, West Coast will move forward on a profitable basis Based on the anticipated profitable position and forecast cash flows of West Coast, the directors have a reasonable expectation that the Virgin Rail Group has adequate resources to continue in operational existence for the current West Coast franchise term

Working capital and cash flow

The Group is party to a group overdraft facility of £240million (*2009 £240million*), all of which is repayable on demand Cash is managed centrally across a number of group companies and therefore cash balances held will fluctuate according to immediate requirements

Environmental impact

The Virgin Atlantic Group is committed to addressing its environmental impacts and at a minimum to complying with those rules and regulations concerning protection of the environment, which apply to the Group's operations There are rules and regulations, which apply to the Group's operations in respect of emissions, noise, disposal of waste (including hazardous materials) and other environmental parameters

The Virgin Atlantic Group has continued to circulate quarterly "Sustainability Dashboards" to the Virgin Atlantic Group's senior executives, setting out performance against sustainability targets including waste, energy, fuel efficiency, and on monies raised through the onboard Change for Children fundraising appeal

Directors' report *(continued)*

Environmental impact *(continued)*

Energy efficiency measures continued to be implemented, and staff engagement remains a priority going forwards The Virgin Atlantic Group exceeded its target of diverting 50% of its ground operations waste away from landfill, and so set a more ambitious target which includes an absolute reduction The Virgin Atlantic Group also identified a roadmap for how it would achieve its target of diverting onboard waste away from landfill, focussing on flights inbound to the UK in the initial phases

During 2009 the Virgin Atlantic Group also agreed, and issued to key suppliers, a sustainable procurement policy that sets out a range of environmental and social standards with which they would be expected to comply

The Virgin Atlantic Group continues to participate actively in various stakeholder groups, including Sustainable Aviation, which brings together different aspects of the UK aviation industry behind a common work programme on issues such as carbon emission modelling, opportunities for operational efficiencies, technological solutions and assessing scientific understanding of non-Co2 related impacts of aviation During 2009, the Virgin Atlantic Group lobbied extensively – as part of the Aviation Global Deal Group – for the inclusion of Co2 emissions from international aviation in an ambitious global climate change framework

In January 2010, a charity linked to the Virgin Atlantic Group, Virgin Atlantic Foundation, launched its "Change is in the Air" programme, linking the social and environmental elements of sustainability and committing to a three year partnership with Free the Children and The Travel Foundation, charities which share the Foundation's objectives of supporting sustainable communities in its destinations

Directors

The directors who held office during the year and since were as follows

G D McCallum

I P Woods (appointed on 4 November 2010)

C R Stent (appointed on 4 November 2010)

P C K McCall (resigned on 4 November 2010)

J Bayliss (resigned on 2 April 2010)

Employees

The Group is a non-discriminatory employer operating an Equal Opportunities Policy that aims to eliminate unfair discrimination, harassment, victimisation and bullying The Group is committed to ensuring that all individuals are treated fairly, with respect and are valued irrespective of disability, race, gender, health, social class, sexual preference, marital status, nationality, religion, employment status, age or membership or non-membership of a trade union

The Group uses the consultative procedures agreed with its staff and elected representatives with a view to ensuring that its employees are aware of the financial and economic factors that affect the Group's performance and prospects

In considering applications for employment from disabled people in the UK, the Group seeks to ensure that full and fair consideration is given to the abilities and aptitudes of the applicant against the requirements of the jobs for which he or she has applied Employees who become temporarily or permanently disabled are given individual consideration, and where possible equal opportunities for training, career development and promotions are given to disabled persons Within the bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of the Group and are of interest and concern to them as employees The Group also encourages employees, where relevant, to meet on a regular basis to discuss matters affecting them

Directors' report *(continued)*

Political and charitable contributions

The Group made no political contributions during the year (*2009 £nil*) Donations to UK charities amounted to £6 8million (*2009 £0 5million*) of which £5 8million (*2009 £nil*) was made to Virgin Unite, a charity affiliated to the Group

Dividends

Virgin Atlantic Limited

Preference dividends paid for the current year amounted to £2 4million (*2009 £8 3million*) During the year, the preference shareholders agreed to waive the interim preference dividend and consequently this has been transferred to other reserves as a capital contribution (*2009 paid*) The directors recommend that no ordinary dividend be paid in respect of the year ended 28 February 2010 (*2009 nil*)

Virgin Rail Group Holdings Limited

Dividends paid during the year totalled £54 6million (*2009 £107 3million*)

Disclosure of information to auditors

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

Auditors

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

By order of the Board

B A R Gerrard
Company Secretary

The School House
50 Brook Green
Hammersmith
London
W6 7RR
15 December 2010

Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

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

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

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

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

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

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

We have audited the financial statements of Virgin Wings Limited for the year ended 31 March 2010 set out on pages 10 to 66 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements
In our opinion the financial statements
• give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2010 and of the group's loss for the year then ended,
• have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
• have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion
• adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
• the parent company financial statements are not in agreement with the accounting records and returns, or
• certain disclosures of directors' remuneration specified by law are not made, or
• we have not received all the information and explanations we require for our audit

H Green (Senior Statutory Auditor),
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

KPMG LLP
15 Canada Square
London
E14 5GL

15 December 2010

Consolidated profit and loss account

for the year ended 31 March 2010

	Notes	Before exceptionals 2010 £m	Exceptional items 2010 £m	Total 2010 £m	Before exceptionals 2009 restated £m	Exceptional items 2009 £m	Total 2009 restated £m
Turnover group and share of joint ventures	2	3,339 1	-	3,339 1	3,415 9	-	3,415 9
Less share of joint ventures	2,12	(163 5)	-	(163 5)	(149 7)	-	(149 7)
Group turnover	2	3,175 6	-	3,175 6	3,266 2	-	3,266 2
Cost of sales	4	(2,696.6)	(15.8)	(2,712.4)	(2,774 7)	-	(2,774 7)
Gross profit		479 0	(15 8)	463 2	491 5	-	491 5
Administrative expenses	4	(741 8)	(73 7)	(815.5)	(770 5)	-	(770 5)
Other operating income	3,4	106 4	57.9	164 3	136 8	-	136 8
Group operating loss	2	(156.4)	(31.6)	(188.0)	(142 2)	-	(142 2)
Loss from associates/joint ventures	12	(14.7)	-	(14.7)	(30 8)	-	(30 8)
(Loss)/profit on sale of tangible fixed assets	4	-	(0 1)	(0 1)	-	15 0	15 0
Profit on sale of investments	4	-	84 7	84 7	-	7 0	7 0
(Loss)/profit on ordinary activities before interest and tax	3	(171 1)	53 0	(118 1)	(173 0)	22 0	(151 0)
Dividends receivable		9.6	-	9.6	-	-	-
Interest receivable and similar income	7	62.0	-	62.0	214 2	-	214 2
Other finance income	24	1.2	-	1 2	1 9	-	1 9
Interest payable and similar charges	8	(79.1)	-	(79.1)	(145 5)	-	(145 5)
(Loss)/profit on ordinary activities before taxation	3	(177 4)	53 0	(124 4)	(102 4)	22 0	(80 4)
Tax	4,9	72.5	(7 1)	65 4	(41 4)	4 2	(37 2)
(Loss)/profit on ordinary activities after taxation		(104.9)	45.9	(59.0)	(143 8)	26 2	(117 6)
Minority interests	21	1.7	-	1.7	(28 6)	-	(28 6)
(Loss)/profit for the financial year	20	(103 2)	45 9	(57 3)	(172 4)	26 2	(146 2)

The loss for the year arises from continuing operations

The notes on pages 16 to 66 form part of these financial statements

Consolidated balance sheet
At 31 March 2010

	Notes	31 March 2010 £m	31 March 2010 £m	31 March 2009 £m	31 March 2009 £m
Fixed assets					
Intangible assets					
Goodwill	10	593 1		628 8	
Negative Goodwill	10	(15 7)		-	
Landing slots	10	39.4		39 8	
Intellectual property	10	11 0		12 9	
			627.8		681 5
Tangible fixed assets	11		421 5		391 9
Investment in joint ventures					
Share of gross assets	12	3.3		-	
Share of gross liabilities	12	-		-	
		3 3			-
Other investments	12	39 8		33 7	
			43 1		33 7
			1,092.4		1,107 1
Current assets					
Stocks	13	32 5		31 7	
Debtors (including £179 7million (*2009 £156 8million*) due after more than one year)	14	1,414 7		1,893 7	
Cash at bank and in hand	15	854 0		719 6	
		2,301 2		2,645 0	
Creditors: amounts falling due within one year	16	(2,690.8)		(2,872 6)	
Net current liabilities			(389 6)		(227 6)
Total assets less current liabilities			702 8		879 5
Creditors amounts falling due after more than one year	17		(631.0)		(773 8)
Net liabilities in joint ventures					
Negative Goodwill	12	(0 8)		-	
Share of gross assets	12	76 5		54 5	
Share of gross liabilities	12	(116 2)		(107 0)	
			(40.5)		(52 5)
Pension liability, net of deferred tax	24		(2 2)		(3 7)
Provisions for liabilities and charges	18		(299 4)		(292 2)
Net liabilities			(270.3)		(242 7)

Consolidated balance sheet *(continued)*
At 31 March 2010

	Notes	**31 March 2010 £m**	31 March 2009 £m
Capital and reserves			
Called up share capital	*19,20*	-	-
Profit and loss account	*20*	**(381.1)**	(337 5)
Shareholders' deficit	*20*	**(381 1)**	(337 5)
Minority interests	*21*	**110.8**	94 8
		(270.3)	(242 7)

The notes on pages 16 to 66 form part of these financial statements

These financial statements were approved by the board of directors on 15 December 2010 and were signed on its behalf by

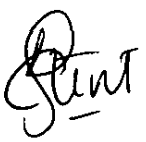
C R Stent
Director

Company balance sheet
At 31 March 2010

	Notes	31 March 2010 £m	31 March 2010 £m	31 March 2009 £m	31 March 2009 £m
Fixed assets					
Investments	*12*		1,939.3		1,939 3
Current assets					
Debtors due with one year	*14*	-		0 4	
Creditors: amounts falling due within one year	*16*	(2,397 9)		(2,331 2)	
Net current liabilities			(2,397 9)		(2,330 8)
Net liabilities			(458 6)		(391 5)
Capital and reserves					
Called up share capital	*19,20*		-		-
Profit and loss account	*20*		(458.6)		(391 5)
Shareholders' deficit	*20*		(458.6)		(391 5)

The notes on pages 16 to 66 form part of these financial statements

These financial statements were approved by the board of directors on 15 December 2010 and were signed on its behalf by



CR Stent
Director

Consolidated cash flow statement
for the year ended 31 March 2010

Cash flow statement

	Notes	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Cash flow from operating activities	26	**200 5**	(368 0)
Returns on investments and servicing of finance	27	**(34 1)**	(34 0)
Taxation		**(20 7)**	(27 9)
Capital expenditure and financial investment	27	**(82.1)**	(171 8)
Acquisitions and disposals	27	**78.8**	(214 8)
Cash inflow/(outflow) before management of liquid resources and financing		**142 4**	(816 5)
Financing	27	**(7 1)**	337 3
Increase/(decrease) in cash in the year		**135 3**	(479 2)

Reconciliation of net cash flow to movement in net debt

	Notes	2010 £m	2009 £m
Increase/(decrease) in cash in the year		**135.3**	(479 2)
Cash inflow/(outflow) from increase in debt and lease financing		**7 1**	(337 3)
Change in net debt resulting from cash flows		**142.4**	(816 5)
Settlement of share options		**(3.6)**	-
Other non cash items			
Accrued interest		**(40 1)**	(95 7)
Other non cash movements		**81.4**	296 3
Loans and finance leases acquired with subsidiary		**(18 9)**	528 9
Translation differences		**(5.0)**	(79 2)
Movement in net debt in the year		**156 2**	(166 2)
Net debt at the start of the year		**(1,420.8)**	(1,254 6)
Net debt at the end of the year	28	**(1,264 6)**	(1,420 8)

The notes on pages 16 to 66 form part of these financial statements

Consolidated statement of total recognised gains and losses
for the year ended 31 March 2010

	Notes	**Year ended 31 March 2010 £m**	Year ended 31 March 2009 £m
(Loss) for the financial year			
Group		**(40 5)**	(114 9)
Share of joint ventures		**(16 8)**	(29 2)
Share of associates		**-**	(2 1)
	20	**(57.3)**	(146 2)
Currency translation differences on net foreign currency investments	*20*	**13 6**	(2 2)
Unrealised gain on dilution of investments	*20*	**0.8**	-
Actuarial gain on pension scheme	*20*	**0 2**	2 9
Deferred tax on actuarial gain on pension scheme	*20*	**(0.1)**	(0 8)
Total recognised losses relating to the financial year		**(42 8)**	(146 3)

The notes on pages 16 to 66 form part of these financial statements

Notes

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements for the year under review, except as noted below

Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified to include the revaluation of certain assets, on an ongoing basis, and in accordance with applicable UK Accounting Standards and on a going concern basis

The holding company has taken advantage of section 408 of the Companies Act 2006, and a separate profit and loss account of the Company has not been published The loss for the year attributable to the Company is disclosed in Note 20

The Group has an existing accounting policy to recognise foreign differences on loan and cash balances in interest payable or receivable as appropriate Exchange gains of £68 0million were included in other operating income in the year ended 31 March 2010 and they have been reclassified with interest receivable in line with the above policy in the comparative period of these accounts This change has not affected the reported profit or net assets for the financial year for the period or any subsequent period although it has resulted in a reduction in Group operating loss from £67 7million to £135 7million for the comparative period

Going concern

The financial statements have been prepared on a going concern basis in view of the fact that the parent undertaking Virgin Group Holdings Limited has formally indicated that it is its present intention to provide sufficient funding to the Company, to enable it to meet its liabilities as they fall due, for at least the next twelve months

The directors have no reason to believe that the parent company will not be in a position to provide the support referred to above and, accordingly, they have prepared the financial statements on the going concern basis

Basis of consolidation

The financial statements consolidate Virgin Wings Limited ("the Company") and its subsidiaries together ("the Group") made up to 31 March 2010 The acquisition method of accounting has been adopted on the basis that the Company exercises dominant influence over the subsidiaries' operating and financial policies Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal

The principles of merger accounting have been used for the inclusion of Virgin Travel Group Limited, although it does not meet all of the conditions of the Companies Act 2006 for merger accounting The Companies Act 2006 has been overridden to give a true and fair view The Group arose through a reconstruction of a former group which did not alter the relative rights of the ultimate shareholders of the Group's subsidiaries and hence it is considered inappropriate to account for the transaction using acquisition accounting principles, which would have been the required treatment if the Companies Act had not been overridden If acquisition accounting principles had been used the assets and liabilities of the Group's subsidiaries would have been brought into the consolidated financial statements at fair value at the date of acquisition and goodwill would have arisen on the reconstruction The effect of applying acquisition accounting has not been quantified as it is not considered practical to obtain all the valuations that would be necessary to make such quantification

Virgin Atlantic Limited has consolidated the results of Air Nigeria Development Limited (formerly Virgin Nigeria Airways Limited) from the time it was set up in 2005 to 31 August 2007 on the grounds that it has a 49% equity shareholding and rights contained in certain core legal agreements which allowed the Group to exercise dominant influence over the operating and financial policies of Air Nigeria Development Limited, including the right to nominate a majority of the directors During the course of the 2008 financial year Virgin Atlantic Limited experienced severe restrictions in its ability to enforce these rights, and as such could not exercise either dominant or significant influence over the operational and financial policies of Air Nigeria Development Limited, a situation which the board considers irreversible

Notes *(continued)*

1 Accounting policies *(continued)*

***Basis of consolidation** (continued)*

On 1 March 2002 Virgin Rail Group Holdings Limited acquired the entire share capital of Virgin Rail Group Limited with the consideration being satisfied by the issue of ordinary shares in Virgin Rail Group Holdings Limited In accordance with UK Accounting Standards the combination was accounted for as a Group reconstruction using the principals of merger accounting All other acquisitions made by Virgin Rail Group Holdings Limited have been accounted for using the principles of acquisition accounting Amortisation of negative goodwill is credited to the profit and loss account on a straight line basis over the relevant franchise period

A joint venture is an undertaking in which the Group has a long term interest and over which it exercises joint control The Group's share of the profits less losses of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments on the balance sheet Goodwill arising on the acquisition of a joint venture less accumulated amortisation is included in the carrying amount for the joint venture

The consolidated financial statements have been compiled using the financial statements of Virgin Wings Limited's subsidiaries, joint ventures and associates for accounting periods which are usually coterminous with Virgin Wings Limited's own accounting reference date Where such entities have different accounting reference dates, appropriate adjustments have been made to realign the figures for those entities such that they are incorporated for the period covered by this financial information In some instances, it has not been practical to obtain appropriate financial information covering the year ended 31 March 2010 In these circumstances, in accordance with Financial Reporting Standard 2, "Accounting for Subsidiary Undertakings", a period ending within the three months prior to that date has been used instead The impact of transactions that have taken place in the intervening period to 31 March 2010 and the equivalent period in the prior year have only been adjusted for where the impact is considered material in these accounts

The principal entities for which non-coterminous accounting reference dates, within three months of Virgin Wings Limited's accounting reference date, have been used are as follows

	Subsidiary's year-end	**Length of period consolidated into these accounts**	**Length of period consolidated into the comparatives**
Virgin Atlantic Limited	28 February 2010	12 months	12 months
Virgin Rail Group Holdings Limited	6 March 2010	12 months	12 months

Turnover

Turnover represents amounts (excluding value added tax) derived from the provision of goods and services to third party customers

Air travel

Turnover is stated gross of commission and comprises revenue from passenger ticket sales, cargo and ancillary goods and services in respect of flights operated in the accounting period, sales of holiday packages and travel insurance with departure dates in the accounting period and income relating to rights over the use of the Virgin name and its intellectual property Revenue relating to flights, holidays and travel insurance commencing after the accounting period, together with any commission thereon, is carried forward as deferred income Expired forward sales are released to the profit and loss account on a systematic basis

The Virgin Atlantic Group also receives agency commission for the sale of third party holiday products The agency commission due from the third party is recognised as revenue when earned, typically at date of booking

Notes *(continued)*

1 Accounting policies *(continued)*

Turnover (continued)

Rail

Turnover comprises amounts receivable, excluding VAT, for services and goods supplied to external customers, primarily in respect of passenger transportation Turnover originates wholly in the United Kingdom Passenger revenue represents principally amounts attributed to the Group by the Railway Settlement Plan (which administers the income allocation system within the UK rail industry) for each financial period

Income is attributed based on models of certain aspects of passenger behaviour and to a lesser extent from allocations agreed for specific revenue flows The attributed share of season ticket income is deferred within creditors and released to the profit and loss account over the life of the relevant season ticket Other trading income consists principally of the provision of station facilities to other train operators, retail commissions, car parking and the hire out of train crew and rolling stock Other trading income and catering income are recognised as the income is earned

Rail franchise income

Revenue grants receivable in respect of the operation of the rail franchises are taken to the profit and loss account in the financial year to which they relate

Compensation for service disruption

Compensation receivable/payable for service disruption under the performance regime provisions of the track access agreements with Network Rail is recognised over the period of disruption and the net amount is shown within other operating income Network change compensation receivable in respect of lost revenue and incremental costs incurred due to Network Rail's alterations of the track and infrastructure is recognised over the period of disruption and is shown within other operating income

Goodwill and negative goodwill

In accordance with Financial Reporting Standard 10, "Goodwill and Intangible Assets", positive goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised in the balance sheet as an intangible asset at cost and amortised to nil by equal annual instalments over its estimated useful economic life as set out in Note 10 If the goodwill is considered to have an indefinite useful life, it is not amortised but is subject to annual review for impairment Negative goodwill arising on consolidation in respect of acquisitions is included within intangible fixed assets and released to the profit and loss account in the period in which the fair value of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale Intellectual property rights, concessions, patents, licences and trademarks purchased are capitalised and amortised through the profit and loss account over the expected useful economic life of the asset

On the subsequent disposal or termination of a business acquired, the profit or loss on disposal or termination is calculated after charging (crediting) the unamortised amount of any related goodwill (negative goodwill) In the Group's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off

Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment

Development expenditure

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

Notes *(continued)*

1 Accounting policies *(continued)*

Landing slot expenditure

The Group has previously amortised purchased landing slots over their useful economic life which has been estimated at 20 years from the date at which they came into service During the year ended 28 February 2009, the directors of Virgin Atlantic Group reassessed this economic life in view of the Open Skies agreements which came into effect in 2008 and which increased and developed a more transparent market for slots and also in view of the legal rights for slots which provide that the holder has 'grandfather rights' for landing slots which continue for an indefinite period As a result of these developments purchased landing slots have an indefinite economic life and are not amortised Instead, they are subject to an annual impairment review and a provision is recognised for any identified impairment

Administrative expenses

Administrative expenses comprise overhead expenses, depreciation of assets and amortisation of goodwill, together with marketing and promotional costs Marketing and promotional costs are expensed to the profit and loss account as incurred

Tangible fixed assets and depreciation

Depreciation is provided at various rates in order to write off the cost of tangible fixed assets less their estimated residual values, over their estimated useful lives or, if shorter, periods of underlying finance leases or property leases The lives for the major categories of assets are as follows

Freehold land	Not depreciated
Freehold property	Up to 50 years
Leasehold land and buildings	Term of lease up to 50 years
Aircraft, aircraft spares and rotables	Up to 25 years
Fixtures and fittings	2 to 10 years
Plant and machinery	3 to 10 years
Office equipment	3 to 5 years
Computer equipment and software	3 to 10 years
Motor vehicles	3 to 4 years

Aircraft and engine maintenance costs in respect of major overhauls which are typically carried out at intervals greater than one year are capitalised and depreciated by reference to their units of economic consumption, typically hours or sectors flown Part of the initial cost of new or used aircraft is treated as such maintenance expenditure based upon its maintenance status on acquisition and the current cost of the maintenance procedures The balance of aircraft and engine cost is depreciated on a straight line basis over periods of up to twenty five years, so as to reduce the cost to estimated residual value at the end of that period The effective depreciation rate per annum in respect of new wide-bodied aircraft is approximately 4%

Rotable spares are depreciated on a straight line basis so as to reduce the cost or valuation to estimated residual value at the end of that period The depreciation rate per annum in respect of rotable spares is 7 25% or 12 5% dependent on type

Notes *(continued)*

1 Accounting policies *(continued)*

***Tangible fixed assets and depreciation** (continued)*

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

Design and content development costs of web-sites are capitalised only to the extent that they lead to the creation of an enduring asset delivering benefits at least as great as the amount capitalised If there is insufficient evidence on which to base reasonable estimates of the economic benefits that will be generated in the period until the design and content are next updated, the costs of developing the design and content are charged to the profit and loss account as incurred

The Group evaluates its fixed assets for financial impairment where events or circumstances indicate that the carrying amount of such assets may not be fully recoverable When such evaluations indicate that the carrying value of an asset exceeds its recoverable amount an impairment in value is recorded and charged through the profit and loss account

Leases

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

All other leases are accounted for as operating leases and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease Where operating lease charges are variable based on prevailing interest rates, costs are recognised prospectively over the remaining term of the lease

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

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company As at 31 March 2010, there is no dividend liability or asset (*2009 nil*)

Aircraft maintenance costs

Routine maintenance costs are written off to the profit and loss account as incurred Maintenance costs for overhauls relating to aircraft and engines held under operating leases for which there is a contractual obligation are provided for by making appropriate charges to the profit and loss account For owned aircraft and engines, major overhaul expenditure is capitalised and depreciated by reference to the units of economic consumption, typically hours or sectors flown

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

Notes *(continued)*

1 Accounting policies *(continued)*

New train service arrangement costs

Under the original franchise agreements, the Virgin Rail Group was required to operate faster and more frequent services on the West Coast Main Line In order to achieve this, contracts were entered into, several years ago, to lease new trains under operating lease arrangements In accordance with these agreements, the Group incurred direct costs on behalf of the lessor associated with developing the contracted new train service arrangements These costs are an integral part of the operating lease expense, and therefore were recorded within prepayments when incurred and are being charged to the profit and loss account on a straight line basis from the point at which new trains came into operation until the earlier of the end of the relevant lease agreements or the franchise terms

Track access costs

Track access costs are charged to the profit and loss account in the period to which they relate, based on the terms of the contract

Network Rail has undertaken a programme of infrastructure works to upgrade the West Coast Main Line to enable trains to run at higher speeds and frequencies Under a series of supplemental track access agreements, the Virgin Rail Group paid additional separately identifiable track access charges in respect of the increased track speed and capacity that these infrastructure improvement works create This increased track capacity became available to the Group with the introduction of the timetable in September 2004 In order that additional track access charges can be recorded in the periods in which the Group benefits from the additional track capacity, additional payments made prior to September 2004 were recorded within prepayments and are being charged to the profit and loss account on a straight line basis from September 2004 to the end of the franchise term

Frequent flyer programme

The estimated incremental cost of providing free travel and other rewards in exchange for redemption of miles earned by members of The Flying Club frequent flyer scheme is accrued at the expected redemption rate as members of these schemes accumulate mileage

Revenue from sales of miles to third parties is deferred and recognised when flown

Cash and liquid resources

Cash at bank and in hand includes both cash and liquid resources Cash includes cash in hand and deposits repayable on demand, less overdrafts payable on demand Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market Liquid resources include term deposits

Provisions

Provisions are recognised where the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation The amounts recognised are the best estimate of the expenditure that will be required to meet the Group's obligation

Stocks

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

Notes *(continued)*

1 Accounting policies *(continued)*

Pension and other post retirement benefits

The Group operates defined contribution pension schemes The assets of the schemes are held separately from those of the Group in independently administered funds The amount charged in the profit and loss account represents the contributions payable to the schemes by the Group in respect of the accounting period

The Group's subsidiary, West Coast Trains Limited (in which the Group has an indirect holding through the Group's subsidiary Virgin Rail Group Holdings Limited), also participate in the Railways Pension Scheme ("RPS"), which provides benefits on a defined benefit basis The assets of the scheme are held separately from those of the Group in an independently administered fund

The RPS is a shared cost scheme with costs being shared between the employer and the members on the basis of a 60 40 split The Group has no rights or obligations in respect of the RPS following expiry of the related franchises Therefore, the liabilities recognised for the relevant sections of RPS only represent that part of the net deficit of each section that the employer is obliged to fund over the life of the franchise to which the section relates The restriction on the liabilities is presented as a "franchise adjustment" to the overall deficit

The Group's contributions to the schemes are paid in accordance with the scheme rules and the recommendation of the actuary The charge to operating profit reflects the current service costs of such obligations The expected return on scheme assets, the interest cost on scheme liabilities and the unwinding of the discount on the franchise adjustment are included within other finance income (net) in the profit and loss account

Differences between the actual and expected returns on assets and experience gains/(losses) arising on the scheme liabilities during the year, together with differences arising from changes in assumptions, are recognised in the statement of total recognised gains and losses in the year The resulting defined benefit asset/liability, net of the franchise adjustment and any deferred tax, is presented separately after other net assets on the face of the balance sheet

Pension scheme assets are measured using market values For quoted securities the current bid-price is taken as market value Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return

Long Term Incentive Plan (LTIP)

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

Share based payments

The share option programme allows certain employees to acquire options over the shares of certain group companies All share based payments are treated as cash settled transactions as they either require full settlement in cash or where settlement in shares is envisaged the issuer has established the practice of buying out the option at the end of its term The fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to payment The fair value is measured based on an option pricing model taking into account the terms and conditions upon which the instruments were granted The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account

Notes *(continued)*

1 Accounting policies *(continued)*

Classification of financial instruments issued by the Group

The Group uses various derivative financial instruments to manage its exposure to interest rate movements and foreign exchange risks Gains and losses on hedges of revenue or operating payments are recognised in the profit and loss account of the period in which the hedged transaction matures or is closed out

Financial instruments issued by the Group are treated as equity (i e forming part of shareholders' funds) only to the extent that they meet the following two conditions

a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group), and
b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares As at 31 March 2010, the Group's preference share capital liability was £nil *(2009 £49 0million)*, as disclosed in Note 17 Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges Finance payments associated with financial instruments that are classified as part of shareholders' funds are dealt with as appropriations in the reconciliation of movements in shareholders' funds For the year ended 31 March 2010, preference dividends payable of £1 2million (*2009 £4 1million*) were recognised within the total interest payable expense, as disclosed in Note 8

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged, at the rate of exchange under the related forward currency contract Monetary assets and liabilities denominated in foreign currency are translated into sterling at the rates of exchange ruling at the end of the accounting period or, where applicable, at a hedged rate Foreign exchange differences on translating loan and cash balances into £ sterling are included in interest payable or receivable as appropriate

For consolidation purposes, the assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates The profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the rates and laws that have been enacted or substantively enacted at the balance sheet date The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Tax charges and credits are accounted for through the same primary statement (being either profit and loss account or the statement of total recognised gains and losses) as the related pre-tax items

Deferred tax is recognised, without discounting, in respect of all timing differences between treatment of certain items for taxation and accounting purpose which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 19 A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Notes *(continued)*

2 Segmental information

The table below sets out information for each of the Group's industry segments and geographic areas of operation

By activity

	Turnover	Turnover	**Group operating profit/(loss)**	Group operating profit/(loss)	**Net operating assets/ (liabilities)**	Net operating assets/ (liabilities)
	Year ended 31 March 2010	Year ended 31 March 2009 *restated*	**Year ended 31 March 2010**	Year ended 31 March 2009 *restated*	**31 March 2010**	31 March 2009 *restated*
	£m	£m	**£m**	£m	**£m**	£m
Travel	**3,070.5**	3,224 0	**(62.0)**	27 5	**(10.0)**	166 8
Health clubs	**4.5**	-	**(4 5)**	-	**7 8**	3 1
Retail	**9.1**	-	**1.7**	-	**6.2**	8 1
Mobile telecoms	**163.4**	149 7	**(14 6)**	(27 9)	**(40 5)**	(52 6)
Hotels	**27.2**	-	**(6 1)**	-	**60 0**	12 9
Other trading	**32 0**	35 1	**(3.5)**	0 7	**(47.3)**	(17 0)
Management services	**32.4**	7 1	**(113.7)**	(170 4)	**467 0**	222 3
	3,339 1	3,415 9	**(202 7)**	(170 1)	**443 2**	343 6
Less share of joint ventures turnover/operating loss	**(163 5)**	(149 7)	**14 7**	27 9		
Total	**3,175 6**	3,266 2	**(188 0)**	(142 2)		

Management services include provisions against fixed asset investments and amounts due from related parties

Other trading principally includes brand licensing

Notes *(continued)*

2 Segmental information *(continued)*

By geographical market	**Turnover by origin Year ended 31 March 2010 £m**	Turnover by origin Year ended 31 March 2009 *restated* £m	**Turnover by destination Year ended 31 March 2010 £m**	Turnover by destination Year ended 31 March 2009 *restated* £m
UK	**2,346.4**	2,504 4	**795 9**	797 7
Europe	**188.4**	99 2	**139 2**	109 4
North America	**387 8**	424 0	**1,579 4**	1,661 0
Africa	**137 5**	143 8	**287 8**	298 8
Asia	**186.7**	177 4	**435 2**	470 8
Oceania	**59 9**	60 0	**69 2**	71 1
Management services	**32 4**	7 1	**32 4**	7 1
	3,339.1	3,415 9	**3,339.1**	3,415 9
Less share of joint ventures' turnover	**(163 5)**	(149 7)	**(163 5)**	(149 7)
Total	**3,175 6**	3,266 2	**3,175.6**	3,266 2

By geographical market	**Group operating profit/(loss) Year ended 31 March 2010 £m**	Group operating profit/(loss) Year ended 31 March 2009 *restated* £m	**Net operating assets/ (liabilities) 31 March 2010 £m**	Net operating assets/ (liabilities) 31 March 2009 *restated* £m
UK	**(58 2)**	35 4	**(30.3)**	149 1
Europe	**0 7**	(11 2)	**(31 9)**	(29 8)
North America	**(27.7)**	(23 9)	**30.9**	(1 8)
Africa	**0 4**	-	**(0 3)**	0 8
Asia	**0 3**	-	**-**	(0 1)
Oceania	**(4 5)**	-	**7.8**	3 1
Management services	**(113 7)**	(170 4)	**467.0**	222 3
	(202.7)	(170 1)	**443.2**	343 6
Less share of joint ventures' operating loss	**14 7**	27 9		
	(188.0)	(142 2)		

Due to the nature of the airline industry any fixed assets within these segments are categorised geographically by where the holding entity is based

Due to the acquisition of the health club, retail and hotels segments during the year, the directors have reconsidered the nature of the segments and restated the comparatives accordingly

Notes *(continued)*

3 (Loss)/profit on ordinary activities before taxation

	Year ended 31 March 2010	Year ended 31 March 2009 *restated (see note 1)*
	£m	£m
(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation and other amounts written off tangible fixed assets		
Owned *(of which £2 8million (2009 £nil) was exceptional)*	**74 6**	60 4
Leased	**0 9**	0 3
Amortisation and other amounts written off intangible fixed assets		
Intangible fixed assets *(of which £1 6million (2009 £nil) was exceptional)*	**41.6**	33 6
Amortisation of premium in joint ventures and associates	**-**	0 7
Hire of plant and machinery – operating leases	**84.0**	78 5
Hire of other assets – operating leases	**258.8**	246 8
Foreign exchange loss on trading (including exchange loss on intra-group trade accounts of £0 1million *(2009 gain of £2 1million)*)	**0.3**	7 3
Foreign exchange loss/(gain) on financing	**0.8**	(54 8)
Net provision charged against debts owed by group and fellow subsidiary undertakings *	**58 8**	133 9
Other operating income		
Rail franchise income	**(21.1)**	(26 3)
Network change compensation and performance regime	**(57 4)**	(103 8)
Rental income received on properties	**(2.4)**	(2 3)
Operating income from related parties	**(24.5)**	(4 0)
Compensation payments from suppliers	**(57.9)**	-
Other	**(1 0)**	(0 4)
	(164.3)	(136 8)
Auditors' remuneration		
Audit of these financial statements	**0.1**	0 1
Amounts receivable by the auditors and their associates in respect of		
Audit of financial statements of subsidiaries pursuant to legislation	**0.9**	0 8
Other services relating to taxation	**0.1**	0 1
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or the Company's subsidiaries	**0.2**	-
Total auditors' remuneration included in loss on ordinary activities before taxation	**1 3**	1 0

* Net provision charged against debts owed by group and fellow subsidiary undertakings has arisen mostly due to the intercompany interest charges and decline in the value of the group investments

Notes *(continued)*

4 Exceptional items

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Cost of sales	**(15.8)**	-
Administrative expenses	**(73.7)**	-
Other operating income	**57.9**	-
(Loss)/profit on disposal of tangible assets	**(0.1)**	15 0
Profit on disposal of investments	**84 7**	7 0
Taxation	**(7 1)**	4 2
Total exceptional items	**53 0**	26 2

Cost of sales

Exceptional cost of sales in the current year relates to restructuring costs incurred by Virgin Atlantic Airways Limited in response to the global economic downturn The charge of £15 8million in the year comprises costs of £6 8million associated with the voluntary severance scheme and redundancy programme for all direct staff (including crew, pilots and airport staff) and the recognition of an onerous lease provision of £9 0million in respect of two aircraft parked during the year The tax effect of this exceptional item was a credit of £4 4million

Administrative expenses

Intangible assets were impaired by £1 6million (*2009 £nil*)

Tangible fixed assets were impaired by £2 8million (*2009 £nil*) This principally comprises of £1 9million (*2009 £nil*) in the Hotels segment and £0 9million (*2009 £nil*) in the Travel segment

A provision of £27 4million (*2009 £nil*) was made against a loan to Virgin America Inc, of which a related undertaking of the Group holds a 25% interest in

A provision of £25 2million (*2009 £nil*) was recognised in connection with the ongoing competition investigations into various aspects of pricing and commercial issues in the airline industry

Exceptional administrative costs include £41 9million (*2009 £nil*) relating to restructuring costs associated with the voluntary severance scheme and redundancy programme for all overhead staff incurred by Virgin Atlantic Airways Limited and Virgin Holidays Limited in response to the global economic downturn, and the recognition of a provision in connection with the ongoing investigations into various aspects of pricing and commercial issues in the airline industry The tax effect of this exceptional item was a credit of £4 7million (*2009 £nil*)

Other operating income

Exceptional other operating income relates to entitlement to compensation payments from suppliers that have not fulfilled their contractual obligations The tax effect of this exceptional item was a charge of £16 2million

Notes *(continued)*

4 Exceptional items *(continued)*

Profit on disposal of investments

Current year disposals

Disposal of investments	Net consideration £m	Net assets/ (liabilities) £m	% disposal	Net (assets)/ liabilities disposed £m	Profit/ (loss) £m
Virgin Limousines (California) LLC	0 1	(0 4)	65%	0 2	0 3
Bluebottle Mobile Canada Inc	75 0	(8 5)	100%	8 5	83 5
					83 8
Gain on disposal of Virgin Wines Online Limited					0 9
					84 7

On 12 June 2009, the Group disposed of its 65% investment in Virgin Limousines (California) LLC The net consideration received was £0 1million payable by promissory note At the time of the disposal the net liabilities of Virgin Limousines (California) LLC were £0 4million resulting in a gain on disposal of £0 3million

On 2 July 2009, the Group disposed of 100% of its investment in Bluebottle Mobile Canada Inc and its underlying joint venture in Virgin Mobile Canada (Partnership) The net consideration received was CAD142 5million (£75 0million) payable in cash At the time of the disposal the consolidated net liabilities of Bluebottle Mobile Canada Inc were £8 5million resulting in a gain on disposal of £83 5million

On 17 February 2005, the Group disposed of its investment in Virgin Wines Online Limited The gain on disposal of £0 9million relates to deferred consideration received

Prior year disposals

Disposal of associate	Net consideration £m	Net assets £m	% disposal	Net assets disposed £m	Unamortised premium £m	Other £m	Profit £m
Virgin Blue Holdings Limited	130 9	412 6	22 95%	94 7	23 3	2 3	10 6
							10 6
Loss on disposal of investment in Virgin Blue Holdings Limited							(3 6)
							7 0

On 19 August 2008, Bluebottle UK Limited disposed of its 22 95% holding in an associate undertaking, Virgin Blue Holdings Limited to Corvina Holdings Ltd, another Virgin Group company for a consideration of £130 9million The Group made a profit on disposal of £10 6million

On 19 August 2008, Virgin Wings Limited disposed of its trade investment in Virgin Blue Holdings Limited for a consideration of £11 8million, resulting in a loss on disposal of £3 6million

Notes *(continued)*

4 Exceptional items *(continued)*

Taxation

The main tax effect of the exceptional items in the current year is an increase in the deferred tax charge of £16 2million This is a result of compensation payments from suppliers that have not filled their contractual obligations The other items to give rise to an exceptional tax effect is the costs associated with the voluntary severance scheme and redundancy programme resulting in reduction in the deferred tax charge of £6 6million, and the onerous lease provision in respect of two parked aircrafts resulting in a reduction in the deferred tax charge of £2 5million

In the prior year, the main tax effect of the exceptional items is a reduction in the deferred tax charge of £4 2million as a result of the £15 0million profit on sale of other tangible fixed assets in the Virgin Atlantic Group

5 Remuneration of directors

The directors did not receive any remuneration during the year for services to the Company (2009 £nil)

6 Staff numbers and costs

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

	Year ended 31 March 2010	Year ended 31 March 2009
Management and administration	**1,620**	1,503
Flight and cabin crew	**4,346**	5,018
Reservations and sales	**2,395**	2,557
Engineering, cargo and production	**1,359**	1,377
Operations and other	**3,024**	2,634
	12,744	13,089

The aggregate payroll costs of these persons were as follows

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Wages and salaries	**421.5**	405 8
Social security costs	**39 0**	37 2
Other pension costs	**31 0**	30 3
Share based payments (see note 25)	**6 0**	(0 4)
	497.5	472 9

The company had no employees in the year (*2009 nil*)

Notes *(continued)*

7 Interest receivable and similar income

	Year ended 31 March 2010 £m	Year ended 31 March 2009 *restated (see note 1)* £m
Bank interest	**11.3**	55 5
Other interest	**8.4**	2 8
Foreign exchange gains	**-**	54 8
Interest receivable from related parties	**42.3**	99 1
Share of interest receivable in joint ventures and associates	**-**	2 0
	62 0	214 2

8 Interest payable and similar charges

	Year ended 31 March 2010 £m	Year ended 31 March 2009 *restated (see note 1)* £m
On bank loans and overdrafts	**29.5**	37.0
Other interest	**5 8**	6 3
Foreign exchange losses	**0.8**	-
Interest payable to related parties	**39 6**	94.8
Finance charges payable in respect of finance leases and hire purchase contracts	**0 1**	0.1
Finance costs on shares classified as liabilities	**1.2**	4 1
Share of interest payable in joint ventures and associates	**2 1**	3.2
	79.1	145 5

Notes *(continued)*

9 Taxation

Analysis of (credit)/ charge in year	**Year ended 31 March 2010 £m**	**Year ended 31 March 2010 £m**	Year ended 31 March 2009 £m	Year ended 31 March 2009 £m
UK corporation tax				
Current tax on income for the period	**19.0**		53 9	
Group relief	**-**		(5 0)	
Adjustments in respect of prior periods	**(28.0)**		(2 6)	
	(9.0)		46 3	
Double tax relief	**-**		(0 6)	
		(9 0)		45 7
Foreign tax				
Current tax on income for the year	**0 3**		1 0	
Adjustments in respect of prior years	**0 1**		-	
		0 4		1 0
Total current tax		**(8 6)**		46 7
Deferred tax				
Origination/reversal of timing differences	**(24.4)**		(4 5)	
Adjustments in respect of prior periods	**(32 4)**		(4 3)	
		(56 8)		(8 8)
Share of associates' deferred tax		**-**		(0 7)
Tax on profit on ordinary activities		**(65 4)**		37 2

Notes *(continued)*

9 Taxation *(continued)*

Factors affecting the tax charge for the current year

The current tax (credit)/charge for the year is higher (*2009 higher*) than the standard rate of corporation tax in the UK 28% (*2009 28%*) The differences are explained below

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Current tax reconciliation		
Loss on ordinary activities before tax	**(124 4)**	**(80.4)**
Current tax credit at 28% (*2009 28%*)	**(34.8)**	**(22.5)**
Effects of		
Expenses not deductible for tax purposes	**50 8**	**75.9**
Income not subject to tax	**(55 2)**	**(45.6)**
Foreign tax	**-**	**0.3**
Capital allowances for period in excess of depreciation	**4.0**	**1 5**
Other timing differences	**(13 6)**	**3.7**
UK tax losses not utilised	**71.0**	**17 7**
Non UK tax losses not utilised	**4.3**	**24 9**
Amounts apportioned from CFC	**-**	**0.8**
Utilisation of UK tax losses brought forward	**(6 5)**	**(1 7)**
Utilisation of non UK tax losses brought forward	**(0.8)**	**(1 2)**
Higher/(lower) rates on overseas earnings	**-**	**(4.5)**
Adjustments to tax in respect of prior years	**(28.0)**	**(2 6)**
Capital gain	**0 2**	
Total current tax (credit)/charge (see above)	**(8 6)**	**46 7**

Notes *(continued)*

10 Intangible fixed assets

Group	Goodwill £m	Negative goodwill £m	Landing slots £m	Intellectual property £m	Total £m
Cost					
At 1 April 2009	735 2	-	43 8	17 4	796 4
Additions	1 5	(16 1)	-	-	(14 6)
Assets of purchased subsidiaries	1 9	-	-	-	1 9
Exchange differences	0 5	(0 1)	-	0 2	0 6
At 31 March 2010	**739 1**	**(16.2)**	**43 8**	**17 6**	**784.3**
Amortisation					
At 1 April 2009	106 4	-	4 0	4 5	114 9
Charged in period	38 0	(0 5)	0 4	2 1	40 0
Impairment	1 6	-	-	-	1 6
At 31 March 2010	**146 0**	**(0 5)**	**4.4**	**6 6**	**156 5**
Net book value					
At 31 March 2010	**593.1**	**(15 7)**	**39 4**	**11 0**	**627.8**
At 1 April 2009	628 8	-	39 8	12 9	681 5

Notes *(continued)*

10 Intangible fixed assets *(continued)*

Goodwill in relation to	Acquired by	Amortisation period	Goodwill cost £m
Assura Group	Virgin Healthcare Holdings Limited	5 years	(7 0)
Virgin Hotels Group Limited and subsidiaries	Bluebottle UK Limited	20 years	(7 2)
Barfair Limited and subsidiaries	Bluebottle UK Limited	20 years	99 4
Cricket SA	Bluebottle UK Limited	20 years	59 7
Virgin Holding Limited and subsidiaries	Virgin Wings Limited	20 years	571 2

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises All goodwill is amortised on a straight line basis The following sets out the periods over which goodwill is amortised and the reasons for the periods chosen

On 2 March 2010, Virgin Healthcare Holdings Limited acquired 75 1% of Assura Medical including its subsidiaries and joint venture investments, and Assura Corporate Services Limited The purchased negative goodwill of £7 0million was capitalised to the balance sheet and is being amortised over 5 years, representing the Board of Directors' expectations of the period over which the benefits will be realised (see note 29)

On 3 April 2009, Bluebottle UK Limited acquired 100% of Virgin Hotels Group Limited The purchased negative goodwill of £9 1million was capitalised to the balance sheet and is being amortised over 20 years, representing the Board of Directors' expectations of the useful economic life of the negative goodwill As part of the acquisition, the Group acquired £1 9million goodwill from Virgin Hotels Group Limited and subsidiaries

Where evidence of goodwill impairment has arisen, the impairment charge was taken to the profit and loss account as an exceptional item

Notes *(continued)*

11 Tangible fixed assets

Group	Land and buildings	Aircraft, aircraft spares and rotables	Modification to aircraft on operating leases	Plant and machinery, fixtures and fittings	Assets in the course of construction	Total
	£m	£m	£m	£m	£m	£m
Cost or valuation						
At 1 April 2009	48 0	236 7	98 9	134 6	21 5	539 7
Additions	6 3	9 9	1 3	13 3	24 3	55 1
Disposals	(0 4)	(4 2)	(1 2)	(1 3)	-	(7 1)
Assets of purchased subsidiaries	38 6	-	-	12 1	2 0	52 7
Assets of disposed subsidiaries	-	-	-	(0 7)	-	(0 7)
Exchange differences	-	-	-	(0 4)	0 1	(0 3)
Reclassifications	0 4	-	0 7	24 3	(26 0)	(0 6)
At 31 March 2010	92 9	242 4	99 7	181 9	21 9	638 8
Depreciation and impairments						
At 1 April 2009	1 2	48 0	39 6	59 0	-	147 8
Charge for the year	3 0	17 9	23 4	28 4	-	72 7
Impairment charges	1 3	-	-	1 5	-	2 8
Disposals	-	(1 9)	(1 2)	(1 2)	-	(4 3)
Assets of disposed subsidiaries	-	-	-	(0 6)	-	(0 6)
Exchange differences	(0 4)	-	-	(0 1)	-	(0 5)
Reclassifications	-	-	-	(0 6)	-	(0 6)
At 31 March 2010	5 1	64 0	61 8	86 4	-	217 3
Net book value						
At 31 March 2010	**87.8**	**178.4**	**37.9**	**95 5**	**21 9**	**421 5**
At 1 April 2009	**46 8**	**188 7**	**59.3**	**75.6**	**21.5**	**391 9**

All assets impaired during the year were impaired based upon their estimated net realisable value

Included in aircraft, rotable spares and ancillary equipment are progress payments of £19 9million (*2009 £18 5million*)

Included in land and buildings are short leasehold buildings at cost of £0 1million (*2009 £0 1million*) and net book value of £nil (*2009 £nil*) The balance of land and buildings is freehold

Notes *(contınued)*

11 Tangıble fixed assets *(contınued)*

Included ın the total net book value of aırcraft, aırcraft spares and rotables ıs £45 2mıllıon *(2009 £1 3mıllıon)* ın respect of assets held under finance leases and sımılar hıre purchase contracts Depreciatıon for the year on these assets was £1 6mıllıon *(2009 £0 2mıllıon)* Included ın the total net book value of plant and equıpment ıs £2 0mıllıon *(2009 £1 9mıllıon)* ın respect of assets held under finance leases and sımılar hıre purchase contracts Depreciatıon for the year on these assets was £0 2mıllıon *(2009 £0 1mıllıon)*

Durıng the year, the Group entered ınto £20 4mıllıon (*2009 £0 7mıllıon*) finance lease and hıre purchase contract arrangements ın respect of tangıble fixed assets

The net book value of land and buıldıngs comprıses

	Group 31 March 2010 £m	Group 31 March 2009 £m
Freehold	**77.5**	42 7
Long leasehold	**9 8**	2 1
Short leasehold	**0.5**	2 0
	87.8	46 8

Notes *(continued)*

12 Fixed asset investments

	Interests in joint ventures	Other investments	Total
Group	**£m**	**£m**	**£m**
Cost			
At 1 April 2009	31 6	33 7	65 3
Additions	2 0	8 3	10 3
Disposals	-	(2 5)	(2 5)
Assets of purchased subsidiaries	3 5	-	3 5
Assets of disposed subsidiaries	(34 3)	-	(34 3)
Exchange differences	-	0 3	0 3
At 31 March 2010	**2 8**	**39.8**	**42 6**
Share of post acquisition reserves			
At 1 April 2009	(84 1)	-	(84 1)
Share of operating losses	(14 7)	-	(14 7)
Share of interest payable	(2 1)	-	(2 1)
Assets of disposed subsidiaries	56 2	-	56 2
Unrealised gain on dilution of investments	0 8	-	0 8
Exchange differences	3 9	-	3 9
At 31 March 2010	**(40 0)**	**-**	**(40.0)**
Provisions			
At beginning and end of year	-	-	-
Net book value			
At 31 March 2010	**(37.2)**	**39.8**	**2 6**
At 1 April 2009	(52 5)	33 7	(18 8)

Notes *(continued)*

12 Fixed asset investments *(continued)*

Investments in joint ventures and associates

Year ended 31 March 2010	**Investments in joint ventures £m**	**Net liabilities in joint ventures £m**	**Total £m**
Share of turnover	**0.1**	**163 4**	**163.5**
Negative Goodwill	**-**	**(0 8)**	**(0 8)**
Share of fixed assets	3 3	29 8	33 1
Share of current assets	-	46 7	46 7
Share of gross assets	**3.3**	**76.5**	**79 8**
Share of liabilities due within one year	-	(111 7)	(111 7)
Share of liabilities due after more than one year	-	(4 5)	(4 5)
Share of gross liabilities	**-**	**(116 2)**	**(116 2)**
Net book value at 31 March 2010	**3.3**	**(40.5)**	**(37 2)**

Year ended 31 March 2009	Net liabilities in joint ventures £m	Total £m
Share of turnover	149 7	149 7
Goodwill	-	-
Share of fixed assets	11 6	11 6
Share of current assets	42 9	42 9
Share of gross assets	54 5	54 5
Share of liabilities due within one year	(105 7)	(105 7)
Share of liabilities due after more than one year	(1 3)	(1 3)
Share of gross liabilities	(107 0)	(107 0)
Net book value at 31 March 2009	(52 5)	(52 5)

Notes *(continued)*

12 Fixed asset investments *(continued)*

	Shares in group undertakings £m
Company	
Cost	
At beginning and end of year	1,973 3
Provisions	
At beginning and end of year	(34 0)
Net book value	
At 1 April 2009 and 31 March 2010	**1,939.3**

The Company's principal underlying investments at 31 March 2010 were Virgin Atlantic Limited (the holding company for the Group's airline and holiday operations) and Virgin Rail Group Holdings Limited (the holding company for passenger rail services)

The principal undertakings in which the Group has an interest at the period end are as follows

Name of company	Country of registration	Class of Share	Proportion of nominal value of issued shares held %	Principal Business activities
Subsidiary undertakings				
Virgin Holdings Limited	England & Wales	Ordinary	100 0	Investment holding company
Blue Pearl Holdings Limited *	British Virgin Island	Ordinary	100 0	Investment holding company
Charter Air Limited *	England & Wales	Ordinary	100 0	Aircraft chartering
Virgin Rail Group Holdings Limited *	England & Wales	Ordinary	51 0	Train operator
V Cab Holdings LLC *	USA	US $ Common Units	15 0	Flight booking provider
		US $0 001 series A preference shares	34 63	
		US $0 001 series B preference shares	44 93	
Virgin Gym Holdings Limited *	England & Wales	Ordinary	100 0	Investment holding company
Virgin Management SA *	Switzerland	Ordinary	100 0	Management services
Virgin Healthcare Holdings Limited *	England & Wales	Ordinary	75 1	Health service provider
Assura Medical Limited *	England & Wales	Ordinary	75 1	Health service provider
Virgin Digital Help Limited *	England & Wales	Ordinary	100 0	Computer services
VML 2 Limited *	British Virgin Island	Ordinary	100 0	Investment holding company
Virgin Atlantic Limited *	England & Wales	Ordinary	51 0	Flight and holiday operator
		Preference	51 0	

Notes *(continued)*

12 Fixed asset investments *(continued)*

Name of company	Country of registration	Class of Share	Proportion of nominal value of issued shares held %	Principal Business activities
Subsidiaries (continued)				
Virgin Active Australia Pty Limited*	Australia	Ordinary	100 0	Health club operator
Barfair Limited *	England & Wales	Ordinary	100 0	Investment holding company
Voyager Investments (BVI) Limited * *(in liquidation)*	British Virgin Island	Ordinary	100 0	Investment holding company
The Virgin Trading Group Limited *	England & Wales	Ordinary	100 0	Drinks distributor
Vanson Developments Limited *	England & Wales	Ordinary	100 0	Investment holding company
Virgin Management Limited *	England & Wales	Ordinary	100 0	Management services
Virgin Models Limited *	England & Wales	Ordinary	100 0	Investment holding company
Voyager Group Limited *	England & Wales	Ordinary Preference	100 0 100 0	Investment holding company
Virgin Projects Limited *	England & Wales	Ordinary	95 24	Investment holding company
S L Insurance Limited *	Guernsey	Ordinary	100 0	Insurance and reinsurance business
Necker Island (BVI) Limited *	British Virgin Island	Ordinary	100 0	Hotel operator
Network Distributing Limited *	England & Wales	Ordinary	99 8	Media company
Virgin Life Care Investments Limited *	England & Wales	Ordinary	90 24	Health and rewards program
Virgin Mobile Holdings Pte Limited *	Singapore	Ordinary	100 0	Mobile phone operator
Virgin Management USA Inc *	USA	Common stock	100 0	Management services
Virgin Sky Investments Limited *	England & Wales	Ordinary	100 0	Investment holding company
Vexair Limited *	England & Wales	Ordinary	100 0	Investment holding company
Virgin Management Asia Pacific Pty Limited *	Australia	Ordinary	100 0	Management services
Bluebottle (No 2) Inc * *(in liquidation)*	British Virgin Island	Ordinary	100 0	Investment holding company
Bluebottle UK Limited *	England & Wales	Ordinary	100 0	Investment holding company
Bluebottle Investments (UK) Limited *	England & Wales	Ordinary	100 0	Investment holding company
Bluebottle Investments SA * *(in liquidation)*	Switzerland	Ordinary	100 0	Investment holding company
Cricket SA * *(liquidated on 10 May 2010)*	Switzerland	Ordinary	100 0	Investment holding company
Virgin Cinemas Group Limited *	England & Wales	Ordinary Preference	100 0 100 0	Investment holding company
VEL Holdings Limited *	England & Wales	Ordinary	100 0	Investment holding company

Notes *(continued)*

12 Fixed asset investments *(continued)*

Name of company	Country of registration	Class of Share	Proportion of nominal value of issued shares held %	Principal Business activities
Subsidiaries (continued)				
VHSA Holdings Limited *	England & Wales	Ordinary	100 0	Investment holding company
Virgin Enterprises Limited *	England & Wales	Ordinary Preference	100 0 100 0	Royalty collection
Virgin Holdings SA * *(liquidated on 6 April 2010)*	Switzerland	Ordinary Preference	100 0 100 0	Investment holding company
Virgin Hotels Group Limited *	England & Wales	Ordinary	100 0	Hotel operator
Virgin Insight Limited *	England & Wales	Ordinary	100 0	Procurement services
Joint ventures				
Omer Telecom Limited * ^	England & Wales	Ordinary	50 0	Mobile phone operator
Trade investments				
Air Nigeria Development Limited (formerly Virgin Nigeria Airways Limited) *^^	Nigeria	Ordinary	49 0	Flight operator
V Festival Australia Pty Limited *^^	Australia	Ordinary	50 1	Music festivals

* Indirectly held investment
^ Virgin and Carphone Warehouse each have 50% of the voting rights but 47 5% of the economic rights The remaining 5% of economic rights are held by a third party which has no voting rights
^^ The Group's interest in Air Nigeria Development Limited and V Festival Australia Pty Limited are classified as trade investments as the Group is unable to exercise significant influence as a result of the position of the major shareholders

13 Stocks

	Group 31 March 2010 £m	Group 31 March 2009 £m	**Company 31 March 2010 £m**	Company 31 March 2009 £m
Raw materials and consumable	**0.3**	0 3	-	-
Finished goods and goods for resale	**4 5**	3 9	-	-
Aircraft consumable spares	**25 8**	24 9	-	-
Fuel stocks	**1.9**	2 6	-	-
	32 5	31 7	-	--

Notes *(continued)*

14 Debtors

	Group 31 March 2010 £m	Group 31 March 2009 £m	**Company 31 March 2010 £m**	Company 31 March 2009 £m
Amounts falling due within one year				
Trade debtors	**230.3**	424 4	-	-
Amounts owed by related undertakings	**575 7**	695 5	-	-
Other debtors	**308 9**	507 1	-	-
Prepayments and accrued income	**94.8**	101 3	-	-
Other taxation and social security	**16 9**	8 6	-	0 4
Deferred tax assets	**8.4**	-	-	-
	1,235 0	1,736 9	-	0 4

Included within other debtors due within one year is an amount of £94 8million (*2009 £403 0million*), relating to margin calls on open derivative positions

	Group 31 March 2010 £m	Group 31 March 2009 £m	**Company 31 March 2010 £m**	Company 31 March 2009 £m
Amounts falling due after more than one year				
Trade debtors	**0 1**	0 2	-	-
Other debtors	**123 6**	90 1	-	-
Prepayments and accrued income	**56.0**	66 5	-	-
	179 7	156 8	-	-
Total debtors	**1,414 7**	1,893 7	-	0 4

15 Cash at bank and in hand

At 31 March 2010 the balance of cash at bank and in hand for the Group included

- £16 3million (*31 March 2009 £20 9million*) in a separate escalating rental reserve account, in relation to the leasing of the West Coast trains under the terms of the Amended and Restated Franchise Agreement dated 12 December 2006 but effective from 10 December 2006

Notes *(continued)*

16 Creditors: amounts falling due within one year

	Group 31 March 2010 £m	Group 31 March 2009 £m	**Company 31 March 2010 £m**	Company 31 March 2009 £m
Secured bank loans (note 17)	**113.5**	108 8	-	-
Other bank loans and overdrafts	**244 9**	219 7	-	-
Shareholders loans	**0 2**	-	-	-
Obligations under finance leases and hire purchase contracts	**3.8**	0 8	-	-
Trade creditors	**138.3**	428 0	-	-
Amounts due to related undertakings	**1,173 9**	1,089 7	**2,397.9**	2,331 2
Corporation tax	**96.2**	119 0	-	-
Other taxation and social security	**15 6**	16 5	-	-
Other creditors	**81.6**	114 0	-	-
Accruals and deferred income	**822.8**	776 1	-	-
	2,690.8	2,872 6	**2,397.9**	2,331 2

Included within other creditors due within one year is an amount of £12 2million (*2009 £60 6million*) relating to margin calls on open derivative positions

17 Creditors: amounts falling due after more than one year

	Group 31 March 2010 £m	Group 31 March 2009 £m	**Company 31 March 2010 £m**	Company 31 March 2009 £m
Shares classified as liabilities	-	49 0	-	-
Secured bank loans	**561 3**	677 5	-	-
Other bank loans and overdrafts	**10.6**	4 7	-	-
Shareholder loans	**4.0**	-	-	
Obligations under finance leases and hire purchase contracts	**18 0**	2 6	-	-
Accruals and deferred income	**37.1**	40 0	-	-
	631.0	773 8	-	-

Shares classified as liabilities

In the prior year the issued preference shares of Virgin Atlantic Limited at the year end held outside the Group were £49 0million The terms and conditions of the cumulative preference shares were changed on 20 October 2009 so as to remove the automatic right of the holders to receive cumulative preference dividends Instead, preference dividends may only be paid at the discretion of the Company In accordance with provisions of Financial reporting Standard 25 they have been reclassified from Creditors amounts falling due after more than one year to share capital in Virgin Atlantic Limited

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

Notes *(continued)*

17 Creditors: amounts falling due after more than one year *(continued)*

Financing

On 25 November 2008, the Group entered into a new multi currency revolving credit facility of £660 0million with Lloyds TSB plc This facility was amended and restated post year end on 15 July 2010 The total facility amount decreased to £623 4million, which comprises the following

- A multi-currency revolving credit facility of £623 4million, repayable by 25 November 2014 Interest was payable on amounts drawn down at 1 80% above LIBOR for the year to 31 March 2010 The revolving facility may be utilised by way of Letters of Credit

The facility is secured against various Group investments Should they arise, part of any proceeds from specific investment disposals are required to be used for repayments in advance of the loan repayment dates Under the terms of a further amendment and restatement to the multi-currency revolving credit facility agreement on 8 June 2007, the Group was required to hedge a minimum of 50% of its total commitments with Lloyds TSB Bank over the life of the facility to the end of December 2009 As a result the Group entered into two new interest rate hedge agreements on 7 April 2009, which were effective from 31 March 2010 and terminate on 25 November 2014 One of these hedges is for US $395 0million, and the other is a £410 4million hedge which amortises over 6 years The hedging instrument used in both cases is a 6 year interest rate swap, whereby the first swap ("front leg") is 2 years and the second swap ("back leg") is 4 years

- The US $395 0million interest rate swap has a front leg swap rate of 2 00%
- The £410 4million amortising interest rate swap has a front leg swap rate of 2 00%

On 24 December 2008, the Group entered into a £14 0million term loan facility with Lloyds TSB Bank The loan is repayable by 24 December 2015 with principal repayment instalments of £2 0million due annually on 24 December Under the terms of the loan agreement, interest is payable on amounts drawn down at 2 00% per annum above LIBOR plus an additional mandatory cost calculated using Lloyds' own formula, and Virgin Holdings Limited is obligated to enter into a hedging agreement for a minimum of 50% of its total commitments with Lloyds TSB Bank over the life of the facility to 24 December 2015 As a result the full £14 0million has been hedged under the £410 4 million interest rate hedging agreement mentioned above

On 1 April 2010, the £14 0million term loan facility with Lloyds TSB Bank was amended and restated, whereby an additional drawdown of £2 0million took place on 1 April 2010, with an additional repayment date of 24 December 2016 The existing interest rate hedge remains unchanged

On 31 March 2006, the Group entered into a £9 5million amortising term facility with Lloyds TSB Bank Interest is payable on amounts drawn down at 2 0% above LIBOR plus an additional mandatory cost calculated using Lloyds' own formula On 31 March 2007 the Group made a repayment of £1 9million, and further repayments of £1 9million were made on 31 March 2008, 31 March 2009 and 31 March 2010 respectively, bringing the closing balance at 31 March 2010 to £1 9million Under the terms of the term facility agreement, the Group is required to hedge a minimum of 50% of its total commitments with Lloyds TSB Bank over the life of the facility to 31 March 2011 As a result the full £1 9million has been hedged under the £410 4million interest rate hedging agreement mentioned above

Of the remaining bank loans, £3 7million (*2009 £3 5million*) is repayable within one year and £14 3million (*2009 £18 4million*) is repayable after more than one year The interest rates on the loans are in the range from 0 75% above US$ LIBOR (*2009 0 75%*), 1 00% above 12 month £ LIBOR (*2009 1 00%*) and prime rate

The Virgin Atlantic Group has secured bank loans totalling £44 5million (*2009 68 2million*) secured by mortgages over certain aircraft None (*2009 £nil*) of these loans fall due for repayment after five years The interest rates charged for the year are in the range 0 625% to 2 75% above US$ LIBOR, and 1 125% above 3 month £ LIBOR

Notes *(continued)*

17 Creditors: amounts falling due after more than one year *(continued)*

Financing (continued)

Necker Island (BVI) Limited has a secured bank loan to the value of £12 3million (*2009 £13 0million*) of which £8 4million (*2009 £9 8million*) is due for repayment after five years The interest rate on this loan was 2 5% (*2009 2 5%*) above US$ LIBOR The loan is secured on the island

Charter Air Limited has a bank loan of £14 9million *(2009 £17 0million)* relating to a mortgage secured over an aircraft of which none *(2009 £nil)* is due for repayment after five years The bank loan will be fully repaid by July 2013 The interest rate charged in the year was at the 1 month US$ LIBOR

Virgin Hotels Group Limited has a secured bank loan of £17 7million (*2009 £19 2million*) of which £11 3million (*2009 £13 3million*) is due for repayment after five years The interest rates in the year were fixed interest rates ranging from 2 15% to 6 5%, and another attracting interest at variable interest rates at 3% above 3 month US$ LIBOR

The maturity of obligations under finance leases and hire purchase contracts is as follows

	Group 31 March 2010 £m	Group 31 March 2009 £m
Within one year	**3 7**	**0 8**
In the second to fifth years	**13 3**	**2 0**
Over five years	**4.7**	**0.6**
	21 7	**3.4**

The company has no commitments under finance lease and hire purchase contracts (*2009 £nil*)

18 Provisions for liabilities and charges

	Aircraft maintenance £m	**Legal and other £m**	**Restructuring costs and onerous leases £m**	**Deferred taxation £m**	**Total £m**
Group					
At 1 April 2009	115 9	26 9	9 9	139 5	292 2
Adjustments in respect of prior year	-	-	-	(32 4)	(32 4)
Utilised during period	(14 1)	(0 1)	(0 9)	-	(15 1)
Charged to the profit and loss for the period	30 7	26 8	14 0	(24 4)	47 1
Provisions within purchased subsidiaries	-	2 7	-	-	2 7
Reclassification to deferred tax asset	-	-	-	8 4	8 4
Reclassifications	-	(4 9)	4 9	(0 5)	(0 5)
Foreign exchange translation	(3 0)	(0 4)	0 6	(0 2)	(3 0)
At 31 March 2010	**129 5**	**51 0**	**28.5**	**90.4**	**299 4**

Aircraft maintenance provisions relate to overhauls on aircrafts and engines held under operating leases for which there is a contractual obligation

Notes *(continued)*

18 Provisions for liabilities and charges *(continued)*

Legal and other provisions principally comprise of the following

£47 6million (*2009 £22 4million*) represents the estimated outstanding cost (refund claims and associated legal and administrative fees) arising from both the settlement of civil actions arising from the investigations by competition authorities in a number of jurisdictions in which Virgin Atlantic Airways Limited operates into various aspects of pricing in the airline industry and an ongoing obligation to co-operate with regulatory bodies Also included in other provisions is a deferred consideration provision of £1 0million (*2009 £1 8million*) which relates to the acquisition of Virgin Holidays Cruises Limited (formerly Fast Track Holidays Limited) in October 2007

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

Restructuring costs and onerous leases provisions principally comprise of the following

£4 6million (*2009 £4 7million*) of dilapidations costs relates to costs required to be incurred by Virgin Rail Group Holdings Limited at the 17 stations managed by West Coast in accordance with the standards for station conditions required by the National Station Access Conditions (1996) These costs are expected to be incurred by 31 March 2012, the West Coast ARFA expiry date

£3 6million (2009 *£nil*) relates to Virgin Enterprises Limited onerous lease provision of £3 3million and dilapidation costs of £0 3million

The elements of deferred taxation are as follows

	31 March 2010 Cumulative provided £m	**31 March 2010 Cumulative unprovided £m**	31 March 2009 Cumulative provided £m	31 March 2009 Cumulative unprovided £m
Pension liability	**(0 9)**	-	(1 5)	-
Accelerated capital allowances	**128 4**	**(4 1)**	147 8	(2 4)
Other timing differences	**(11.1)**	-	(5 3)	(16 5)
Tax losses	**(35.3)**	**(182.1)**	(3 0)	(118 7)
	81 1	**(186.2)**	138 0	(137 6)
Deferred tax asset	**(8.4)**	**(186.2)**	-	(137 6)
Deferred tax liability	**90 4**	-	139 5	-
Deferred tax asset on pension liability	**(0.9)**	-	(1 5)	-
	81 1	**(186 2)**	138 0	(137 6)

£8 4million (*2009 £nil*) of the deferred tax asset cannot be offset against the deferred tax liability and is, therefore, included in debtors

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of 4 years from 2011 The first reduction in the UK corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from 1 April 2011 This will reduce the company's future current tax charge accordingly If the rate change from 28% to 27% had been substantively enacted on or before the balance sheet date it would have had the effect of reducing the deferred tax liability recognised at that date by £2 9million and would have reduced the amount of the total unrecognised deferred tax assets at that date by £6 7million It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liabilities/assets accordingly

Notes *(continued)*

19 Called up share capital

	31 March 2010 £	31 March 2009 £
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	**2**	2

20 Reconciliation of movement in shareholders' deficit

Group	**Profit and loss account £m**
Balance at 1 April 2009	(337 5)
Loss for the year	(57 3)
Unrealised gain on dilution of investments	0 8
Currency translation difference	13 6
Dilution of minority interests	(0 8)
Actuarial gain on pension scheme	0 2
Deferred tax on actuarial gain on pension scheme	(0 1)
Balance at 31 March 2010	**(381.1)**

Company	
Balance at 1 April 2009	(391 5)
Loss for the year	(67 1)
Balance at 31 March 2010	**(458 6)**

	31 March 2010 Group £m	**31 March 2010 Company £m**	31 March 2009 Group £m	31 March 2009 Company £m
Total recognised losses relating to the financial period	**(42.8)**	**(67 1)**	(146 3)	(209 0)
Dilution of minority interests	**(0 8)**	**-**	-	-
Opening shareholders' deficit	**(337 5)**	**(391.5)**	(191 2)	(182 5)
Closing shareholders' deficit	**(381.1)**	**(458 6)**	(337 5)	(391 5)

Notes *(continued)*

20 Reconciliation of movement in shareholders' deficit *(continued)*

Dilution of investments	**Net consideration**	**Net liabilities**	**% disposal**	**Net liabilities disposed**	**Unrealised gain**
	£m	**£m**		**£m**	**£m**
Omer Telecom Limited	-	(75 4)	1 0	0 8	0 8

On 10 December 2009, Omer Telecom Limited issued additional shares to another shareholder This resulted in the dilution of the Group's, and joint venture partner's, shareholdings from 48 5% to 47 5% At the time of the dilution, the net liabilities of Omer Telecom Limited were £75 4million, resulting in a gain on dilution of £0 8million to the Group

21 Minority interests

	31 March 2010 £m	31 March 2009 £m
Balance at beginning of year	**94 8**	110 4
Share of (loss)/profit for the year	**(1 7)**	28 6
Share of exchange differences	**(0 1)**	0 1
Dividends received by minorities	**(33 2)**	(46 4)
Minority interest share of actuarial gain on pension scheme	**0 1**	2 1
Minority interest share of reclassification of preference shares	**49 0**	-
Minority interest share of reserve movement	**1 9**	-
At end of year	**110.8**	94 8

Notes *(continued)*

22 Contingent liabilities

Legal

The competition authorities in a number of jurisdictions in which Virgin Atlantic Airways Limited operates are in the process of investigating various aspects of pricing and commercial issues in the airline industry Virgin Atlantic Airways Limited is cooperating in full with such investigations and has carried out certain internal investigations into its compliance with competition laws No further disclosures regarding contingent liabilities arising from these investigations are being made at this time since the directors believe that such disclosures might be expected to be seriously prejudicial to the position of Virgin Atlantic Airways Limited

The Virgin Drinks Group Limited is currently in dispute with a Chinese company due to a failed franchise agreement It is currently not possible to know the likely outcome, nor the costs in dealing with this dispute in which the Chinese company has threatened litigation (though none has been commenced)

The Virgin Drinks Group Limited is also currently in dispute with a South African company in relation to a distribution agreement and the sum of ZAR 8 0million is being claimed from The Virgin Drinks Group Limited in respect thereof The Virgin Drinks Group Limited is proposing to defend this claim

Indemnities

A number of Virgin Atlantic Group's subsidiaries had contingent liabilities at 31 March 2010 in respect of indemnities under certain financing, regulatory travel and other arrangements which are partly secured by charges over designated short term deposits of £7 1million *(2009 £11 1million)*, of which £5 6million *(2009 £9 5million)* is matched by a liability under the maintenance provision

In accordance with the Franchise Agreements, Virgin Rail Group Limited procured performance bonds in favour of the DfT for both West Coast and CrossCountry The West Coast bond has been issued by ACE Insurance S A NV up to £21 0million *(2009 £21 0million)*

Network Distributing Limited has given a guarantee to the bank for the indebtedness of the company and its subsidiary undertakings The contingent liability of the company was £2 5million as at 31 March 2010 *(2009 £3 3million)*

Bluebottle UK Limited together with a third party, has given a guarantee to a supplier of Omer Telecom Limited in respect of the obligations of Omer Telecom Limited under a supply contract The total aggregate liability of the guarantors under the guarantee is capped at Euro 50million

Notes *(continued)*

23 Commitments

(a) Capital commitments at the end of the financial period, for which no provision has been made, are as follows

	Group 31 March 2010 £m	Group 31 March 2009 £m	**Company 31 March 2010 £m**	Company 31 March 2009 £m
Contracted	**3,358 2**	2,397 2	-	-

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

(b) Annual commitments under non-cancellable operating leases are as follows

Year ended 31 March 2010

Group	**Land and buildings £m**	**Aircraft and other £m**	**Total £m**
Operating leases which expire			
Within one year	**4.0**	**0.3**	**4.3**
In the second to fifth years inclusive	**26 3**	**181.8**	**208.1**
Over five years	**12.2**	**121.1**	**133 3**
	42.5	**303.2**	**345 7**

Year ended 31 March 2009

Group	Land and buildings £m	Aircraft and other £m	Total £m
Operating leases which expire			
Within one year	2 5	0 1	2 6
In the second to fifth years inclusive	31 7	218 4	250 1
Over five years	16 3	131 9	148 2
	50 5	350 4	400 9

One of the Group's subsidiaries, Virgin Rail Group Holdings Limited, in the normal course of business, has entered into a number of long term supply contracts The most significant of these relate to track access facilities, train maintenance arrangements and IT outsourcing

Under the Amended and Restated Franchise Agreement for West Coast, there is a requirement for Virgin Rail Group Limited and West Coast to comply with certain performance and other obligations

During the financial year, the Virgin Rail Group entered into fuel hedging arrangements to fix a portion of its fuel costs The fuel hedges are in place until 31 March 2012 The fair value of these arrangements as at 6 March 2010 was £2 5million

The Group's subsidiary, Virgin Atlantic Limited's substantial proportion of capital expenditure, leasing commitments, fuel and other operating costs are denominated in US Dollars During the year, the Atlantic Group has entered into a number of derivative financial instruments to cover part of the exposure risk The timing difference between derivative maturity date and current mark-to-market value can give rise to cash margin exposure This risk is managed through choice of instrument, appropriate counterparty agreements and, where required, cash deposits with counterparties

Notes *(continued)*

24 Pension scheme

Defined contribution plans

The Group's subsidiary, Virgin Atlantic Limited, operates defined contribution pension schemes The assets of the schemes are held separately from those of the Group in independently administered funds The total expense relating to these plans in the current year was £19 0million (*2009 £19 4million*) There were no outstanding or prepaid contributions at 28 February 2010 (*2009 £nil*)

The Group's subsidiary, Virgin Management Limited, operates a defined contribution pension scheme The assets of the scheme are held separately from those of the Group in independently administered funds The total expense relating to the plan in the current year was £1 1million (*2009 £0 8million*) There was £0 1million outstanding at 31 March 2010 (*2009 £0 1million*)

Defined benefit plans

Rail scheme

The Group's subsidiary, Virgin Rail Group Limited operates a defined benefit pension scheme The subsidiary participates in its own separate shared cost section of the Railway Pension Scheme ('RPS') The RPS is a funded scheme and provides benefits based on final pensionable pay The assets of the RPS are held separately from those of the subsidiary The RPS is a shared cost scheme with costs being shared between the employer and the members on the basis of a 60 40 split

The Group has no rights or obligations in respect of the RPS following expiry of the related franchises Therefore, the liabilities recognised for the relevant sections of the RPS only represent that part of the net deficit of the section that the employer is obliged to fund over the life of the franchise to which the section relates The restriction on the liabilities is presented as a "franchise adjustment" to the overall deficit

The latest actuarial valuation of the subsidiaries' sections of the RPS was undertaken at 31 December 2007 using the projected unit method This valuation has been updated to 6 March 2010 by a qualified independent actuary, using revised assumptions that are consistent with the requirements of FRS 17

Net pension liability

	2010	2009
	£m	£m
Present value of defined benefit obligations	**(386 7)**	(298 1)
Fair value of section assets	**293.5**	211 2
Deficit in section	**(93.2)**	(86 9)
Members share of section	**37.3**	34 7
Franchise adjustment	**52.8**	47 0
Deficit recognised by Group	**(3.1)**	(5 2)
Related deferred tax asset	**0 9**	1 5
Net pension liability	**(2 2)**	(3 7)

Notes *(continued)*

24 Pension scheme *(continued)*

Movements in present value of defined benefit obligation

	2010 £m	2009 £m
At beginning of year	**298.1**	318 9
Employer share of current service cost	**10.0**	10 7
Member share of current service cost	**6.1**	6 6
Past service costs	**0.2**	-
Interest cost	**19.3**	19 6
Benefits paid	**(11 0)**	(14 8)
Actuarial gains	**64.0**	(42 9)
At end of year	**386 7**	298 1

Movements in fair value of section assets

	2010 £m	2009 £m
At beginning of year	**211.2**	299 2
Expected return on section assets	**16 2**	22 8
Contributions by employer	**10 7**	9 6
Contributions by members	**6 3**	6 0
Benefits paid	**(10.9)**	(14 8)
Actuarial losses	**60 0**	(111 6)
At end of year	**293.5**	211 2

Expense recognised in the profit and loss account

	2010 £m	2009 £m
Current service cost	**10.0**	**10 7**
Past service costs	**0 2**	-
Expected return on section assets	**(9 7)**	**(13 6)**
Interest on section liabilities	**11 5**	**11 7**
Interest credit on franchise adjustment	**(3 0)**	-
	9 0	**8 8**

The expense is recognised in the following lines of the profit and loss account

	2010 £m	2009 £m
Administrative expenses – staff costs	**10 2**	10 7
Other finance income	**(1 2)**	(1 9)
	9 0	8 8

Notes *(continued)*

24 Pension scheme *(continued)*

Amounts recognised in the statement of total recognised gains and losses

The total amount recognised in the consolidated statement of total recognised gains and losses in respect of actuarial gains and losses is £0 4million gain (*2009 £5 8million gain*)

Cumulative actuarial gains/losses reported in the consolidated statement of total recognised gains and losses since 1 March 2004 are £4 1million gain (*2009 £3 7million gain*)

Movement in deficit recognised by Group

	2010 £m	2009 £m
At beginning of year	(5 2)	(11 8)
Current service cost	(10.0)	(10 7)
Past service cost	(0 2)	-
Contributions	10.7	9 6
Other finance income	1.2	1 9
Actuarial gain/(loss)	0.4	5 8
	(3.1)	(5 2)

Fair value of section assets

	2010 £m	2009 £m
Equities	196 7	132.5
Bonds	29 9	22 0
Property	24 4	23 4
Other	42 5	33.3
	293 5	211 2
Actual return on section assets	76.3	(88.8)

Future contributions

The Group currently expects to pay contributions of £10 4 million over the period of the 2010/2011 financial statements

Notes *(continued)*

24 Pension scheme *(continued)*

Actuarial assumptions

Principal actuarial assumptions at the balance sheet date were as follows	2010 %	2009 %
Rate of increase in salaries	4 4	4 1
Rate of increase in pensions in payment and deferred pensions	3 4	3 1
Discount rate	5.8	6.4
Inflation assumption	3 4	3 1
Long term rate of return expected on		
- Equities	8.2	8 1
- Bonds	5.3	6.0
- Property	7 9	7.5
- Other	7 5	6 5
- Overall	7 8	7.6

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity The assumptions are as follows

Member aged 60 (current life expectancy) 25½ years (male), 27 years (female)
Member aged 40 (life expectancy from age 60) 27½ years (male), 28½ years (female)

History of sections

The history of the sections for the current and prior years is as follows

Balance sheet

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of section liabilities	(386 7)	(298 1)	(318 9)	(447 1)	(427 4)
Fair value of section assets	293 5	211 2	299 2	410 5	362 6
Deficit in section	(93.2)	(86 9)	(19 7)	(36 6)	(64 8)
Members share of section	37.3	34 7	7 9	14 6	25 9
Franchise adjustment	52.8	47 0	-	10 3	16 5
Deficit recognised by Group	(3 1)	(5 2)	(11 8)	(11 7)	(22 4)

Experience adjustments

	2010	2009	2008	2007	2006
Experience adjustments on section assets					
amount (£million)	36 1	(66 9)	(12 0)	6 9	25 1
percentage of section assets	12%	(32%)	(4%)	2%	7%
Experience adjustments on section liabilities					
amount (£million)	(2 5)	(1 9)	(1 2)	0 1	7 6
percentage of present value of section liabilities	(1%)	(1%)	-	-	2%

Notes *(contınued)*

25 Share based payments

The share optıon programme ın place ın the prıor year allowed certaın employees to acquıre optıons over the shares of Bluebottle USA Mobıle Inc There was also a group employer share scheme ın operatıon, the Long Term Incentıve Plan, based on the ıncrease ın value of Corvına Holdıngs Lımıted over certaın thresholds

In the current year the two schemes detaıled above have been termınated and replaced by a Long Term Incentıve Plan based on the growth ın value of a fund comprısıng the key tradıng entıtıes wıthın the Vırgın Group over certaın thresholds

All share based payments are treated as cash settled transactıons as they eıther requıre settlement ın cash or where settlement ın shares ıs envısaged the ıssuer has establıshed the practıce of buyıng out the award at the end of the term The faır value of the payment payable to the employee ıs recognısed as an expense wıth a correspondıng ıncrease ın lıabılıtıes The faır value ıs measured at grant date and spread over the perıod durıng whıch the employees become uncondıtıonally entıtled to payment The faır value ıs measured based on an optıon prıcıng model takıng ınto account the terms and condıtıons upon whıch the ınstruments were granted The lıabılıty ıs revalued at each balance sheet date and agaın at the settlement date wıth any changes to faır value beıng recognısed ın the profit and loss account

Awards typıcally vest over a perıod of between 12 and 36 months

The number and weıghted average exercıse of share optıons are as follows

Bluebottle USA Mobıle Inc

Fınancıal year granted	Outstandıng as at 1 Aprıl 2009	Granted ın year	Cancelled ın year	Outstandıng at 31 March 2010	Exercısable at 31 March 2010	Weıghted average exercıse prıce $
2004	1,081,818	-	(1,081,818)	-	-	-

Durıng the year the rıghts to the above optıons were cancelled The holders of the optıons dıd not receıve any payment as these optıons dıd not have any value at the tıme they were cancelled

Notes *(continued)*

25 Share based payments *(continued)*

Group Share Scheme

Financial Impact of the Group Share Schemes

The current Long Term Incentive Plan is based on the growth in value of a fund comprising the key trading entities within the Virgin Group over certain thresholds The previous Long Term Incentive Plan was based on a valuation of the Corvina Holdings Limited Both are based on valuations at grant date using various methods, including quoted share prices, net assets, discounted cash flows and/or multiple of earnings which is then updated to the year end date

The market value of the interests in the Group Share Schemes was calculated using a Binomial model, based on the following assumptions

	2010	2009
Risk free rate	**1 77%**	0 70%
Volatility	**36 22%**	30 00%
Expected dividend yield	**0.00%**	0 00%

The volatility was arrived at by identifying appropriate volatilities for the key businesses within the Group by reference to listed comparator companies and then weighting these across the Group based on the estimated relative value of the constituent businesses

On this basis the interests in the Group Share Schemes were estimated to be valued at £20 2million (*2009 £5 8million*) This cost is being spread over the vesting period, which is 36 months A charge of £9 5million (*2009* credit of *£0 4million*) has arisen during the year which has been reduced by a release to the profit and loss account of £3 5million in respect of the previous Group Share Schemes which were terminated during the year and by £nil (*2009 £1 4million*) in relation to a reduction in the fair value of the liability during the year

Effect of share based payment transactions

The total expenses recognised for the period including those relating to the Group Share Scheme arising from share based payments together with the associated liabilities are as follows

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Cash settled share based payments	**6 0**	(0 4)
Total carrying amount of liabilities	**7.2**	4 7
Total intrinsic carrying amount of liabilities in respect of vested benefits	**-**	0 3

Various directors were members of Executive Shared Ownership Plans in the previous year which were established via contracts they hold with Virgin Group Holdings Limited and Gamay Holdings Limited In the current year the same directors are members of the Long Term Incentive Plan described above, again as a result of contracts they hold with Virgin Group Holdings Limited A charge of £7 0million *(2009 £0 2million)* is included in Virgin Group Holdings Limited's financial statements for the year ended 31 March 2010 in respect of directors of Virgin Holdings Limited in relation to these arrangements During the year, the cash payments totalling £3 6million were made Of these, £1 2million relates to the prior year schemes with the remaining £2 4million relating to the current year scheme

Notes *(continued)*

26 Reconciliation of operating loss to operating cash flows

	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m
Operating loss	**(188 0)**	(74 2)
Share based payments	**6 0**	(0 4)
Depreciation, amortisation and impairment charges	**117 1**	94 3
Pension liability	**(0.5)**	1 1
Increase in stocks	**(0 4)**	(2 2)
Decrease/(increase) in debtors	**985 7**	(411 1)
Decrease in creditors	**(775.7)**	(0 6)
Increase in provisions	**56 3**	25 1
Net cash inflow/(outflow) from operating activities	**200 5**	(368 0)

Notes *(continued)*

27 Analysis of cash flows

	Year ended 31 March 2010 £m	Year ended 31 March 2010 £m	Year ended 31 March 2009 £m	Year ended 31 March 2009 £m
Returns on investments and servicing of finance				
Interest received	20.5		59 0	
Interest paid	(30 9)		(42 2)	
Dividends paid to minorities	(33 2)		(46 4)	
Dividends received from trade investments	9.6		-	
Finance paid on shares classified as liabilities	-		(4 3)	
Interest element of finance lease rental payments	(0 1)		(0 1)	
		(34 1)		(34 0)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(55 1)		(70 4)	
Purchase of intangible assets	(0.1)		(1 4)	
Sale of tangible fixed assets	2 7		25 7	
Funding provided to joint ventures	(29 3)		-	
Funding provided to related undertakings	(2.1)		(166 9)	
Repayments from related undertakings	1 8		41 2	
		(82.1)		(171 8)
Acquisitions and disposals				
Purchase of subsidiary undertakings	(5.5)		-	
Net cash balances acquired with subsidiary	10 8		(209 5)	
Purchase of interest in joint ventures	(2 0)		(4 0)	
Sale of business	75.8		-	
Purchase of other investments	(2.8)		(1 3)	
Sale of other investments	2 5		-	
		78 8		(214 8)
Financing				
New finance leases	17 2		-	
Funding from related undertakings	91 6		99 4	
Repayments to related undertakings	(14 8)		(31 5)	
Debt due within one year				
Net (repayments)/funding from secured bank loans	(14 7)		11 3	
Net funding/(repayments) from other bank loans	4 6		(9 7)	
Debt due after more than one year				
Net (repayments)/funding from secured bank loans	(85 4)		(24 9)	
Net (repayments)/funding from other bank loans	(1.6)		293 1	
Settlement of share option plans	(3.6)		-	
Capital element of finance lease rental payments	(0 4)		(0 4)	
		(7 1)		337 3

Notes *(continued)*

28 Analysis of net debt

	At 1 April 2009	Cash flow	Share options	Acquisition and disposals (excluding cash and overdrafts)	Exchange movements	Other non cash changes	**At 31 March 2010**
	£m	£m	£m	£m	£m	£m	**£m**
Cash in hand, at bank (note 15)	719 6	147 7	3 6	-	(22 1)	5 2	**854 0**
Overdrafts	(217 2)	(16 0)	-	-	-	(5 2)	**(238.4)**
	502 4	131 7	3 6	-	(22 1)	-	**615.6**
Debt due within one year	(111 3)	14 1	-	(1 1)	0 7	(22 6)	**(120.2)**
Debt due after one year	(731 2)	83 0	-	(17 8)	18 7	71 4	**(575.9)**
Finance leases	(3 4)	(16 8)	-	-	(1 6)	-	**(21 8)**
Group funding	(1,077 3)	(76 8)	-	-	(0 7)	(7 5)	**(1,162 3)**
Total	(1,420 8)	**135.2**	**3 6**	**(18 9)**	**(5.0)**	**41.3**	**(1,264 6)**

Notes *(continued)*

29 Purchase of subsidiary undertaking

On 2 March 2010, Virgin Healthcare Holdings Limited acquired 100% of the share capital of Assura Medical Limited including its subsidiaries and joint venture investments, and Assura Corporate Services Limited, for a consideration of £3 8million Immediately following this transaction, Virgin Healthcare Holdings Limited issued shares to the former shareholder of the acquired companies in return for further funding thereby diluting the Group's shareholding to 75 1% and giving rise to a minority interest

	Book Value and Fair Value £m
Net assets acquired	
Tangible fixed assets	0 8
Investment in joint ventures	3 5
Cash	4 8
Debtors	4 2
Creditors due within one year	(2 5)
Net assets	10 8
Net assets acquired:	
Equity (100%)	10 8
Negative goodwill arising on acquisition	(7 0)
Consideration	3 8
Satisfied by	
Cash	3 8

Notes *(continued)*

29 Purchase of subsidiary undertaking *(continued)*

On 3 April 2009, Bluebottle UK Limited acquired 22,123,880 ordinary shares and 22,122,880 B ordinary shares in Virgin Hotels Group Limited for a consideration of £90 4million

	Book Value And Fair Value £m
Net assets acquired	
Tangible fixed assets	51 2
Intangible fixed assets	1 9
Investments	4 9
Cash	2 4
Stock	0 4
Debtors	332 5
Creditors less than one year	(273 1)
Creditors more than one year	(18 0)
Provisions for liabilities and charges	(2 7)
Net assets	99 5
Net assets acquired·	
Equity (100%)	99 5
Negative goodwill arising on acquisition	(9 1)
Consideration	90 4
Satisfied by·	
Loan	90 4

Notes *(continued)*

30 Sale of business

On 2 July 2009, Bluebottle Mobile Canada Inc and its underlying joint venture in Virgin Mobile Canada were sold to Bell Mobility Inc for a consideration of CAD142 5million (£75 0million)

	Book Value £m
Net assets disposed of	
Investment in joint venture	(21 9)
Debtors	13 4
Net liabilities	(8 5)
Net liabilities disposed:	
Equity (100%)	(8 5)
Gain on disposal	83 5
Consideration received	75 0
Satisfied by:	
Cash	75 0

The loss attributable to the Group includes losses of £2 3million incurred by Bluebottle Mobile Canada Inc and its joint venture, Virgin Mobile Canada up to its date of disposal on 2 July 2009

During the period to disposal, Bluebottle Mobile Canada Inc and its joint venture, Virgin Mobile Canada contributed £2 0million of the Group's net operating cash flows and utilised £1 2million for capital expenditure and financial investment

Notes *(continued)*

30 Sale of business *(continued)*

On 12 June 2009, Virgin Limousines (California) LLC was sold to a third party for a consideration of £0 1million (USD 0 1million)

	Book Value £m
Net liabilities disposed of	
Tangible fixed assets	0 1
Creditors due within one year	(0 3)
Creditors due after one year	(0 2)
Net liabilities	(0 4)
Net liabilities disposed.	
Equity (65%)	(0 2)
Gain on disposal	0 3
Consideration received	0 1
Satisfied by:	
Promissory note	0 1

The loss attributable to the Group includes gains of £0 4million incurred by Virgin Limousines (California) LLC up to its date of disposal on 12 June 2009

During the period to disposal, Virgin Limousines (California) LLC contributed £nil of the Group's net operating cash flows and utilised £nil for capital expenditure and financial investment

Notes *(continued)*

31 Post balance sheet events

On 15 July 2010, the multi-currency revolving credit facility agreement between Virgin Holdings Limited and Lloyds TSB Bank (refer to Note 17) was amended and restated decreasing the total facility from £660 0million to £623 4million The two interest rate hedges detailed in Note 17 still apply to the amended facility at the time of signing these accounts, however under the terms of the amended agreement the total facility available of £623 4million now comprises the following

- A multi-currency revolving credit facility of £623 4m, repayable by 25 November 2014 Interest is payable on amounts drawn down at 1 80% above LIBOR for the first year, 2 50% above LIBOR for the second year, 2 75% above LIBOR for the third and fourth years, and 3 50% above LIBOR for subsequent years The revolving facility may be utilised by way of Letters of Credit

On 19 August 2010, Moskito Island was sold to Split Holdings Limited, a company outside the Virgin Group, for a consideration of US$20 5million Split Holdings also reimbursed all development costs incurred by Moskito Island and transferred the outstanding bank loan into their name

Notes *(continued)*

32 Related party disclosures

As at 31 March 2010, the Company's ultimate parent company was Virgin Group Holdings Limited, whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Holdings Limited The principal beneficiaries of those trusts are Sir Richard Branson and/or members of his immediate family Virgin Group Holdings Limited is incorporated in the British Virgin Islands The shareholders of Virgin Group Holdings Limited have interests directly or indirectly in certain other companies which are considered to give rise to related party disclosures under Financial Reporting Standard 8

Companies within the Virgin Atlantic sub-group have trademark licenses from Virgin Enterprises Limited for the use of the Virgin name and logo The licenses are without term limit, mostly royalty free, and worldwide, excluding domestic scheduled air services where all points of embarkation and disembarkation are within Australia The licenses are exclusive subject to certain licenses granted to Virgin America Inc and Air Nigeria Development Limited (formerly Virgin Nigeria Airways Limited)

Within the Virgin Rail Group Holdings Limited sub-group, Virgin Rail Group Limited and its subsidiaries have a trademark license from Virgin Enterprises Limited for the use of the Virgin name and logo The license terminates on 28 November 2017, is subject to a royalty charge, excludes certain activities, and applies to the United Kingdom and such other countries or jurisdictions as may be added by Virgin Rail Group Limited, subject to the approval of Virgin Enterprises Limited

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

	31 March 2010			31 March 2009		
	Companies related by virtue of common control or ownership £m	**Companies related by virtue of being associates of the Group £m**	**Companies related by virtue of being investors in the Group £m**	Companies related by virtue of common control or ownership £m	Companies related by virtue of being associates of the Group £m	Companies related by virtue of being investors in the Group £m
Turnover	**22.2**	**8.9**	**0.1**	13 1	12 8	0 1
Purchases	**2 2**	**4 5**	**-**	4 6	0 1	-
Other income	**24.3**	**0.2**	**-**	3 5	-	-
Interest receivable	**36.7**	**5.6**	**-**	97 5	1 6	-
Interest payable	**39.7**	**-**	**-**	94 8	-	-
Debtors	**523.1**	**53 3**	**-**	617 6	77 9	-
Creditors < 1 year	**1,171.4**	**1.7**	**-**	1,089 7	-	-
Preference dividends	**-**	**-**	**1.2**	-	-	4 1

Notes *(continued)*

32 Related party disclosures *(continued)*

The companies related by virtue of common control or ownership with which the group transacted during the year are as follows

Bluebottle USA Mobile Inc, Carola Holdings Limited, Corvina Holdings Limited, Dragonfly SA, Exitium Limited, Ivanco (No 3) Limited, Newstart Investments Limited, SA Mauritius Investments Limited, Tarrango Holdings Limited, Virgin Active Group Limited, Virgin Audio Limited, Virgin Entertainment Asia Limited, Virgin Entertainment Europe Limited, Virgin Entertainment Global Limited, Virgin Entertainment Holdings Inc , Virgin Entertainment Japan KK, Virgin Financial Services UK Holdings Limited, Virgin Fitness Limited, Virgin Galactic Limited, Virgin Games Services Ltd, Virgin Group Finance LP (in liquidation), Virgin Group Investments Limited, Virgin Group Holdings Limited, Virgin Health Bank Limited, Virgin Health Club Holdings Limited, Virgin Home Limited, Virgin Insight Limited, Virgin Limobike Limited, Virgin Megastore Limited, Virgin Mobile USA Holdings Limited, Virgin Money (Australia) Pty Limited, Virgin Money Investment Holdings Limited, Virgin Money Investment Group Limited, Virgin Money Overseas Limited, Virgin Pulse (UK) Limited, Virgin Radio Asia Holdings UK Limited (dissolved 29/1/2010), Virgin Radio International Holdings Limited, Virgin Renew LLC, Virgin Retail Europe Limited, Virgin Retail Holdings Limited, and Virgin com Limited

The companies related by virtue of being investors in the group with which the group transacted during the year are as follows

Singapore Airlines Limited

The companies related by virtue of being associates and/or joint ventures of the group with which the group transacted during the year are as follows

Virgin Blue Holdings Limited, Omer Telecom Limited, Virgin Mobile Canada, Virgin Mobile India Private Limited, Virgin Mobile South Africa (Pty) Ltd and Virgin Mobile USA Inc

Revenue from related parties primarily relates to airline ticket and train ticket sales Other purchases from related parties represent goods and services purchased for use within the business All of the above transactions were on an arms length basis

33 Ultimate parent undertaking

At 31 March 2010, the ultimate parent undertaking was Virgin Group Holdings Limited, a company registered in the British Virgin Islands