

Virgin Net Limited
Financial Statements
31 December 2009

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Virgin Net Limited

Financial Statements

Year ended 31 December 2009

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Virgin Net Limited

Company Information

The board of directors	R M Mackenzie R C Gale
Joint company secretaries	G E James R M Mackenzie
Registered office	160 Great Portland Street London W1W 5QA
Auditor	Ernst & Young LLP 1 More London Place London SE1 2AF

Virgin Net Limited

The Directors' Report

Year ended 31 December 2009

The directors present their report and the financial statements of the company for the year ended 31 December 2009

Principal activities and business review

The principal activity of the company was, and will continue to be, to provide broadband and telephone services to residential customers outside of the Virgin Media group's cable network, over third party telecommunications networks. The company's non-cable internet services are provided via BT's local access network and unbundled BT exchanges from Cable & Wireless plc. The company offers various price and feature packages, including broadband services of up to 16Mbps.

The company is a wholly owned subsidiary undertaking of Virgin Media Inc. The Virgin Media group is a leading provider of entertainment and communications services in the UK, offering "quad-play" television, broadband internet, fixed line telephony and mobile telephony services.

As at 31 December 2009, the Virgin Media group provided services to approximately 4.8 million residential cable customers on its network. The group is also one of the UK's largest mobile virtual network operators by number of customers and at 31 December 2009 provided mobile telephone services to approximately 2.2 million prepay mobile customers and approximately 950,000 contract mobile customers over third party networks. As of 31 December 2009, approximately 60.5% of residential customers on the group's cable network were "triple play" customers, receiving broadband internet, television and fixed line telephone services from the group and approximately 10.7% were "quad play" customers, also receiving the group's mobile telephone services.

The Virgin Media group believes that its advanced, deep fibre access network enables it to offer faster and higher quality broadband services than its digital subscriber line, or DSL, competitors. As a result it provides its customers with a leading next generation broadband service and one of the most advanced TV on-demand services available in the UK market.

Through Virgin Media Business, the Virgin Media group provides a complete portfolio of voice, data and internet solutions to leading businesses, public sector organisations and service providers in the UK.

During the year the Virgin Media group also provided a broad range of television programming through Virgin Media Television (VMtv), which operated wholly owned television channels, such as Virgin1, Living and Bravo. The Virgin Media group sold its VMtv operations on 12 July 2010.

The Virgin Media group continues to provide television programming through UKTV, its joint ventures with BBC Worldwide.

Virgin Net Limited

The Directors' Report *(continued)*

Year ended 31 December 2009

Principal activities and business review *(continued)*

Turnover has decreased by 1.1% to £60,074,000 for the year ended 31 December 2009 from £60,735,000 in 2008. The decrease was mainly due to a decline in revenue from customers for dial-up internet packages which have not been sold since 30 June 2008, other rate decreases on bundled services introduced towards the end of 2008 and the introduction of acquisition discounts in the year ended 31 December 2009, partially offset by growth in revenue from new service offerings which were launched in August 2009, as discussed below.

Gross profit margins remained broadly consistent at 22.9% for the year ended 31 December 2009 compared to 22.7% in 2008.

Selected statistics for customers served by the company at 31 December 2009 and 31 December 2008 are shown in the table below. Total products increased by 48,000 during the year ended 31 December 2009. This increase in products was primarily due to improvements in both broadband and telephone net additions due to the launch of wholesale line rental in August 2009, which allows the company to offer telephone line rental services bundled with broadband services, which makes the products more attractive to customers and allows the company to offer new flexible propositions.

	2009	2008
Products		
Broadband	265,700	252,000
Fixed line telephone	139,800	105,500
Total	<u>405,500</u>	<u>357,500</u>

Administrative expenses increased by 6.9% in 2009 over 2008, predominantly due to the higher depreciation charge for the year of £1,959,000 (2008 - £500,000).

The company's operating loss has increased from £832,000 in 2008 to £1,925,000 in 2009 predominantly due to the reasons stated above.

During the year the company made significant capital expenditure, which should reduce the company's line rental costs and allow it to bill customers for line rental directly, rather than requiring them to rent the line from a different provider. The expenditure should also enable the company to offer enhanced customer propositions in the future.

The company reported a movement from net current assets as at 31 December 2008 to net current liabilities as at 31 December 2009 and a decrease in net assets for the year ended 31 December 2009 as a result of normal operations. No external finance was arranged or settled and there was no movement in the called up equity share capital of the company. Operations are financed through the company's own working capital and inter-company balances with fellow group undertakings.

Future developments

The company expected to grow by benefiting from the Virgin Media group's marketing spend and leveraging the group's resources, whilst maintaining relatively low intensity capital requirements.

Results and dividends

The loss for the financial year amounted to £1,925,000 (2008 - loss of £832,000). The directors have not recommended an ordinary dividend (2008 - £nil).

Virgin Net Limited

The Directors' Report *(continued)*

Year ended 31 December 2009

Financial risk management

The company's operations expose it to a variety of financial risks that include liquidity and credit risks

Liquidity risk

The Virgin Media group manages its financial risk via secure, long-dated and cost-effective funding for the group's operations in order to minimise the adverse effects of fluctuations in the financial markets on the value of its financial assets and liabilities, profitability and cash flows

The Virgin Media group's external debt is used to satisfy the funding requirements of group undertakings via inter-company loans on terms, including the repayment date and interest rate, which generally match those of the external debt. In addition, working capital is managed centrally within the Virgin Media group creating further inter-company trading balances, on terms which are generally interest free

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

Virgin Net Limited

The Directors' Report *(continued)*

Year ended 31 December 2009

Directors

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

R M Mackenzie

R C Gale

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 2006. Such qualifying third party indemnity provision is in force as at the date of approving the directors' report.

Disclosure of information to the auditor

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 are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

Signed on behalf of the directors



R M Mackenzie

Company secretary and director

Approved by the directors on 28 September 2010

Virgin Net Limited

Statement of Directors' Responsibilities

Year ended 31 December 2009

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 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). 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 those 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 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 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.

Virgin Net Limited

Independent Auditor's Report to the Member of Virgin Net Limited

Year ended 31 December 2009

We have audited the financial statements of Virgin Net Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's member 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 member 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 member, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by directors, and the overall presentation of the financial statements.

Virgin Net Limited

Independent Auditor's Report to the Member of Virgin Net Limited *(continued)*

Year ended 31 December 2009

Opinion on financial statements

In our opinion the financial statements

give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended,

have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and

have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters 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

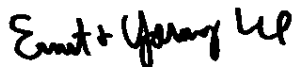
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or

the 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



Michael Rudberg (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

28 September 2010

Virgin Net Limited

Profit and Loss Account

Year ended 31 December 2009

	Note	2009 £000	2008 £000
Turnover		60,074	60,735
Cost of sales		(46,346)	(46,926)
Gross profit		13,728	13,809
Administrative expenses		(15,653)	(14,641)
Loss on ordinary activities before taxation	2	(1,925)	(832)
Tax on loss on ordinary activities	4	—	—
Loss for the financial year		(1,925)	(832)

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 loss of £1,925,000 attributable to the shareholder for the year ended 31 December 2009 (2008 - loss of £832,000)

The notes on pages 11 to 17 form part of these financial statements.

Virgin Net Limited**Balance Sheet****31 December 2009**

	Note	2009 £000	2008 £000
Fixed assets			
Intangible assets	5	—	—
Tangible assets	6	10,257	3,835
		<u>10,257</u>	<u>3,835</u>
Current assets			
Debtors due within one year	7	7,172	8,569
Creditors: Amounts falling due within one year	8	(13,241)	(6,291)
Net current (liabilities)/assets		<u>(6,069)</u>	<u>2,278</u>
Total assets less current liabilities		<u>4,188</u>	<u>6,113</u>
Capital and reserves			
Called-up equity share capital	11	13,318	13,318
Share premium account	12	37,327	37,327
Other reserves	13	7	7
Profit and loss account	14	(46,464)	(44,539)
Shareholder's funds	15	<u>4,188</u>	<u>6,113</u>

These financial statements were approved by the directors on 28 September 2010 and are signed on their behalf by



R C Gale
Director

The notes on pages 11 to 17 form part of these financial statements.

Virgin Net Limited

Notes to the Financial Statements

Year ended 31 December 2009

1. Accounting policies

Accounting convention

The financial statements have been prepared under the historical cost convention, and in accordance with applicable UK accounting standards

Cash flow statement

The company has taken advantage of the exemption under FRS 1 (revised) not to prepare a cash flow statement as it is a subsidiary which is at least 90% controlled by the ultimate parent undertaking (see note 16)

Turnover

Turnover represents the value of services provided, stated net of value added tax, and is attributable to continuing activities, being the provision of telephony and internet services and revenue derived from advertising sales and commission for the use of the company website, all of which is derived from operations in the United Kingdom. The directors consider this to be a single class of business.

Intangible fixed assets

Customer lists were capitalised at cost and amortised over a straight-line basis, which was deemed to be twelve months.

Tangible fixed assets

Depreciation is provided on all tangible fixed assets, other than land, so as to write off the cost of a tangible fixed asset, less its estimated residual value, on a straight line basis over the expected useful economic life of that asset as follows:

Fixtures and fittings	3 - 12 years
Electronic equipment	3 - 12 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Virgin Net Limited

Notes to the Financial Statements

Year ended 31 December 2009

1. Accounting policies (*continued*)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions

- provision is made for deferred tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold, and

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Trade and other debtors

Trade and other debtors are stated at their recoverable amount. Provision is made when the amount receivable is not considered recoverable and the full amount is written off when the probability for recovery of a balance is assessed as being remote.

2. Operating loss

Operating loss is stated after charging

	2009	2008
	£000	£000
Depreciation of owned fixed assets	1,959	500
Auditor's remuneration		
- as auditor	4	4

The directors' remuneration is paid by Virgin Media Limited and disclosed 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.

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. Following guidance from Statutory Instrument 2008/489(6)(2)-(3), the company is not required to disclose amounts in respect of non-audit services, as it is a subsidiary of Virgin Media Finance PLC and the group accounts of Virgin Media Finance PLC are required to disclose this information on a consolidated basis.

Virgin Net Limited

Notes to the Financial Statements

Year ended 31 December 2009

3. Staff costs

The company does not have any directly employed staff but is charged an allocation of staff costs by the Virgin Media group. Details of staff numbers and staff costs of the group are disclosed in the group accounts of Virgin Media Finance PLC.

4. Taxation

(a) Analysis of charge in the year

The tax charge is made up as follows

	2009 £000	2008 £000
Current tax charge:		
Current tax on loss for the year	-	-
Deferred tax:		
Origination and reversal of timing differences	-	-
	<u>-</u>	<u>-</u>
Total tax credit on loss on ordinary activities	<u>-</u>	<u>-</u>

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 28% (2008 - 28.50%).

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

	2009 £000	2008 £000
Loss on ordinary activities before taxation	<u>(1,925)</u>	<u>(832)</u>
Loss on ordinary activities multiplied by the rate of tax	(539)	(237)
Expenses not deductible for tax purposes	8	33
Decelerated capital allowances	558	157
Utilisation of tax losses	(27)	-
Group relief surrendered without payment	-	47
	<u>-</u>	<u>-</u>
Total current tax (note 4(a))	<u>-</u>	<u>-</u>

Virgin Net Limited

Notes to the Financial Statements

Year ended 31 December 2009

4. Taxation *(continued)*

(c) Factors that may affect future tax charges

Deferred tax assets in respect of the following amounts have not been recognised as there is currently insufficient evidence that there will be suitable taxable profits against which these timing differences will reverse

	2009 £000	2008 £000
Tax losses	4,301	4,328
Depreciation in excess of capital allowances	2,028	1,462
	<u>6,329</u>	<u>5,790</u>

(d) Change in tax rate

In the 2010 Emergency budget the UK government announced its intention to set out legislation for Parliament to reduce the UK corporate income tax rate from 28%. As at the balance sheet date the change in the tax rate was not substantively enacted

5. Intangible fixed assets

	Customer base £000
Cost	
At 1 January 2009 and 31 December 2009	<u>11,600</u>
Amortisation	
At 1 January 2009 and 31 December 2009	<u>11,600</u>
Net book value	
At 31 December 2009	<u>-</u>
At 31 December 2008	<u>-</u>

Virgin Net Limited

Notes to the Financial Statements

Year ended 31 December 2009

6. Tangible fixed assets

	Fixtures & Fittings £000	Electronic equipment £000	Total £000
Cost			
At 1 January 2009	44	4,769	4,813
Additions	–	8,381	8,381
At 31 December 2009	44	13,150	13,194
Depreciation			
At 1 January 2009	44	934	978
Charge for the year	–	1,959	1,959
At 31 December 2009	44	2,893	2,937
Net book value			
At 31 December 2009	–	10,257	10,257
At 31 December 2008	–	3,835	3,835

7. Debtors

	2009 £000	2008 £000
Trade debtors	4,176	2,016
Amounts due from group undertakings	–	4,104
Prepayments and accrued income	2,996	2,449
	7,172	8,569

Amounts due from group undertakings are interest free and repayable on demand

8. Creditors: Amounts falling due within one year

	2009 £000	2008 £000
Amounts owed to group undertakings	7,837	978
Accruals and deferred income	5,404	5,313
	13,241	6,291

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

Virgin Net Limited

Notes to the Financial Statements

Year ended 31 December 2009

9 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 amount outstanding, which as at 31 December 2009 amounted to approximately £3,213 million (2008 - £4,289 million). Borrowings under the facility are secured against the assets of certain members of the group including those of the company.

On 19 January 2010 Virgin Media Secured Finance PLC, a fellow group undertaking, issued \$1.0 billion aggregate principal amount of 6.50% senior secured notes due 2018 and £875 million aggregate principal amount of 7.00% senior secured notes due 2018. Subject to certain exceptions the senior secured notes due 2018 share in the same guarantees and security which have been granted in favour of the senior credit facility. The net proceeds from the issuance of the senior secured notes were used to repay £1,453 million of the group's obligations under its senior credit facility.

On 19 April 2010, the Virgin Media group drew down an aggregate principle amount of £1,675 million under its new senior credit facility dated 16 March 2010 and applied the proceeds towards the repayment of all amounts outstanding under its old senior credit facility and for general corporate purposes. The new senior credit facility comprises a term loan A facility in an aggregate principle amount of £1,000 million, a term loan B facility in an aggregate principle amount of £675 million and a revolving credit facility in aggregate principle amount of £250 million. The group also utilised £20.4 million of the new revolving credit facility for bank guarantees and standby letters of credit. The new senior credit facility dated 16 March 2010 shares substantially the same guarantees and security as the senior credit facility which was in place at the balance sheet date.

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

10. 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 100% controlled by the ultimate parent undertaking.

11. Share capital

Authorised share capital:

	2009	2008
	£000	£000
19,055,650 Ordinary shares of £1 each	<u>19,056</u>	<u>19,056</u>

Allotted, called up and fully paid:

	2009		2008	
	No	£000	No	£000
Ordinary shares of £1 each	<u>13,317,888</u>	<u>13,318</u>	<u>13,317,888</u>	<u>13,318</u>

12. Share premium account

There was no movement on the share premium account during the financial year.

Virgin Net Limited

Notes to the Financial Statements

Year ended 31 December 2009

13. Share options reserve

	2009	2008
	£000	£000
Share options reserve	<u>7</u>	<u>7</u>

14. Profit and loss account

	2009	2008
	£000	£000
Balance brought forward	(44,539)	(43,707)
Loss for the financial year	<u>(1,925)</u>	<u>(832)</u>
Balance carried forward	<u>(46,464)</u>	<u>(44,539)</u>

15. Reconciliation of movements in shareholder's funds

	2009	2008
	£000	£000
Loss for the financial year	(1,925)	(832)
Opening shareholder's funds	<u>6,113</u>	<u>6,945</u>
Closing shareholder's funds	<u>4,188</u>	<u>6,113</u>

16. Parent undertaking and controlling party

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

The smallest and largest groups of which the company is a member and for which group accounts have been drawn up are those headed by Virgin Media Finance PLC and Virgin Media Inc , respectively

The company's ultimate parent undertaking and controlling party at 31 December 2009 was Virgin Media Inc , a company incorporated in the state of Delaware, United States of America

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