Virgin Wings Limited and subsidiary companies

Directors' report and consolidated financial statements

Registered number 03160887

31 March 2006

Contents

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 March 2006

Principal activities

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

The principal activities that the Group is involved in are the operation of scheduled air services for the carriage of passengers and freight, tour operating, passenger rail services in the UK, and rail ticket retail and distribution specialising in the provision of UK rail travel with ancillary services being offered around the core rail journey

Business review

The results for the year are set out on page 9 of the financial statements and the profit for the year has been transferred to Group reserves

Group turnover in the year was £852 4 million (2005 £nil)

Air travel

During the financial year, the Group's main airline subsidiary, Virgin Atlantic Airways Limited completed the roll out of its overwhelmingly successful Upper Class Suite Business travellers have welcomed this refreshing business class option with open arms and it has helped to attract many more premium-paying passengers

The aircraft fleet size was increased by the addition of 3 new Airbus A340-600 aircraft, bringing the total of that type in service to 13 and the total operating fleet to 34 Virgin Atlantic Airways began new services to Mumbai, Havana and Nassau, whilst services to Delhi, Las Vegas and Barbados were increased Another new service to Dubai was launched on 27 March 2006

Virgin Holidays Limited, the UK's largest long-haul scheduled tour operator, continued to build on products which offer maximum convenience and flexibility, with an emphasis on excitement and adventure, for its leisure customers The tour operator launched several new brochures during the financial year, including the introduction of South Africa, Dubai and Small Hotels of the Caribbean

Virgin Nigeria Airways Limited successfully started operations on 28 June 2005 and now offers a range of destinations from its base at Lagos Murtala Muhammed International Airport to London, Johannesburg, Accra, Dakar, Douala and domestically to Abuja, Kano, and Port Harcourt Continuing its rapid growth, Virgin Nigeria Airways launched services between Lagos and Dubai in June 2006

Rail

The Group operates passenger rail services in England, Scotland, and Wales under the terms of two franchise agreements between Virgin Rail Group Limited and the Director of Passenger Rail Franchising, being West Coast Trains Limited ("West Coast") and CrossCountry Trains Limited ("CrossCountry")

For West Coast, improved journey times, punctuality and comfort have seen large increases in passenger numbers being attracted to our services and journey numbers have grown by 23% on last year over the whole year

CrossCountry passenger growth is also strong and during 2005 the company broke the 20 million mark for annual passenger journeys This is an increase in two-thirds on the passenger numbers when Virgin took over the franchise in 1997

Tickets sales are also up from 2005 The Directors believe that the increase in ticket sales has been achieved largely as a result of a migration from tickets being sold at stations to the Internet The improvement in ticket sales was achieved despite the negative impact that the London terror attacks had on the industry as a whole during the first half of the year The implementation of more advanced yield management techniques and marketing activity by several Train Operating Companies led to improved sales through the Internet channels in the second half

In addition, the Group won several new corporate account customers during the year and improved sales to existing corporate travel agent customers

Directors' report *(continued)*

Mobile

The Group continued to grow its prepay customer base and launched its contract proposition This allowed the Group to grow its 90 day customer base by 7% from 2005 to 2006

The Group's excellent financial management has allowed it to drive down the cost to serve while still remaining committed to best-in-class customer service

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

All of the Group's debt is asset related, reflecting the capital intensive nature of the industry These factors are also reflected in the medium-term profile of the Group's loans and operating leases

The Group's 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

Foreign currency risk

The Group has a significant US dollar exposure The Group does not have a significant exposure to any other individual currency The Group seeks to reduce its foreign exchange exposure arising in various currencies through matching, as far as possible, receipts and payments in individual currencies In addition, the Group uses a limited range of hedging instruments

Fuel price risk

The 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 Group uses a limited range of hedging instruments, principally zero-cost collars and forwards, with approved counterparties and within approved limits

Derivative financial instruments

The Group uses derivative financial instruments selectively for foreign currency and aviation fuel price risk management purposes, as described above The Group's policy is not to trade in derivatives but to use these instruments to hedge anticipated exposures The 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 Group to market risk as they are matched to identified physical exposures within the Group Counterparty credit risk is generally restricted to any hedging gain and is controlled through mark-to-market based credit limits

Future prospects

Air travel

The Group's two main airline operations continue to expand their fleet and route network The Group will continue to seek innovative ways to further enhance profitability and competitive position Benefits from revenue and cost initiatives developed in the past year are expected to further deliver value, however management remains cautious with regard to continued escalation of fuel prices and related household inflationary pressures

Rail

Both the Group's rail franchises continue to operate under the terms of the July 2002 Arrangement, now amended by the Supplemental Letter signed by the Group and DfT in April 2006 Negotiations on a longer term commercial arrangement for the West Coast franchise have commenced with the DfT These had previously been delayed while the effects of the September 2004 timetable changes were better assessed

Directors' report *(continued)*

The directors are confident that the renegotiation will enable West Coast to move forward on a profitable basis and at the same time continue its performance improvement In that respect the Group remains dependent on rail infrastructure improvements, including the conclusion of the West Coast Route Modernisation

As part of the franchising requirements, West Coast is renegotiating its track access agreement with Network Rail It is expected that the current revenue sharing arrangement will be replaced with a more standard agreement similar to those of other long distance operators

For CrossCountry, notice has been received that the franchise will be terminated on 11 November 2007 The directors are committed to optimising CrossCountry's efficiency and operational performance until the end of the current franchise In addition, the shareholders are committed to re-bidding on an efficient and realistic basis for the new franchise

The Group is continuing to focus on improving ticket sales through the Internet channel and is continuing its strategy of developing a strong presence in the corporate market place as well as developing new product offerings for leisure and business customers The Group is continuing to roll out its white label season ticket functionality to additional train operating companies and expects sales through this channel to increase During the coming year the group will trial new fulfilment solutions, which should improve ticket sales in addition to reducing transaction costs

Acquisitions and disposals

On 9 November 2005 the Group acquired a direct investment in Virgin Holdings Limited for a market value consideration of £1,124 8 million

On 12 December 2005 the Group acquired an investment in Cricket SA and its subsidiaries The total consideration was £470 0 million and was left outstanding as an intercompany debt The acquisition resulted in an indirect investment in VHSA Holdings Limited, an investment holding company, in which the principal activity of its main operating undertaking, Virgin Enterprises Limited, is the collection of royalties from within the Virgin group The acquisition resulted in an indirect investment in Virgin Blue Holdings Limited, which is accounted for as an associate by the Group

On 11 January 2006 the Group disposed of its investment in Virgin Mobile Australia Pty Limited for a total consideration of AUD$30 0 million A profit of £4 9 million arose on this transaction after taking into account transaction costs

Post balance sheet events

On 12 April 2006, the Group entered into a joint venture agreement with The Carphone Warehouse Ltd for the development of Virgin Mobile France, a mobile virtual network operator in the Brittany region of France

On 5 April 2006, a Supplemental Letter was signed by the Group and the DfT which clarified interpretation of the July 2002 Arrangement, and detailed certain amendments to the process for confirmation and adjustment of the franchise support payments Subsequently on 23 June 2006, additional franchise support was received to settle the £63 8 million due to West Coast and CrossCountry from the DfT

On 26 June 2006, the Group paid a dividend of £7 7 million This will be accounted for in the profit and loss reserves of the year ending 31 March 2007

On 5 July 2006, the Group completed the Trainline disposal for a consideration of £163 0 million (inclusive of a deferred consideration amount of £2 5 million), making an approximate profit on disposal of £71 2 million

On 19 July 2006 the Group acquired the shares in Virgin Voyager Trains Limited (a dormant company) for a consideration of £2 from Virgin Management Limited Virgin Voyager Trains Limited will be used as the bid vehicle for the new CrossCountry franchise

Directors' report *(continued)*

Post balance sheet events *(continued)*

On 13 December 2006, the Group announced that it had agreed formal terms for a reinstated contract with the Department for Transport (DfT) for its West Coast Rail franchise The franchise deal started immediately and will run until March 2012, replacing the Management Agreement (Letter Agreement 2002) which has been in place since July 2002 following the collapse of Railtrack plc Under the deal, the Group plans to increase the number of passenger journeys from 20m a year in 2006/07 to more than 30m a year in 2011/12 in the West Coast routes between London Euston and the West Midlands, the North West, Cumbria and Scotland

On 20 December 2006, the Group entered into an agreement with Boeing to order 15 787-9 aircraft for delivery in 2011-2015, with the option to purchase a further 8 aircraft

On 19 January 2007, the Group entered into a £500 million multicurrency revolving credit facility agreement with Lloyds TSB Bank Plc, which terminates on 31 December 2009

On 29 March 2007, the Group acquired shares in Smart Charter Inc, a provider of executive jet travel based in the United States of America An investment of US$12m in series A preferred stock was made giving the Group approximately 70% of the fully-diluted share capital $6m was funded in cash and the remaining balance by way of a promissory note

On 2 April 2007, the Group paid a dividend of £21 3 million This will be accounted for in the profit and loss reserves in the year ending 1 March 2008

On 10 July 2007 the DfT decided to award the new CrossCountry franchise to Arriva plc and not the Group

On 16 July 2007 an interim dividend was paid of £6 1m This will be accounted for in the profit and loss reserves in the year ending 31 March 2008

On 26 October 2007 an interim dividend was paid of £4 9m This will be accounted for in the profit and loss reserves in the year ending 31 March 2008

It has been announced in the recent Budget that the corporation tax rate applicable to the Group is expected to change from 30% to 28% from 1 April 2008 The deferred tax asset has been calculated at the current UK corporation tax rate of 30% in accordance with FRS 19 Any timing differences which reverse before 1 April 2008 will be charged/ credited at 30%, any timing differences which exist at 1 April 2008 will reverse at 28% The estimated financial impact of this change is £409,000

It has also been announced in the recent Budget that Industrial Building Allowances ("IBAs") claimed by the Group are expected to be phased out and abolished from 2011 onwards The deferred tax asset includes the full balance for IBAs as the Finance Bill has not yet received Royal Assent If the legislation for the abolition of IBAs had been in place at 3 March 2007 then a deferred tax asset of £1,047,000 in respect of IBAs would have been reversed in full

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

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)*

Charitable donations

The Group has made or committed to make UK charitable donations of £0 6 million (2005 £0 1 million)

The Group has been firmly committed to charitable causes and fundraising during the year The Group supports Virgin Unite, a charitable organisation inspired by the Virgin Group, local charities serving the communities in which the Group operates, and charitable causes including the provision of free and discounted flight tickets for terminally ill people, children in need of life-saving surgery or treatment and children's charity events that aim to raise significant amounts of money for key projects The Group has also long supported the Change for Children Appeal administered by the Virgin Atlantic Foundation which involves cabin crew employees collecting donations in various currencies from passengers travelling on Virgin Atlantic Airways The appeal raised £0 5 million for good causes to alleviate sickness, poverty and distress during the year ended 30 April 2005

Dividends

The directors do not recommend the payment of a dividend (2005 £nil)

Directors and their interests

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

J E M Phillips	resigned 30 January 2006
S M L Hall	resigned 6 September 2005
G D McCallum	appointed 5 September 2005
P C K McCall	appointed 30 January 2006
W E Whitehorn	appointed 5 September 2005, resigned 1 October 2007
J Bayliss	appointed 1 October 2007

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the Company or other group companies

According to the register of directors' interests, no rights to subscribe for shares in or debentures of Group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year

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 to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

The members of the Company have passed elective resolutions in accordance with Sections 366A, 252 and 386 of the Companies Act 1985 dispensing with the previous statutory requirement of holding annual general meetings, laying accounts before the Company in general meetings and reappointing auditors annually

The last resolution will lead to the continuing appointment of KPMG LLP as auditors of the company until further notice

By order of the board

B A R Gerrard
Company Secretary

120 Campden Hill Road
London
W8 7AR
18 December 2007

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 the directors have elected to prepare the group and the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that year

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 group and the parent 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 parent company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

Report of the independent auditors, KPMG LLP, to the members of Virgin Wings Limited

We have audited the group and parent company financial statements (the "financial statements") of Virgin Wings Limited for the year ended 31 March 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated Cash Flow Statement and the related notes 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 auditors

The director's responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Director's Responsibilities on page 6

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 group's and 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

Report of the independent auditors, KPMG LLP, to the members of Virgin Wings Limited *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2006 and of the group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- information given in the Directors' Report is consistent with the financial statements

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

8 Salisbury Square
London EC4Y 8BB
18 December 2007

Consolidated profit and loss account

for the year ended 31 March 2006

	Note	Before exceptional items £ million	Year ended 31 March 2006 Exceptional items (note 3) £ million	Total £ million	Before exceptional items £ million	Year ended 31 March 2005 Exceptional items (note 3) £ million	Total £ million
Turnover group and share of joint ventures	2	853 1	-	853.1	-	-	-
Less share of joint ventures	2	(0.7)	-	(0 7)	-	-	-
Acquisitions	2	852 4	-	852.4	-	-	-
Group turnover		852 4	-	852 4	-	-	-
Cost of sales	2	(791 2)	-	(791.2)	-	-	-
Gross profit		61.2	-	61 2	-	-	-
Administrative expenses	2	(95 8)	-	(95 8)	-	-	-
Other operating income	2	68 9	-	68 9	-	-	-
Group operating profit - Acquisitions	2	34 3	-	34.3	-	-	-
Total operating profit	2	34 3	-	34.3	-	-	-
Share of operating profit in associates / joint ventures	12	5 1	-	5 1	-	-	-
Loss on disposal of tangible fixed assets		-	(0.2)	(0.2)	-	-	-
Profit on disposal of investments	29	-	4 9	4.9	-	-	-
Interest receivable and similar income	7	55.9	-	55 9	-	-	-
Interest payable and similar charges	8	(38 2)	-	(38 2)	-	-	-
Profit on ordinary activities before taxation	3	57.1	4 7	61 8	-	-	-
Tax on profit on ordinary activities	9	(14 8)	(0 1)	(14.9)	-		-
Profit on ordinary activities after taxation		42 3	4 6	46.9	-	-	-
Equity minority interests	22	(5.1)	-	(5 1)	-	-	-
Retained profit for the year		37 2	4 6	41 8	-	-	-

The profit for the year arises from acquired operations

The notes on pages 14 to 49 form part of these financial statements

Consolidated statement of total recognised gains and losses
for the year ended 31 March 2006

	Note	**Year ended 31 March 2006 £ million**	Year ended 31 March 2005 £ million
Profit for the financial year		**41.8**	-
Exchange difference arising on consolidation of foreign subsidiaries	*20*	**(2 1)**	-
Total recognised profits relating to the year	*21*	**39.7**	-

The notes on pages 14 to 49 form part of these financial statements

Consolidated balance sheet
at 31 March 2006

	Note	31 March 2006 £ million	31 March 2006 £ million	31 March 2005 £ million	31 March 2005 £ million
Fixed assets					
Intangible assets					
Goodwill	*10*	620 2		-	
Landing slots	*10*	37 0		-	
Intellectual property	*10*	9 0		-	
Intangible assets			666 2		-
Tangible assets	*11*		431 5		-
Fixed asset investments					
Share of joint venture	*12*	4 5		-	
Share of associate	*12*	99 0		-	
Other investments	*12*	13 7		-	
			117.2		-
			1,214 9		-
Current assets					
Stocks	*13*	24 6		-	
Debtors due within one year	*14*	2,105 2		-	
Cash at bank and in hand	*15*	539 6		-	
		2,669.4		-	
Creditors amounts falling due within one year	*16*	(3,446 2)		-	
Net current liabilities			(776 8)		-
Debtors due after more than one year	*14*		168 0		-
Total assets less current liabilities			606 1		-
Creditors. amounts falling due after more than one year	*17*		(283.4)		-
Provisions for liabilities and charges	*18*		(217.2)		-
Pension liability, net of deferred tax	*30*		(15 9)		-
Net assets			89 6		-
Capital and reserves					
Called up share capital	*19*		-		-
Profit and loss account	*20*		39 7		-
Shareholders' funds	*21*		39 7		-
Minority interest	*22*		49.9		-
			89 6		-

The notes on pages 14 to 49 form part of these financial statements

These financial statements were approved by the board of directors on 18 December 2007 and were signed on its behalf by

J Bayliss
Director

Company balance sheet
at 31 March 2006

	Note	31 March 2006 £ million	31 March 2006 £ million	31 March 2005 £ million	31 March 2005 £ million
Fixed assets					
Investments	*12*		**1,973 3**		-
Creditors amounts falling due within one year	*16*	**(1,990 2)**		-	
Net current liabilities			**(1,990 2)**		-
Net liabilities			**(16.9)**		-
Capital and reserves					
Called up share capital	*19*		-		-
Profit and loss account	*20*		**(16 9)**		-
Shareholders' deficit	*21*		**(16.9)**		-

The notes on pages 14 to 49 form part of these financial statements

These financial statements were approved by the board of directors on 18 December 2007 and were signed on its behalf by

J Bayliss
Director

Consolidated cash flow statement
for the year ended 31 March 2006

	Note	**31 March 2006**		31 March 2005	
		£ million	**£ million**	£ million	£ million
Net cash inflow from operating activities	25		**365 8**		-
Returns on investments and servicing of finance					
Interest received		**14.3**		-	
Interest paid		**(23 0)**		-	
			(8 7)		-
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(21.1)**		-	
Funding to related undertakings		**(2 3)**		-	
Sale of tangible fixed assets		**16.1**		-	
			(7 3)		-
Acquisitions and disposals					
Purchase of investment in subsidiary		**(2,452 4)**		-	
Cash acquired with subsidiary		**589 3**		-	
Sale of trade investment		**12 7**		-	
			(1,850 4)		-
Financing					
Funding from group companies		**1,849 9**		-	
Funding from bank loans		**189.4**		-	
Funding from other loans		**1.1**			
Capital element of finance lease and hire purchase contract payments		**(0 2)**		-	
			2,040.2		-
Increase in cash in the year	*26*		**539 6**		-

The notes on pages 14 to 49 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 period under review

Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified to include the revaluation of certain assets, and in accordance with applicable Accounting Standards

The holding company has taken advantage of section 230(4) of the Companies Act 1985, 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 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 2006 The acquisition method of accounting has been adopted Under this method, the results of subsidiary undertakings acquired or disposed of in the period 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 1985 for merger accounting The Companies Act 1985 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

The principles of merger accounting have been used by Virgin Rail Group Holdings Limited in the preparation of their financial statements

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 practicable to obtain appropriate financial information covering the year ended 31 March 2006 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 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

Notes *(continued)*

1 Accounting policies *(continued)*

	Subsidiary's year-end	Length of period consolidated into these accounts	Length of period consolidated into the comparatives
Virgin Atlantic Limited	28 February 2006	3 5 months	Not part of group
Trainline Holdings Limited	4 March 2006	3 months	Not part of group
Virgin Rail Group Holdings Limited	4 March 2006	3 75 months	Not part of group

Changes in accounting policies and presentation

During the year the Group implemented the following Financial Reporting Standards

- Financial Reporting Standard 17, "Retirement Benefits" has been fully adopted by the Group Under full application, the Group's net obligation in respect of the defined benefit pension scheme has been reflected as a liability on the balance sheet Actuarial gains and losses that arise in calculating the Group's obligations in respect of the scheme are recognised directly in the statement of total recognised gains and losses The operating and financial costs of the plan are recognised separately in the profit and loss account

- Financial Reporting Standard 20, "Share Based Payments" has been adopted by the Group in line with the recommendation of the Accounting Standards Board and in order to avoid a change in the Group's accounting policy for share based payments in future periods All outstanding equity instruments at the balance sheet date have been accounted for using FRS 20 The Group issues equity-settled share based payments to certain employees These share based payments are measured at fair value at the date of grant The fair value determined is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will vest The amount charged to the profit and loss account is also included as movement in reserves

- Financial Reporting Standard 21, "Events After The Balance Sheet Date" has been complied with in the preparation of these financial statements FRS 21 is applicable for accounting periods beginning on or after 1 January 2005 The main effect of this change on the Group is to prohibit the recording of a liability for a proposed dividend where the dividend is declared after the balance sheet date Therefore, final dividends are now only recognised in the profit and loss reserves when shareholders have approved such amounts and interim dividends are only recognised when paid

- Financial Reporting Standard 25, "Financial Instruments Disclosure and Presentation" has been adopted in the preparation of these accounts Advantage has been taken of the exemptions available in this Financial Reporting Standard from the requirements of paragraphs 51 to 95, and the requirements to restate the comparative figures The effect of the adoption of the presentational requirements of this Financial Reporting Standard has been to require the reclassification of the Preference Share Capital, both nominal value and share premium, of £49 0 million (2005 £897 5 million) from equity to long-term liabilities, and the related dividends of £nil (2005 £nil) to "Interest payable and similar charges"

- Financial Reporting Standard 28, "Corresponding Amounts", which has had no material affect as it imposes the same requirements for comparatives as hitherto required by the Companies Act of 1985

Notes *(continued)*

1 Accounting policies *(continued)*

Revenue

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 prior to the end of 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

Rail

Turnover comprises amounts receivable for services and goods supplied to external customers, primarily in respect of passenger transportation, and amounts earned from the sale of rail tickets and ancillary services booked during the accounting period Turnover comprises both commission earned on ticket sales and service charges billed directly to the customer Turnover associated with ticket sales is recognised at the point of sale

Mobile

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for handsets and airtime services provided in the normal course of business, net of discounts and sales related taxes

Handset and other equipment revenue is recognised when the goods are delivered and title has passed

Service revenue derived from customers is recognised based on the usage of the network in the period Contract and non-contract post-pay customers are billed in arrears based on usage and revenue is recognised when the service is rendered Revenue from non-contract pre-pay customers is recorded as deferred revenue prior to commencement of services and is recognised as the services are rendered

Franchise income

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

Compensation for service disruption

Compensation received for service disruption under the performance regime provisions of the track access agreements with Network Rail is recognised over the period of disruption and is shown within other operating income

Notes *(continued)*

1 Accounting policies *(continued)*

Subscriber acquisition costs

Non-contract customers

Subscriber acquisition costs for non-contract customers, whether pre-pay or post-pay, are recognised in the income statement as incurred These costs include the commission costs associated with acquiring new non-contract customers and other incremental costs of non-contract customer acquisition

Contract customers

Subscriber acquisition costs for contract customers, which include the commission costs associated with acquiring new contract customers and other incremental costs of contract customer acquisition, are recorded within other receivables prior to commencement of the contract The costs are recognised in the income statement, within equipment cost of sales, over the average length of the contract

Landing slot expenditure

Costs of slots purchased are capitalised and amortised through the profit and loss account over 20 years from the date at which they come in to service

Goodwill

In accordance with Financial Reporting Standard 10, 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 and amortised to nil by equal annual instalments over its estimated useful life as set out in Note 10

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

In the Group's financial statements, investments in subsidiary undertakings and joint ventures are stated at cost less amounts written off

Intangible fixed assets

Intangible fixed assets purchased separately from a business are capitalised at their cost Intangible assets acquired as part of an acquisition are capitalised at their fair value where it can be measure reliably Concessions, patents, licences and trademarks purchased by the company are amortised to £nil by equal annual instalments over their useful economic lives, generally the respective unexpired periods

Administrative expenses

Administrative expenses comprise overhead expenses, depreciation of assets and amortisation of goodwill, together with marketing and promotional costs

Notes *(continued)*

1 Accounting policies *(continued)*

Depreciation

Depreciation is provided from the date at which assets are available for economic use at various rates, in order to write off the cost or valuation of tangible fixed assets over their anticipated useful lives, or periods of underlying finance leases if shorter

Aircraft and engine maintenance costs in respect of overhauls carried out at intervals greater than one year are 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 then 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 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 over periods of up to twenty years, so as to reduce the cost or valuation to estimated residual value at the end of that period

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

The freehold buildings are being depreciated over a period of 50 years, on a straight line basis

Directly attributable costs incurred in the design, build and testing of software are capitalised and depreciated over the useful life of the software application

Other tangible fixed assets are depreciated on a straight line basis at the following rates

Fixtures and fittings	-	over 3 to 10 years
Plant and equipment	-	over 3 to 10 years
Software development	-	up to 7 years
Computer equipment and software	-	over 3 to 5 years
Motor vehicles	-	over 4 years
Leasehold properties	-	over period of lease

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

Deferred taxation

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 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, "Deferred Tax"

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

Translation of foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract 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

For consolidation purposes, the profit and loss accounts and the balance sheets of overseas subsidiary undertakings are translated at the closing exchange rates Exchange differences arising on translation are taken to reserves All other profits or losses arising on translation are dealt with through the profit and loss account

Notes *(continued)*

1 Accounting policies *(continued)*

Derivative financial instruments

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

Leases

When an asset is acquired by leasing arrangement which gives rights approximating to ownership ("finance lease"), the asset is capitalised at an amount representing the outright purchase price of such an asset and included in 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 rentals is treated as a liability 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", whereby 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

Onerous lease provisions are discounted at 5% with the unwinding of the discount being taken to the profit and loss account

Aircraft maintenance costs

Routine maintenance costs are written off to the profit and loss account as incurred Maintenance costs for overhauls at intervals of more than one year relating to operating leased aircraft which are contractually required are provided for in the profit and loss account, whereas those relating to all other aircraft are capitalised in the balance sheet as a tangible fixed asset and depreciated

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

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 The Flying Club frequent flyer scheme is accrued at the expected redemption rate as members of this scheme accumulate mileage

Cash and liquid resources

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

Pension costs

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 also participates in a defined benefit scheme, which is closed to new members The assets of the scheme are held separately from those of the Group Pension scheme assets are measured using market values Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability

The pension scheme deficit is recognised in full The movement in the scheme deficit is split between operating charges, finance items and, in the statement of recognised gains and losses, actuarial gains and losses

Notes *(continued)*

1 Accounting policies *(continued)*

Share based payments

The share option programme allows senior management (including directors) to acquire shares of the Group The fair value of options granted after 7 November 2002 and those not yet vested as at 31 March 2006 is recognised as an employee expense with a corresponding increase in equity The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the options The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting

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 relevant Board of Directors, and which are deemed to have been earned in the current period Such estimates are based on a reasonable expectation of the extent that performance criteria will be met

Notes *(continued)*

2 Analysis of continuing and acquired operations

	Year ended 31 March 2006			Year ended 31 March 2005		
	Continuing £ million	**Acquisitions £ million**	**Total £ million**	Continuing £ million	Acquisitions £ million	Total £ million
Turnover	-	**853.1**	**853.1**	-	-	-
Less share of joint ventures' turnover	-	**(0 7)**	**(0 7)**	-	-	-
Cost of sales	-	**(791 2)**	**(791 2)**	-	-	-
Gross profit	-	**61.2**	**61 2**	-	-	-
Administrative expenses	-	**(95.8)**	**(95.8)**	-	-	-
Other operating income	-	**68.9**	**68 9**	-	-	-
Operating profit	-	**34.3**	**34 3**	-	-	-

On 9 November 2005, the Group acquired a 100% holding in Virgin Holdings Limited See note 29 for details

On 12 December 2005, the Group acquired a 100% holding in Cricket SA See note 29 for details

3 Profit/(loss) on ordinary activities before taxation

	Year ended 31 March 2006 £ million	Year ended 31 March 2005 £ million
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Auditors' remuneration		
Audit	**0 8**	-
Other services	**0 3**	-
Depreciation and other amounts written off tangible fixed assets	**25 0**	-
Amortisation of goodwill	**10 8**	-
Amortisation of landing slots	**0 7**	-
Exchange differences on foreign currency borrowings less deposits	**(0 6)**	-
Rentals payable under operating leases - Aircraft and related equipment	**52.9**	-
- Land and buildings	**5.3**	-
- Hire of plant and machinery	**40 5**	-
Provision released against inter-group debts	**(16 6)**	-

Auditors' remuneration includes an amount for the audit of the company of £20,000 (2005 £nil)

Profit before taxation includes the following exceptional items

	Note	**Year ended 31 March 2006 £ million**	Year ended 31 March 2005 £ million
Non-operating exceptionals			
Loss on disposal of aircraft		**(0 2)**	-
Profit on disposal of investments	29	**4 9**	-

On 11 January 2006 the Group disposed of its investment in Virgin Mobile (Australia) PTY Limited for a total consideration of £13 0 million A profit of £4 9 million arose on this transaction after taking into account transaction costs

Notes *(continued)*

4 Analysis of turnover, operating profit and net assets

Turnover, operating profit and net assets are analysed below

By activity	**Turnover Year ended 31 March 2006 £ million**	**Group operating profit Year ended 31 March 2006 £ million**	Turnover Year ended 31 March 2005 £ million	Group operating profit Year ended 31 March 2005 £ million
Acquired				
Airline passenger and ancillary services	506.7	(1 9)	-	-
Holiday tour operations	136 5	(1 5)	-	-
Trademark licencing	5 2	(0.3)	-	-
Rail passenger services	222 3	28 4	-	-
Rail ticket sales	20 6	0 5	-	-
Management services and other	3 2	9 1	-	-
Intra-Group	(41 4)	-	-	-
	853.1	34 3	-	-
Less share of joint venture revenue	(0.7)		-	
Total	852 4		-	

Management services and other includes provisions against amounts due from related parties and a charge for the impairment of goodwill as described in note 10 below

Net assets	**31 March 2006 £ million**	31 March 2005 £ million
Acquired		
Airline passenger and ancillary services	199 6	-
Holiday tour operations	76 6	-
Trademark licencing	597 6	-
Rail passenger services	77.7	-
Rail ticket sales	(33 6)	-
Management services and other	(828 3)	
Total	89 6	-

By geographical market	**Turnover Year ended 31 March 2006 £ million**	Turnover Year ended 31 March 2005 £ million
UK	702.9	-
North America (including Caribbean)	100 2	-
Far East	39 9	-
Africa	30 9	-
Other	19 9	-
Intra-Group sales	(41 4)	-
	852 4	-

Notes *(continued)*

4 Analysis of turnover, operating profit and net assets *(continued)*

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

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

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

5 Remuneration of directors

The directors did not receive any remuneration during the year for services to the Company (2005 £nil)

6 Staff numbers and costs

From 1 April 2005 through 8 November 2005 the Group had no employees Following the acquisition of Virgin Holdings Limited on the 9 November 2005, the average number of persons employed by the Group through 31 March 2006 (including directors), analysed by category, was as follows

	Year ended 31 March 2006	Year ended 31 March 2005
Management and administration	**1,624**	-
Flight crew	**646**	-
Cabin crew	**3,618**	-
Reservations and sales	**2,354**	-
Engineering cargo and production	**1,467**	-
Rail operations	**3,768**	-
	13,477	-

The aggregate payroll costs of these persons were as follows

	Year ended 31 March 2006 £ million	Year ended 31 March 2005 £ million
Wages and salaries	**111.4**	-
Social security costs	**10 0**	-
Pension costs	**8 6**	-
	130 0	-

Notes *(continued)*

7 Other interest receivable and similar income

	Year ended 31 March 2006 £ million	Year ended 31 March 2005 £ million
On deposits	**8 1**	-
On amounts owed by group undertakings	**35 4**	-
On amounts owed by associates/joint ventures	**2 9**	-
Foreign exchange gain	**3 3**	-
Expected return on defined benefit pension obligation	**4 4**	-
Other	**1.8**	-
	55 9	-

8 Interest payable and similar charges

	Year ended 31 March 2006 £ million	Year ended 31 March 2005 £ million
On bank loans and overdrafts	**11 8**	-
On group loans	**10 6**	-
On associate/joint venture loans	**2 7**	-
Finance charges payable in respect of finance leases	**3 4**	-
Foreign exchange losses	**1 9**	-
Unwinding of discount on onerous leases	**0 1**	-
Interest on non-equity shares	**1 8**	-
Interest on defined benefit pension plan obligation	**3 5**	-
Other	**2 4**	-
	38.2	-

Notes *(continued)*

9 Taxation

Analysis of charge in year

	Year ended 31 March 2006 £ million	Year ended 31 March 2005 £ million
Current tax		
UK corporation tax on income for the period	8 4	-
Non-UK corporation tax on income for the period	1 4	-
Double tax relief	(1 0)	-
Foreign tax	0 1	-
Total current tax	8 9	-
Deferred tax		
Origination and reversal of timing differences	6 0	-
Tax charge on profit on ordinary activities	14 9	-

Factors affecting the tax charge for the current year

The current tax charge for the year is lower (2005 lower) than the standard rate of corporation tax in the UK 30% (2005 30%) The differences are explained below

	Year ended 31 March 2006 £ million	Year ended 31 March 2005 £ million
Current tax reconciliation		
Profit on ordinary activities before tax	61 8	-
Current tax at 30% (2005 30%)	18 5	-
Effects of		
Expenses not deductible for tax purposes	1.8	-
Income not taxable	(13 3)	-
Capital allowances for period in excess of depreciation	(7.0)	-
UK tax losses not utilised or not recognised	5 8	-
Non-UK tax losses not utilised or not recognised	3 0	-
Other short term timing differences	4 0	-
Exchange differences	0.1	-
Foreign tax rates in excess of UK tax rates	(0.6)	-
Utilisation of UK tax losses	(1 4)	-
CFC tax	(2 0)	-
Total current tax charge (see above)	8.9	-

The tax effect of the exceptional items is to increase the deferred tax charge in the year ended 31 March 2006 by £0 1 million (2005 £nil)

Notes *(continued)*

10 Intangible fixed assets

Group	Goodwill £ million	Landing slots £ million	Intellectual property £ million	Total £ million
Cost				
At beginning of year	-	-	-	-
Acquired	631 0	37 7	-	668 7
Additions	-	-	9 0	9 0
Disposal	-	(0 7)	-	(0 7)
At end of year	**631 0**	**37 0**	**9 0**	**677.0**
Amortisation				
At beginning of year	-	-	-	-
Charged in year	10 8	0 7	-	11 5
Disposed	-	(0 7)	-	(0 7)
At end of year	**10 8**	**-**	**-**	**10 8**
Net book value				
At 31 March 2006	**620 2**	**37.0**	**9 0**	**666 2**
At 31 March 2005	-	-	-	-

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises

The useful economic life of the goodwill associated with the acquisition of Virgin Holdings Limited and Cricket SA, the directors consider an amortisation period of 20 years appropriate

Notes *(continued)*

11 Tangible fixed assets

Group	Land and buildings £ million	Assets in the course of construction £ million	Aircraft, rotable spares and ancillary equipment £ million	Software development £ million	Modification to aircraft on operating leases £ million	Plant & machinery fixtures and fittings £ million	Total £ million
Cost							
At beginning of year	-	-	-	-	-	-	-
Acquisitions	14 7	28 0	260 2	21 0	80 7	47 1	451 7
Additions	0 5	11 6	1 4	1 4	0 5	5 7	21 1
Disposals	-	-	(19 5)	-	-	(3 2)	(22 7)
Reclassifications	-	(21 6)	4 9	-	12 4	4 3	-
At end of year	**15.2**	**18.0**	**247 0**	**22 4**	**93 6**	**53 9**	**450.1**
Depreciation							
At beginning of year	-	-	-	-	-	-	-
Charge for the year	0 1	-	5 8	2 3	7 8	9 0	25 0
Impairment charge	-	-	-	-	-	-	-
Disposals	-	-	(3 3)	-	-	(3 1)	(6 4)
At end of year	**0 1**	-	**2 5**	**2 3**	**7 8**	**5 9**	**18 6**
Net book value							
At 31 March 2006	**15 1**	**18.0**	**244 5**	**20 1**	**85 8**	**48 0**	**431 5**
At 31 March 2005	-	-	-	-	-	-	-

The transfer to current assets is in respect of payments on aircraft, which have been acquired, sold and leased back

Included in aircraft, rotable spares and ancillary equipment are progress payments of £47 4 million (2005 £nil)

Included in land and buildings are short leasehold buildings at cost and net book value of £0 7 million (2005 £nil) and net book value of £0 5 million (2005 £nil) The balance of land and buildings is freehold

Notes *(continued)*

11 Tangible fixed assets *(continued)*

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

	31 March 2006 £ million	31 March 2005 £ million
Net book value		
Aircraft, rotable spares and ancillary equipment	**36.5**	-
Plant and machinery	**1 3**	-

	31 March 2006 £ million	31 March 2005 £ million
Depreciation charge for the year		
Aircraft, rotable spares and ancillary equipment	**3.8**	-
Plant and machinery	**2 2**	-

During the year, the Group did not enter into any finance lease and hire purchase contract arrangements in respect of tangible fixed assets (2005 £nil)

Notes *(continued)*

12 Fixed asset investments

Group	Interest in joint venture undertakings £ million	Interest in associates £ million	Other investments £ million	Total £ million
Cost				
At beginning of year	-	-	-	-
Acquired	4 2	95 4	17 1	116 7
Additions	2 3	-	4 1	6 4
Disposals	-	-	(7 5)	(7 5)
At end of year	6 5	95 4	13 7	115 6
Share of post acquisition reserves				
At beginning of year	-	-	-	-
Share of profit	(1 6)	6 7	-	5 1
Share of interest receivable	-	2 9	-	2 9
Share of interest payable	-	(2 7)	-	(2 7)
Share of current tax	-	(0 1)	-	(0 1)
Amortisation	-	(0 8)	-	(0 8)
Exchange differences	(0 4)	(2 4)	-	(2 8)
At end of year	(2 0)	3 6	-	1 6
Provision				
At beginning and end of year	-	-	-	-
Net book value				
At 31 March 2006	**4 5**	**99 0**	**13 7**	**117 2**
At 31 March 2005	-	-	-	-

The group's share of its joint venture's performance is disclosed in the consolidated profit and loss account Its share of the joint venture's balance sheet is as follows

Joint venture	**31 March 2006 £ million**	31 March 2005 £ million
Fixed assets	**4 7**	-
Current assets	**4 3**	-
Gross liabilities	**(4 5)**	-
At 31 March 2006	**4 5**	-

Notes *(continued)*

12 Fixed asset investments *(continued)*

The group's share of its associate's performance is disclosed in the consolidated profit and loss account Its share of the associate's balance sheet is as follows

Associates	**31 March 2006 £ million**	31 March 2005 £ million
Fixed assets	**121 8**	-
Current assets	**71 9**	-
Gross liabilities	**(132 8)**	-
Premium on acquisition	**38 1**	-
	99 0	-

Company	**Shares in group undertakings £ million**	**Total £ million**
Cost		
At beginning of year	-	-
Additions	1,973 3	1,973 3
At end of year	1,973 3	1,973 3
Provision		
At beginning and end of year	-	-
Net book value		
At 31 March 2006	**1,973 3**	**1,973 3**
At 31 March 2005	-	-

Notes *(continued)*

12 Fixed asset investments *(continued)*

The company's principal underlying investment at 31 March 2006 was Virgin Holdings Limited (the holding company for the Group's indirect investments) The company's indirect investments include Virgin Atlantic Limited (the holding company for the Group's airline and holiday operations), Trainline Holdings Limited (the holding company for the Group's train ticket sales) and Virgin Rail Group Limited (the holding company for Passenger Rail Services)

The principal companies in which the company's interest at the year end is more than 20% are as follows

	Country of Registration	Principal Activity	Holding %	Type of Share
Subsidiary companies				
Virgin Holdings Limited	England & Wales	Holding company	100	Ordinary
Indirectly held via Virgin Holdings Limited				
Blue Pearl Holdings Limited	British Virgin Islands	Holding company	100	US$1 Ordinary
Charter Air Limited	England & Wales	Aircraft chartering	100	Ordinary
Cricket S A	Switzerland	Holding company	100	CHF Ordinary shares
Virgin Investments SA	Switzerland	Holding company	100	Ordinary
Virgin Rail Group Holdings Limited	England & Wales	Holding company	51	Ordinary
Trainline Holdings Limited	England & Wales	Holding company	80 44	Ordinary
			100	Deferred
Indirectly held via Trainline Holdings Limited				
Qjump Limited	England & Wales	Train ticket sales	80 44	Ordinary
Trainline com Limited	England & Wales	Train ticket sales	80 44	Ordinary
Trainline Rail Enquiry Services Limited	England & Wales	Train ticket sales	80 44	Ordinary
Trainline Short Breaks Limited	England & Wales	Dormant	80 44	Ordinary
Indirectly held via Virgin Investments SA				
Virgin Atlantic Limited	England & Wales	Holding company	51	Ordinary
Virgin Travel Group Limited	England & Wales	Holding company	51	Ordinary
Virgin Atlantic Airways Limited	England & Wales	Airline operations	51	Ordinary
Virgin Holidays Limited	England & Wales	Tour operations	51	Ordinary
Worldwide Travel of East Anglia Limited	England & Wales	Travel agency	51	Ordinary
Virgin Nigeria Airways Limited	Nigeria	Airline operations	24 99	Ordinary
Indirectly held via Blue Pearl Holdings Limited				
Bluebottle (No 2) Inc	British Virgin Islands	Holding company	100	Ordinary
Bluebottle UK Limited	England & Wales	Holding company	100	Ordinary
Bluebottle Investments SA	Switzerland	Holding company	100	CHF Ordinary shares
Bluebottle Mobile Canada Inc	Canada	Holding company	100	CAN$ Ordinary shares
Omer Telecom Limited	England & Wales	Mobile telephone company	50	Euro Ordinary shares
Indirectly held via Virgin Rail Group Holdings Limited				
Virgin Rail Group Limited	England & Wales	Holding company	51	Ordinary
CrossCountry Trains Limited	England & Wales	Passenger rail services	51	Ordinary
West Coast Trains Limited	England & Wales	Passenger rail services	51	Ordinary
Millennium Drivers Limited	England & Wales	Dormant	51	Ordinary

Notes *(continued)*

12 Fixed asset investments *(continued)*

The proportion of voting rights held by the Company in each of its principal subsidiaries is the same as the proportion of ordinary issued shares held

	Country of Registration	**Principal Activity**	**Holding %**	**Type of Share**
Indirectly held associated undertakings and joint ventures				
Virgin Mobile Canada	Canada	Telecommunications	50	Partnership units
Inter City-Railways Limited	England & Wales	Dormant	50	Ordinary
Virgin Blue Holdings Limited	Australia	Holding Company	25 08	Ordinary

13 Stocks

	31 March 2006 Group £ million	**31 March 2006 Company £ million**	31 March 2005 Group £ million	31 March 2005 Company £ million
Aircraft consumable spares	17 7	-	-	-
Finished goods and goods for resale	6 2	-	-	-
Raw materials	0 7	-	-	-
	24.6	-	-	-

14 Debtors

	31 March 2006 Group £ million	**31 March 2006 Company £ million**	31 March 2005 Group £ million	31 March 2005 Company £ million
Amounts falling due within one year				
Trade debtors	235 9	-	-	-
Amounts owed by group and fellow subsidiary undertakings	1,619 3	-	-	-
Other debtors	174.1	-	-	-
Tax and other social security	1 9	-	-	-
Deferred tax asset	2 4	-	-	-
Prepayments and accrued income	71 6	-	-	-
	2,105 2	-	-	-

Notes *(continued)*

14 Debtors *(continued)*

At 31 March 2006, other trade receivables with a book value of £1 7 million (2005 £nil) are provided as security against a £10 0 million bank facility with Lloyds TSB Credit card receivables included within other trade receivables with a book value of £3 0 million (2005 £nil) are provided as security against amounts payable to Rail Settlement Plan Limited

	31 March 2006 Group £ million	**31 March 2006 Company £ million**	31 March 2005 Group £ million	31 March 2005 Company £ million
Amounts falling due after more than one year				
Prepayments and accrued income	**168 0**	-	-	-
	168 0	-	-	-
Total debtors	**2,273 2**	-	-	-

15 Cash at bank and in hand

At 31 March 2006 the balance of cash at bank and in hand for the Group included

- £10 0 million held on deposit (2005 £nil), as security for performance bonds (see note 28)
- £23 0 million (2005 £nil) in a separate rental reserve account, in relation to the leasing of the West Coast trains under the terms of the Franchise Agreement

16 Creditors amounts falling due within one year

	31 March 2006 Group £ million	**31 March 2006 Company £ million**	31 March 2005 Group £ million	31 March 2005 Company £ million
Secured bank loans (note 17)	**13 4**	-	-	-
Other bank loans	**306 1**	-	-	-
Obligations under finance leases and hire purchase (note 23)	**4 7**	-	-	-
Trade creditors	**246 6**	-	-	-
Amounts due to group undertakings	**2,124.7**	**606 7**	-	-
Amounts due to related undertakings	-	**1,383 5**	-	-
Corporation tax	**70.2**	-	-	-
Other taxes and social security	**15 3**	-	-	-
Other creditors	**32 6**	-	-	-
Accruals and deferred income	**632 6**	-	-	-
	3,446 2	**1,990 2**	-	-

Notes *(continued)*

17 Creditors amounts falling due after more than one year

	31 March 2006 Group £ million	31 March 2006 Company £ million	31 March 2005 Group £ million	31 March 2005 Company £ million
Secured bank loans	119 7	-	-	-
Other bank loans	9 9	-	-	-
Obligations under finance leases and hire purchase (note 23)	28 9	-	-	-
Amounts due to group undertakings	20 1	-	-	-
Amounts due to related undertakings	-	-	-	-
Other creditors	14.8	-	-	-
Accruals and deferred income	41 0	-	-	-
49,000 cumulative redeemable preference shares of 1p each linked to LIBOR plus 2 5%	49 0	-	-	-
	283 4	-	-	-

The secured bank loans relate to £133 1 million (2005 £nil) secured by mortgages over certain aircraft and a building £3 6 million (2005 £nil) of these loans fall due for repayment after five years The interest rates charged in the period are in the range from 0 625% to 2 75% above US$ LIBOR, and 1 125% above 3 month £ LIBOR

The Group entered into a £10 million asset backed revolving finance facility with Lloyds TSB plc The facility is secured against £4 7 million of trade debtors Interest is payable on amounts drawn down at 1 5% above base rate

The other bank loans are repayable within the year The interest rates on the loans range from 1 00% to 1 50% above LIBOR

The Group has adopted the provisions of Financial Reporting Standard 25 and accordingly the cumulative redeemable preference shares are reclassified as "Creditors amounts falling due after more than one year"

The cumulative redeemable preference shares may be redeemed at no premium at the option of Virgin Atlantic Limited by giving not less than one months' notice, provided that following the redemption certain financial ratios and other criteria specified in Virgin Atlantic Limited's Articles of Association are met

The cumulative redeemable preference shares carry no entitlement to vote at meetings On a winding up of the Group, 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 calculated down to the date of the return of capital irrespective of whether such dividends have been earned or declared or not

Notes *(continued)*

18 Provisions for liabilities and charges

Group	Deferred tax liability £ million	Aircraft maintenance £ million	Onerous leases £ million	Total £ million
At beginning of year	-	-	-	-
Acquired	128 7	76 4	3 3	208 4
Foreign exchange translation	-	4 9	0 1	5 0
Amounts provided in the year	6 1	7 1	0 9	14 1
Amounts released in the year	-	-	(1 7)	(1 7)
Utilised during year	-	(7 5)	(1 2)	(8 7)
Unwinding of discount on onerous leases	-	-	0 1	0 1
At end of year	**134.8**	**80 9**	**1 5**	**217.2**

Routine maintenance costs are written off to the profit and loss account as incurred Maintenance costs for overhauls at intervals of more than one year relating to operating leased aircraft which are contractually required are provided for in the profit and loss account, whereas those relating to all other aircraft are capitalised in the balance sheet as a tangible fixed asset and depreciated

Onerous lease provisions are discounted at 5% with the unwinding of the discount being taken to the profit and loss account

Total deferred tax	Assets £ million	Liabilities £ million	Deferred tax £ million
At beginning of year	-	-	-
Acquired	(2 3)	128 7	126 4
Amounts provided in the year	(0 1)	6 1	6 0
At end of year	**(2 4)**	**134 8**	**132 4**

Notes *(continued)*

18 Provisions for liabilities and charges *(continued)*

The amounts provided for deferred taxation at current rates are set out below

Group *The elements of the deferred tax provision are as follows*	**31 March 2006 Cumulative provided £ million**	**31 March 2006 Cumulative unprovided £ million**	31 March 2005 Cumulative provided £ million	31 March 2005 Cumulative unprovided £ million
Accelerated capital allowances	**141 2**	**(0 7)**	-	-
Other timing differences	**(8.4)**	**(9 8)**	-	-
UK tax losses	**(0 5)**	**(25 4)**	-	-
Non-UK tax losses	**-**	**(17.5)**	-	-
Pension liability	**(6.7)**	**-**	-	-
	125 6	**(53.4)**	-	-

	31 March 2006 £ million	31 March 2005 £ million
Disclosed as		
Debtors	**(2.5)**	-
Provisions	**134 8**	-
Pension liability	**(6 7)**	-
	125 6	-

19 Called up share capital

	31 March 2006 £	31 March 2005 £
Authorised		
10,000 Ordinary shares of £1 each (2005 10,000)	**10,000**	10,000
Allotted, called up and fully paid		
2 Ordinary shares of £1 each (2005 2)	**2**	2

The Group has adopted the provisions of FRS 25, "Financial Instruments Disclosure and Presentation" Advantage has been taken of the exemption available under FRS 25 and the comparative figures have not been restated

Notes *(continued)*

20 Share premium and reserves

Group	Profit and loss account £ million
At beginning of year	-
Retained profit for the year	41 8
Exchange movements	(2 1)
At end of year	39 7

Company	Profit and loss account £ million
At beginning of year	-
Retained loss for the year	(16 9)
At end of year	(16 9)

21 Reconciliation of movement in shareholders' funds

	31 March 2006 Group £ million	31 March 2006 Company £ million	31 March 2005 Group £ million	31 March 2005 Company £ million
Total recognised gains and losses relating to the financial period	39 7	(16 9)	-	-
Opening shareholders' funds	-	-	-	-
Closing shareholders' funds	39 7	(16 9)	-	-

Notes *(continued)*

22 Minority interests

	31 March 2006 £ million	31 March 2005 £ million
At beginning of year	-	-
Acquisition of subsidiary	44.1	-
Share of profit for the period	5 1	-
Actuarial loss on defined benefit pension scheme	(0 1)	-
Exchange difference	0 8	-
	49 9	-

23 Leasing commitments

The capital element of the future minimum lease payments to which the Group is committed as at 31 March 2006 under finance lease and hire purchase contract obligations incurred in the acquisition of aircraft, engines, spares and other equipment is as follows

	31 March 2006 £ million	31 March 2005 £ million
Amounts due within		
Within one year	4 7	-
In the second to fifth years inclusive	27 9	-
Over five years	1 0	-
	33 6	-

Rentals, net of finance charges are included in obligations under finance leases and hire purchase contracts in notes 16 and 17 above

As at 31 March 2006 the Group had annual commitments under non-cancellable operating leases as set out below

	31 March 2006		31 March 2005	
	Land and buildings £ million	Aircraft and other £ million	Land and buildings £ million	Aircraft and other £ million
Operating leases which expire				
Within one year	12 1	1 4	-	-
In the second to fifth years inclusive	49 3	38 2	-	-
Over five years	97 9	181 7	-	-
	159 3	221 3	-	-

One of the Group's subsidiaries, Virgin Rail Group Holdings Limited, entered into a number of long term supply contracts The most significant of these relate to track, station and depot access facilities, together with new train lease and maintenance arrangements The directors have considered the terms of these contracts and the above lease commitments and concluded that no obligations will exist to the Group after the Franchise Agreements have ended

Under the Franchise Agreements and July 2002 Arrangement there is a requirement for Virgin Rail Group Limited, West Coast and CrossCountry to comply with certain performance and other obligations

Notes *(continued)*

24 Capital commitments

Group	31 March 2006 £ million	31 March 2005 £ million
Capital commitments at the balance sheet date for which no provision has been made:		
Contracted	**746 2**	-

Company

As at 31 March 2006 there were no capital commitments in the Company (2005 £nil)

25 Reconciliation of operating profit to net cash inflow from operating activities

	31 March 2006 £ million	31 March 2005 £ million
Operating profit	**34 3**	-
Depreciation charge	**25.0**	-
Amortisation of intangible assets	**11 5**	-
Decrease in stocks	**2.9**	-
Decrease in debtors	**147 7**	-
Increase in creditors	**136 9**	-
Increase in provisions	**7.5**	-
	365 8	-

26 Reconciliation of net cash flow to movement in net debt

	31 March 2006 £ million	31 March 2005 £ million
Increase in cash in the year	**539.6**	-
Cash inflow from increase in debt	**(2,040 2)**	-
Change in net funds resulting from cash flows	**(1,500 6)**	-
Other non-cash items		
Accrued interest	**(13 5)**	-
Debt and finance leases acquired on acquisition	**(599.7)**	-
Translation difference	**(1 0)**	-
Movement in net debt in the year	**(2,114 8)**	-
Net debt at 31 March 2005	-	-
Net debt at 31 March 2006	**(2,114 8)**	-

Notes *(continued)*

27 Analysis of net debt

	At beginning of year £ million	Cash flow £ million	On acquisition £ million	Reclassification £ million	Other non cash changes £ million	Exchange movements £ million	At end of year £ million
Cash in hand, at bank	-	(49 7)	589 3	-	-	-	**539 6**
Debt due within one year	-	(176 3)	(143 3)	-	-	-	**(319 6)**
Debt due after one year	-	(14 1)	(172 3)	-	-	-	**(186.4)**
Finance leases and hire purchase contracts	-	0 1	(33 7)	-	-	-	**(33 6)**
Owed to related undertakings	-	(1,849 9)	(250 4)	-	(13 5)	(1 0)	**(2,114 8)**
	-	(2,040 2)	(599 7)	-	(13 5)	(1 0)	**(2,654 4)**
Total	-	(2,089 9)	(10 4)	-	(13 5)	(1 0)	**(2,114 8)**

28 Contingent liabilities

The competition authorities in a number of jurisdictions in which Virgin Atlantic Airways Limited operates have been investigating various aspects of pricing in the airline industry In connection with certain of the matters which have been the subject of these investigations, various civil claims for compensation have been filed against Virgin Atlantic Airways in the US No provision has been made to cover any potential liabilities which may arise as a result of this position No further disclosures regarding contingent liabilities arising from these investigations are being made by the Company and Virgin Atlantic Airways at this time since the directors of the Company and Virgin Atlantic Airways believe that such disclosures might be expected to be seriously prejudicial to the position of Virgin Atlantic Airways and any exposure cannot, at the present time, be accurately quantified

Certain subsidiary companies had contingent liabilities at 28 February 2006 in respect of indemnities under certain financing, regulatory travel bond and other arrangements which are partly secured by charges over designated short term deposits of £29 9 million, of which £19 5 million 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 bonds have been issued by ACE Insurance S A NV up to £21 0 million for West Coast and up to £9 0 million for CrossCountry Under a separate agreement, Virgin Rail Group Limited lodged £10 0 million with Lloyds TSB Bank plc as security throughout the year

Notes *(continued)*

29 Acquisitions and disposals

The book value and fair value of the assets on acquisition are shown below

Net assets acquired	Virgin Holdings Limited £ million	Cricket SA £ million
Fixed assets	510 7	95 4
Stocks	27 5	-
Debtors	1,980 5	403 1
Cash and liquid resources	528 7	60 6
Creditors	(1,601 3)	(148 8)
Total tangible net assets	1,446 1	410 3
Minority interest	(44 1)	-
Goodwill	571 3	59 7
Consideration given	1,973 3	470 0

On 9 November 2005, the Group acquired an investment in Virgin Holdings Limited and its subsidiaries The total consideration was £1,973 3 million and was left outstanding as an intercompany debt The acquisition resulted in an indirect investment in Blue Pearl Holdings Limited, Virgin Investments SA, Charter Air Limited, Virgin Rail Group Holdings Limited, and Trainline Holdings Limited, which are accounted for as subsidiaries by the Group Further, the acquisition resulted in an indirect investment in Rapido TV Investments Limited, Virgin Mobile Canada, and Inter City-Railways Limited, which are accounted for as an associate by the Group

The results generated by the trade and assets acquired prior to its acquisition are shown below

	1 April 2005 to 9 November 2005 £ million
Turnover	2,300 7
Operating profit	33 4
Profit on ordinary activities before taxation	808 3
Taxation	(16 7)
Profit on ordinary activities after taxation	791 6

In the prior year the profit after tax generated from the trade and assets was £176 6 million

Notes *(continued)*

29 Acquisitions and disposals *(continued)*

On 12 December 2005 the Group acquired an investment in Cricket SA and its subsidiaries The total consideration was £470 0 million and was left outstanding as an intercompany debt The acquisition resulted in a direct investment in VHSA Holdings Limited, an investment holding company, in which the principal activity of its main operating undertaking, Virgin Enterprises Limited, is the collection of royalties from within the Virgin group The acquisition resulted in an indirect investment in Virgin Blue Holdings Limited, which is accounted for as an associate by the Group

The results generated by the trade and assets acquired prior to its acquisition are shown below

	1 April 2005 to 11 December 2005 £ million
Turnover	8 1
Operating profit	166 6
Profit on ordinary activities before taxation	157 5
Taxation	(7 1)
Profit on ordinary activities after taxation	150 4

In the prior year the profit after tax generated from the trade and assets was £12 9 million

On 11 January 2006 the Group disposed of its 30 52% investment in Virgin Mobile (Australia) PTY Limited for a total consideration of £13 0 million A profit of £4 9 million arose on this transaction after taking into account transaction costs

30 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 £3 9 million (2005 £nil) There were no outstanding or prepaid contributions at 28 February 2006 (2005 £nil)

The Group's subsidiary, Trainline Holdings Limited, operates a defined contribution pension plan The assets of the scheme are held separately from those of the Group in an independently administered fund The total expense relating to these plans in the current year was £nil (2005 £nil) There were no outstanding or prepaid contributions at 31 March 2006 (2005 £nil)

Defined benefit plans

Qjump scheme

The Group's subsidiary, QJump Limited, operates a defined benefit pension scheme which is closed to new entrants The QJump Shared Cost Section of the Railways Pension Scheme ('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 Group

Under the terms of the acquisition of Qjump from National Express Trains Limited, on the 9 February 2004, National Express Trains Limited undertook to indemnify Trainline Holdings Limited against certain costs which might arise from the Qjump Defined Benefit Pension Scheme As the benefits which will accrue to the company as a result of this indemnity cannot be assessed with any degree of certainty no asset has been recognised in relation to any future payments/contributions from National Express Trains Limited

The latest full actuarial valuation was carried out at 31 December 2004 and was updated for FRS 17 purposes to 4 March 2006 by a qualified independent actuary

The pension charge for the year, calculated in accordance with FRS 17 was £nil (2005 £nil) Unpaid contributions at the period end amounted to £nil (2005 £nil)

The employer paid special contributions of £8,500 during the year (2005 £nil) to meet the shortfall revealed by the formal valuation as at 31 December 2004 and at 31 December 2002, respectively

Notes *(continued)*

30 Pension scheme *(continued)*

The major actuarial assumptions used by the actuary were

	2006 % pa
Rate of increase in salaries*	n/a
Rate of increase of pensions in payment	2 9
Rate of increase for deferred pensioners	2 9
Discount rate	4.8
Inflation assumption	2.9

*plus 0 75% pa promotional salary scale

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice

The fair value of the RPS assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the RPS liabilities, which are derived from cash flow projections over long periods and are therefore inherently uncertain, are

Qjump scheme

	2006 Expected rate of return % pa	2006 Fair value £ million
Fair value of assets		
Equities	8 2	1.8
Bonds	4 2	0 2
Property	6 7	0 2
Other	4.0	-
Total market value of assets	7 7	2.2
Total value of section liabilities		(2 4)
Members share of deficit		-
Net pension liability		(0 2)

Under the Railways Pension Scheme the cost of providing the benefits is generally split between the members and the employer in the ratio 40 60 Accordingly in 2004 the actuary assumed that the members would finance 40% of the deficit disclosed on the FRS 17 basis At 4 March 2006 and 5 March 2005 there were no members left in the scheme As a result, the actuary has assumed that QJump Limited will finance 100% of the deficit

Rail scheme

The Group's subsidiary, Virgin Rail Group Limited operates a defined benefit pension scheme Prior to their acquisition by Virgin Rail Group Limited, West Coast Trains Limited and CrossCountry Trains Limited were participating employers in the British Rail shared cost section of the Railway Pension Scheme ('RPS') Since their acquisition the subsidiaries have participated in their own separate shared costs section of the 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 Company and its subsidiaries

Notes *(continued)*

30 Pension scheme *(continued)*

The latest actuarial valuation of the subsidiaries' sections of the RPS was undertaken at 31 December 2004 using the projected unit method These valuations have been updated to 4 March 2006 by a qualified independent actuary, using revised assumptions that are consistent with the requirements of FRS 17 Present and future pensions were assumed to increase at 2 9% per annum The assets of the sections were taken at their market value, which at 4 March 2006 amounted to £245 2 million for West Coast Trains Limited and £117 3 million for Cross Country Trains Limited

The employers' actual combined contributions in the period were £3 6 million to the defined benefit schemes

The Group has no rights or obligations in respect of sections 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 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 to show the impact of this "franchise adjustment" is shown below

	2006 % pa
Rate of increase in salaries	4 4
Rate of increase in pensions in payment and deferred pensions	2 9
Discount rate	4.8
Inflation assumption	2 9

*plus 0 75% per annum promotional salary scale

The assumptions used by the actuary are the best estimates chosen from a large range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice

The fair value of the scheme assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme liabilities, which are derived from cash flow projections over long periods and are therefore inherently uncertain, are

Rail scheme

Fair value of assets	**2006 Expected rate of return % pa**	**2006 Fair value £ million**
Equities	7 7	265 4
Bonds	4 7	47.0
Property	4 5	31 5
Other	7 0	18 7
Total market value of assets	7 2	362 6
Total value of section liabilities		(401 5)
Deficit		(38 9)
Franchise adjustment		16.5
Deficit recognised by Company		(22 4)
Related deferred tax asset (at 30%)		6.7
Net pension liability		(15 7)

Notes *(continued)*

30 Pension scheme *(continued)*

The Group's share of the net pension liability is recognised in the Group's balance sheet as at 31 March 2006 The total net pension liability recognised is shown below

	2006
Qjump scheme	(0 2)
Rail scheme	(15 7)
Total net pension liability	(15 9)

Under FRS17, the amounts charge to the Group profit and loss account and Group statement of total recognised gains and losses for the year ended 31 March 2006 are set out below

		2006 Qjump scheme £ million	2006 Rail scheme £ million	2006 Total £ million
(i)	**Movement in deficit during the year on an FRS 17 basis was as follows**			
	Deficit in the section at beginning of year	-	-	-
	Deficit at acquisition	(0.2)	(22 3)	(22 5)
	Contributions paid	-	3 6	3 6
	Current service cost	-	(4 6)	(4 6)
	Other finance income	-	0 9	0 9
	Deficit in the section at end of year	(0 2)	(22 4)	(22 6)
(ii)	**Analysis of amounts charged to operating profit**			
	Current service cost	-	(4 6)	(4 6)
	Gain on settlement or curtailments	-	-	-
	Total credit to operating profit	-	(4.6)	(4 6)
(iii)	**Analysis of amounts credited to other finance income**			
	Interest on section liabilities	-	(3 6)	(3.6)
	Expected return on section assets	-	4.4	4 4
	Net credit to other finance income	-	0 8	0 8
(iv)	**Analysis of amounts recognised in statement of total recognised gains and losses**			
	Actual return less expected return on section assets	0 1	7 8	7 9
	Experience gain arising on section liabilities	-	4 7	4 7
	Changes in assumptions underlying the present value of section liabilities	(0 1)	(12 5)	(12 6)
	Actuarial gain recognised in a statement of total recognised gains and losses	-	-	-

Notes *(continued)*

30 Pension scheme *(continued)*

	2006 Qjump scheme £ million	2006 Rail scheme £ million
(v) Experience gains and losses		
Gain on section assets		
(i) amount	**0 1**	**7 8**
(ii) % of section assets at end of year, pro rata over relevant period	**12%**	**7%**
Experience gain/(loss) on section liabilities		
(i) amount	**0 1**	**4 7**
(ii) % of section liabilities at end of year	**9%**	**4%**
Total actuarial gain/(loss) recognised in STRGL		
(i) amount	-	-
(ii) % of section liabilities at end of year		

31 Related party disclosures

As at 31 March 2006, the Company's ultimate parent company was Virgin Group Investments Limited, whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Investments Limited The principal beneficiaries of those trusts are Sir Richard Branson and/or members of his immediate family Virgin Group Investments Limited is incorporated in the British Virgin Islands The shareholders of Virgin Group Investments 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 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 the US or Australia The licenses are exclusive subject to certain licenses granted to Virgin Express S A/N V , Virgin America Inc (formerly Best Air Holdings Inc) and Virgin Nigeria Airways Limited

Notes *(continued)*

32 Related party disclosures *(continued)*

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 2006			31 March 2005		
	Companies related by virtue of common control or ownership £ million	**Companies related by virtue of being associates of the Group £ million**	**Companies related by virtue of being investors in the Group £ million**	Companies related by virtue of common control or ownership £ million	Companies related by virtue of being associates of the Group £ million	Companies related by virtue of being investors in the Group £ million
Revenue	**1 6**	**1 1**	-	-	-	-
Purchases	**2 3**	**0 1**	-	-	-	-
Other income	**1 0**	-	-	-	-	-
Interest receivable	**35 4**	**2 9**	-	-	-	-
Interest payable	**10 6**	**2 7**	-	-	-	-
Debtors	**1,619 3**	-	-	-	-	-
Creditors < 1 yr	**2,124 7**	-	-	-	-	-
Creditors > 1 yr	**20 1**	-	-	-	-	-

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

Actionsquare Limited, Barfair Limited, Bluebottle Investments Inc , Bluebottle Investments SA, Bumblebee SA, China Holdings Wireless Limited, Cricket SA, Dragonfly SA, Newstart Investments Limited, Mayfly SA, MS Vehicle Management Limited, The Virgin Drinks Group Limited, Vexair Limited, Victory Corporation PLC, Virgin America Inc , Virgin Audio Holdings Inc , Virgin Audio Holdings LLC, Virgin Balloon Flights Limited, Virgin Books Limited, Virgin Bride Limited, Virgin Cars Holdings Limited, Virgin Enterprises Limited, Virgin Entertainment Asia Limited, Virgin Entertainment Global Limited, Virgin Entertainment Holdings Inc , Virgin Express Holdings PLC, Virgin Fitness SA, Virgin Group Finance, Virgin Group Investments Limited, Virgin Group Limited, Virgin Holdings Limited, Virgin Holdings SA, Virgin Hotels Group Limited, Virgin Investments SA, Virgin Life Care Investments Limited, Virgin Limobike Limited, Virgin Limousines LLC, Virgin Management Limited, Virgin Mobile (Australia) Pty Limited, Virgin Mobile Holdings (UK) PLC, Virgin Mobile Holdings Pte Limited, Virgin Mobile USA Inc , Virgin Mobile USA LLC, Virgin Money (Australia) Pty Limited, Virgin Money Holdings (UK) Limited, Virgin Money Investments SA, Virgin Money Overseas Limited, Virgin Net Limited, Virgin Radio Asia Holdings UK Limited, Virgin Rail Group Holdings Limited, Virgin Retail Group Limited, Virgin Retail Holdings Limited, Virgin Retail Investments Holding Limited, Virgin Retail (Ireland) Limited, Virgin Retail Limited, Virgin Sky Investments Limited, Virgin USA Inc , Virgin Vouchers Limited, Virgin Voyager Limited, Virgin Wings Limited, Virgin com Limited, Voyager Group Limited, and V2 Music Holdings 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 and the trusts

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, Virgin Mobile Canada, Virgin Active Group Limited, and Inter City-Railways Limited

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

Notes *(continued)*

32 Ultimate parent company

At 31 March 2006, the ultimate parent undertaking was Virgin Group Investments Limited, a company registered in the British Virgin Islands

33 Post balance sheet events

On 12 April 2006, the Group entered into a joint venture agreement with The Carphone Warehouse Ltd for the development of Virgin Mobile France, a mobile virtual network operator in the Brittany region of France

On 5 April 2006, a Supplemental Letter was signed by the Group and the DfT which clarified interpretation of the July 2002 Arrangement, and detailed certain amendments to the process for confirmation and adjustment of the franchise support payments Subsequently on 23 June 2006, additional franchise support was received to settle the £63 8 million due to West Coast and CrossCountry from the DfT

On 26 June 2006, the Group paid a dividend of £7 7 million This will be accounted for in the profit and loss reserves of the year ending 31 March 2007

On 5 July 2006, the Group completed the Trainline disposal for a consideration of £163 0 million (inclusive of a deferred consideration amount of £2 5 million), making an approximate profit on disposal of £71 2 million

On 19 July 2006 the Group acquired the shares in Virgin Voyager Trains Limited (a dormant company) for a consideration of £2 from Virgin Management Limited Virgin Voyager Trains Limited will be used as the bid vehicle for the new CrossCountry franchise

On 13 December 2006, the Group announced that it had agreed formal terms for a reinstated contract with the Department for Transport (DfT) for its West Coast Rail franchise The franchise deal started immediately and will run until March 2012, replacing the Management Agreement (Letter Agreement 2002) which has been in place since July 2002 following the collapse of Railtrack plc Under the deal, the Group plans to increase the number of passenger journeys from 20m a year in 2006/07 to more than 30m a year in 2011/12 in the West Coast routes between London Euston and the West Midlands, the North West, Cumbria and Scotland

On 20 December 2006, the Group entered into an agreement with Boeing to order 15 787-9 aircraft for delivery in 2011-2015, with the option to purchase a further 8 aircraft

On 19 January 2007, the Group entered into a £500 million multicurrency revolving credit facility agreement with Lloyds TSB Bank Plc, which terminates on 31 December 2009

On 29 March 2007, the Group acquired shares in Smart Charter Inc, a provider of executive jet travel based in the United States of America An investment of US$12m in series A preferred stock was made giving the Group approximately 70% of the fully-diluted share capital $6m was funded in cash and the remaining balance by way of a promissory note

On 2 April 2007, the Group paid a dividend of £21 3 million This will be accounted for in the profit and loss reserves in the year ending 1 March 2008

On 10 July 2007 the DfT decided to award the new CrossCountry franchise to Arriva plc and not the Group

On 16 July 2007 an interim dividend was paid of £6 1m This will be accounted for in the profit and loss reserves in the year ending 31 March 2008

On 26 October 2007 an interim dividend was paid of £4 9m This will be accounted for in the profit and loss reserves in the year ending 31 March 2008

It has been announced in the recent Budget that the corporation tax rate applicable to the Group is expected to change from 30% to 28% from 1 April 2008 The deferred tax asset has been calculated at the current UK corporation tax rate of 30% in accordance with FRS 19 Any timing differences which reverse before 1 April 2008 will be charged/ credited at 30%, any timing differences which exist at 1 April 2008 will reverse at 28% The estimated financial impact of this change is £409,000

Notes *(continued)*

34 Post balance sheet events *(continued)*

It has also been announced in the recent Budget that Industrial Building Allowances ("IBAs") claimed by the Group are expected to be phased out and abolished from 2011 onwards The deferred tax asset includes the full balance for IBAs as the Finance Bill has not yet received Royal Assent If the legislation for the abolition of IBAs had been in place at 3 March 2007 then a deferred tax asset of £1,047,000 in respect of IBAs would have been reversed in full