COMPANY REGISTRATION NUMBER 2833330

Virgin Net Limited

Financial Statements

31 December 2006

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Virgin Net Limited

Financial Statements

Year ended 31 December 2006

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Virgin Net Limited

Company Information

The board of directors	R M Mackenzie R C Gale
Company secretary	R M Mackenzie
Registered office	160 Great Portland Street London W1W 5QA
Auditor	Ernst & Young LLP 1 More London Place London SE1 2AF

The dırectors present theır report and the fınancıal statements of the company for the year ended 31 December 2006

Prıncipal activities and business review
The prıncıpal actıvıty of the company, was and wıll contınue to be, to act as a broadband ınternet servıce provıder The servıce ıs aımed prımarıly at customers wıth a BT telephone lıne who are not on Vırgın Medıa's cabled network

The company ıs a wholly-owned subsıdıary undertakıng of Vırgın Medıa Inc , whıch changed ıts name from NTL Incorporated on 16 February 2007 The Vırgın Medıa group ıs an ınnovatıve and pıoneerıng UK entertaınment and communıcatıons busıness and ıs the first company ın the Unıted Kıngdom to offer a quad-play package of televısıon, broadband, telephone and mobıle The group ıs one of the UK's most popular resıdentıal broadband and pay-as-you-go mobıle provıders and the second largest provıder ın the UK of pay televısıon and fixed lıne telephone servıces

Turnover has ıncreased by 6 0% to £56 4 mıllıon for the year ended 31 December 2006 from £53 3 mıllıon ın 2005 The ıncrease predomınantly relates to Broadband revenue, whıch has ıncreased as a result of the focus on Broadband customer acquısıtıon durıng 2006 Although revenue ıncreased the gross profit margın fell from 43 8% to 37 2% Thıs was predomınantly due to the change ın customer profile as customers swıtched from Pay-As-You-Go and Uunmetered servıces to Broadband whıch contrıbutes a lower gross profit margın

At 31 December 2006, the total number of Revenue Generatıng Unıts (RGUs) was approxımately 477,000 compared to approxımately 529,000 as at 31 December 2005 Thıs comprısed 236,000 Broadband customers (2005 - 166,000), 10,000 Unmetered customers (2005 - 31,000), 225,000 Pay-As-You-Go customers (2005 - 331,000) and 6,000 subscrıbers to the company's new telephone servıce (2005 - nıl)

Admınıstratıve expenses decreased by 30 9% ın 2006 over 2005 maınly due to a one-off amortısatıon charge of £10 mıllıon ın 2005

Results and dıvidends
The profit for the year amounted to £2,798,000 The dırectors have not recommended a dıvıdend

Financial rısk management
The company's operatıons expose ıt to a varıety of financıal rısks that ınclude ınterest rate, credıt, foreıgn exchange and lıquıdıty rısks

Lıquıdıty rısk
The Vırgın Medıa group manages ıts financıal rısk vıa secure, long-dated and cost-effectıve fundıng for the group's operatıons ın order to mınımıse the adverse effects of fluctuatıons ın the financıal markets on the value of ıts financıal assets and lıabılıtıes, profitabılıty and cash flows

The Vırgın Medıa group's external debt ıs used to satısfy the fundıng requırements of group undertakıngs vıa ınter-company loans on terms whıch generally match those of the external debt In addıtıon, workıng capıtal ıs managed centrally wıthın the Vırgın Medıa group creatıng further ınter-company tradıng balances, on terms whıch are generally ınterest free

Interest rate and foreıgn exchange rate rısk
The company ıs subject to financıal rısks where ınterest rates are not fixed or where the debt ıs denomınated ın foreıgn currency The group's polıcy ıs to manage ıts ınterest cost usıng a mıx of fixed and varıable rate financıal ınstruments denomınated ın sterlıng and foreıgn currencıes, and to hedge all or part of the exposure to ınterest rate or foreıgn currency rısk However the group's polıcy ıs not to hedge agaınst ınterest rate or foreıgn currency rısk ın respect of ınter-company debt

The company's financial instruments mainly comprise interest free inter-company debt The company had no foreign currency denominated financial instruments during the reporting period or prior year

Credit risk
Credit risk is the risk that one party to a transaction will cause a financial loss for the other party by failing to discharge an obligation The company's policies are aimed at minimising such losses, by generally requiring that customers satisfy credit worthiness criteria

The group's inter-company funding arrangements are managed centrally Recoverability of inter-company receivables is assessed annually The provision for non-recoverability may increase or decrease as a result of that review

The directors will revisit the appropriateness of these policies should the company's operations change in size or nature

Directors
The directors who served the company during the year and thereafter were as follows

R M Mackenzie
R C Gale

The directors had no interest in the share capital of the company requiring disclosure under the Companies Act 1985 The company seeks exemption under The Companies (Disclosure of Directors Interests) (Exceptions) Regulations 1985, not to disclose the directors' interests in the common stock of Virgin Media Inc , a company registered in the state of Delaware, United States of America, and the ultimate parent undertaking of the company

Virgin Media Inc has indemnified the directors of the company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985 Such qualifying third party indemnity provision is in force as at the date of approving the directors' report

Disclosure of information to the auditors
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditor
Ernst & Young LLP will be re-appointed as the company's auditor in accordance with the elective resolution passed by the company under Section 386 of the Companies Act 1985

Signed on behalf of the directors

R M Mackenzie
Company secretary and director

Approved by the directors on 30 October 2007

Virgin Net Limited

Statement of Directors' Responsibilities

Year ended 31 December 2006

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to 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,
- 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 proper accounting records that 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 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

We have audited the company's financial statements for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 17 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion
In our opinion

the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,

the financial statements have been properly prepared in accordance with the Companies Act 1985, and

the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

31 October 2007

Virgin Net Limited

Profit and Loss Account

Year ended 31 December 2006

	Note	2006 £000	2005 £000
Turnover		**56,425**	53,256
Cost of sales		**(35,797)**	(29,923)
Gross profit		**20,628**	23,333
Administrative expenses		**(18,404)**	(26,636)
Operating profit/(loss)	2	**2,224**	(3,303)
Interest receivable	4	**574**	355
Gain on liquidation of investment		**–**	996
Interest payable and similar charges	5	**–**	(868)
Profit/(loss) on ordinary activities before taxation		**2,798**	(2,820)
Tax on profit/(loss) on ordinary activities	6	**–**	–
Profit/(loss) for the financial year		**2,798**	(2,820)

All of the activities of the company are classed as continuing

Statement of Total Recognised Gains and Losses
There are no recognised gains or losses other than the profit of £2,798,000 attributable to the shareholders for the year ended 31 December 2006 (2005 - loss of £2,820,000)

The notes on pages 9 to 16 form part of these financial statements.

Virgin Net Limited

Balance Sheet

31 December 2006

	Note	2006 £000	2005 £000
Fixed assets			
Intangible assets	7	–	–
Tangible assets	8	**410**	362
		410	362
Current assets			
Debtors	9	**4,469**	2,922
Cash at bank		**15,241**	9,401
		19,710	12,323
Creditors: Amounts falling due within one year	10	**(11,473)**	(6,843)
Net current assets		**8,237**	5,480
Total assets less current liabilities		**8,647**	5,842
Capital and reserves			
Called-up equity share capital	15	**13,318**	13,318
Share premium account	16	**37,327**	37,327
Share options reserve	16	**7**	–
Profit and loss account	16	**(42,005)**	(44,803)
Shareholders' funds	16	**8,647**	5,842

These financial statements were approved by the directors on 30 October 2007 and are signed on their behalf by

R C Gale
Director

The notes on pages 9 to 16 form part of these financial statements.

1 Accounting policies

Accountıng conventıon
The financıal statements have been prepared under the hıstorıcal cost conventıon, and ın accordance wıth applıcable UK accountıng standards

Cash flow statement
The company has taken advantage of the exemptıon under FRS 1 (revısed) not to prepare a cash flow statement as ıt ıs a subsıdıary whıch ıs at least 90% controlled by the ultımate parent undertakıng (see note 17)

Turnover
Turnover represents the value of servıces provıded, stated net of Value Added Tax, and ıs attrıbutable to contınuıng actıvıtıes, beıng the provısıon of telephony and ınternet servıces and revenue derıved from advertısıng sales and commıssıon for the use of the company websıte, all of whıch ıs derıved from operatıons ın the Unıted Kıngdom The dırectors consıder thıs to be a sıngle class of busıness

Tangıble fixed assets
Depreciatıon ıs calculated so as to wrıte off the cost of a tangıble fixed asset, less ıts estımated resıdual value, on a straıght lıne basıs over the useful economıc lıfe of that asset as follows

Fıxtures & Fıttıngs	-	3-4 years
Computer equıpment	-	3 years

The carryıng values of tangıble fixed assets are revıewed for ımpaırment when events or changes ın cırcumstances ındıcate that the carryıng value may not be recoverable

Operatıng leases
Rentals applıcable to operatıng leases where substantıally all of the benefits and rısks of ownershıp remaın wıth the lessor are charged agaınst profits on a straıght lıne basıs over the perıod of the lease

Deferred taxatıon
Deferred tax ıs recognısed ın respect of all tımıng dıfferences that have orıgınated but not reversed at the balance sheet date where transactıons or events have occurred at that date that wıll result ın an oblıgatıon to pay more, or a rıght to pay less or to receıve more tax, wıth the followıng exceptıons

- provısıon ıs made for deferred tax on gaıns arısıng from the revaluatıon (and sımılar faır value adjustments) of fixed assets, and gaıns on dısposal of fixed assets that have been rolled over ınto replacement assets, only to the extent that, at the balance sheet date, there ıs a bındıng agreement to dıspose of the assets concerned However, no provısıon ıs made where, on the basıs of all avaılable evıdence at the balance sheet date, ıt ıs more lıkely than not that the taxable gaın wıll be rolled over ınto replacement assets and charged to tax only where the replacement assets are sold, and

- deferred tax assets are recognısed only to the extent that the dırectors consıder that ıt ıs more lıkely than not that there wıll be suıtable taxable profits from whıch the future reversal of the underlyıng tımıng dıfferences can be deducted

Deferred tax ıs measured on an undıscounted basıs at the tax rates that are expected to apply ın the perıods ın whıch tımıng dıfferences reverse, based on tax rates and laws enacted or substantıvely enacted at the balance sheet date

1. **Accounting policies** *(continued)*

Share-based payments
The company has no share-based compensation plans Certain of the company's employees participate in the stock-based compensation plan of Virgin Media Inc , which is described in Virgin Media Inc 's Annual Report and summarised in note 11 below

Certain employees (including directors) of the group receive an element of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions)

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award The fair value of share options is determined using the Black-Scholes option pricing model The cumulative expense recognised for equity settled transactions at each reporting date reflects the extent to which the vesting period has expired and management's estimate of the number of awards that will ultimately vest No expense is recognised for awards that do not ultimately vest

2. **Operating profit/(loss)**

Operating profit/(loss) is stated after charging

	2006	2005
	£000	£000
Gain on liquidation of investment	–	(996)
Amortisation	–	10,000
Depreciation of owned fixed assets	**162**	90
Loss on disposal of fixed assets	**17**	–
Auditor's remuneration		
- as auditor	**20**	19

The directors' remuneration is paid by Virgin Media Limited (formerly ntl Group Limited) and disclosed in the group accounts of Virgin Media Finance PLC (formerly ntl Cable PLC)

Auditor's remuneration disclosed above represents costs allocated to the company by the fellow group undertakings that pay all auditor's remuneration on behalf of the Virgin Media group cable segment The company is exempt from disclosing additional information regarding non-audit services, as the disclosures required under Regulation 4 (1) (b) of Section 390B of Companies Act 1985, are made in the group accounts of Virgin Media Finance PLC

Certain expenses are specifically attributable to the company Where costs are incurred by other group companies on behalf of the company, expenses are allocated to the company on a basis that, in the opinion of the directors, is reasonable

3. Staff costs

The average number of staff employed by the company during the financial year amounted to

	2006	2005
	No	No
Office administration	9	9
Sales and marketing	25	20
Operations	45	39
	79	68

The aggregate payroll costs of the above were

	2006	2005
	£000	£000
Wages and salaries	4,254	3,277
Social security costs	469	392
Other pension costs	104	115
Equity-settled share-based payments	7	–
	4,834	3,784

4. Interest receivable

	2006	2005
	£000	£000
Bank interest receivable	574	355

5. Interest payable and similar charges

	2006	2005
	£000	£000
Interest on loans from group undertakings	–	868

6. Taxation

(a) Analysis of charge in the year

The tax charge is made up as follows

	2006	2005
	£'000	£'000
Current tax charge:		
Current tax on profit for the year	-	-
Deferred tax:		
Origination and reversal of timing differences	-	-
Total tax charge on profit on ordinary activities	-	-

6 Taxation ***(continued)***

(b) Factors affecting current tax charge

The tax assessed on the profit/(loss) on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2005 - 30%)

The difference between the effective statutory rate and the actual current tax charge is reconciled as follows

	2006 £000	2005 £000
Profit/(loss) on ordinary activities before taxation	**2,798**	(2,820)
Profit/(loss) on ordinary activities multiplied by the rate of tax	**839**	(846)
Expenses not deductible for tax purposes	**240**	3,316
Depreciation for the period in excess of capital allowances	**81**	27
Utilisation of tax losses	**(1,142)**	(2,796)
Gain on disposal of investment	**-**	299
Group relief claimed without payment	**(18)**	-
Total current tax (note 6(a))	**-**	-

(c) Factors that may affect future tax charges

Deferred tax assets of £4 2 million (2005 - £5 4 million) in respect of tax losses and £1 3 million (2005 - £1 2 million) in respect of depreciation in excess of capital allowances have not been recognised as there is insufficient certainty as to the availability of future taxable profits

7 Intangible fixed assets

	Customer base £000
Cost	
At 1 January 2006 and 31 December 2006	**10,000**
Amortisation	
At 1 January 2006 and 31 December 2006	**(10,000)**
Net book value	
At 31 December 2006	**-**
At 31 December 2005	-

8. Tangible fixed assets

	Fixtures & Fittings £000	Electronic equipment £000	Total £000
Cost			
At 1 January 2006	79	691	770
Additions	1	226	227
Disposals	(36)	(252)	(288)
At 31 December 2006	44	665	709
Depreciation			
At 1 January 2006	66	342	408
Charge for the year	12	150	162
On disposals	(35)	(236)	(271)
At 31 December 2006	43	256	299
Net book value			
At 31 December 2006	1	409	410
At 31 December 2005	13	349	362

9. Debtors

	2006 £000	2005 £000
Trade debtors	2,379	542
Amounts owed by group undertakings	–	1,334
Prepayments and accrued income	2,090	1,046
	4,469	2,922

10. Creditors: Amounts falling due within one year

	2006 £000	2005 £000
Trade creditors	169	1,082
Amounts owed to group undertakings	6,829	3,909
Corporation tax	291	291
Other taxation and social security	–	445
Accruals and deferred income	4,184	1,116
	11,473	6,843

Amounts due to group undertakings are unsecured, interest free and repayable on demand

11. Share-based payments

Equity-settled share-based payments

The company has no share-based compensation plans Certain of the company's employees participate in the stock-based compensation plan of Virgin Media Inc , as summarised below

The Virgin Media Inc Stock Option Plan is intended to provide incentives to certain employees of the Virgin Media group and its subsidiaries to foster and promote the long-term growth and performance of the group and to better align such employees' interests with those of the group

All options have a 10 year term and vest and become fully exercisable over a period of 3 to 5 years of continued employment The company accounts for the plan under the fair value recognition provisions of FRS 20

The expense recognised for equity-settled share-based payments in respect of employee services received during the year to 31 December 2006 is £7,262 (2005 £nil) There are no cash settlement alternatives

The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions

Year ended 31 December	2006
Risk-free Interest Rate	4.59%
Expected Dividend Yield	0 0%
Expected Volatility	30.31%
Expected Lives	4.002

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur The expected volatility takes into account the historical volatility but given the short period of trading history available, it also takes into account the reported expected volatility of comparable companies in similar industries Whilst indicative of future trends, this may also not necessarily be the actual outcome

11 Share-based payments *(continued)*

No other features of options grant were incorporated into the measurement of fair value A summary of the activity and related information of the VM Inc Stock Option Plans, pertaining to the employees for the year ended 31 December 2006 is as follows

	Options	Weighted Average Exercise Price
As at 1 January 2006	-	-
Granted	24,864	$25 17
Exercised	-	-
Expired	-	-
Forfeited	-	-
As at 31 December 2006	24,864	$25 17
Exercisable at 31 December 2006	-	-

For the share options outstanding as at 31 December 2006, the weighted average remaining contractual life is 9 92 years (2005 - none) The weighted average fair value of options granted during the year was $7 78 (2005 - none) The range of exercise prices for options outstanding at the end of the year was $24 29 - $26 42 (2005 - none)

12. Commitments under operating leases

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as set out below

	Land & Buildings	
	2006	2005
	£000	£000
Operating leases which expire		
Within 1 year	-	287

13. Contingent liabilities

The company, along with fellow group undertakings, is party to a senior secured credit facility with a syndicate of banks under which it has guaranteed the borrowings of certain Virgin Media group companies At 31 December 2006, the maximum contingent liability represented by outstanding borrowings by these companies amounted to approximately £5,125 million (2005 - £1,713 million) Borrowings under the facility are secured against the assets of certain members of the group including those of the company

The company has joint and several liabilities under a group VAT registration

14. Related party transactions

The company has taken advantage of the exemption under FRS 8 not to disclose transactions with group undertakings as it is a subsidiary undertaking which is at least 90% controlled by the ultimate parent undertaking

15. Share capital

Authorised share capital

	2006	2005
	£000	£000
19,055,650 Ordinary shares of £1 each	**19,056**	19,056

Allotted, called up and fully paid

	2006		2005	
	No	£000	No	£000
Ordinary shares of £1 each	**13,317,888**	**13,318**	13,317,888	13,318

16. Reconciliation of shareholders' funds and movement on reserves

	Share capital	Share premium account	Share options reserve	Profit and loss account	Total shareholders' funds
	£000	£000	£000	£000	£000
At 1 January 2005	**13,318**	**37,327**	–	**(41,983)**	**8,662**
Loss for the year	–	–	–	**(2,820)**	**(2,820)**
At 31 December 2005 and 1 January 2006	**13,318**	**37,327**	–	**(44,803)**	**5,842**
Profit for the year	–	–	–	**2,798**	**2,798**
Recognition of equity-settled share-based payments in the year	–	–	**7**	–	**7**
At 31 December 2006	**13,318**	**37,327**	**7**	**(42,005)**	**8,647**

17. Parent undertaking and controlling party

The company's immediate parent undertaking is ntl Internet Services Limited

The company's results are included in the group accounts of Virgin Media Finance PLC

The company's ultimate parent undertaking and controlling party at 31 December 2006 was NTL Incorporated, a company incorporated in the state of Delaware, United States of America The name of NTL Incorporated changed its name to Virgin Media Inc on 6 February 2007

Copies of all sets of group accounts which include the results of the company are available from the Secretary, Virgin Media, 160 Great Portland Street, London, W1W 5QA