Virgin Wings Limited and subsidiary companies

Directors' report and consolidated financial statements

Registered number 03160887

31 March 2008

Contents

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 March 2008.

Principal activities

Virgin Wings Limited principally acts as an investment holding company.

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, and passenger rail services in the UK.

Business review

The results for the year are set out on page 12 of the financial statements and the loss for the year has been transferred to Group reserves.

Group turnover in the year was £3,246.0 million (2007: £3,077.7 million). This represents a 5.5% increase on the prior year.

Air travel

The Group's main airline subsidiary, Virgin Atlantic Airways Limited, increased its year-on-year revenues by 7% to £2,380.0 million (2007: £2,225.0 million) due to a focus on driving efficiencies through the Group coupled with a combination of new routes and the full impact of routes introduced last year. Additional cost pressures arising from increased fuel prices adversely affected the net result of the Group. In addition, Virgin Atlantic Airways Limited's profits before tax were affected by the inclusion of an exceptional charge of £32.5 million for refund claims and associated fees arising from the settlement of a civil action in the US relating to passenger fuel surcharges and other compliance related activities. This charge was accrued in the Group financial statements for the year ended 31 March 2007. The increase in administrative expenses was offset by the release of £29.8 million net accumulated losses (of which the Group's share is £18.5 million) due to a reclassification of its equity interest in Virgin Nigeria Airways Limited. Overall, this year's profit before tax represents an increased return on sales of 1.5% (2007: 0.3%).

The airline's operating fleet increased to 38 from 37 aircraft at the previous year-end, and supported new services to Chicago, Mauritius, Nairobi and Kingston and an additional frequency to Washington. In April 2007 the airline confirmed an order of 15 Boeing 787-9 aircraft and Rolls-Royce Trent 1000 engines. These aircraft offer significant operating advantages with 27% better fuel efficiency and 60% smaller noise footprint than the Airbus A340-300 aircraft they will replace. The order includes 8 options and purchase rights for a further 20 aircraft.

The Group's management is totally focused on delivering a cleaner airline in the air and on the ground - the world's first biofuel flight in February 2008 was part of a major initiative, with partners Boeing and GE Aviation, to demonstrate sources of sustainable aircraft fuel for the future.

The focus on delivering quality products and services to passengers continues to bear dividends with numerous high profile awards including the Conde Nast Traveller Best Long Haul Leisure Airline and six awards at the British Travel Awards including overall Airline of the Year. The award-winning Upper Class product has been boosted by the launch of the Upper Class Wing at Heathrow offering business class passengers a streamlined check in experience. In addition, the re-launch of the Terminal 3 check in area significantly improves customer experiences through faster check in.

During the year Virgin Holidays Limited continued to perform profitably and has seen increased margins due to strong direct passenger growth, product up-sell and improved margin management. The business also made significant investments in marketing and information technology. Virgin Holidays has continued to expand its long-haul product range principally in the Far East and Africa. It has purchased Fast Track Holidays Limited (renamed Virgin Holiday Cruises Limited) during the year to expand its cruise offering and has launched Real World Adventures to develop its product offering in the adventure holidays market.

Directors' report *(continued)*

Business review *(continued)*

Air travel (continued)

Virgin Atlantic Limited has experienced severe restrictions in its ability to exercise dominant or significant influence over the operational and financial policies of Virgin Nigeria Airways Limited, a situation which the board considers irreversible. The board considers the rate and extent of these restrictions have gradually increased over time, but particularly from around Autumn 2007. Accordingly, with the concurrence of the Company's auditors, KPMG LLP, the board has determined that Virgin Atlantic Limited's equity interest in Virgin Nigeria Airways Limited should be accounted for as a fixed asset investment from around this time, which for accounting purposes has been taken as 1 September 2007.

The directors continue to monitor the Group's success, or otherwise, in growing profitably using a range of key performance indicators ("KPIs"). A selection of these key measures is shown below. No changes have been made to the source data or calculation methods used in the year.

	2008	2007
Atlantic Group turnover	**£2,380.0 million**	£2,225.0 million
Return on sales [1]	**1.5%**	0.3%
Free cash [2]	**£598.8 million**	£447.1 million

[1] Return on sales – Profit on ordinary activities before taxation as a percentage of turnover
[2] Free cash – Cash at bank and in hand includes both cash and liquid resources

Rail

The Group operated 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"). The franchise agreement expires on 31 March 2012 for West Coast. For CrossCountry, the franchise expired on 10 November 2007 as part of the re-mapping of various rail franchises. The franchise, in revised form, was re-tendered and on 10 July 2007 it was announced that the new franchise had been awarded to Arriva Group plc. Following the termination of its franchise, CrossCountry no longer has an ongoing operational business.

West Coast operated until 9 December 2006 and CrossCountry operated until 10 November 2007 under the terms of the franchise agreements and an agreement made with the Strategic Rail Authority ('SRA"), now the DfT, in July 2002. Under this latter agreement ("the July 2002 Arrangement"), the DfT set an annual budget for each franchise which provided for certain franchise support payments to the franchises. Interpretation of the July 2002 Arrangement was subsequently clarified by a supplemental letter signed by the Group and the DfT in April 2006 ("the Supplemental Letter"). This detailed certain clarifications to the process for confirmation and subsequent adjustment of the franchise support payments.

On 9 December 2006 West Coast completed its long term negotiations with the DfT regarding the future of the franchise and its funding, and entered into an Amended and Restated Franchise Agreement ("ARFA"), dated 12 December 2006 but effective from 10 December 2006. The July 2002 Arrangement ceased from this point.

On 10 November 2007 the termination of the CrossCountry franchise came into formal effect. On this date, pursuant to a statutory transfer scheme, certain assets, rights and liabilities were transferred to the new franchise operator, XC Trains Limited, and the Group made a profit on the transfer of CrossCountry's assets and liabilities of £0.5 million. From 11 November 2007, XC Trains Limited took over responsibility for train operations on the newly re-mapped CrossCountry franchise. Following the termination of the CrossCountry franchise, and as anticipated in the ARFA, the Birmingham to Scotland routes, previously operated by CrossCountry, were transferred to West Coast along with a fleet of sixteen Super Voyager trains.

Directors' report *(continued)*

Business review *(continued)*

Rail (continued)

The Group is currently working with mobile provider Orange to improve on-train mobile phone signal reception giving customers more reliable use of mobile phones, Blackberry devices and 3G Data Cards which is currently being rolled out across the fleet. A project to deliver Wi-Fi is also underway and improvements have been made to the website to simplify fares.

On 23 February 2007 a Pendolino train was derailed in Cumbria. During the year, it was decided that the train was uneconomic to repair and it was subsequently written off. The insurance proceeds were sufficient to cover the lease obligations. On 3 April 2008, an agreement was reached with Network Rail that covered the uninsured losses of the Group incurred in the removal of the train from the incident site and locomotive hire. At the same time, agreement was also reached on the specifications of new depot facilities to be procured by Network Rail at various locations. This will assist with robust delivery of the West Coast timetable specifications set out in the ARFA.

The Group uses a range of financial and non-financial key performance indicators ("KPIs") across its activities. Financial KPIs focus on profitability. Revenue is a key driver of profitability level and the Group has seen continued growth in passenger numbers on both franchises in the year. For West Coast, the result of improved journey times, punctuality and comfort have contributed to a 10% increase in passenger journeys year on year. Over the life of the franchise, CrossCountry has seen substantial growth in customers using its services with passenger journeys approximately doubling since the Group took over the franchise in 1996.

Significant non-financial KPIs include train punctuality, customer satisfaction and safety. For West Coast, operations have been affected during the year by significant disruption on the West Coast Main Line, due to major engineering works mainly at weekends and public holidays. However, the weekday timetable is stable and trains are operating at up to 125 miles per hour. The Pendolino trains are improving the experience of passengers through better reliability, performance and comfort and there have been year on year improvements in their performance.

West Coast train punctuality as measured by Public Performance Measure ("PPM", being the percentage of trains that arrive at their destination within 10 minutes of their scheduled arrival time having called at all scheduled stations) has improved. The annual average was 86.3% (2007: 86.1%). CrossCountry train punctuality as measured by PPM has also seen an improvement with the annual average at the end of the franchise being 84.3% (2007: 83.5%). In the latest Customer Satisfaction surveys, the Overall Service Quality remained high. For West Coast customer complaints per thousand passenger journeys have remained stable year on year at 43.

The Group remains committed, through annual continuous improvement, to maintaining a safe and secure environment for its passengers, workforce and the general public. The Group has completed full implementation of the new train fleets. Advanced safety features together with improved reliability have helped to drive up safety performance trends and reduce accident figures.

Post year end the Group has successfully won the tender to manage the project to extend the number of Pendolino trains from 9 cars to 11 cars.

Principal risks and uncertainties

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

Virgin Atlantic Airways Limited's debt is asset-related, reflecting the capital intensive nature of the airline industry. These factors are also reflected in the medium-term profile of the loans and operating leases. Virgin Atlantic Airways Limited'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.

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

Directors' report *(continued)*

Foreign currency risk

The Group has a significant US and Australian dollar exposure. The Group did not have a significant exposure to any other individual currency in the financial year under review. 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.

Franchise risk

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

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

Failure of critical suppliers

The Group has a number of key suppliers supporting various areas of the Rail business, for example, infrastructure, rolling stock and IT. Failure of one of these key suppliers would impact on financial and operational performance of the Group. Protection against this risk is provided by the ARFA and contracts being in place with key suppliers.

Major incidents risk

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

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 future cash flows. 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.

Acquisitions and disposals

On 24 April 2007, Virgin Holdings Limited entered into a stock purchase agreement for US $12.0 million (£6.0 million) for 29,077,008 newly-created Series A preferred stock, representing 71.70% of the fully-diluted share capital of Virgin Charter Inc. Goodwill of £1.8 million arose on acquisition.

On 2 October 2007, Virgin Holdings Limited acquired 2 ordinary shares of £1 each in Virgin Gym Holdings Limited (formerly Virgin Spring Limited) from Virgin Management Limited for a nominal consideration of £1. No goodwill arose on this transaction.

On 8 October 2007, Virgin Atlantic Limited acquired 100% of the issued share capital of Fast Track Holidays Limited (renamed Virgin Holidays Cruises Limited) for consideration of £7.7 million. Goodwill of £7.1 million arose on acquisition.

Directors' report *(continued)*

Acquisitions and disposals *(continued)*

On 28 February 2008, the Group sold 21,824,745 ordinary shares (representing 2% of the total shares on issue) in an associated undertaking, Virgin Blue Holdings Limited, to another Virgin group company, making a profit on disposal of £2.9 million and thereby reducing the Group's holding to 23%.

Post balance sheet events

On 17 April 2008 the Group's subsidiary, Cricket SA (in liquidation), undertook a share capital reduction whereby it bought back 1,668,579 of its shares from Bluebottle UK Limited in return for 241,274,620 shares (23%) in its associated undertaking, Virgin Blue Holdings Limited, making a profit on the disposal of the investment of £17.5 million. On 19 August 2008, Bluebottle UK Limited sold this investment in Virgin Blue Holdings Limited to another Virgin group company for consideration of £130.9 million, making a profit on disposal of £29.8 million.

On 19 August 2008, Virgin Wings Limited sold its investment in Virgin Blue Holdings Limited to another Virgin group company for a consideration of £11.8 million, making a loss on disposal of £1.9 million.

On 10 October 2008 the Group's subsidiary, Virgin Gym Holdings Limited, was allotted an additional 4,000,000 ordinary shares of AU $1.00 each in its wholly owned subsidiary, Virgin Active Australia Pty Limited (a total of £1.6 million at the prevailing exchange rate of £1 = AU $2.4220).

On 14 November 2008, a further 3,000,000 ordinary shares of AU $1.00 each in Virgin Active Australia Pty Limited were allotted to Virgin Gym Holdings Limited (a total of £1.3 million at the prevailing exchange rate of £1=AU$2.2514).

On 12 December 2008, a further 3,000,000 ordinary shares of AU $1.00 each in Virgin Active Australia Pty Limited were allotted to Virgin Gym Holdings Limited (a total of £1.3 million at the prevailing exchange rate of £1=AU$2.2258).

On 24 April 2009, a further 500,000 ordinary shares of AU $1.00 each in Virgin Active Australia Pty Limited were allotted to Virgin Gym Holdings Limited (a total of £0.2 million at the prevailing exchange rate of £1 = AU $2.0408).

On 20 May 2009, a further 1,000,000 ordinary shares of AU $1.00 each in Virgin Active Australia Pty Limited were allotted to Virgin Gym Holdings Limited (a total of £0.5 million at the prevailing exchange rate of £1 = AU $2.0100).

On 22 June 2009, a further 2,500,000 ordinary shares of AU $1.00 each in Virgin Active Australia Pty Limited were allotted to Virgin Gym Holdings Limited (a total of £1.2 million at the prevailing exchange rate of £1 = AU $2.0690).

On 25 November 2008, the multi-currency revolving credit facility agreement between Virgin Holdings Limited and Lloyds TSB Bank was amended and restated increasing the total facility amount from £500.0 million to £660.0 million.

On 24 December 2008, Victory Acquisitions Limited, a related undertaking of Virgin Wings Limited, entered into a sale and purchase agreement pursuant to which it sold the entire issued share capital of Victory Corporation Limited to Vie Cosmetics Group Limited for consideration of £1. As part of this transaction:

- Victory Acquisitions Limited irrevocably and unconditionally agreed to waive £6.8 million due from Victory Corporation Limited in relation to the loan facility entered into on 7 June 2007. Of this amount £2.1 million had already been advanced and provided against by Victory Acquisitions Limited as at 31 March 2008.
- Virgin Holdings Limited and Virgin Enterprises Limited, both subsidiary undertakings of Virgin Wings Limited, lent Victory Corporation Limited £10.0 million and £3.9 million respectively to enable it to clear its outstanding borrowings with Lloyds Bank and waived their rights to receive any repayment of these sums.
- Virgin Enterprises Limited agreed to make a brand protection payment of £8.8 million to Virgin Vie at Home Limited, a subsidiary of Victory Corporation Limited.

Directors' report *(continued)*

Post balance sheet events *(continued)*

In order to fund the £13.9 million in loans to Victory Corporation Limited, Virgin Holdings Limited borrowed £14.0 million under a new term loan agreement with Lloyds TSB Bank which was entered into on 24 December 2008. The loan from Lloyds TSB Bank is repayable by 24 December 2015 with principal repayment instalments of £2.0 million due annually on 24 December. Under the terms of the loan agreement, interest is payable on amounts drawn down at 2.00% per annum above LIBOR, and Virgin Holdings Limited is obligated to enter into a hedging agreement for a minimum of 50% of its Total Commitments with Lloyds TSB Bank over the life of the facility to 24 December 2015. As a result the full £14.0 million has been hedged under the £410.4 million interest rate hedging agreement mentioned in Note 18.

On 6 May 2009, Bluebottle UK Limited agreed to sell its 100% interest in Bluebottle Mobile Canada Inc to Bell Mobility Inc for a consideration of CAD142.0million subject to final adjustments. Completion of the transaction is subject to Canadian regulatory approval.

Future prospects

Air travel

The focus of the Virgin Atlantic Group over the next twelve months is to build on the benefits of their investment in people, product, aircraft and routes and continue to drive the profitability of Virgin Atlantic Airways Limited against the backdrop of a challenging economic environment.

Rail

West Coast now operates under the terms of the ARFA as described above. The directors are confident that the renegotiation will enable the company to move forward on a profitable basis and at the same time continue its performance improvement. In that respect West Coast remains dependent on rail infrastructure improvements, including the conclusion of the West Coast Route Modernisation and appropriate compensation for disruption against the route upgrade.

Environmental impact

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

The Group's main airline subsidiary, Virgin Atlantic Airways Limited, has published an Environmental Policy which sets targets for reducing its main environmental impacts, including improving its aircraft fleet's fuel efficiency per revenue tonne kilometre between 2007 and 2020 by 30%. Other targets include reducing energy and water consumption at its ground facilities, and diverting a minimum of 50% waste from ground and aircraft operations away from landfill by 2012.

Virgin Atlantic Airways Limited has announced an order for 15 Boeing 787-9 aircraft which will be 27% more fuel efficient and have a 60% smaller noise footprint than the A340-300 aircraft they will replace. In the meantime, Virgin Atlantic Airways Limited continues to explore opportunities for operating its existing fleet more fuel efficiently and investing in cost effective technical modifications, and to work with other industry stakeholders such as the Sustainable Aviation Strategy to champion a collaborative approach for the industry as a whole. Virgin Atlantic Airways Limited takes an innovative approach to addressing aviation's contribution to climate change and, with project partners GE, Boeing and Imperium Renewables, Virgin Atlantic Airways Limited performed the first flight by a commercial aircraft using a renewable biofuel in February 2008.

Virgin Atlantic Airways Limited recognises the need to engage passengers and staff in its environmental initiatives and, in 2008, launched a Gold Standard carbon offset scheme for passengers. Carbon offsetting is seen as a useful tool for educating passengers and staff about their carbon footprint and engaging them in initiatives to reduce it and other environmental impacts.

Directors' report *(continued)*

Employees

The Group is a non-discriminatory employer operating an Equal Opportunities Policy that aims to eliminate unfair discrimination, harassment, victimisation and bullying. The Group is committed to ensuring that all individuals are treated fairly, with respect and are valued irrespective of disability, race, gender, health, social class, sexual preference, marital status, nationality, religion, employment status, age or membership or non-membership of a trade union. The Virgin Rail Group uses the consultative procedures agreed with its staff and elected representatives with a view to ensuring that its employees are aware of the financial and economic factors that affect the Group's performance and prospects.

In considering applications for employment from disabled people in the UK, the Group seeks to ensure that full and fair consideration is given to the abilities and aptitudes of the applicant against the requirements of the jobs for which he or she has applied. Employees who become temporarily or permanently disabled are given individual consideration, and where possible equal opportunities for training, career development and promotions are given to disabled persons.

Within the bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of the Group and are of interest and concern to them as employees. The Group also encourages employees, where relevant, to meet on a regular basis to discuss matters affecting them.

Charitable donations

The Group has made or committed to make UK charitable donations of £0.7 million (2007: £0.3 million).

Dividends

Virgin Atlantic Airways Limited

Preference dividends paid for the current year amounted to £8.6 million (2007: £7.3 million). The directors recommend that no ordinary dividend be paid in respect of the 2008 financial year (2007: nil).

Virgin Rail Group Holdings Limited

Dividends paid during the year comprised of a dividend of £32.4 million for the 2008 financial year together with a dividend of £43.9 million in respect of the previous 2007 year end.

Since the year end, following receipt of a dividend of £29.9 million from its subsidiary undertakings, Virgin Rail Group Holdings Limited paid a dividend of £29.9 million in respect of the 2008 financial year, which will be recognised in the 2009 financial statements.

Directors and their interests

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

G D McCallum

P C K McCall

W E Whitehorn (resigned 1 October 2007)

J Bayliss (appointed 1 October 2007)

Disclosure of information to auditors

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

Directors' report *(continued)*

Auditors

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

By order of the Board

B A R Gerrard
Company Secretary
02·07·09

The School House
50 Brook Green
London W6 7RR
2 July 2009

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 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;
- 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 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.

Independent auditors' report 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 2008 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 directors' 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 Directors' Responsibilities on page 9.

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.

Independent auditors' report 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 2008 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP
KPMG LLP
Chartered Accountants
Registered Auditor

8 Salisbury Square
London EC4Y 8BB
6 July 2009

Consolidated profit and loss account
for the year ended 31 March 2008

	Note	Year ended 31 March 2008 Before exceptional items £ million	Exceptional items (note 4) £ million	Total £ million	Year ended 31 March 2007 Before exceptional items £ million	Exceptional items (note 4) £ million	Total £ million
Turnover: group and share of joint ventures	3	**3,347.9**	-	**3,347.9**	3,106.3	-	3,106.3
Less: share of joint ventures	3	**(101.9)**	-	**(101.9)**	(28.6)	-	(28.6)
Group turnover	2	**3,246.0**	-	**3,246.0**	3,077.7	-	3,077.7
Continuing operations	3	**3,243.4**	-	**3,243.4**	3,061.0	-	3,061.0
Acquired operations	3	**2.6**	-	**2.6**	-	-	-
Discontinued operations	3	-	-	-	16.7	-	16.7
Cost of sales	3, 4	**(2,845.8)**	**(2.7)**	**(2,848.5)**	(2,711.0)	(0.5)	(2,711.5)
Gross profit		**400.2**	**(2.7)**	**397.5**	366.7	(0.5)	366.2
Distribution costs	3	-	-	-	(1.2)	-	(1.2)
Administrative expenses	3, 4	**(995.6)**	**(62.0)**	**(1,057.6)**	(678.4)	(37.3)	(715.7)
Other operating income	3	**328.6**	-	**328.6**	299.1	-	299.1
Group operating loss		**(266.8)**	**(64.7)**	**(331.5)**	(13.8)	(37.8)	(51.6)
Continuing operations	3	**(263.7)**	**(64.7)**	**(328.4)**	(14.5)	(37.8)	(52.3)
Acquired operations	3	**(3.1)**	-	**(3.1)**	-	-	-
Discontinued operations	3	-	-	-	0.7	-	0.7
Share of operating profit in associates / joint ventures	13	**7.3**	-	**7.3**	1.6	-	1.6
Group share of exceptional release of net accumulated losses for Virgin Nigeria Airways Ltd	4, 31	-	**18.5**	**18.5**	-	-	-
(Loss)/profit on disposal of tangible fixed assets	4	-	**(2.3)**	**(2.3)**	-	2.8	2.8
Profit on disposal of investments	30	-	-	-	-	106.3	106.3
Interest receivable and similar income	7	**192.5**	-	**192.5**	183.6	-	183.6
Other finance income	8	**5.5**	-	**5.5**	3.9	-	3.9
Interest payable and similar charges	9	**(125.6)**	-	**(125.6)**	(97.9)	-	(97.9)
(Loss)/profit on ordinary activities before taxation	4	**(187.1)**	**(48.5)**	**(235.6)**	77.4	71.3	148.7
Tax on (loss)/profit on ordinary activities	10	**(64.2)**	**19.4**	**(44.8)**	(51.6)	10.5	(41.1)
(Loss)/profit on ordinary activities after taxation		**(251.3)**	**(29.1)**	**(280.4)**	25.8	81.8	107.6
Minority interests	23	**(58.4)**	-	**(58.4)**	4.7	-	4.7
(Loss)/profit for the financial year		**(309.7)**	**(29.1)**	**(338.8)**	30.5	81.8	112.3

The loss for the year arises from continuing and acquired operations.

The notes on pages 17 to 58 form part of these financial statements.

Consolidated statement of total recognised gains and losses
for the year ended 31 March 2008

	Note	**Year ended 31 March 2008 £ million**	Year ended 31 March 2007 £ million
(Loss)/profit for the financial year		**(338.8)**	112.3
Exchange difference arising on consolidation of foreign subsidiaries	*21*	**5.4**	(11.1)
Actuarial (loss)/gain on defined benefit pension scheme	*32*	**(2.2)**	5.3
Deferred tax arising on actuarial (loss)/gain on defined benefit pension scheme	*32*	**0.7**	(1.6)
Other movements	*21*	**-**	0.5
Total recognised (losses)/profits relating to the financial year	*22*	**(334.9)**	105.4

The notes on pages 17 to 58 form part of these financial statements.

Consolidated balance sheet
at 31 March 2008

	Note	31 March 2008 £ million	31 March 2008 £ million	31 March 2007 £ million	31 March 2007 £ million
Fixed assets					
Intangible assets:					
Goodwill	*11*	**560.8**		584.8	
Landing slots	*11*	**38.3**		35.3	
Intellectual property	*11*	**14.9**		7.8	
			614.0		627.9
Tangible assets	*12*		**370.4**		354.6
Fixed asset investments:					
Share of joint ventures	*13*		-		2.7
Share of associates	*13*		**134.8**		110.5
Other investments	*13*		**21.2**		15.0
			1,140.4		1,110.7
Current assets					
Stocks	*14*	**27.0**		20.7	
Debtors (including £113.4 million *(2007: £126.8 million)* due after more than one year)	*15*	**1,438.5**		2,294.1	
Cash at bank and in hand	*16*	**975.3**		777.5	
		2,440.8		3,092.3	
Creditors: amounts falling due within one year	*17*	**(2,837.1)**		(3,232.2)	
Net current liabilities			**(396.3)**		(139.9)
Total assets less current liabilities			**744.1**		970.8
Creditors: amounts falling due after more than one year	*18*		**(540.6)**		(516.0)
Net liabilities in joint ventures	*13*		**(21.6)**		(8.8)
Provisions for liabilities and charges	*19*		**(254.2)**		(248.2)
Pension liability, net of deferred tax	*32*		**(8.5)**		(8.2)
Net (liabilities)/assets			**(80.8)**		189.6
Capital and reserves					
Called up share capital	*20*		-		-
Profit and loss account	*21*		**(191.2)**		143.7
Shareholders' (deficit)/funds	*22*		**(191.2)**		143.7
Minority interests	*23*		**110.4**		45.9
			(80.8)		189.6

The notes on pages 17 to 58 form part of these financial statements.

These financial statements were approved by the board of directors on 2 July 2009 and were signed on its behalf by:

GD McCallum
Director

Company balance sheet
at 31 March 2008

	Note	**31 March 2008** £ million	**31 March 2008** £ million	31 March 2007 £ million	31 March 2007 £ million
Fixed assets					
Investments	*13*		**1,987.1**		1,973.3
Creditors: amounts falling due within one year	*17*	**(2,169.6)**		(2,037.5)	
Net current liabilities			**(2,169.6)**		(2,037.5)
Net liabilities			**(182.5)**		(64.2)
Capital and reserves					
Called up share capital	*20*		**-**		-
Profit and loss account	*21*		**(182.5)**		(64.2)
Shareholders' deficit	*22*		**(182.5)**		(64.2)

The notes on pages 17 to 58 form part of these financial statements.

These financial statements were approved by the board of directors on 2 July 2009 and were signed on its behalf by:

G D McCallum
Director

Consolidated cash flow statement
for the year ended 31 March 2008

Cash flow statement

	Note	**Year ended 31 March 2008 £ million**	Year ended 31 March 2007 £ million
Cash flow from operating activities	*26*	**414.3**	327.8
Dividends received from associates	*27*	**4.6**	2.1
Returns on investments and servicing of finance	*27*	**(3.1)**	(6.6)
Taxation		**(14.3)**	(14.4)
Capital expenditure and financial investment	*27*	**34.7**	63.1
Acquisitions and disposals	*27*	**(10.9)**	48.0
Cash inflow before management of liquid resources and financing		**425.3**	420.0
Financing	*27*	**(207.5)**	(199.5)
Increase in cash in the year		**217.8**	220.5

Reconciliation of net cash flow to movement in net debt

	Note	**Year ended 31 March 2008 £ million**	Year ended 31 March 2007 £ million
Increase in cash in the year		**217.8**	220.5
Cash inflow from increase in debt and lease financing		**207.5**	199.5
Change in net debt resulting from cash flows		**425.3**	420.0
Settlement of share options		**(2.7)**	(0.6)
Other non cash items:			
Accrued interest		**(107.3)**	(65.3)
Loans and finance leases acquired with subsidiary		**(0.9)**	-
Translation differences		**1.5**	20.1
Other non cash movements		**170.1**	-
Movement in net debt in the year		**486.0**	374.2
Net debt at the start of the year		**(1,740.6)**	(2,114.8)
Net debt at the end of the year	*28*	**(1,254.6)**	(1,740.6)

The notes on pages 17 to 58 form part of these financial statements.

Notes

1 Accounting policies

The following accounting policies have been applied consistently (except as noted below) in dealing with items which are considered material in relation to the Group's financial statements for the year 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, on an ongoing basis, and in accordance with applicable UK 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 21.

Going concern

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

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

Basis of consolidation

The financial statements consolidate Virgin Wings Limited ("the Company") and its subsidiaries together ("the Group") made up to 31 March 2008. The acquisition method of accounting has been adopted on the basis that the Company exercises dominant influence over the subsidiaries' operating and financial policies. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

The principles of merger accounting have been used for the inclusion of Virgin Travel Group Limited, although it does not meet all of the conditions of the Companies Act 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.

Virgin Atlantic Limited has consolidated the results of Virgin Nigeria Airways Limited from the time it was set up in 2005 to 31 August 2007 on the grounds that it has a 49% equity shareholding and rights contained in certain core legal agreements which allowed the Group to exercise dominant influence over the operating and financial policies of Virgin Nigeria Airways Limited, including the right to nominate a majority of the directors. During the course of the year Virgin Atlantic Limited has experienced severe restrictions in its ability to enforce these rights, and as such could not exercise either dominant or significant influence over the operational and financial policies of Virgin Nigeria Airways Limited, a situation which the board considers irreversible. The board considers the rate and extent of these restrictions have gradually increased over time, but particularly from around Autumn 2007. Accordingly, with the concurrence of the Company's auditors, KPMG LLP, the board has determined that Virgin Atlantic Limited's equity interest in Virgin Nigeria Airways Limited should be accounted for as a fixed asset investment from around this time, which for accounting purposes has been taken as 1 September 2007.

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

Notes *(continued)*

1 Accounting policies *(continued)*

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 2008. 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:

	Subsidiary's year-end	Length of period consolidated into these accounts	Length of period consolidated into the comparatives
Virgin Atlantic Limited	29 February 2008	12 months	12 months
Virgin Rail Group Holdings Limited	1 March 2008	12 months	12 months
Virgin Charter Inc	31 December 2007	12 months	12 months

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, excluding VAT, for services and goods supplied to external customers, primarily in respect of passenger transportation. Turnover originates wholly in the United Kingdom.

Passenger revenue represents principally amounts attributed to the Group by the Railway Settlement Plan. Income is attributed based on models of certain aspects of passenger behaviour and to a lesser extent from allocations agreed for specific revenue flows. The attributed share of season ticket income is deferred within creditors and released to the profit and loss account over the life of the relevant season ticket.

Income earned from the provision of station facilities to other train operators, retail commissions, car parking and the hire out of train crew and rolling stock, and catering income is recognised as the service is provided.

Notes *(continued)*

1 Accounting policies *(continued)*

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 receivable/payable for service disruption under the performance regime provisions of the track access agreements with Network Rail is recognised over the period of disruption and the net amount is shown within other operating income.

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 into service.

Goodwill and negative goodwill

In accordance with Financial Reporting Standard 10, "Goodwill and Intangible Assets", positive goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised in the balance sheet as an intangible asset at cost and amortised to nil by equal annual instalments over its estimated useful economic life as set out in Note 11.

Negative goodwill arising on consolidation in respect of acquisitions is included within fixed assets and released to the profit and loss account in the period in which the fair value of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

Intellectual property rights purchased are capitalised and amortised through the profit and loss account over the expected useful economic life of the asset.

On the subsequent disposal or termination of a business acquired, the profit or loss on disposal or termination is calculated after charging/(crediting) the unamortised amount of any related goodwill/(negative goodwill).

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

Administrative expenses

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

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-five years, so as to reduce the cost to estimated residual value at the end of that period. The effective depreciation rate per annum in respect of new wide-bodied aircraft is approximately 4%.

Rotable spares are depreciated on a straight line basis so as to reduce the cost or valuation to estimated residual value at the end of that period. The depreciation rate per annum in respect of rotable spares is 7.25% or 12.5% dependent on type.

Notes *(continued)*

1 Accounting policies *(continued)*

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 buildings in freehold land and buildings are being depreciated over a period of 50 years, on a straight line basis.

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
Computer equipment and software	-	over 3 to 4 years
Motor vehicles	-	over 4 years
Leasehold properties	-	over period of lease

Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment. In the Company's accounts investments in subsidiaries are shown at cost less provision for impairment.

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.

New train service arrangement costs

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

Track access costs

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

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

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.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Notes *(continued)*

1 Accounting policies *(continued)*

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. Monetary assets and liabilities denominated in foreign currency are translated into sterling at the rates of exchange ruling at the end of the accounting period or, where applicable, at a hedged rate.

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

Classification of financial instruments issued by the Group

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

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

a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares. As at 31 March 2008, the Group's preference share capital liability was £49.0 million (2007: £49.0 million), as disclosed in Note 18. Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds are dealt with as appropriations in the reconciliation of movements in shareholders' funds. For the year ended 31 March 2008, preference dividends payable of £4.2 million (2007: £3.6 million) were recognised within the total interest payable expense, as disclosed in Note 9.

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. As at 31 March 2008, there is no dividend liability (2007: nil). Unpaid dividends that do not meet these criteria are disclosed in Note 36 to the financial statements. Dividends receivable of £41.5 million (2007: £2.1 million) from an associated undertaking, Virgin Blue Holdings Limited, have been recognised on the balance sheet, as disclosed in Note 15.

Leases

When an asset is acquired by a 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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

Leasehold dilapidations and onerous lease provisions are discounted, 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.

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

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 Flying Club and Eagleflier frequent flyer schemes is accrued at the expected redemption rate as members of these schemes accumulate mileage.

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

Cash and liquid resources

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

Provisions

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

Post-retirement benefits

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

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

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

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

Long Term Incentive Plan (LTIP)

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

Share based payments

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

Comparative information

Corresponding amounts have been reclassified where necessary to ensure they are comparable with the figures for the current year.

Notes *(continued)*

2 Segmental information

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

	Turnover Year ended 31 March 2008 £ million	Turnover Year ended 31 March 2007 £ million	**Group operating profit/(loss) Year ended 31 March 2008 £ million**	Group operating profit/(loss) Year ended 31 March 2007 £ million
By activity				
Airline passenger and ancillary services	**2,044.6**	1,873.0	**(18.3)**	(47.6)
Rail passenger services	**840.7**	822.7	**78.5**	7.6
Holiday tour operations	**477.8**	463.4	**15.6**	17.7
Mobile telecommunications	**101.9**	28.6	**(18.0)**	(25.9)
Trademark licensing	**22.5**	19.3	**(80.5)**	7.8
Management services and other	**16.0**	22.7	**(326.8)**	(37.8)
Rail ticket sales	**-**	16.6	**-**	0.7
Intra-group	**(155.6)**	(140.0)	**-**	-
	3,347.9	3,106.3	**(349.5)**	(77.5)
Less share of joint ventures	**(101.9)**	(28.6)	**18.0**	25.9
Total	**3,246.0**	3,077.7	**(331.5)**	(51.6)

Management services and other includes provisions against amounts due from related parties and a charge for the impairment of goodwill as described in Note 11 below.

	Net liabilities 31 March 2008 £ million	Net assets 31 March 2007 £ million
By activity		
Airline passenger and ancillary services	**255.2**	168.0
Rail passenger services	**75.3**	88.3
Holiday tour operations	**111.6**	101.3
Mobile telecommunications	**(21.3)**	(6.0)
Trademark licensing	**587.2**	601.2
Management services and other	**(1,110.1)**	(769.2)
	(102.1)	183.6
Less share of joint ventures	**21.3**	6.0
Total	**(80.8)**	189.6

Notes *(continued)*

2 Segmental information *(continued)*

	Turnover by Origin Year ended 31 March 2008 £ million	Turnover by Origin Year ended 31 March 2007 £ million	**Turnover by Destination Year ended 31 March 2008 £ million**	Turnover by Destination Year ended 31 March 2007 £ million
By geographical market				
UK	**2,651.6**	2,450.2	**866.0**	852.7
North America (including Caribbean)	**393.6**	373.0	**1,703.0**	1,604.9
Far East	**120.1**	125.1	**279.2**	259.5
Africa	**128.9**	159.3	**272.7**	260.2
Other	**209.3**	138.7	**382.6**	269.0
Intra-group	**(155.6)**	(140.0)	**(155.6)**	(140.0)
	3,347.9	3,106.3	**3,347.9**	3,106.3
Less share of joint ventures' turnover	**(101.9)**	(28.6)	**(101.9)**	(28.6)
Total	**3,246.0**	3,077.7	**3,246.0**	3,077.7

The geographical analysis of turnover by origin is derived by allocating turnover to the area in which the sale is made. The geographical analysis of turnover by destination is derived by allocating turnover from inbound and outbound services between the United Kingdom and overseas points to the geographical area in which the relevant overseas point lies. 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 net assets or net liabilities is disclosed.

Notes *(continued)*

3 Analysis of continuing, acquired and discontinued operations

	Year ended 31 March 2008				Year ended 31 March 2007			
	Continuing £ million	**Acquired £ million**	**Discontinued £ million**	**Total £ million**	Continuing £ million	Acquired £ million	Discontinued £ million	Total £ million
Turnover	**3,345.3**	**2.6**	**-**	**3,347.9**	3,089.6	-	16.7	3,106.3
Less share of joint ventures' turnover	**(101.9)**	**-**	**-**	**(101.9)**	(28.6)	-	-	(28.6)
Cost of sales	**(2,848.4)**	**(0.1)**	**-**	**(2,848.5)**	(2,704.3)	-	(7.2)	(2,711.5)
Gross profit	**395.0**	**2.5**	**-**	**397.5**	356.7	-	9.5	366.2
Distribution costs	**-**	**-**	**-**	**-**	-	-	(1.2)	(1.2)
Administrative expenses	**(1,052.0)**	**(5.6)**	**-**	**(1,057.6)**	(706.0)	-	(9.7)	(715.7)
Other operating income	**328.6**	**-**	**-**	**328.6**	297.0	-	2.1	299.1
Operating (loss)/profit	**(328.4)**	**(3.1)**	**-**	**(331.5)**	(52.3)	-	0.7	(51.6)

On 24 April 2007, Virgin Holdings Limited acquired 71.7% of Virgin Charter Inc for consideration of £6.0 million.

On 8 October 2007, Virgin Atlantic Limited acquired 100% of the issued share capital of Fast Track Holidays Limited (renamed Virgin Holiday Cruises Limited) for consideration of £7.7 million.

These were the only material acquisitions to affect the Group's operating loss for the year ended 31 March 2008. In the prior year, the Group disposed of its interest in Trainline Holdings Limited

4 (Loss)/profit on ordinary activities before taxation

	Year ended 31 March 2008 £ million	Year ended 31 March 2007 £ million
(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation and other amounts written off tangible fixed assets	**56.8**	67.0
Amortisation of goodwill	**32.9**	31.4
Amortisation of landing slots	**2.2**	1.7
Amortisation of intellectual property rights	**1.4**	1.2
Exchange differences	**3.1**	(22.2)
Rentals payable under operating leases - Hire of plant and machinery	**103.1**	120.6
- Hire of other assets	**272.4**	268.4
Net provision charged against inter-group debts	**346.6**	14.1
Provision against carrying value of investments	**-**	3.5
Rental income received on properties	**(2.3)**	(2.4)
Auditors' remuneration:		
Audit of these financial statements	**0.1**	0.1
Amounts receivable by the auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**0.7**	0.6
Other services relating to taxation	**0.1**	-
Other services relating to corporate financing transactions	**0.1**	-
Total auditors' remuneration	**1.0**	0.7

Notes *(continued)*

4 (Loss)/profit on ordinary activities before taxation *(continued)*

(Loss)/profit before taxation includes the following exceptional items:

	Note	**Year ended 31 March 2008 £ million**	Year ended 31 March 2007 £ million
Cost of sales			
Retrospective air passenger duty increase (see below)		**2.7**	0.5
Administrative expenses			
Brand protection expenses (see below)		**61.0**	-
Bid costs for new CrossCountry franchise (see below)		**1.0**	4.8
Proposed settlements (see below)		**-**	32.5
Non-operating exceptionals			
Group share of release of net accumulated losses for Virgin Nigeria Airways Limited		**(18.5)**	-
Loss/(profit) on disposal of other tangible fixed assets		**2.3**	(2.8)
Loss on disposal of investments	*30*	**-**	106.3

On 6 December 2006 the Government enacted legislation that doubled Air Passenger Duty for all air travel commencing on or after 1 February 2007. The tour operating companies within the Group are restricted from recovering this additional tax from customers who had already paid for their holidays before 6 December 2006 by the Package Travel Regulations, and so have to bear that cost. On 6 December 2006 the Group's main airline subsidiary, Virgin Atlantic Airways Limited, had over 150,000 passengers booked for travel on or after 1 February 2007. The current year cost has been treated as an exceptional item.

On 14 September 2007, the Virgin Group disposed of its investment in Zavvi Group Limited (formerly Virgin Retail Group Limited). As part of the transaction Virgin Enterprises Limited agreed to make a brand protection payment of up to £61.0 million to the purchaser of the shares in Zavvi Group Limited.

As part of the re-mapping of various rail franchises, the CrossCountry franchise was terminated on 10 November 2007. During the year Virgin Rail Group Holdings Limited, with the support of its shareholders, re-bid for the new CrossCountry franchise. The bid costs incurred by the Group amounted to £1.0 million (2007: £4.8 million). On 10 July 2007 the Department for Transport decided to award the new CrossCountry franchise to Arriva plc and not the Group.

Proposed settlements relate to civil claims arising from the investigations by the competition authorities in a number of jurisdictions in which Virgin Atlantic Airways Limited operates into various aspects of pricing in the airline industry. The civil settlements have been agreed and provisionally approved by the US Federal Court in San Francisco. An independent claims administrator has been appointed to assess the claims and make any appropriate refunds independently from Virgin Atlantic Airways Limited once final court approval has been obtained. The tax effect of this exceptional item in the prior year was £9.7 million. In the current year, £7.3million of the provision was released to administrative expenses.

The prior year profit on disposal of investments relates to the disposal of the Group's 80.44% investment in Trainline Holdings Limited on 5 July 2006 for a net consideration of £83.9 million (inclusive of a deferred consideration amount of £1.6 million). The Group made a profit on disposal of £102.4 million and the remaining £0.4 million related to a profit on disposal of one of the Group's trade investments.

Refer to Note 31 for details regarding the deconsolidation of Virgin Nigeria Airways Limited which occurred on 31 August 2007.

Notes *(continued)*

5 Remuneration of directors

The directors did not receive any remuneration during the year for services to the Company (2007: £nil). The Group's subsidiary, Virgin Rail Group Holdings Limited, paid £50,000 (2007: £25,000) to third parties in respect of non-executive directors' services.

6 Staff numbers and costs

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

	Year ended 31 March 2008	Year ended 31 March 2007
Management and administration	**1,573**	1,652
Flight and cabin crew	**5,166**	4,879
Reservations and sales	**2,699**	2,516
Engineering, cargo and production	**1,504**	1,549
Operations and other	**3,331**	3,675
	14,273	14,271

The aggregate payroll costs of these persons were as follows:

	Note	**Year ended 31 March 2008 £ million**	Year ended 31 March 2007 £ million
Wages and salaries		**429.1**	410.9
Social security costs		**38.0**	36.3
Pension costs		**33.4**	33.6
Share based payments	*33*	**(0.7)**	1.2
		499.8	482.0

Notes *(continued)*

7 Interest receivable and similar income

	Year ended 31 March 2008 £ million	Year ended 31 March 2007 £ million
On deposits	**51.3**	35.9
On amounts owed by related undertakings	**113.9**	121.1
Share of interest receivable in associate/joint ventures	**4.7**	4.0
Net foreign exchange gains	**16.0**	18.6
Other interest receivable	**6.6**	4.0
	192.5	183.6

8 Other finance income

	Note	Year ended 31 March 2008 £ million	Year ended 31 March 2007 £ million
Expected return on defined benefit pension assets		**17.6**	15.6
Interest on defined benefit pension plan liabilities		**(12.5)**	(12.5)
Interest credit on franchise adjustment		**0.4**	0.8
	32	**5.5**	3.9

9 Interest payable and similar charges

	Year ended 31 March 2008 £ million	Year ended 31 March 2007 £ million
On bank loans and overdrafts	**27.7**	21.9
On loans from related undertakings	**83.0**	54.9
Share of interest payable in associate/joint ventures	**4.3**	10.0
Finance charges payable in respect of finance leases	**5.3**	6.9
Finance costs on shares classified as liabilities	**4.2**	3.6
Other interest payable	**1.1**	0.6
	125.6	97.9

Notes *(continued)*

10 Taxation

Analysis of charge in year:

	Year ended 31 March 2008 £ million	Year ended 31 March 2007 £ million
UK corporation tax		
Current tax on income for the year	**31.4**	17.2
Share of joint ventures' / associates' tax	**-**	4.7
Adjustments in respect of prior years	**(5.5)**	-
Double tax relief	**(0.7)**	(0.5)
	25.2	21.4
Foreign tax		
Current tax on income for the year	**2.0**	1.9
Share of joint ventures' / associates' tax	**7.4**	8.5
Adjustments in respect of prior years	**(0.1)**	-
	9.3	10.4
Total current tax	**34.5**	31.8
Deferred tax		
Origination and reversal of timing differences	**21.0**	6.5
Adjustments in respect of prior years	**(0.6)**	2.8
Effect of decreased tax rate	**(10.1)**	-
Total deferred tax	**10.3**	9.3
Tax charge on profit on ordinary activities	**44.8**	41.1

Notes *(continued)*

10 Taxation *(continued)*

Factors affecting the tax charge for the current year

The current tax charge for the year is higher (2007: lower) than the standard rate of corporation tax in the UK 30% (2007: 30%). The differences are explained below.

	Year ended 31 March 2008 £ million	Year ended 31 March 2007 £ million
Current tax reconciliation		
(Loss)/profit on ordinary activities before tax	**(235.6)**	148.7
Current tax at 30% (2007: 30%)	**(70.7)**	44.6
Effects of:		
Expenses not deductible for tax purposes	**129.5**	20.4
Income not taxable	**(53.1)**	(60.3)
Capital allowances for year in excess of depreciation	**(4.5)**	(10.5)
UK tax losses not utilised or not recognised	**23.6**	9.5
Non-UK tax losses not utilised or not recognised	**16.1**	16.5
Other short term timing differences	**(6.4)**	4.0
Exchange differences	**7.2**	-
Adjustments to tax in respect of prior years	**(5.6)**	4.7
Foreign tax	**0.1**	0.9
Controlled foreign corporation tax	**-**	6.5
High/low rates on non-UK earnings	**4.9**	(3.0)
UK tax on additional DV income	**-**	-
Utilisation of UK tax losses brought forward	**(6.3)**	(0.6)
Utilisation of non-UK tax losses brought forward	**(0.3)**	(0.9)
Total current tax charge (see above)	**34.5**	31.8

The main tax effect of the exceptional items is to decrease the deferred tax charge in the year ended 31 March 2008 by £18.3 million (2007: a decrease of £8.9 million), and to decrease the current tax charge by £1.1 million (2007: a decrease of £1.6 million). The decrease in the deferred tax charge of £18.3 million has arisen as a result of the £61.0 million brand protection payment made by Virgin Enterprises Limited as part of the sale of the Zavvi Group. The decrease in the current tax charge of £1.1 million has arisen as a result of a retrospective Air Passenger Duty increase in the Virgin Atlantic Group, and bid costs relating to the Cross Country franchise in the Virgin Rail Group.

During the year, as a result of the change in UK Corporation Tax rates which will be effective from 1 April 2008, deferred tax balances have been remeasured. Deferred tax relating to timing differences expected to reverse after 1 April 2008 is measured at the tax rate of 28% as this is the tax rate that will apply on reversal.

Notes *(continued)*

11 Intangible fixed assets

Group	Goodwill £ million	Landing slots £ million	Intellectual property £ million	Total £ million
Cost				
At beginning of year	626.9	37.0	9.0	672.9
Additions	8.9	5.2	9.6	23.7
Disposals	-	-	(1.3)	(1.3)
At end of year	**635.8**	**42.2**	**17.3**	**695.3**
Amortisation				
At beginning of year	42.1	1.7	1.2	45.0
Charged in year	32.9	2.2	1.4	36.5
Disposals	-	-	(0.2)	(0.2)
At end of year	**75.0**	**3.9**	**2.4**	**81.3**
Net book value				
At 31 March 2008	**560.8**	**38.3**	**14.9**	**614.0**
At 31 March 2007	584.8	35.3	7.8	627.9

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. All goodwill is amortised on a straight line basis.

For the useful economic life of the goodwill associated with the acquisition of Virgin Investments SA (in liquidation), Bluebottle UK Limited and Cricket SA (in liquidation), the directors consider an amortisation period of 20 years appropriate.

Virgin Rail Group Holdings Limited is being amortised over the period of the franchise agreement as this best represents the Board of Directors' expectation of the useful economic life of the goodwill.

Virgin Atlantic Limited amortises purchased goodwill on a straight line basis over 15 years, being its estimated useful economic life. Additions to goodwill during the year arose from the purchase of Fast Track Holidays Limited (renamed Virgin Holidays Cruises Limited) on 8 October 2007, upon which £7.1 million of goodwill arose on acquisition and was subsequently capitalised.

On 24 April 2007, Virgin Holdings Limited acquired 71.7% of Virgin Charter Inc. The purchased goodwill of £1.8 million was capitalised to the balance sheet and is being amortised over 20 years, representing the Board of Directors' expectations of the useful economic life of the goodwill.

The disposal relates to VAT which was initially capitalised as part of the cost of the £9.0 million intellectual property rights asset, due to it being irrecoverable. During the current year Bluebottle UK Limited registered for VAT and as such all VAT on this asset will now be fully recoverable. Amortisation previously charged in relation to this has also been removed.

On 23 November 2007, Virgin Enterprises Ltd acquired certain rights relating to intellectual property licenses from another Virgin group company for consideration of £9.7 million. The licenses are being amortised over 10 years as this best represents the Board of Directors' expectation of the useful economic life of the licenses.

Notes *(continued)*

12 Tangible fixed assets

Group	Land and buildings £ million	Assets in the course of construction £ million	Aircraft, rotable spares and ancillary equipment £ million	Modification to aircraft on operating leases £ million	Plant & machinery fixtures and fittings £ million	Total £ million
Cost						
At beginning of year	12.0	20.5	219.6	106.1	75.6	433.8
Additions	1.9	54.1	14.6	-	10.4	81.0
Disposals	-	(3.1)	(3.7)	-	(5.4)	(12.2)
Reclassifications	16.5	(56.4)	13.5	-	26.4	-
Exchange differences	-	-	-	-	(0.1)	(0.1)
Transfers	(0.8)	-	(0.1)	-	(6.2)	(7.1)
At end of year	**29.6**	**15.1**	**243.9**	**106.1**	**100.7**	**495.4**
Depreciation						
At beginning of year	0.4	-	20.2	32.0	26.6	79.2
Charge for the year	0.5	-	36.8	-	19.5	56.8
Disposals	-	-	(3.3)	-	(4.8)	(8.1)
Transfers	(0.2)	-	-	-	(2.7)	(2.9)
At end of year	**0.7**	**-**	**53.7**	**32.0**	**38.6**	**125.0**
Net book value						
At 31 March 2008	**28.9**	**15.1**	**190.2**	**74.1**	**62.1**	**370.4**
At 31 March 2007	11.6	20.5	199.4	74.1	49.0	354.6

The amounts transferred relate to the reclassification of the existing interest in Virgin Nigeria Airways Limited.

Included in aircraft, rotable spares and ancillary equipment are progress payments of £19.9 million (2007: £20.9 million).

Included in land and buildings are short leasehold buildings at cost of £0.1 million (2007: £0.7 million) and net book value of £nil million (2007: £0.4 million). The balance of land and buildings is freehold.

Notes *(continued)*

12 Tangible fixed assets *(continued)*

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

	31 March 2008 £ million	31 March 2007 £ million
Net book value		
Aircraft, rotable spares and ancillary equipment	**1.5**	1.7
Plant and machinery	**0.6**	-

	31 March 2008 £ million	31 March 2007 £ million
Depreciation charge for the year		
Aircraft, rotable spares and ancillary equipment	**0.2**	2.7
Plant and machinery	**-**	-

During the year, the Group did not enter into any finance lease and hire purchase contract arrangements in respect of tangible fixed assets (2007: £nil).

Notes *(continued)*

13 Fixed asset investments

Group	Net liabilities in joint venture undertakings £ million	Interest in joint venture undertakings £ million	Interest in associates £ million	Other investments £ million	Total £ million
Cost					
At beginning of year	4.9	17.4	95.4	18.5	136.2
Reclassifications	17.4	(17.4)	-	-	-
New investments acquired	-	-	-	5.0	5.0
Additions to existing investments	5.3	-	-	1.2	6.5
At end of year	**27.6**	-	**95.4**	**24.7**	**147.7**
Share of post acquisition reserves					
At beginning of year	(13.7)	(14.7)	15.1	-	(13.3)
Reclassifications	(14.7)	14.7	-	-	-
Share of profit	(18.5)	-	28.1	-	9.6
Share of interest receivable	0.2	-	4.5	-	4.7
Share of interest payable	(0.7)	-	(3.6)	-	(4.3)
Share of current tax	-	-	(7.6)	-	(7.6)
Share of deferred tax	0.1	-	-	-	0.1
Share of dividends payable	-	-	(4.6)	-	(4.6)
Amortisation	-	-	(2.3)	-	(2.3)
Exchange differences	(1.9)	-	9.8	-	7.9
At end of year	**(49.2)**	-	**39.4**	-	**(9.8)**
Provision					
At beginning and end of year	-	-	-	**(3.5)**	**(3.5)**
Net book value					
At 31 March 2008	**(21.6)**	-	**134.8**	**21.2**	**134.4**
At 31 March 2007	(8.8)	2.7	110.5	15.0	119.4

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

Joint ventures	**31 March 2008 £ million**	31 March 2007 £ million
Fixed assets	**8.5**	5.2
Current assets	**38.7**	26.1
Gross liabilities	**(68.0)**	(37.4)
Provision	**(0.8)**	-
At 31 March 2008	**(21.6)**	(6.1)

Notes *(continued)*

13 Fixed asset investments *(continued)*

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

Associates	**31 March 2008 £ million**	31 March 2007 £ million
Fixed assets	**249.7**	150.6
Current assets	**86.2**	80.7
Gross liabilities	**(227.5)**	(156.6)
Premium on acquisition	**26.4**	35.8
At 31 March 2008	**134.8**	110.5

Company	**Shares in group undertakings £ million**
Cost	
At beginning of the year	1,973.3
Additions	13.8
At end of the year	**1,987.1**
Provision	
At beginning and end of year	-
Net book value	
At 31 March 2008	**1,987.1**
At 31 March 2007	1,973.3

On 29 February 2008, Virgin Wings Limited purchased 21,824,745 Virgin Blue ordinary shares from VEL Holdings Limited, another group company included in the Group's consolidated accounts, at AU$1.340 each (converted at the exchange rate prevailing of £1:AU$2.1236) being the share price on that date.

Notes *(continued)*

13 Fixed asset investments *(continued)*

The Company's principal underlying investments at 31 March 2008 were Virgin Atlantic Limited (the holding company for the Group's airline and holiday operations) 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 undertakings				
Virgin Holdings Limited	England & Wales	Holding company	100	Ordinary
Blue Pearl Holdings Limited	British Virgin Islands	Holding company	100	US $1 Ordinary
Charter Air Limited	England & Wales	Aircraft chartering	100	Ordinary
Virgin Rail Group Holdings Limited	England & Wales	Holding company	51	Ordinary
Virgin Charter Inc	United States of America	Aircraft chartering	71.70	US $0.001 Series A Preference
Virgin Gym Holdings Limited	England & Wales	Holding company	100	Ordinary
Indirectly held via Virgin Investments SA (in liquidation)				
Virgin Atlantic Limited	England & Wales	Holding company	51	Ordinary
Virgin Travel Group Limited	England & Wales	Holding company	51	Ordinary & Redeemable preference
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	NGN 1 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 (UK) Limited	England & Wales	Holding company	100	Ordinary
Bluebottle Investments SA (in liquidation)	Switzerland	Holding company	100	CHF 100 Ordinary
Bluebottle Mobile Canada Inc	Canada	Holding company	100	CAD $ Ordinary
Cricket SA (in liquidation)	Switzerland	Holding company	100	CHF 100 Ordinary
Virgin Cinemas Group Limited	England & Wales	Holding company	100	Ordinary
VEL Holdings Limited	England & Wales	Holding company	100	Ordinary
VHSA Holdings Limited	England & Wales	Holding company	100	Ordinary
Virgin Enterprises Limited	England & Wales	Royalty collection	100	Ordinary & Non-Cumulative Preference
Virgin Holdings SA (in liquidation)	Switzerland	Holding company	100	CHF 100 Ordinary & CHF 100 Preference
Virgin Investments SA (in liquidation)	Switzerland	Holding company	100	CHF 100 Ordinary & CHF 100 Preference
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

* The Group's interest in Virgin Nigeria Airways Limited has been accounted for as a trade investment from 1 September 2007. Refer to Note 31 for further details.

Notes *(continued)*

13 Fixed asset investments *(continued)*

	Country of Registration	Principal Activity	Holding %	Type of Share
Indirectly held via Virgin Gym Holdings Limited				
Virgin Active Australia Pty Limited	Australia	Provider of sports and leisure facilities	100	AUD $ Ordinary
Joint ventures and associated undertakings				
Omer Telecom Limited *	England & Wales	Telecommunications	50.0 **	Ordinary
Virgin Mobile Canada *	Canada	Telecommunications	46.5	Partnership units
Virgin Blue Holdings Limited *	Australia	Holding company	23.0	Ordinary

* Indirectly held investment
** 48.5% economic interest

14 Stocks

	31 March 2008 Group £ million	31 March 2007 Group £ million	**31 March 2008 Company £ million**	31 March 2007 Company £ million
Aircraft consumable spares	**22.5**	18.5	-	-
Finished goods and goods for resale	**1.6**	1.6	-	-
Raw materials	**0.6**	0.6	-	-
Fuel stocks	**2.3**	-	-	-
	27.0	20.7	-	-

15 Debtors

	31 March 2008 Group £ million	31 March 2007 Group £ million	**31 March 2008 Company £ million**	31 March 2007 Company £ million
Amounts falling due within one year				
Trade debtors	**154.3**	304.4	-	-
Amounts owed by group undertakings	**951.6**	1,610.5	-	-
Other debtors	**103.1**	172.9	-	-
Tax and other social security	**0.4**	0.5	-	-
Dividends receivable	**41.5**	2.1	-	-
Prepayments and accrued income	**74.2**	76.9	-	-
	1,325.1	2,167.3	-	-

Notes *(continued)*

15 Debtors *(continued)*

At 31 March 2008, within other debtors due within one year is an amount of £23.2 million (2007: £65.2m), the timing of the recoverability of which is dependent upon the movement of the US Dollar: Sterling exchange rate.

	31 March 2008 Group £ million	31 March 2007 Group £ million	**31 March 2008 Company £ million**	31 March 2007 Company £ million
Amounts falling due after more than one year				
Other debtors	**50.5**	47.1	-	-
Prepayments and accrued income	**62.9**	79.7	-	-
	113.4	126.8	-	-
Total debtors	**1,438.5**	2,294.1	-	-

16 Cash at bank and in hand

At 31 March 2008 the balance of cash at bank and in hand for the Group included:

- £10.0 million held on deposit by Virgin Rail Group Holdings Limited (31 March 2007: £10.0 million), as security for performance bonds (see Note 29).
- Virgin Charter Inc held £1.2 million held on overnight deposit and £0.3 million in restricted cash (31 March 2007: £nil).
- £23.5 million (31 March 2007: £24.2 million) in a separate escalating rental reserve account, in relation to the leasing of the West Coast trains under the terms of the Amended and Restated Franchise Agreement dated 12 December 2006 but effective from 10 December 2006.

17 Creditors: amounts falling due within one year

	31 March 2008 Group £ million	31 March 2007 Group £ million	**31 March 2008 Company £ million**	31 March 2007 Company £ million
Secured bank loans (note 18)	**15.5**	16.3	-	-
Other bank loans and overdrafts	**8.2**	31.1	-	-
Obligations under finance leases and hire purchase (note 18)	**0.4**	0.2	-	-
Trade creditors	**157.4**	253.0	-	-
Amounts due to group undertakings	**1,729.1**	2,044.4	**2,169.6**	2,037.5
Corporation tax	**75.6**	62.7	-	-
Other taxes and social security	**12.2**	12.9	-	-
Other creditors	**56.5**	36.7	-	-
Accruals and deferred income	**782.2**	774.9	-	-
	2,837.1	3,232.2	**2,169.6**	2,037.5

Notes *(continued)*

18 Creditors: amounts falling due after more than one year

	31 March 2008 Group £ million	31 March 2007 Group £ million	**31 March 2008 Company £ million**	31 March 2007 Company £ million
Secured bank loans	**68.3**	105.2	-	-
Other bank loans	**372.1**	307.2	-	-
Obligations under finance leases and hire purchase	**1.6**	1.8	-	-
Amounts due to group undertakings	**11.3**	8.3	-	-
Other creditors	**2.0**	4.4	-	-
Accruals and deferred income	**36.3**	40.1	-	-
49,000 cumulative redeemable preference shares of 1p each linked to LIBOR plus 2.5%	**49.0**	49.0	-	-
	540.6	516.0	-	-

The secured bank loans totalling £84.1 million (2007: £121.5 million) are mainly secured by mortgages over certain aircraft and a building. None (2007: £5.6 million) 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 has a £500.0 million multi-currency revolving credit facility with Lloyds TSB plc. The facility is secured against various Group investments. Should they arise, part of any proceeds from specific investment disposals are required to be used for repayments in advance of the loan repayment dates. Interest was payable on amounts drawn down during the year at 1.250% to 2.250% above LIBOR (2007: 1.250% to 2.375%). Under the terms of a further amendment and restatement to the multi-currency revolving credit facility agreement on 8 June 2007, the Group was required to hedge a minimum of 50% of its Total Commitments with Lloyds TSB Bank over the life of the facility to the end of December 2009. As a result, the Group entered into two interest rate hedging agreements effective from 18 May 2007, which were due to terminate on 30 December 2009. One of these hedges was for £50.0 million and the other was for US $300.0 million as the Group has borrowings in both Sterling and US Dollars with Lloyds TSB Bank. The hedging instrument used in both cases was an enhanced collar. The £50.0 million enhanced collar had a floor rate of 4.75% and a cap rate of 6.20%, while the US $300.0 million enhanced collar had a floor rate of 3.98% and a cap rate of 5.99%.

On 25 November 2008, the Lloyds TSB Bank multi-currency revolving credit facility agreement was subsequently amended and restated, which increased the total facility amount from £500.0 million to £660.0 million. Refer to Note 33 on Post Balance Sheet Events for further details regarding the loan facility amendment. The two interest rate hedges detailed above were unwound and cancelled on 7 April 2009. Two new interest rate hedge agreements were entered into on 7 April 2009, which are effective from 31 March 2009 and terminate on 25 November 2014. One of these hedges is for US $395.0 million, and the other is a £410.4 million hedge which amortises over 6 years. The hedging instrument used in both cases is a 6 year interest rate swap, whereby the first swap ("front leg") is 2 years and the second swap ("back leg") is 4 years:

- The US $395.0 million interest rate swap has a front leg swap rate of 2.00% and a back leg swap rate of 4.17%.
- The £410.4 million amortising interest rate swap has a front leg swap rate of 2.00% and a back leg swap rate of 3.50%.

On 31 March 2006, the Group entered into a £9.5 million amortising term facility with Lloyds TSB Bank. Interest is payable on amounts drawn down at 2.0% above LIBOR. On 31 March 2007 the Group made a repayment of £1.9 million, and a further repayment of £1.9 million was made on 31 March 2008, bringing the closing balance at 31 March 2008 to £5.7 million. Under the terms of the term facility agreement, the Group is required to hedge a minimum of 50% of its Total Commitments with Lloyds TSB Bank over the life of the facility to 31 March 2011. As a result, the Group entered into an interest rate hedging agreement effective from 28 September 2007 for £3.8 million, which terminates on 31 March 2011. The hedging instrument used was an enhanced collar with a floor rate of 4.30% and a cap rate of 7.25%. This interest rate hedge was unwound and cancelled on 7 April 2009, and instead the £3.8 million has been hedged under the £410.4 million interest rate hedging agreement mentioned above.

Notes *(continued)*

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

Of the remaining bank loans, £2.3 million (2007: £2.0 million) is repayable within one year and £12.3 million (2007: £13.3 million) is repayable after more than one year. The interest rates on the loans are in the range from 0.75% above US$ LIBOR (2007: 0.75% to 1.05%), and 1.00% above 12 month £ LIBOR (2007: 1.00%).

The issued preference shares of Virgin Atlantic Limited at the year end were £49.0 million. 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 Virgin Atlantic Limited, the preference shareholders have a right to receive, in preference to payments to ordinary shareholders, the amount paid up on any share including any amount paid up by way of share premium plus any arrears or accruals of dividend calculated down to the date of the return of capital irrespective of whether such dividends have been earned or declared or not.

The authorised share capital of Virgin Atlantic Limited includes 150,000 cumulative redeemable preference shares of 1p each, linked to LIBOR plus 2.5%.

The capital element of the future minimum lease payments to which the Group is committed as at 31 March 2008 under finance lease and hire purchase contract obligations incurred in the acquisition of aircraft, engines, spares and other equipment is as follows:

	31 March 2008 Group £ million	31 March 2007 Group £ million	**31 March 2008 Company £ million**	31 March 2007 Company £ million
Amounts due:				
Within one year	**0.4**	0.2	-	-
In the second to fifth years	**1.0**	0.8	-	-
Over five years	**0.6**	1.0	-	-
	2.0	2.0	-	-

19 Provisions for liabilities and charges

Group	**Deferred tax liability £ million**	**Aircraft maintenance £ million**	**Onerous leases £ million**	**Other provisions £ million**	**Total £ million**
At beginning of year	141.6	65.0	9.1	32.5	248.2
Foreign exchange translation	-	4.7	-	-	4.7
Amounts provided in the year	19.3	27.6	0.7	2.0	49.6
Amounts utilised during the year	-	(27.1)	(2.4)	(3.2)	(32.7)
Unwinding of discount on onerous leases	-	-	0.2	-	0.2
Other movements	(10.5)	2.0	-	(7.3)	(15.8)
At end of year	**150.4**	**72.2**	**7.6**	**24.0**	**254.2**

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.

Notes *(continued)*

19 Provisions for liabilities and charges *(continued)*

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

Virgin Rail Group Holdings Limited provided £4.8 million in relation to dilapidations costs required to be incurred at the 17 stations managed by West Coast in accordance with the standards for station conditions required by the National Station Access Conditions (1996) (Annex 1). These costs are expected to be incurred between 2009 and 31 March 2012, the West Coast ARFA expiry date.

Other provisions represent the estimated outstanding cost (refund claims and associated legal and administrative fees) arising from both the settlement of civil actions arising from the investigations by competition authorities in a number of jurisdictions in which Virgin Atlantic Airways Limited operates into various aspects of pricing in the airline industry and an ongoing obligation to co-operate with regulatory bodies. Also included in other provisions is a deferred consideration provision which relates to the acquisition of Fast Track Holidays Limited (renamed Virgin Holidays Cruises Limited).

Total deferred tax	**Net pension assets £ million**	**Net other liabilities £ million**	**Total deferred tax £ million**
At beginning of year	(3.5)	141.6	138.1
Amounts provided in the year	0.2	19.3	19.5
Other movements	-	(10.5)	(10.5)
At end of year	**(3.3)**	**150.4**	**147.1**

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 2008 Cumulative recognised £ million**	**31 March 2008 Cumulative unrecognised £ million**	31 March 2007 Cumulative recognised £ million	31 March 2007 Cumulative unrecognised £ million
Accelerated capital allowances	**149.0**	-	156.3	-
Other timing differences	**1.4**	**(8.8)**	(13.9)	(13.0)
UK tax losses	-	**(13.7)**	(0.8)	(20.5)
Non-UK tax losses	-	**(8.7)**	-	(30.2)
Pension liability	**(3.3)**	-	(3.5)	-
	147.1	**(31.2)**	138.1	(63.7)

	2008 £ million	2007 £ million
Disclosed as:		
Provisions	**150.4**	141.6
Pension liability	**(3.3)**	(3.5)
	147.1	138.1

Notes *(continued)*

20 Called up share capital

	31 March 2008 £	31 March 2007 £
Authorised		
10,000 Ordinary shares of £1 each (2007: 10,000)	**10,000**	10,000
Allotted, called up and fully paid		
2 Ordinary shares of £1 each (2007: 2)	**2**	2

21 Reserves

Group	**Profit and loss account £ million**
At beginning of year	143.7
Retained loss for the year	(338.8)
Actuarial loss on pension scheme (note 32)	(2.2)
Tax on actuarial loss on pension scheme (note 32)	0.7
Exchange movements	5.4
At end of year	**(191.2)**

Company	**Profit and loss account £ million**
At beginning of year	(64.2)
Retained loss for the year	(118.3)
At end of year	**(182.5)**

22 Reconciliation of movement in shareholders' (deficit)/funds

	31 March 2008 Group £ million	31 March 2007 Group £ million	31 March 2008 Company £ million	31 March 2007 Company £ million
Opening shareholders' funds/(deficit)	**143.7**	36.2	**(64.2)**	(16.9)
Total recognised (losses)/gains relating to the financial year	**(334.9)**	105.4	**(118.3)**	(47.3)
Share based payments	-	2.1	-	-
Closing shareholders' (deficit)/funds	**(191.2)**	143.7	**(182.5)**	(64.2)

Notes *(continued)*

23 Minority interests

	31 March 2008 £ million	31 March 2007 £ million
At beginning of year	**(45.9)**	(49.9)
Share of (loss)/profit for the year	**(58.4)**	4.7
Dividends received by minorities	**37.6**	9.5
Acquisition of subsidiary undertakings	**(1.7)**	-
Disposal of subsidiary undertakings (note 30)	**-**	(6.3)
Reclassification of Virgin Nigeria Airways Limited (note 31)	**(43.0)**	-
Minority interest share of actuarial gain/(loss) on defined benefit pension scheme	**1.5**	(3.5)
Minority interest share of executive share option charges	**-**	(0.7)
Exchange differences	**(0.5)**	0.3
At end of year	**(110.4)**	(45.9)

24 Leasing commitments

Rentals, net of finance charges, are included in obligations under finance leases and hire purchase contracts in Notes 17 and 18 above.

As at 31 March 2008, the Group had annual commitments under non-cancellable operating leases as set out below:

	31 March 2008		31 March 2007	
	Land and buildings £ million	**Aircraft and other £ million**	Land and buildings £ million	Aircraft and other £ million
Operating leases which expire:				
Within one year	**2.4**	**1.4**	9.0	46.2
In the second to fifth years inclusive	**22.1**	**139.7**	6.8	83.9
Over five years	**16.1**	**143.0**	32.2	227.4
	40.6	**284.1**	48.0	357.5

One of the Group's subsidiaries, Virgin Rail Group Holdings Limited, in the normal course of business, has entered into a number of long term supply contracts. The most significant of these relate to track access facilities, train maintenance arrangements and IT outsourcing. 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 original Franchise Agreement and July 2002 Arrangement (as amended by the Supplemental Letter) for CrossCountry and under the Amended and Restated Franchise Agreement for West Coast, there is a requirement for Virgin Rail Group Limited, West Coast and CrossCountry to comply with certain performance and other obligations.

Notes *(continued)*

25 Capital commitments

	31 March 2008 £ million	31 March 2007 £ million
Group		
Capital commitments at the balance sheet date for which no provision has been made:		
Contracted	**1,722.1**	1,778.3

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

Company

As at 31 March 2008 there were no capital commitments in the Company (2007: £nil).

26 Reconciliation of operating loss to net cash inflow from operating activities

	31 March 2008 £ million	31 March 2007 £ million
Operating loss	**(331.5)**	(51.6)
Executive share options (credit)/charge	**(0.7)**	4.0
Depreciation, amortisation and impairment charges	**93.3**	101.3
(Increase)/decrease in stocks	**(7.3)**	3.9
Decrease in debtors	**720.4**	12.1
(Decrease)/increase in creditors	**(66.6)**	228.0
Increase in provisions	**0.9**	34.3
Increase/(decrease) in pension liability	**5.8**	(3.6)
Other non-cash movements	**-**	(0.6)
	414.3	327.8

Notes *(continued)*

27 Analysis of cash flows

	Note	31 March 2008		31 March 2007	
		£ million	£ million	£ million	£ million
Dividends from joint ventures and associates					
Associates		4.6		2.1	
			4.6		2.1
Returns on investments and servicing of finance					
Interest received		72.8		35.9	
Interest paid		(28.8)		(22.5)	
Dividends paid to minority interests		(37.6)		(9.5)	
Finance paid on shares classified as liabilities		(4.2)		(3.6)	
Interest element of finance lease rental payments		(5.3)		(6.9)	
			(3.1)		(6.6)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(81.0)		(94.8)	
Purchase of intangible assets		(14.8)		-	
Sale of tangible fixed assets		1.8		37.5	
Purchase of trade investments		(1.2)		(1.4)	
Sale of trade investments		-		1.2	
Funding provided to joint ventures		(6.0)		(6.4)	
Funding provided to related undertakings		(42.0)		(91.4)	
Repayments from related undertakings		177.9		218.4	
			34.7		63.1
Acquisitions and disposals					
Purchase of subsidiary undertakings		(15.1)		-	
Sale of subsidiary undertaking	30	-		83.9	
Net cash acquired with investments in subsidiary undertakings	30	9.5		-	
Net overdraft disposed with subsidiary undertaking	30	-		(20.1)	
Purchase of interests in joint ventures		(5.3)		(15.8)	
			(10.9)		48.0
Financing					
Repayments to related undertakings		(223.0)		(165.7)	
Debt due within one year:					
Net (repayments)/funding from secured bank loans		(4.3)		2.3	
Net funding from other bank loans		8.2		6.1	
Debt due after more than one year:					
Net funding/(repayments) from secured bank loans		15.6		(9.4)	
Net repayments from other bank loans		(1.9)		-	
Net repayments from other shareholder loans		-		(4.3)	
Capital element of finance lease payments		0.6		(27.9)	
Settlement of share options		(2.7)		(0.6)	
			(207.5)		(199.5)

Notes *(continued)*

28 Analysis of net debt

	At beginning of year £ million	Cash flow £ million	Net share options movements £ million	Other non cash changes £ million	Exchange movements £ million	At end of year £ million
Cash in hand, at bank	777.5	226.3	(2.7)	-	(25.8)	975.3
Overdraft	(20.0)	20.0	-	-	-	-
	757.5	246.3	(2.7)	-	(25.8)	975.3
Debt due within one year	(26.8)	(3.9)	-	6.8	0.2	**(23.7)**
Debt due after one year	(461.4)	(13.7)	-	(26.1)	11.8	**(489.4)**
Finance leases	(2.0)	(0.6)	-	0.2	0.4	**(2.0)**
Group funding	(2,007.9)	223.0	-	81.0	(10.9)	**(1,714.8)**
Total	**(1,740.6)**	**451.1**	**(2.7)**	**61.9**	**(24.3)**	**(1,254.6)**

29 Contingent liabilities

Legal

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

Virgin Enterprises Limited, a group company, is a former tenant of a property leased by Zavvi Retail Limited (formerly Virgin Retail Limited). On 24 December 2008, Zavvi Retail Limited went into administration and therefore there is a risk that the company may become liable in respect of the outstanding lease commitment, giving rise to a potential liability estimated at up to £3.5 million. No provision in relation to this potential exposure had been made at 31 March 2008.

Indemnities

A number of Virgin Atlantic's subsidiaries had contingent liabilities at 31 March 2008 in respect of indemnities under certain financing, regulatory travel and other arrangements which are partly secured by charges over designated short term deposits of £11.0 million (2007: £16.7 million), of which £9.9 million (2007: £11.2 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 (2007: £21.0 million) for West Coast and up to £9.0 million (2007: £9.0 million) for CrossCountry. Following the termination of the CrossCountry franchise, the performance bond procured in favour of CrossCountry will remain in place until agreement with the DfT. Under a separate agreement, Virgin Rail Group Limited lodged £10.0 million with Lloyds TSB Bank plc as security for the above performance bonds throughout the year (2007: £10.0 million) (see Note 16).

Notes *(continued)*

30 Acquisitions and disposals

On 24 April 2007, Virgin Holdings Limited entered into a stock purchase agreement for US $12.0 million (£6.0 million) for 29,077,008 newly-created Series A preferred shares in Virgin Charter Inc. The consideration was in the form of a US $6.0 million promissory note and a US $6.0 million cash payment. The promissory note was fully repaid by year end. There are 11,476,469 shares of common stock held by external investors giving Virgin Holdings Limited a 71.70% shareholding in Virgin Charter Inc. Goodwill of £1.8 million arose on acquisition.

	Book value and fair value £ million
Net assets acquired	
Cash at bank and in hand	6.0
Creditors: amounts falling due after more than one year	(0.1)
Total net assets	5.9
Equity acquired (71.7%)	4.2
Goodwill arising on acquisition	1.8
Consideration	6.0
Satisfied by	
Cash	6.0

On 2 October 2007, Virgin Holdings Limited acquired 2 ordinary shares of £1 each in Virgin Gym Holdings Limited (formerly Virgin Spring Limited) from Virgin Management Limited for a nominal consideration of £1. No goodwill arose on this transaction. On 2 August 2007, Virgin Gym Holdings Limited had subscribed for 11,924,002 AUD 1 ordinary shares at par in Virgin Active Australia Pty Limited, for cash consideration. This represented 100% of the shares in issue.

Notes *(continued)*

30 Acquisitions and disposals *(continued)*

On 8 October 2007, Virgin Atlantic Limited acquired 100% of the issued share capital of Fast Track Holidays Limited (renamed Virgin Holidays Cruises Limited) for consideration of £7.7 million. The book value and fair value of the assets acquired is shown below:

	Book value	Accounting policy alignment	Fair value
	£ million	£ million	£ million
Net assets acquired			
Tangible fixed assets	1.5	-	1.5
Cash	3.5	-	3.5
Debtors	10.0	-	10.0
Creditors less than one year	(14.1)	(0.2)	(14.3)
Creditors more than one year	(0.1)	-	(0.1)
Total net assets	0.8	(0.2)	0.6
Equity (100%)			0.6
Goodwill arising on acquisition			7.1
Consideration			7.7
Satisfied by			
Loan notes			1.6
Cash			4.1
Provision for deferred consideration			2.0
			7.7

The accounting policy alignment is an adjustment to align revenue recognition where the Group provides substantial parts of the holiday rather than acting as an agent. The freehold building and the leasehold land and buildings were revalued as at 31 December 2005. To align policy with the Group, the carrying values at acquisition will be adopted as the cost going forward.

The provision for deferred consideration related to consideration payable dependent on the achievement of earnings targets in the future.

Net cash outflows in respect of the acquisition comprised:

	£ million
Cash consideration	4.1
Less cash acquired	(3.5)
	0.6

Notes *(continued)*

31 Reclassification of interest in Virgin Nigeria Airways Limited

One of the Group's subsidiaries, Virgin Atlantic Airways Limited, has consolidated the results of Virgin Nigeria Airways Limited from the time it was set up in 2005 to 31 August 2007 on the grounds that it has a 49% equity shareholding and rights contained in certain core legal agreements which allowed Virgin Atlantic Airways Limited to exercise dominant influence over the operational and financial policies of Virgin Nigeria Airways Limited.

During the course of the year, Virgin Atlantic Airways Limited has experienced severe restrictions in its ability to enforce those rights, and as such could not exercise either dominant or significant influence over the operational and financial policies of Virgin Nigeria Airways Limited, a situation which the board considers irreversible. The board considers that the rate and extent of these restrictions have gradually increased over time, but particularly from around Autumn 2007. Accordingly, with the concurrence of the auditors, KPMG, the board has determined that Virgin Atlantic Limited's equity interest in Virgin Nigeria Airways Limited should be accounted for as a fixed asset investment from around this time, which for accounting purposes has been taken as 1 September 2007.

Under the provisions of Financial Reporting Standard 2 the assets and liabilities attributable to Virgin Nigeria Airways Limited as at 31 August 2007 that had previously been consolidated by Virgin Atlantic Airways Limited, but which now made up Virgin Airways Limited's share of the net liabilities of Virgin Nigeria Airways Limited, have been transferred to a provision calculated under the equity method. However, as Virgin Airways Limited has no intention, legal requirement, or any other obligation to fund Virgin Nigeria Airways Limited it has been written back to the consolidated profit and loss account.

Assets and liabilities of Virgin Nigeria Airways Limited as at 31 August 2007

	£ million
Tangible fixed assets	4.2
Stock	1.0
Debtors	27.5
Total assets	**32.7**
Creditors: amounts due within one year:	
Overdrafts	(3.5)
Bank loans	(49.2)
Trade creditors	(1.4)
Amounts due to Virgin Atlantic Limited group companies	(4.7)
Other creditors	(4.2)
Accruals and deferred income	(31.3)
Total liabilities	**(94.3)**
Net liabilities	**61.6**
Accounted for in Virgin Atlantic Limited as:	
Minority interest	31.8
Group share transferred to provisions	29.8
Total	**61.6**
Accounted for in the Virgin Group as:	
Group's share of minority interest	12.9
Group share transferred to provisions	18.5
Total	**31.4**

Singapore Airlines Limited owns 49% of the equity share capital of Virgin Atlantic Limited. The Virgin Group's share of the net liabilities shown above is stated after allocating to Singapore Airlines Limited their share of the minority interest in Virgin Nigeria Airways Limited.

Notes *(continued)*

31 Reclassification of interest in Virgin Nigeria Airways Limited *(continued)*

The loss attributable to Virgin Nigeria Airways Limited for the six months ended 31 August 2007 was £17.9 million, being an operating loss of £16.2 million and net interest payable of £1.7 million, and has been consolidated into Virgin Atlantic Airways Limited's result for the year ended 29 February 2008. The loss attributable to Virgin Nigeria Airways Limited for the year ended 28 February 2007 was £40.8 million. The provision released to the Group Consolidated Profit and Loss Account is £18.5 million.

As at 29 February 2008, Virgin Nigeria Airways Limited owed other group companies a total of £8.5 million. Of this balance, £5.2 million relates to trademark royalties due to the group. The payment of these royalties is conditional on regulatory approval being obtained by Virgin Nigeria Airways Limited. During the year Virgin Nigeria Airways Limited had purchased services from the group companies totalling £5.1 million.

32 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 £18.4 million (2007: £16.7 million). There were no outstanding or prepaid contributions at 28 February 2008 (2007: £nil).

Defined benefit plans

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.

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

On 10 November 2007, the CrossCountry franchise termination date, pursuant to a statutory transfer scheme, all staff transferred out of CrossCountry. At the point of transfer the deficit on the section relevant to CrossCountry was £Nil. The gross assets and liabilities of the section transferred out in line with the transfer of the re-mapped franchise.

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 3 March 2008 by a qualified independent actuary, using revised assumptions that are consistent with the requirements of Financial Reporting Standard 17. The assets of the sections were taken at their market value, which at 3 March 2008 amounted to £299.2 million (2007: £275.5 million) for West Coast Trains Limited and £Nil (2007: £135.0 million) for Cross Country Trains Limited.

The employers' actual combined contributions in the period were £13.6 million (2007: £13.2 million) to the defined benefit schemes.

	2008	2007
Rate of increase in salaries	**4.9%**	4.5%
Rate of increase in pensions in payment and deferred pensions	**3.4%**	3.0%
Discount rate	**6.1%**	5.1%
Inflation assumption	**3.4%**	3.0%

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.

Notes *(continued)*

32 Pension scheme *(continued)*

Rail scheme (continued)

The fair value of the sections' 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 sections' scheme liabilities, which are derived from cash flow projections over long periods and are therefore inherently uncertain, are:

Rail Scheme

Fair value of assets	**2008 Expected rate of return % pa**	**2008 Fair value £ million**	2007 Expected rate of return % pa	2007 Fair value £ million
Equities	**8.1%**	**195.8**	8.5%	286.9
Bonds	**5.4%**	**31.2**	5.1%	47.4
Property	**7.5%**	**30.1**	7.5%	41.0
Other	**7.0%**	**42.1**	6.5%	35.2
Total market value of assets	**7.6%**	**299.2**	7.8%	410.5
Present value of section liabilities		**(311.0)**		(432.4)
Deficit		**(11.8)**		(21.9)
Franchise adjustment		**-**		10.2
Deficit recognised by Company		**(11.8)**		(11.7)
Related deferred tax asset at 28% (2007: 30%)		**3.3**		3.5
Net pension liability		**(8.5)**		(8.2)

The Group's share of the net pension liability is recognised in the Group's balance sheet as at 31 March 2008.

Notes *(continued)*

32 Pension scheme *(continued)*

Under Financial Reporting Standard 17, the amounts charged to the Group profit and loss account and the Group's statement of total recognised gains and losses for the year ended 31 March 2008 are set out below.

		2008 Rail scheme £ million	2007 Qjump scheme £ million	2007 Rail scheme £ million	2007 Total £ million
(i)	**Movement in deficit during the period on a Financial Reporting Standard 17 basis was as follows:**				
	Deficit in the section at beginning of period	**(11.8)**	(0.2)	(22.4)	(22.6)
	Contributions paid	**13.7**	-	13.2	13.2
	Current service cost	**(14.9)**	-	(16.7)	(16.7)
	Other finance income	**5.5**	-	3.9	3.9
	Actuarial (loss)/gain	**(4.3)**	-	10.2	10.2
	Deficit on disposal	-	0.2	-	0.2
	Deficit in the section at end of period	**(11.8)**	-	(11.8)	(11.8)
(ii)	**Analysis of amounts charged to operating profit**				
	Current service cost	**(14.9)**	-	(16.7)	(16.7)
	Total credit to operating profit	**(14.9)**	-	(16.7)	(16.7)
(iii)	**Analysis of amounts credited to other finance income**				
	Interest on section liabilities	**(12.5)**	-	(12.5)	(12.5)
	Expected return on section assets	**17.6**	-	15.6	15.6
	Interest credit on franchise adjustment	**0.4**	-	0.8	0.8
	Net credit to other finance income	**5.5**	-	3.9	3.9
(iv)	**Analysis of amounts recognised in statement of total recognised gains and losses**				
	Actual return less expected return on section assets	**(8.6)**	-	6.9	6.9
	Experience loss arising on section liabilities	**(5.5)**	-	(7.0)	(7.0)
	Changes in assumptions underlying the present value of section liabilities	**9.8**	-	10.3	10.3
	Actuarial (loss)/gain recognised in Virgin Rail Group Holdings Limited's statement of total recognised gains and losses	**(4.3)**	-	10.2	10.2
	Actuarial (loss)/gain recognised in the Group's statement of total recognised gains and losses	**(2.2)**	-	5.3	5.3
	Taxation credit/(charge) on actuarial (loss)/gain recognised in Virgin Rail Group Holdings Limited's statement of total recognised gains and losses	**1.3**	-	(3.1)	(3.1)
	Taxation credit/(charge) on actuarial (loss)/gain recognised in the Group's statement of total recognised gains and losses	**0.7**	-	(1.6)	(1.6)

Notes *(continued)*

32 Pension scheme *(continued)*

	2008 Rail scheme (West Coast section only) £ million	2007 Rail scheme £ million
(v) Experience gains and losses		
Gain on section assets		
(i) amount	**(12.0)**	6.9
(ii) % of section assets at end of period	**(4%)**	2%
Experience loss on section liabilities		
(i) amount	**(1.2)**	(7.0)
(ii) % of section liabilities at end of period	**-**	(2%)
Total actuarial gain recognised in STRGL		
(i) amount	**(4.3)**	10.2
(ii) % of section liabilities at end of period	**(1%)**	2%
Total actuarial (loss)/gain recognised in the Group's STRGL		
(i) amount	**(2.2)**	5.3

33 Share based payments

The share option programme allows certain employees to acquire options over the shares of certain group companies, namely Virgin Atlantic Limited and Bluebottle USA Mobile Inc.

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

Awards typically vest over a period of between 15 and 36 months.

The number and weighted average exercise price of share options in the above named companies are as follows:

Virgin Atlantic Limited

Financial year granted	Outstanding at 31 March 2007	Granted in year	Exercised in year	Outstanding at 31 March 2008	Exercisable at 31 March 2008	Weighted average exercise price
2003	5,706	-	-	5,706	5,706	£178.74
2004	1,270	-	(1,270)	-	-	-
	6,976	-	(1,270)	5,706	5,706	

All share options granted are exercisable before the tenth anniversary of grant date.

Notes *(continued)*

33 Share based payments *(continued)*

Bluebottle USA Mobile Inc

Financial year granted	Outstanding as at 1 April 2007	Granted in year	Exercised in year	Outstanding at 31 March 2008	Exercisable at 31 March 2008	Weighted average exercise price £
2004	1,545,454	-	(1,545,454)	-	-	-
2006	8,790,036	-	(8,790,036)	-	-	-
	10,335,490	-	(10,335,490)	-	-	

All share options granted are exercisable before the tenth anniversary of grant date.

Effect of share based payment transactions

The total expenses recognised for the period arising from share based payments together with the associated liabilities are as follows:

	2008 £ million	2007 £ million
Cash settled share based payments	(0.7)	1.2
Total carrying amount of liabilities	0.7	4.1
Total intrinsic carrying amount of liabilities in respect of vested benefits	0.7	4.1

Various directors are members of Executive Shared Ownership Plans which have been established via contracts they hold with Virgin Group Holdings Limited and Gamay Holdings Limited. A charge of £0.4 million (2007: £2.1 million) is included in Virgin Group Holding Limited's financial statements for the year ended 31 March 2008 in respect of directors of the Group's subsidiary, Virgin Holdings Limited, in relation to these arrangements.

34 Related party disclosures

As at 31 March 2008, the Company's ultimate parent company was Virgin Group Holdings Limited, whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Holdings Limited. The principal beneficiaries of those trusts are Sir Richard Branson and/or members of his immediate family. Virgin Group Holdings Limited is incorporated in the British Virgin Islands. The shareholders of Virgin Group Holdings Limited have interests directly or indirectly in certain other companies which are considered to give rise to related party disclosures under Financial Reporting Standard 8.

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

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

Notes *(continued)*

34 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 2008			31 March 2007		
	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	**12.8**	**4.0**	**0.1**	10.9	3.2	0.1
Purchases	**(6.2)**	**(0.1)**	**(0.1)**	3.3	0.1	0.2
Other income	**3.0**	**-**	**-**	0.8	-	-
Interest receivable	**113.9**	**4.7**	**-**	121.1	-	-
Interest payable	**83.0**	**4.3**	**-**	54.9	-	-
Debtors	**938.9**	**15.2**	**-**	1,603.9	6.6	-
Creditors < 1 year	**1,729.1**	**-**	**-**	2,044.4	-	-
Creditors > 1 year	**11.3**	**-**	**-**	8.3	-	-
Dividends receivable	**-**	**36.2**	**-**	-	2.1	-
Preference dividends	**-**	**-**	**4.2**	-	-	3.6

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 USA Mobile Inc, Carola Holdings Limited, China Holdings Wireless Limited, Corvina Holdings Limited, Dragonfly SA, Necker Island (BVI) Limited, Network Distributing Limited (formerly Sound and Media Limited), Newstart Investments Limited, Mayfly SA (in liquidation), The Virgin Drinks Group Limited, Victory Corporation Limited, Virgin Active Group Limited, Virgin America Inc., Virgin Balloon Flights Limited, Dressco Limited (formerly Virgin Bride Limited), Liquid Comics LLC (formerly Virgin Comics LLC), Virgin Entertainment Asia Limited, Virgin Entertainment Europe Limited, Virgin Entertainment Global Limited, Virgin Entertainment Group Inc, Virgin Entertainment Holdings Inc., Virgin Fitness SA (in liquidation), Virgin Galactic Limited, Virgin Group Finance LP, Virgin Group Investments Limited, Virgin Group Limited, Virgin Group Holdings Limited, Virgin Hotels Group Limited, Virgin Leisure Limited, Virgin Life Care Investments Limited, Virgin Limobike Limited, Virgin Limousines (California) LLC, Virgin Management Limited, Virgin Management Asia Pacific Limited, Virgin Mobile (Australia) Pty Limited, Virgin Mobile India Private Limited, Virgin Mobile South Africa (Pty) Limited, Virgin Mobile USA Holdings Limited, Virgin Mobile USA Inc, Virgin Money (Australia) Pty Limited, Virgin Money Holdings (UK) Limited, Virgin Money Investment Holdings Limited, Virgin Management SA (formerly Virgin Money Investments SA), Virgin Money Investment Group Limited, Virgin Money Overseas Limited, Virgin Money South Africa (Pty) Limited, Virgin Performance Limited, Virgin Property Limited, Virgin Radio Asia Holdings UK Limited, Virgin Radio France Holdings Limited, Virgin Radio International Holdings Limited, Zavvi Retail Limited (formerly Virgin Retail Group Limited), Virgin Retail Holdings Limited, Virgin Retail Investment Holdings Limited, Zavvi Retail Limited (formerly Virgin Retail Limited), Virgin Sky Investments Limited, Virgin Voyager Limited, Virgin.com Limited and Voyager Group Limited.

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

Singapore Airlines Limited.

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

Virgin Blue Holdings Limited, Virgin Mobile Canada, Omer Telecom Limited and Inter City-Railways Limited (a dissolved company).

Notes *(continued)*

34 Related party disclosures *(continued)*

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.

35 Ultimate parent company

At 31 March 2008, the ultimate parent undertaking was Virgin Group Holdings Limited, a company registered in the British Virgin Islands.

36 Post balance sheet events

On 25 April 2008, following receipt of a dividend of £29.9 million from its subsidiary undertakings, Virgin Rail Group Holdings Limited paid a dividend of £29.9 million in respect of the year ended 1 March 2008. This will be accounted for in the profit and loss reserves in the Group's financial statements for the year ending 31 March 2009.

On 17 April 2008 the Group's subsidiary, Cricket SA (in liquidation), undertook a share capital reduction whereby it bought back 1,668,579 of its shares from Bluebottle UK Limited in return for 241,274,620 shares (23%) in its associated undertaking, Virgin Blue Holdings Limited, making a profit on the disposal of the investment of £17.5 million. On 19 August 2008, Bluebottle UK Limited sold this investment in Virgin Blue Holdings Limited to another Virgin group company for consideration of £130.9 million, making a profit on disposal of £29.8 million.

On 15 September 2008, the Department for Transport ("DfT") awarded Virgin Rail Group Holdings Limited the contract to manage the introduction of 62 additional carriages and 4 new trains to the Pendolino fleet of West Coast. Under the terms of the agreement, the DfT will order the trains and Virgin Rail Group Holdings Limited will provide support throughout the design, manufacture, delivery, testing and commissioning of the new vehicles. The new vehicles are scheduled to be in operation by 1 April 2012.

On 10 October 2008 the Group's subsidiary, Virgin Gym Holdings Limited, was allotted an additional 4,000,000 ordinary shares of AU $1.00 each in its wholly owned subsidiary, Virgin Active Australia Pty Limited (a total of £1.6 million at the prevailing exchange rate of £1 = AU $2.4220).

On 14 November 2008, a further 3,000,000 ordinary shares of AU $1.00 each in Virgin Active Australia Pty Limited were allotted to Virgin Gym Holdings Limited (a total of £1.3 million at the prevailing exchange rate of £1 = AU $2.2514).

On 12 December 2008, a further 3,000,000 ordinary shares of AU $1.00 each in Virgin Active Australia Pty Limited were allotted to Virgin Gym Holdings Limited (a total of £1.3 million at the prevailing exchange rate of £1 = AU $2.2258).

On 24 April 2009, a further 500,000 ordinary shares of AU $1.00 each in Virgin Active Australia Pty Limited were allotted to Virgin Gym Holdings Limited (a total of £0.2 million at the prevailing exchange rate of £1 = AU $2.0408).

On 20 May 2009, a further 1,000,000 ordinary shares of AU $1.00 each in Virgin Active Australia Pty Limited were allotted to Virgin Gym Holdings Limited (a total of £0.5 million at the prevailing exchange rate of £1 = AU $2.0100).

On 22 June 2009, a further 2,500,000 ordinary shares of AU $1.00 each in Virgin Active Australia Pty Limited were allotted to Virgin Gym Holdings Limited (a total of £1.2 million at the prevailing exchange rate of £1 = AU $2.0690).

On 25 November 2008, the multi-currency revolving credit facility agreement between Virgin Holdings Limited and Lloyds TSB Bank (refer to Note 18) was amended and restated increasing the total facility amount from £500.0 million to £660.0 million, and a total of £622.1 million was drawn down on this date including a Letter of Credit for US $178.2 million (£101.4 million). The two interest rate hedges detailed in Note 18 still apply to the amended facility at the time of signing these accounts, however under the terms of the amended agreement the total facility available of £660.0 million now comprises the following:

Notes *(continued)*

36 Post balance sheet events *(continued)*

- A multi-currency term loan facility of £360.0 million, repayable by 31 December 2012 with principal repayment instalments due on 31 December 2010, 31 December 2011 and 31 December 2012. Interest is payable on amounts drawn down at 2.20% above LIBOR for the first year and 2.75% above LIBOR for subsequent years.
- A multi-currency revolving credit facility of £300.0 million, repayable by 25 November 2014. Interest is payable on amounts drawn down at 1.80% above LIBOR for the first year, 2.50% above LIBOR for the second year, 2.75% above LIBOR for the third and fourth years, and 3.50% above LIBOR for subsequent years. The revolving facility may be utilised by way of Letters of Credit.

On 24 December 2008, Victory Acquisitions Limited, a related undertaking of Virgin Holdings Limited, entered into a sale and purchase agreement pursuant to which it sold the entire issued share capital of Victory Corporation Limited to Vie Cosmetics Group Limited for consideration of £1. As part of this transaction:

- Victory Acquisitions Limited irrevocably and unconditionally agreed to waive £6.8 million due from Victory Corporation Limited in relation to the loan facility entered into on 7 June 2007. Of this amount £2.1 million had already been advanced and provided against by Victory Acquisitions Limited as at 31 March 2008.
- Virgin Holdings Limited and Virgin Enterprises Limited, a related undertaking of Virgin Holdings Limited, lent Victory Corporation Limited £10.0 million and £3.9 million respectively to enable it to clear its outstanding borrowings with Lloyds Bank and waived their rights to receive any repayment of these sums.
- Virgin Enterprises Limited agreed to make a brand protection payment of £8.8 million to Virgin Vie at Home Limited, a subsidiary of Victory Corporation Limited.

In order to fund the £13.9 million in loans to Victory Corporation Limited, Virgin Holdings Limited borrowed £14.0 million under a new term loan agreement with Lloyds TSB Bank which was entered into on 24 December 2008. The loan from Lloyds TSB Bank is repayable by 24 December 2015 with principal repayment instalments of £2.0 million due annually on 24 December. Under the terms of the loan agreement, interest is payable on amounts drawn down at 2.00% per annum above LIBOR, and Virgin Holdings Limited is obligated to enter into a hedging agreement for a minimum of 50% of its Total Commitments with Lloyds TSB Bank over the life of the facility to 24 December 2015. As a result the full £14.0 million has been hedged under the £410.4 million interest rate hedging agreement mentioned in Note 18.

On 6 May 2009, Bluebottle UK Limited agreed to sell its 100% interest in Bluebottle Mobile Canada Inc to Bell Mobility Inc for a consideration of CAD142.0million subject to final adjustments. Completion of the transaction is subject to Canadian regulatory approval.