Virgin Wings Limited and subsidiary companies

Directors' Report and Financial Statements

Registered number 03160887

31 March 2013

Contents

Directors' Report

The directors present their report and the consolidated financial statements for the year ended 31 March 2013

Principal activities

The principal activity of the Company is that of an investment holding company

The principal activities of the Group are air and rail transportation, holidays, mobile telecommunications and healthcare

Business review

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

Having regard for the principal risks and uncertainties set out in this report, which could impact the Group's businesses, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements of the Group and the Company

Given the diverse nature of the Group's activities, the review focuses individually on the principal businesses consolidated or equity accounted for in these financial statements

Air Travel and Holidays

Virgin Atlantic Limited and its subsidiary companies (Virgin Atlantic") is the principal airline and holidays business consolidated in these financial statements

The 2012/13 financial performance reflects a continuation of the challenging trading conditions seen in the previous year The macro economy, in the UK and Europe in particular, was weak and fuel prices remained persistently high In these conditions, Virgin Atlantic returned a loss after tax of £43million (2012 loss £39million), even though turnover increased by 5% to £2 9billion The Group's share of this is a loss of £22million (2012 loss of £20million)

Virgin Atlantic's management focus continued to be on driving fuel efficiency, continuing to develop the retail distribution channel in Virgin Holidays and tight cost control across all operational and administrative areas where such control can be exerted At the same time however, Virgin Atlantic has continued to make significant investment in the core product and service offering where those investments support future revenue growth A major capital programme to refurbish the leisure B747-400 fleet was completed during the year, a number of more fuel efficient A330-300 aircraft were introduced to the operational fleet and the number of Holidays' retail outlets grew to 104 The benefits of these investments is already clear in customer satisfaction ratings, revenue generation in the period and the growth in bookings for travel in future periods

The outlook for 2013/14 is improving Holiday sales are up 6%, revenue and passenger growth has been strengthening during the second half of 2012/13 and in combination with the start of the Virgin Atlantic domestic service Little Red and the anticipated approval of the recently announced strategic alliance with Delta Air Lines, Virgin Atlantic's management enter 2013/14 confident that the financial performance of Virgin Atlantic will improve considerably

Virgin Atlantic's management remain focused on controlling unit cost performance across the addressable cost base, prioritising capital investment to those areas which will drive greatest revenue benefit and leveraging the enduring strength of the Virgin brand in returning Virgin Atlantic to profitability

Directors' Report

Business Review (continued)

Air Travel and Holidays (continued)

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

	2013	2012
Virgin Atlantic Group turnover	**£2,874million**	£2,745million
Return on sales [1]	**(2.4%)**	(2 9%)
Cash at bank and in hand [2]	**£412million**	£487million

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

Rail

Virgin Rail Group Holdings Limited and its subsidiary companies ("Virgin Rail") operates passenger rail services between London (Euston) and Birmingham Wolverhampton, Holyhead, Chester, Liverpool, Manchester, Preston, Carlisle and Glasgow under the franchise operated by West Coast Trains Limited ("West Coast") The profit for the financial year, after taxation and minority interests, amounted to £26million (2012 £29million) The Group's share of this is a profit of £13million (2012 £15million)

Virgin Rail operates its services under the terms of an original franchise agreement dated 19 February 1997, amended by the Amended and Restated Franchise Agreement ("ARFA"), which was entered into on 9 December 2006 Under this agreement, the West Coast franchise was due to run until 31 March 2012 However the start of the new West Coast franchise was delayed by the Department for Transport ("DfT") until 9 December 2012 On 26 October 2011, an extension of the existing franchise from 1 April 2012 to 8 December 2012 was agreed between the DfT and Virgin Rail

A bid process for the new West Coast franchise, due to start on 9 December 2012, took place during 2012 Virgin Rail submitted its bid on 2 May 2012 On 15 August 2012 it was announced that the new franchise had been awarded to First Group plc Following a legal challenge by Virgin Rail, on 3 October 2012, the Secretary of State for Transport announced that the competition to run the new franchise had been cancelled after the discovery, by the DfT, of significant technical flaws in the way the franchise process was conducted

Virgin Rail entered into negotiations with the DfT in relation to the future operation of services on the West Coast Main Line On 5 December 2012, an Interim Franchise Agreement was signed between Virgin Rail and the DfT for the operation of services from 9 December 2012 to 8 November 2014 The Interim Franchise Agreement initially operates as a management contract, with both revenue and cost risk being borne by the DfT In return Virgin Rail receives a margin of 1% on revenue The Interim Franchise Agreement makes provision for the DfT and the Group to agree revised commercial terms that would see Virgin Rail taking on greater revenue and cost risk in the period to 8 November 2014 in return for a commercial margin

On 26 March 2013 the DfT announced a programme for letting future franchises, with the long-term West Coast franchise expected to start in April 2017 Virgin Rail is in discussion with the DfT in relation to the operation of services for the interim period from 9 November 2014 to April 2017

Virgin Rail manages the DfT contract for the introduction of 62 additional carriages and 4 new trains to the Pendolino fleet of the West Coast franchise Under the terms of the agreement, the DfT ordered the trains and Virgin Rail is providing support throughout the design, manufacture, delivery, testing and commissioning of the new vehicles The project was completed in December 2012 when all of the new trains and carriages had entered into service

Despite the current economic conditions, Virgin Rail has seen strong passenger revenue growth during the financial period

Directors' Report

Business review (continued)

Rail (continued)

Virgin Rail is focused on continually improving its customer service and satisfaction levels The selection, training and encouragement of staff continues to reflect this, while management is continually reviewing operations to provide the best value for money service to customers

Virgin Rail continues to experience days of significant poor infrastructure performance by Network Rail, despite the improving trend when looking at the Public Performance Measure ("PPM" being the percentage of trains that arrive at their destination within 10 minutes of their scheduled arrival time having called at all scheduled stations) Virgin Rail continues to press for improvements from Network Rail's performance contract to ensure that the effects of the poor performance days are minimised Despite this, customer satisfaction as measured by the independent National Passenger Survey has been trending upwards and Virgin Rail has been at the top of long distance train operators, in terms of overall satisfaction scores, for the last seven bi-annual surveys

During the financial period the introduction of 106 new Pendolino carriages has successfully been completed The new carriages will mean that up to 28,000 extra seats per day can be provided

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

Mobile telecoms

The Group holds an interest in Omer Telecom Limited ("Omer"), a joint venture mobile operator which distributes Virgin, Tele2, Casino and Breizh mobile products and services in France Omer's principal income streams are mobile service revenues generated from its customers and revenue on the sale of mobile equipment The loss for the financial year, after taxation, amounted to £3million (2012 profit of £4million) The Group's share of this is a loss of £1million (2012 profit of £2million) The customer base at 31 March 2013 was 1 7million (2012 1 9million) The Group's share of turnover for the year was £211million (2012 £216million)

Healthcare

Virgin Healthcare Holdings Limited and its subsidiary companies ("Virgin Care") is an innovative provider of NHS services across England Virgin Care provides a range of NHS community services including community hospitals, district nursing sexual health and prison health as well as GP-led walk-in and healthcare centres, urgent care centres, out of hours services, community diagnostics and GP practices Virgin Care works with a wide range of NHS, independent and third sector partners to deliver NHS services, employing nurses, GP's, consultants and other clinical and adminstrative staff

On 1 April 2012, Virgin Care went live with a contract to provide Surrey Community Health services, with revenue of approxiamately £100million per annum This includes the provision of NHS primary care services, specifically community services across north-west and south-west Surrey, as well as some county-wide services including sexual and prison health, in a contract worth £450million over five years These services are primarily contracted by NHS Surrey for a period of 5 years, but there are also important contracts with other local commisioners and providers In addition, since 1 April 2013 Virgin Care has provided NHS services under the Devon Children's contract Virgin Care's loss for the financial year, after taxation amounted to £8million (2012 £11million) The Group's share of this is a loss of £7million (2012 £9million)

Directors' Report

Principal risks and uncertainties

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

Risks faced across the Group

Economic conditions

A prolonged economic downturn may result in revenue reduction and potential reduction of profit for all businesses A global economic slowdown may adversely affect discretionary spending, particularly for leisure activities and travel In order to minimise this risk, there is a focus across all activities of the Group on cost control and efficient operation

Brand reputation

The strong reputation and loyalty engendered by the Group's brands is a core part of the value of the businesses Any damage to the brands caused by any single event or series of events could materially impact customer loyalty and the propensity of customers to travel with Virgin, or purchase Virgin products and services, and so adversely affect our business

Risks specific to Virgin Atlantic

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 prevent and respond to any major incident that may occur

Government intervention

The aviation, tour operating and rail industries are highly regulated and any decisions made by the government with respect to closure of airspace, slot regulation, security requirements, rail infrastructure government taxes and other levies may result in a material adverse impact for Virgin Atlantic and Virgin Rail from both an operational and financial perspective

Risks specific to Virgin Rail

Franchise risk

The West Coast Interim Franchise Agreement currently runs until 8 November 2014 On 26 March 2013 the DfT announced a programme for letting future franchises, with the long-term West Coast franchise expected to start in April 2017 Virgin Rail is in discussion with the DfT in relation to the operation of services for the interim period from 9 November 2014 to April 2017 There is a risk that agreement is not reached for the period beyond 8 November 2014 To address this risk, Virgin Rail is devoting appropriate management resource to the discussions with the DfT

The Interim Franchise Agreement was negotiated using a range of assumptions with regard to revenue growth and cost base Under the current 1% margin arrangements, this risk is minimised If revised commercial terms are agreed that see Virgin Rail taking on greater revenue and cost risk, it is imperative that Virgin Rail takes all actions outlined in its bid to ensure that its targets are met

Virgin Rail is required to comply with certain conditions as part of its West Coast rail franchise agreement 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 noncompliance

Directors' Report

Principal risks and uncertainties (continued)

Risks specific to Virgin Rail (continued)

Ongoing Network Rail performance

Reliable running of the high frequency West Coast timetable depends on the ability of Network Rail to maintain a fully operational network Failure to do so impacts Virgin Rail's operational performance In order to manage the risk, there is close monitoring by management of performance targets

Failure of critical suppliers

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

Risks specific to Virgin Care

Business growth

Virgin Care is a fast-growing business As a result of its success and expansion the directors ensure the business has the resources and management processes in place to mobilise more than one large contract at a time The directors are satisfied such matters are properly discussed by the Virgin Care board and are adequately resourced

Government regulation

Recent changes in the healthcare sector including the recent "Health and Social Care Act 2012", present an opportunity for the business, however there remains a lack of clarity over how certain measures contained within the Act will be implemented

Financial risk management

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

Financing and interest rate risk

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

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

Virgin Atlantic 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 Virgin Atlantic's loans and operating leases are principally denominated in US dollars

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

Directors' Report

Financial risk management (continued)

Financing and interest rate risk (continued)

Omer's principal financial assets are cash and trade debtors A provision for doubtful debt is made where, based on previous experience, the full trade debtor may not be recovered Credit risk on cash is limited as counterparties are banks with high credit ratings To control interest rate risk, cash balances and loans are at floating interest rates Omer does not use derivatives to manage its financial risks

Foreign currency risk

Virgin Atlantic has a significant net US dollar cost exposure Capital, lease and a number of operational costs, most significantly aviation fuel, are denominated in US dollars In addition Virgin Atlantic is exposed to a number of other currencies Virgin Atlantic seeks to reduce its foreign exchange exposure arising in various currencies through matching, as far as possible, receipts and payments in individual currencies To the extent possible, Virgin Atlantic holds foreign currency balances in the short term to meet its future trading obligations Where there is a predicted exposure in foreign currency holdings, Virgin Atlantic uses a limited range of hedging instruments as stipulated in the Treasury and Aviation Fuel Price Exposure Management Policies

Fuel price risk

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

Derivative financial instruments

Virgin Atlantic uses derivative financial instruments selectively for foreign currency and aviation fuel price risk management purposes, as described above

Virgin Atlantic s policy is not to trade in derivatives but to use these instruments to hedge anticipated future cash flows Virgin Atlantic 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 Virgin Atlantic to market risk as they are matched to identify physical exposures within these businesses However, the timing difference between derivative maturity date and current mark-to-market value can give rise to cash margin exposure, this risk is managed through choice of instrument, appropriate counterparty agreements and, where required, cash deposits with counterparties Counterparty credit risk is controlled through mark-to-market based credit limits

Working capital and cash flow

Cash is managed centrally across a number of investment holding companies and therefore cash balances held will fluctuate according to immediate requirements As set out in Note 1, the directors have determined it appropriate to prepare these financial statements on a going concern basis

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the Group does not significantly exceed the book values of these assets at 31 March 2013

Directors' Report

Environmental impact ***(applicable primarily to Virgin Atlantic)***

Virgin Atlantic is committed to addressing and promoting sustainable solutions for its business and the wider airline industry At a minimum, Virgin Atlantic is complying with the rules and regulations concerning protection of the environment, which apply to Virgin Atlantic's operations such as emissions, noise and disposal of waste

Over 99% of Virgin Atlantic's measurable carbon footprint comes from flying aircraft so Virgin Atlantic is primarily focused on improving fuel and carbon efficiency Virgin Atlantic has a target to reduce CO2 emissions by 30% per Revenue Tonne Kilometre between 2007 and 2020 At the end of 2011 Virgin Atlantic had reduced its CO2 emissions by 11 46% per RTK against the 2007 baseline New, more efficient aircraft offer significant fuel savings as does efficient operation and maintenance of the aircraft For the medium to long term, finding an alternative way to power aircraft is crucial In 2011 Virgin Atlantic announced a world-first low carbon aviation fuel, to be delivered in partnership with LanzaTech The process converts steel waste gases (which would otherwise be flared off to the atmosphere) to produce a fuel with roughly half the total lifecycle carbon content of kerosene Virgin Atlantic hopes to have a demo flight using the new fuel in 2013 and plan to uplift fuel in commercial quantities by 2014 On the environment, Virgin Atlantic is also cutting down on ground energy use, buying renewable energy for UK ground operations, buying more fuel efficient ground vehicles, reducing, reusing and recycling waste and improving what is designed and bought

Change is in the Air (CIITA) is the Airline's sustainability programme and focuses on Virgin Atlantic's environmental and community investment activities CIITA also means engaging with others on the challenge of making the whole industry more sustainable The Airline reports fully on these activities each year through CIITA reports which are available to download

Sustainability is very much aligned with Virgin Atlantic's brand values, and it is in the process of being embedded firmly into the way the Airline does business Top-level management support, putting sustainability at the top of Virgin Atlantic's agenda, has been key to this process In 2011 Virgin Atlantic established a Sustainability Strategy Group (SSG) which is chaired by the Chief Commercial Officer and meets quarterly to bring together Directors and other senior managers from around the business In 2012, the SSG reviewed and agreed Virgin Atlantic's renewed vision, strategy and sustainability priorities going forwards The Sustainability team provides strategic guidance to the SSG, helping to set objectives with all SSG members and monitor and report on-going progress

Through the Virgin Atlantic Foundation (VAF), Virgin Atlantic has renewed its partnership with Free the Children (FTC) for a further three years FTC is a charity which shares Virgin Atlantic's objectives of supporting sustainable communities in its destinations, as well as providing young people in the UK with the skills and support needed to get involved in the social and environmental issues that matter to them 2012 was an exceptional year for fundraising £1 5 million was given in time, flights, baggage allowance and money and onboard passenger donations rose by 7% in a year 78 UK schools signed up for 'Be The Change' school programmes, 16,000 students received a motivational speech and 1,200 students participated in leadership workshops International development projects, focused on delivering real and sustainable improvements in education, water and sanitation, healthcare and alternative income generation in partner communities, are also producing fantastic results

The Group is supporting a non-profit organisation the Carbon War Room (CWR) in their programme to accelerate the development of this early stage market and as a founding member of Aviation Global Deal (AGD), the Group continues to campaign for an effective carbon cap and trade scheme for the worldwide industry, as an environmentally effective and cost efficient method for reducing carbon emissions

Directors' Report

Directors

The directors who served during the year were

I P Woods	Alternate R P Blok
R P Blok (appointed 21 June 2013)	
N A R Fox (appointed 21 June 2013)	
C R Stent (resigned 21 June 2013)	Alternates R P Blok (resigned 21 June 2013), G D McCallum (resigned 21 June 2013)

Employees

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

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

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

Political and charitable contributions

The Group made no political contributions during the year (2012 £nil) Donations to UK charities amounted to £5million (2012 £7million) of which £5million (2012 £4million) was made to Virgin Unite, a charity affiliated to the Group

Results and dividends

The group profit for the year, after taxation and minority interests, amounted to £106million (2012 loss of £114million)

The directors recommend that no ordinary dividend be paid by the Company in respect of the year ended 31 March 2013 (2012 £nil)

Virgin Atlantic Limited

Preference dividends of £3million (2012 £5million) were paid during the year, of which £1million (2012 £3million) related to minority interests

Virgin Rail Group Holdings Limited

Dividends paid during the year totalled £40million (2012 £29million), of which £20million (2012 £14million) related to minority interests

Directors' Report

Provision of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company and the Group's auditor in connection with preparing its report and to establish that the Company and the Group's auditor is aware of that information

Auditor

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

This report was approved by the board on 4 November 2013 and signed on its behalf

B A R Gerrard
Secretary
The Battleship Building
179 Harrow Road
London
W2 6NB

Directors' Responsibilities Statement
For the Year Ended 31 March 2013

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting 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 will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent Auditor's Report to the Members of Virgin Wings Limited and subsidiary companies

We have audited the financial statements of Virgin Wings Limited and subsidiary companies for the year ended 31 March 2013, set out on pages 12 to 58 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www frc org uk/auditscopeukprivate

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 March 2013 and of the Group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent Company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

H Green (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

4 November 2013

Consolidated Profit and Loss Account
For the Year Ended 31 March 2013

	Note	2013 £M	2012 £M
Turnover			
Group and share of joint venture's turnover		**4,261**	4,069
Less share of joint venture's turnover		**(215)**	(235)
Group turnover	2	**4,046**	3,834
Cost of sales		**(3,369)**	(3,048)
Gross profit		**677**	786
Administrative expenses		**(580)**	(741)
Exceptional administrative expenses credit/(expense)	4	**34**	(156)
Total administrative expenses		**(546)**	(897)
Other operating expenses		**(44)**	(118)
Exceptional other operating income	4	**11**	-
Total other operating expense	3	**(33)**	(118)
Operating profit/(loss)	3	**98**	(229)
Share of operating profit in associates/joint ventures		**1**	6
Total operating profit/(loss)		**99**	(223)
Net exceptional profit on sale of fixed assets	4	**1**	10
Profit/(loss) on ordinary activities before interest		**100**	(213)
Interest receivable and similar income	7	**37**	41
Interest payable and similar charges	8	**(56)**	(62)
Other finance income	25	**5**	4
Profit/(loss) on ordinary activities before taxation		**86**	(230)
Tax on profit/(loss) on ordinary activities	9	**11**	109
Profit/(loss) on ordinary activities after taxation		**97**	(121)
Minority interests	22	**9**	7
Profit/(loss) for the financial year	20	**106**	(114)

All amounts relate to continuing operations

The notes on pages 18 to 58 form part of these financial statements

Registered number 03160887

Consolidated Balance Sheet
As at 31 March 2013

	Note	£M	2013 £M	£M	2012 £M
Fixed assets					
Other intangible assets		138		150	
Goodwill		310		324	
Negative goodwill		(10)		(11)	
Net goodwill		300		313	
Intangible assets	10		438		463
Tangible assets	11		416		399
Investments	12		19		20
Investments in joint ventures					
-Share of gross assets		82		113	
-Share of gross liabilities		(102)		(130)	
Share of net liabilities	12		(20)		(17)
			853		865
Current assets					
Stocks	13	45		45	
Debtors (including £108million (2012 £135million) due after more than one year)	14	968		1 071	
Cash at bank		655		643	
		1,668		1,759	
Creditors amounts falling due within one year	15	(1,725)		(1,802)	
Net current liabilities			(57)		(43)
Total assets less current liabilities			796		822
Creditors amounts falling due after more than one year	16		(392)		(438)
Provisions for liabilities					
Deferred tax	17	(34)		(60)	
Other provisions	18	(165)		(196)	
			(199)		(256)
Net assets excluding pension scheme liabilities			205		128
Defined benefit pension scheme liability	25		(1)		(1)
Net assets			204		127

Capital and reserves			
Called up share capital	19	**421**	421
Share premium account	20	**1**	-
Profit and loss account	20	**(267)**	(374)
Shareholders' funds	21	**155**	47
Minority interests	22	**49**	80
		204	127

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 4 November 2013

I P Woods
Director

The notes on pages 18 to 58 form part of these financial statements

Registered number 03160887

Company Balance Sheet
As at 31 March 2013

	Note	£M	2013 £M	£M	2012 £M
Fixed assets					
Investments	12		**2,529**		2,529
Current assets					
Debtors	14	**104**		112	
Creditors: amounts falling due within one year	15	**(2,524)**		(2,450)	
Net current liabilities			**(2,420)**		(2,338)
Net assets			**109**		191
Capital and Reserves					
Called up share capital	19		**421**		421
Share premium account	20		**1**		-
Profit and loss account	20		**(313)**		(230)
Shareholders' funds	21		**109**		191

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 4 November 2013

I P Woods
Director

The notes on pages 18 to 58 form part of these financial statements

Consolidated statement of total recognised gains and losses
For the Year Ended 31 March 2013

	Note	2013 £M	2012 £M
Gain/(loss) for the financial year			
Group		**108**	(117)
Share of joint ventures	12	**(2)**	3
	20	**106**	(114)
Currency translation differences on net foreign currency investments	20	**1**	2
Actuarial loss on pension scheme		-	(1)
Unrealised gain on sale of subsidiaries and other shareholdings		-	13
Unrealised gain on sale of intangible assets net of tax		-	3
		1	17
Total recognised gains/(losses) relating to the financial year		**107**	(97)

The notes on pages 18 to 58 form part of these financial statements

Consolidated Cash Flow Statement
For the Year Ended 31 March 2013

	Note	2013 £M	2012 £M
Net cash flow from operating activities	28	**195**	122
Returns on investments and servicing of finance	30	**(65)**	(47)
Taxation		**(5)**	(18)
Capital expenditure and financial investment	30	**(90)**	(125)
Acquisitions and disposals	30	**3**	25
Cash inflow/(outflow) before financing		**38**	(43)
Financing	30	**(32)**	(87)
Increase/(Decrease) in cash in the year		**6**	(130)

Reconciliation of Net Cash Flow to Movement in Net Funds/Debt
For the Year Ended 31 March 2013

		2013 £M	2012 £M
Increase/(Decrease) in cash in the year		**6**	(130)
Cash outflow from decrease in debt and lease financing		**27**	134
Change in net debt resulting from cash flows		**33**	4
Other non-cash changes		**120**	19
Translation differences		**(1)**	13
Movement in net debt in the year		**152**	36
Net debt at 1 April 2012		**(286)**	(322)
Net debt at 31 March 2013	29	**(134)**	(286)

The notes on pages 18 to 58 form part of these financial statements

Notes to the Financial Statements

1 Accounting Policies

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

1 1 Basis of preparation of financial statements

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

The holding company has taken advantage of section 408 of the Companies Act 2006, and a separate profit and loss account of the Company has not been published The profit for the year attributable to the Company is disclosed in Note 21

1.2 Basis of consolidation

The financial statements consolidate the accounts of Virgin Wings Limited and all of its subsidiary undertakings ('subsidiaries'), referred to as the 'Group'

Except in the case of Virgin Atlantic Limited and Virgin Rail Group Holdings Limited, the acquisition method of accounting has been adopted Under this method, the results of subsidiary undertakings acquired or disposed of are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal

In the case of Virgin Atlantic Limited and Virgin Rail Group Holdings Limited, merger accounting has been adopted, as if its business had been part of Virgin Wings Limited since it came under common control

Where an unrealised gain or loss arises on the dilution of the Group's interest in the net liabilities/assets of a subsidiary, associate or joint venture, the respective gain or loss is reflected directly as a movement in the Group's reserves

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

The results of subsidiaries acquired during the year are included from the effective date of acquisition

The consolidated financial statements have been compiled using the financial statements of Virgin Wings Limited s subsidiaries, joint ventures and associates for accounting periods which are usually coterminous with Virgin Wings Limited's own accounting reference date Where such entities have different accounting reference dates, appropriate adjustments have been made to realign the figures for those entities such that they are incorporated for the period covered by this financial information In some instances it has not been practical to obtain appropriate financial information covering the year ended 31 March 2013 In these circumstances, in accordance with Financial Reporting Standard 2, 'Accounting for Subsidiary Undertakings", a period ending within the three months prior to that date has been used instead The impact of transactions that have taken place in the intervening period to 31 March 2013 and the equivalent period in the prior year have only been adjusted for where the impact is considered material in these accounts

Notes to the Financial Statements

1 Accounting Policies (continued)

1 2 Basis of consolidation (continued)

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

	Subsidiary's year end	Length of period included in these accounts	Length of period included in the comparatives
Virgin Atlantic Limited	28 February 2013	12 months	12 months
Virgin Rail Group Holdings Limited	31 March 2013	52 weeks	56 weeks

The results of Virgin Rail Group Holdings Limited included within these group accounts for the year ended 31 March 2013 are for 52 weeks (31 March 2012 are for 56 weeks) due to a change in accounting reference date to bring the company in line with the rail industry standard

1 3 Turnover

Turnover comprises revenue recognised by the Company in respect of goods and services supplied during the year, exclusive of Value Added Tax and trade discounts

Air travel

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

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

Rail

Turnover represents amounts receivable, excluding VAT, for services and goods supplied to external customers, primarily in respect of passenger transportation Turnover originates wholly in the UK

Passenger revenue principally represents amounts attributed to the Group by the Railway Settlement Plan (which administers the income allocation system within the UK rail industry) for each financial period Income is attributed based on models of certain aspects of passenger behaviour and, to a lesser extent, from allocations agreed for specific revenue flows The attributed share of season ticket income is deferred within creditors and released to the profit and loss account over the life of the relevant season ticket

Other trading income consists principally of the provision of station facilities to other train operators, retail commissions, car parking and the hire out of train crew and rolling stock Other trading income and catering income are recognised as the income is earned

Turnover is recognised when all performance conditions associated with the turnover have been met

Notes to the Financial Statements

1 Accounting Policies (continued)

1 3 Turnover (continued)

Royalties

Royalties are receivable under trademark licence agreements entered into with companies using the Virgin brand (Licensees), exclusive of Value Added Tax and trade discounts Royalties receivable are recognised as earned typically based on a percentage of the revenues of the Licensee, subject to minimum guarantees Certain licences are pre-paid, and these royalty revenues are recognised on a straight line basis over the term of the licence agreement

1 4 Rail franchise expense

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

1 5 Compensation for service disruption

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

1.6 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

Notes to the Financial Statements

1 Accounting Policies (continued)

1.7 Goodwill, negative goodwill and other intangible fixed assets

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

Intellectual property rights, concessions, patents, licences and trademarks purchased are capitalised and amortised through the profit and loss account over the expected useful economic life of the asset

Carbon allowances received free of charge under the EU Emissions Trading Scheme, which became effective for the aviation industry on 1 January 2012, are recognised as intangible assets at market value on the date of receipt Consistent with Statement of Standard Accounting Practice 4 Accounting for Government Grants', the value of allowances received is deferred and recognised in income on a systematic basis over the period to which the grant relates The estimated gross cost of settling the liability for CO2 emitted in the period is recognised in the profit and loss as incurred

During 2012 the governments of China, the Russian Federation and the US formally banned their airlines from participating in the scheme Following this, in November 2012, the EU announced its intention to remove the compliance requirements on international aviation for one year Compliance will be reinstated for future years if the International Civil Aviation Organisation (ICAO) is not successful in introducing a global cap and trade scheme for emissions If the ICAO agrees a global scheme, then the intention would be to make the suspension permanent Given the current global position the Directors consider there to be sufficient uncertainty surrounding the operation of the EU ETS for international flying to not recognise any net assets or liabilities under the scheme as at the balance sheet date

1.8 Development expenditure

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

Notes to the Financial Statements

1 Accounting Policies (continued)

1 9 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases

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

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

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

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

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

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

1 10 Landing slot expenditure

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

Notes to the Financial Statements

1 **Accounting Policies (continued)**

1 11 Investments

(i) Subsidiary undertakings
Investments in subsidiaries are valued at cost less provision for impairment

(ii) Joint venture undertakings
Investments in joint ventures are stated at the Company's share of net assets The Company's share of the profits or losses of the joint ventures is included in the Profit and Loss Account using the equity accounting basis

(iii) Other investments
Investments held as fixed assets are shown at cost less provision for impairment

1.12 Leasing and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives Assets acquired by hire purchase are depreciated over their useful lives Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the Company Obligations under such agreements are included in creditors net of the finance charge allocated to future periods The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period

1 13 Operating leases

Rentals under operating leases are charged to the profit and loss account on a straight-line basis over the lease term

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight-line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate

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

1.14 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 Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements As at 31 March 2013, there is no dividend liability (2012 £nil)

1.15 Aircraft maintenance costs

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

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

Notes to the Financial Statements

1. Accounting Policies (continued)

1 16 New train service arrangement costs

Under the original franchise agreements, the Virgin Rail Group was required to operate faster and more frequent services on the West Coast Main Line In order to achieve this, contracts were entered into several years ago to lease new trains under operating lease arrangements In accordance with these agreements, Virgin Rail 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

1.17 Track access costs

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

Network Rail has undertaken a programme of infrastructure works to upgrade the West Coast Main Line to enable trains to run at higher speeds and frequencies Under a series of supplemental track access agreements, the Virgin Rail Group paid additional separately identifiable track access charges in respect of the increased track speed and capacity that these infrastructure improvement works create This increased track capacity became available to the Virgin Rail Group with the introduction of the timetable in September 2004 In order that additional track access charges can be recorded in the periods in which the Virgin Rail 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

1.18 Fuel costs

Fuel costs represent the commodity spot price ruling at the date of the transaction or, if appropriate, the commodity price under the related fuel hedging contract, together with the costs of delivery and duty

1 19 Frequent flyer programme

Virgin Atlantic s frequent flyer programme Flying Club allows customers to earn mileage credits by flying on Virgin Atlantic (and selected partner airlines) as well as through participating companies such as credit card issuers Flying Club members can redeem miles for flights on Virgin Atlantic, selected partner airlines and other partners such as hotels and car rental companies

Where the fair value of miles issued is significant in the context of the overall underlying transaction, the fair value of miles issued at the expected redemption rate is deferred and recognised in revenue when redeemed and services are provided Where the fair value of miles issued is not significant in the context of the overall underlying transaction, no revenue is deferred and an onerous cost obligation is provided for on an incremental cost basis at the expected redemption rate

Notes to the Financial Statements

1 Accounting Policies (continued)

1 20 Cash and liquid resources

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

1.21 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 Where provisions are discounted, the unwinding of the discount is taken to the profit and loss account

1.22 Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks Cost includes all direct costs and an appropriate proportion of fixed and variable overheads

1 23 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation

A net deferred tax asset is recognised only if 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

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse

Deferred tax assets and liabilities are not discounted

1 24 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction or, if hedged, at the forward contract rate

Exchange gains and losses are recognised in the Profit and Loss Account

The assets and liabilities of overseas subsidiary undertakings, joint ventures and associated undertakings, are translated at the closing exchange rates or, where applicable, at hedged rates 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, net of exchange differences arising on related foreign currency borrowings are taken directly to reserves and reported within the statement of total recognised gains and losses

Loans between companies within the Group are translated at historic rates if there is a clear expectation and understanding from both parties that the loan will not be repaid All other intra-group loans are retranslated at year end rates

Notes to the Financial Statements

1 Accounting Policies (continued)

1 25 Pensions

Certain subsidiaries within the Group operate defined contribution pension scheme and the pension charge represents the amounts payable by the Group to the fund in respect of the year

West Coast Trains Limited a subsidiary of Virgin Rail Group Holdings Limited, participates in the Railways Pension Scheme ("RPS"), which provides benefits on a defined benefit basis The assets of the scheme are held separately from those of the Group in an independently administered fund The RPS is a shared cost scheme with costs being shared between the employer and the members on the basis of a 60 40 split

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

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

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

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

1 26 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

1 27 Share based payments

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

Notes to the Financial Statements

1 Accounting Policies (continued)

1 28 Classification of financial instruments issued by the Group

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

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

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

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

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares 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 2013, preference dividends payable of £nil (2012 £nil) were recognised within the total interest payable expense, as disclosed in Note 8

Notes to the Financial Statements

2 Segmental information

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

By activity	Turnover Year ended 31 March 2013 £M	Turnover Year ended 31 March 2012 £M	Group operating profit/(loss) Year ended 31 March 2013 £M	Group operating profit/(loss) Year ended 31 March 2012 £M	Net operating assets/ (liabilities) 31 March 2013 £M	Net operating assets/ (liabilities) 31 March 2012 £M
Air travel	**2,854**	2,731	**(78)**	(179)	**(247)**	(231)
Rail	**898**	938	**31**	36	**(43)**	(24)
Retail	**6**	7	**-**	2	**6**	7
Mobile telecoms	**211**	216	**1**	5	**(20)**	(19)
Financial services	**29**	24	**(4)**	(5)	**(8)**	(5)
Hotels	**28**	27	**(5)**	(3)	**45**	45
Healthcare	**156**	26	**(5)**	(10)	**(8)**	-
Other trading	**24**	36	**10**	10	**24**	27
Management services	**55**	64	**149**	(79)	**410**	345
	4,261	4,069	**99**	(223)	**159**	145
Less share of joint ventures turnover/ operating loss	**(215)**	(235)	**(1)**	(6)		
Total	**4,046**	3,834	**98**	(229)		

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

Other trading principally includes brand licensing

Notes to the Financial Statements

2 Segmental information (continued)

By geographical market	Turnover by origin Year ended 31 March 2013 £M	Turnover by origin Year ended 31 March 2012 £M	Turnover by destination Year ended 31 March 2013 £M	Turnover by destination Year ended 31 March 2012 £M
UK	**2,881**	2,764	**1,098**	993
Europe	**360**	298	**271**	310
North America	**499**	463	**1,960**	1,797
Africa	**153**	162	**307**	323
Asia	**222**	228	**477**	485
Australasia	**91**	90	**93**	97
Management services	**55**	64	**55**	64
	4,261	4,069	**4,261**	4,069
Less share of joint ventures' turnover	**(215)**	(235)	**(215)**	(235)
Total	**4,046**	3 834	**4,046**	3,834

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

The geographical analysis of revenue by destination is derived by allocating revenue from inbound and outbound services between the United Kingdom and overseas points to the geographical area in which the relevant overseas point lies Revenue from the sale of package holidays is allocated to the geographical area in which the holiday is taken

By geographical market	Group operating profit/(loss) Year ended 31 March 2013 £M	Group operating profit/(loss) Year ended 31 March 2012 £M	Net operating assets/ (liabilities) 31 March 2013 £M	Net operating assets/ (liabilities) 31 March 2012 £M
UK	**(56)**	(144)	**(336)**	(246)
Europe	**13**	10	**73**	30
North America	**(5)**	(1)	**17**	21
Africa	**-**	(1)	**(3)**	(2)
Asia	**-**	-	**-**	-
Australasia	**(2)**	(8)	**(2)**	(2)
Management services	**149**	(79)	**410**	344
	99	(223)	**159**	145
Less share of joint ventures' operating loss	**(1)**	(6)		
Total	**98**	(229)		

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

Notes to the Financial Statements

3. Operating profit/(loss)

The operating profit/(loss) is stated after charging/(crediting)

	2013 £M	2012 £M
Amortisation - intangible fixed assets	**19**	41
Depreciation of tangible fixed assets		
- owned by the group	**63**	61
- held under finance leases	**6**	5
Operating lease rentals		
- land and buildings	**27**	29
- aircraft and other	**352**	315
Provision charged against debts owed by group and fellow subsidiary undertakings*	**1**	9
Provision writeback against debts owed by group and fellow subsidiary undertakings*	**(178)**	-

* Net provision writeback against debts owed by group and fellow subsidiary undertakings has arisen mostly due to Group restructuring in the year

Other operating (expense)/income

	2013 £M	2012 £M
Other operating income	**5**	13
Rail franchise expense	**(104)**	(170)
Network change compensation and performance regime	**40**	23
Operating income from related parties	**15**	16
	(44)	(118)
Other exceptional operating income being bid costs refund	**11**	-
	(33)	(118)

Auditors' remuneration

	2013 £M	2012 £M
Fees payable to the Company's auditor and its associates in respect of		
The auditing of accounts of subsidiaries of the Company pursuant to legislation	**1**	1
All other services	**-**	1

Fees payable for the audit of these financial statements is £nil (2012 £nil)

Notes to the Financial Statements

4. Exceptional items

	2013	2012
	£M	£M
Administrative income/(expenses)	**34**	(156)
Other operating income	**11**	-
Net profit on sale of fixed assets	**1**	10
	46	(146)

Exceptional administrative expenses in the current year relate to fixed assets impairments of £1million (note 11) (2012 £156million)

Exceptional administrative credit of £35million in the current year relates to the reversal of a provision recognised in the year ended 28 February 2010 in connection with the investigations into various aspects of pricing and commercial issues in the airline industry The investigations have now been closed and Virgin Atlantic has been cleared of all obligations and liabilities

Exceptional other operating income in the current year relates to a refund of bid costs Following the cancellation of the bid for the West Coast franchise the Department for Transport announced that it would reimburse the bid costs incurred The bid costs refund is in respect of amounts received during the financial period

5. Directors' remuneration

The directors did not receive any remuneration during the year for services to the Company (2012 £nil)

6. Staff costs

Staff costs were as follows

	2013	2012
	£M	£M
Wages and salaries	**552**	454
Social security costs	**52**	47
Other pension costs (Note 25)	**46**	36
Share-based payments (Note 27)	**-**	2
Other costs	**3**	3
	653	542

The average monthly number of employees employed by the Group, including the directors, during the year was as follows

Management and administration	**1,841**	2,227
Flight and cabin crew	**4,476**	4 265
Reservations and sales	**2,840**	2,712
Engineering, cargo and production	**1,427**	1 414
Operations	**6,126**	2,565
	16,710	13,183

The Company had no employees in the year (2012 nil)

Notes to the Financial Statements

7 Interest receivable

	2013 £M	2012 £M
Interest receivable from related undertakings	**20**	29
Bank interest receivable	**2**	6
Other interest receivable	**14**	6
Net foreign exchange gains	**1**	-
	37	41

8 Interest payable and similar charges

	2013 £M	2012 £M
On bank loans and overdrafts	**32**	38
On finance leases and hire purchase contracts	**1**	1
On loans from related undertakings	**6**	9
Share of joint ventures' interest payable	**1**	1
Other interest payable	**16**	9
Net foreign exchange losses	**-**	4
	56	62

Notes to the Financial Statements

9 Taxation

	2013 £M	2012 £M
Analysis of tax charge/(credit) in the year		
Current tax		
UK corporation tax charge on profit/loss for the year	9	10
Adjustments in respect of prior periods	(2)	(94)
	7	(84)
Double taxation relief	(1)	(1)
	6	(85)
Foreign tax on income for the year	2	2
	8	(83)
Share of joint ventures' current tax	-	1
Total current tax	8	(82)
Deferred tax		
Origination and reversal of timing differences	(15)	(27)
Effect of rate change	(5)	(6)
Adjustments in respect of prior periods	(1)	5
	(21)	(28)
Share of joint ventures' deferred tax	2	1
Total deferred tax	(19)	(27)
Tax on profit/loss on ordinary activities	(11)	(109)

Notes to the Financial Statements

9. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2012 - lower than) the standard rate of corporation tax in the UK of 24% (2012 - 26%) The differences are explained below

	2013 £M	2012 £M
Profit/loss on ordinary activities before tax	**86**	(230)
Profit/loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 24% (2012 - 26%)	**21**	(60)
Effects of:		
Expenses not deductible for tax purposes	**12**	62
Capital allowances for year in excess of depreciation	**11**	(3)
Utilisation of tax losses	**(6)**	(7)
Adjustments to tax charge in respect of prior periods	**(2)**	(94)
Other timing differences leading to an increase (decrease) in taxation	**(4)**	(4)
Non-taxable income	**(55)**	(12)
Unrelieved tax losses carried forward	**31**	36
Current tax charge/(credit) for the year	**8**	(82)

Notes to the Financial Statements

10 Intangible fixed assets

Group	Goodwill £M	Negative goodwill £M	Landing slots £M	Intellectual property £M	Carbon Licenses £M	Total £M
Cost						
At 1 April 2012	**679**	**(13)**	**72**	**78**	**18**	**834**
Additions	**1**	**-**	**8**	**1**	**1**	**11**
Disposals	**-**	**-**	**-**	**-**	**(18)**	**(18)**
On acquisition of subsidiaries	**-**	**-**	**-**	**1**	**-**	**1**
At 31 March 2013	**680**	**(13)**	**80**	**80**	**1**	**828**
Amortisation						
At 1 April 2012	**355**	**(2)**	**4**	**14**	**-**	**371**
Charge for the year	**15**	**(1)**	**-**	**5**	**-**	**19**
At 31 March 2013	**370**	**(3)**	**4**	**19**	**-**	**390**
Net book value						
At 31 March 2013	**310**	**(10)**	**76**	**61**	**1**	**438**
At 31 March 2012	324	(11)	68	64	18	463

Intellectual property

Virgin Enterprises Limited holds intellectual property licences amounting to £60million (2012 £64million) The licence assigned from Virgin Money Limited on 26 November 2007 is amortised over approximately 10 years, being the remaining period accorded on these licences A license agreement with Virgin Active IPCO Limited (formerly ActiveIPCo Limited), an associate of the ultimate parent undertaking Virgin Group Holdings Limited entered into on 20 October 2011, required an upfront payment of £60million, which is being amortised over 27 years, representing the period of the head licence

Carbon Licenses

Carbon licenses amounting to £1million (2012 £18million) relates to licenses obtained under the EU Emissions Trading Scheme Consistent with the Statement of Standard Accounting Practice 4 'Accounting for Government Grants', the value of allowances received is deferred and recognised in income on a systematic basis of the period to which the grant relates

Landing slots

Landing slots amounting to £76million (2012 £68million) relates to the capitalisation of the cost of landing slots purchased by Virgin Atlantic Limited These are considered to have an indefinite economic life and are not amortised, instead they are subject to an annual impairment review and a provision is recognised for any identified impairment

Notes to the Financial Statements

10 Intangible fixed assets (continued)

Goodwill and negative goodwill

All goodwill is amortised on a straight-line basis The following sets out the periods over which goodwill is amortised and the reasons for the periods chosen

Goodwill in relation to	Amortisation period	Goodwill cost £M
Virgin Care Group	5 years	(4)
Virgin Hotels Group Limited and subsidiaries	20 years	(7)
Barfair Limited and subsidiaries	20 years	99
Bluebottle UK Limited	20 years	(67)
Virgin Atlantic Limited	20 years	459
Virgin Rail Group Holdings Limited	91 months	23*
Virgin Healthcare Holdings Limited	20 years	4

* Goodwill fully amortised

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

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

Notes to the Financial Statements

11. Tangible fixed assets

Group	Freehold property £M	Leasehold Property £M	Aircraft, aircraft spares and rotables £M	Plant & machinery £M	Furniture & fittings £M	Assets in the course of construction £M	Total £M
Cost							
At 1 April 2012	63	10	612	12	332	46	1,075
Additions	5	-	15	3	6	74	103
Transfers from/(to) current assets	-	-	(1)	-	-	-	(1)
Disposals	-	(2)	(64)	-	(115)	(1)	(182)
On acquisition of subsidiaries	-	1	-	1	-	-	2
Transfer between classes	-	-	61	-	28	(89)	-
Foreign exchange movement	1	-	-	1	-	-	2
At 31 March 2013	69	9	623	17	251	30	999
Depreciation							
At 1 April 2012	1	5	409	2	259	-	676
Charge for the year	2	1	34	4	28	-	69
On acquisition of subsidiaries	-	1	-	-	-	-	1
On disposals	-	(2)	(48)	-	(115)	-	(165)
Impairment charge	-	-	-	-	1	-	1
Foreign exchange movement	-	-	-	1	-	-	1
At 31 March 2013	3	5	395	7	173	-	583
Net book value							
At 31 March 2013	66	4	228	10	78	30	416
At 31 March 2012	62	5	203	10	73	46	399

The net book value and depreciation of assets held under finance leases or hire purchase contracts included above are as follows

	Net book value 2013 £M	Depreciation charge 2013 £M	Net book value 2012 £M	Depreciation charge 2012 £M
Aircraft, aircraft spares and rotables	39	6	36	5
Plant and machinery	1	-	1	-
	40	6	37	5

Notes to the Financial Statements

11 Tangible fixed assets (continued)

The net book value of land and buildings comprises

	Group 31 March 2013 £M	Group 31 March 2012 £M
Freehold	66	62
Long leasehold	-	1
Short leasehold	3	4
	69	67

12 Fixed asset investments

Group	Investment in joint ventures £M	Other investments £M	Total £M
Cost or valuation			
At 1 April 2012	(17)	27	10
Additions	-	1	1
Disposals	(1)	(2)	(3)
Share of loss	(2)	-	(2)
At 31 March 2013	(20)	26	6
Impairment			
At 1 April 2012 and 31 March 2013	-	7	7
Net book value			
At 31 March 2013	(20)	19	(1)
At 31 March 2012	(17)	20	3

Notes to the Financial Statements

12 Fixed asset investments (continued)

Participating interests

The Group's share of the joint venture's net liabilities at the balance sheet date was as follows

		2013		2012
	£M	£M	£M	£M
Share of assets				
Fixed assets	22		40	
Current assets	60		73	
		82		113
Share of liabilities				
Due within one year or less	(94)		(128)	
Due after more than one year	(8)		(2)	
		(102)		(130)
Share of net liabilities		(20)		(17)

Company	**Investments in subsidiary companies £M**
Cost or valuation	
At 1 April 2012 and 31 March 2013	2,529
Net book value	
At 31 March 2013	2,529
At 31 March 2012	2,529

Notes to the Financial Statements

12 Fixed asset investments (continued)

Virgin Wings Limited considers its principal undertakings to be those companies that have significant trading activities and provide funding to other companies within the Group The principal undertakings in which the Group has an interest at the period end are as follows

	Country of registration	Principal activity	Holding	Class of shares
Subsidiary undertakings				
Virgin Holdings Limited *	England & Wales	Investment holding company	100 0	Ordinary
Classboss Limited	England & Wales	Investment holding company	100 0	Ordinary
Virgin Rail Group Holdings Limited *	England & Wales	Train operator	51 0	Ordinary
Virgin Gym Holdings Limited * (strike off applied for)	England & Wales	Investment holding company	100 0	Ordinary
Virgin Management SA *	Switzerland	Management services	100 0	Ordinary
Virgin Healthcare Holdings Limited *	England & Wales	Health service provider	93 8	Ordinary
VML 2 Limited *	British Virgin Islands	Investment holding company	100 0	Ordinary
Virgin Atlantic Limited *	England & Wales	Flight and holiday operator	51 0	Ordinary
			51 0	Preference
Barfair Limited *	England & Wales	Investment holding company	100 0	Ordinary
Vanson Developments Limited *	England & Wales	Investment holding company	100 0	Ordinary
Virgin Management Limited *	England & Wales	Management services	100 0	Ordinary
Virgin Models Limited *	England & Wales	Investment holding company	100 0	Ordinary
Voyager Group Limited *	Engalnd & Wales	Investment holding company	100 0	Ordinary
			100 0	Preference
Necker Island (BVI) Limited *	British Virgin Islands	Hotel operator	100 0	Ordinary
Network Distributing Limited *	England & Wales	Media company	100 0	Ordinary
			100 0	Preference
Virgin Life Care Investments Limited *	England & Wales	Health and rewards program	91 15	Ordinary
Virgin Oceanic Expedition LLC *	USA	Submarine operator	100 0	Partner equity
Virgin Management USA Inc *	USA	Management services	100 0	Common stock
Virgin Sky Investments Limited *	England & Wales	Investment holding company	100 0	Ordinary
Vexair Limited *	England & Wales	Investment holding company	100 0	Ordinary
Virgin Management Asia Pacific Pty Limited *	Australia	Management services	100 0	Ordinary
Bluebottle UK Limited *	England & Wales	Investment holding company	100 0	Ordinary
Bluebottle Investments (UK) Limited *	England & Wales	Investment holding company	100 0	Ordinary
Virgin Cinemas Group Limited *	England & Wales	Investment holding company	100 0	Ordinary
			100 0	Preference
VEL Holdings Limited *	England & Wales	Investment holding company	100 0	Ordinary
Virgin Enterprises Limited *	England & Wales	Brand licensing	100 0	Ordinary
			100 0	Preference
Virgin Hotels Group Limited *	England & Wales	Hotel operator	100 0	Ordinary
Virgin Insight Limited *	England & Wales	Procurement services	100 0	Ordinary
Joint ventures				
Omer Telecom Limited * ^	England & Wales	Mobile phone operator	46 4	Ordinary
Trade investments				
Air Nigeria Development Limited * ^^	Nigeria	Flight operator	49 0	Ordinary

* Indirectly held investment
^ Virgin and Carphone Warehouse each own or control 46 4% of the voting rights but 46 2% of the economic rights The remaining 7 2% of voting rights and 7 6% of economic rights are held by a third parties
^^ The Group s interest in Air Nigeria Development Limited is classified as trade investments as the Group is unable to exercise significant influence as a result of the position of the major shareholders

Notes to the Financial Statements

13. Stocks

	Group		Company	
	2013	2012	**2013**	2012
	£M	£M	**£M**	£M
Raw materials	**3**	4	-	-
Work in progress	**3**	3	-	-
Finished goods and goods for resale	**2**	3	-	-
Aircraft consumable spares	**37**	35	-	-
	45	45	-	-

14. Debtors

	Group		Company	
	2013	2012	**2013**	2012
	£M	£M	**£M**	£M
Due after more than one year				
Amounts owed by related undertakings	**52**	49	-	-
Other debtors	**38**	38	-	-
Prepayments and accrued income	**18**	48	-	-
Due within one year				
Trade debtors	**250**	238	-	-
Amounts owed by related undertakings	**224**	305	**104**	112
Other taxation and social security	**16**	25	-	-
Other debtors	**270**	269	-	-
Prepayments and accrued income	**98**	91	-	-
Tax recoverable	-	1	-	-
Deferred tax asset	**2**	7	-	-
	968	1,071	**104**	112

Included within other debtors due within one year is an amount of £nil (2012 £1million) relating to margin calls on open derivative positions

Notes to the Financial Statements

15 Creditors:
Amounts falling due within one year

	Group		Company	
	2013	2012	**2013**	2012
	£M	£M	**£M**	£M
Secured bank loans (note16)	**54**	118	-	-
Other bank loans and overdrafts	**3**	4	-	-
Net obligations under finance leases and hire purchase contracts	**3**	3	-	-
Trade creditors	**154**	143	-	1
Amounts owed to related undertakings	**394**	470	**2,524**	2,449
Corporation tax	**14**	9	-	-
Social security and other taxes	**18**	16	-	-
Other creditors	**146**	122	-	-
Accruals and deferred income	**939**	917	-	-
	1,725	1 802	**2,524**	2,450

Included within other creditors due within one year is an amount of £12million (2012 £38million) relating to margin calls on open derivative positions

16 Creditors
Amounts falling due after more than one year

	Group		Company	
	2013	2012	**2013**	2012
	£M	£M	**£M**	£M
Secured bank loans	**334**	389	-	-
Other bank loans and overdrafts	**6**	8	-	-
Shareholder loans	**4**	4	-	-
Net obligations under finance leases and hire purchase contracts	**8**	11	-	-
Amounts owed to related undertakings	-	5	-	-
Accruals and deferred income	**40**	21	-	-
	392	438	-	-

Obligations under finance leases and hire purchase contracts, included above, are payable as follows

	Group	
	2013	2012
	£M	£M
Between one and five years	**8**	11

The Company has no commitments under finance lease and hire purchase contracts (2012 £nil)

Notes to the Financial Statements

16 Creditors.
Amounts falling due after more than one year (continued)

Financing

On 22 October 2012, Virgin Holdings Limited and Virgin Group Investments Limited a parent company, as borrowers and guarantors, and certain other subsidiaries of Virgin Group Holdings Limited entered into a multi-currency revolving credit facility of £430million with Lloyds TSB Bank plc ("the New Facility") This facility refinanced the £623million multi-currency revolving credit facility, which was entered into on 25 November 2008 (as amended and restated on 15 July 2010) ("the Old Facility") As with the Old Facility, the New Facility has sub-facilities for drawings in AUD, EUR, GBP, USD and ZAR and both can be utilised for letters of credit and cash drawings

As at the balance sheet date, 31 March 2013, £342million was drawn down under the New Facility (2012 £430million under the Old Facility) The New Facility will reduce to £380million on 31 December 2013, £340million on 31 December 2014 and £300million on 31 December 2015 The final maturity date is 31 December 2016, although subject to mutual agreement between lender and borrowers, there is an option to extend this to 31 December 2017 The Old Facility was scheduled to reduce to £380million on 31 December 2012 and to £300million on 31 December 2013 in advance of the final maturity date of 31 December 2014

As with the Old Facility, the New Facility is guaranteed by Virgin Holdings Limited and Virgin Group Investments Limited and is secured by various of the Group's investments Should the Group dispose of any of its secured investments, part of the proceeds may be required to be used in part prepayment of amounts outstanding under the facilities, subject to the level of utilisation of the New Facility at the time

Interest is payable on amounts drawn under the New Facility by reference to the London Inter Bank Offered Rate (LIBOR) for borrowings in Sterling or US Dollar, by reference to the Bank Bill Swap Reference Rate (BBSW) for borrowings in Australian Dollar, by reference to the Johannesburg Interbank Agreed Rate (JIBAR) for borrowings in South African Rand and by reference to the Euro Interbank Offered Rate (EURIBOR) for borrowings in Euro in each case plus a margin and mandatory costs The margin is linked to the amount outstanding under the facility (which ranged from 2 50% to 3 50% per annum under the Old Facility and as at 31 March 2012 was 2 75% per annum) and which range from 3 00% to 4 75% under the New Facility and as at 31 March 2013 was 3 75%

As with the Old Facility, the New Facility contains a financial covenant in respect of the ratio of the total value of secured investments to total utilisation under the facility Compliance with this covenant is tested annually as of 31 December or on request by Lloyds TSB Bank plc As with the Old Facility, the New Facility contains certain affirmative covenants negative pledges and events of default, which are customary for facilities of this nature The event of default provisions include payment defaults (subject to a three day grace period), breach of financial covenant, breach of other obligations, misrepresentation, cross default, insolvency, repudiation, illegality, cessation of business, appropriation of assets and material adverse change

On 24 December 2008, the Group entered into a £14million amortising term loan facility with Lloyds TSB Bank plc The amount outstanding of £8million was refinanced on 20 December 2012 to bring the terms and conditions in line with the New Facility The loan is repayable by 24 December 2016 with principal repayment instalments of £2million due annually on 24 December Under the terms of the loan agreement interest is payable on amounts drawn at LIBOR plus a margin of 2 00% per annum and mandatory costs

Notes to the Financial Statements

16 Creditors:
Amounts falling due after more than one year (continued)

Other secured loans

The Virgin Atlantic Group has secured bank loans totalling £24million (2012: £40million) secured by mortgages over certain aircraft £9million (2012 £10million) of these loans fall due for repayment after five years The interest rates charged for the year are in the range 0 625% to 2 75% above US$ LIBOR

Necker Island (BVI) Limited has a secured bank loan to the value of £12million (2012 £11million) of which £7million (2012 £9million) is due for repayment after five years The interest rate on this loan was 2 5% (2012 2 5%) above US$ LIBOR The loan is secured on the island

Charter Air Limited has a bank loan of £nil (2012 £11million) relating to a mortgage secured over an aircraft of which none (2012 £nil) is due for repayment after five years The bank loan was fully repaid in July 2012

Virgin Hotels Group Limited has a secured bank loan of £11million (2012 £9million) of which £10million (2012 £7million) is due for repayment after five years The interest rates in the year were fixed interest rates ranging from 1 35% to 1 86%

Financial instruments

Under the terms of the New Facility the Group is required to hedge the interest payable under the facility over the life of the facility On 23 December 2012 the Group terminated its previous interest rate hedges and entered into three new interest rate hedges against 3 month LIBOR/BBSW as follows

- US$66million interest rate swap at a fixed rate of 4 225%
- £87 5million interest rate swap at a fixed rate of 4 425%
- AU$170million interest rate swap at a fixed rate of 7 07%

The maturity of the hedges are aligned with the maturity of the New Facility Parts of the facility nominated in ZAR and EUR are not hedged under the interest rate hedge agreements

Notes to the Financial Statements

17 Deferred taxation

Deferred tax liability	2013 £M	2012 £M
At beginning of year	60	89
(Released)/charged during the year	(25)	(35)
Adjustments in respect of prior year	(1)	5
Charge to statement of total recognised gains and losses	-	1
At end of year	34	60

The elements of deferred taxation are as follows

	2013 Cumulative provided £M	2013 Cumulative unprovided £M	2012 Cumulative provided £M	2012 Cumulative unprovided £M
Accelerated capital allowances	72	(3)	91	(6)
Other timing differences	(6)	(1)	(8)	(2)
Tax losses	(34)	(126)	(30)	(157)
	32	(130)	53	(165)
Deferred tax asset	(2)	(130)	(7)	(165)
Deferred tax liability	34	-	60	-
	32	(130)	53	(165)

£2million (2012 £7million) of the deferred tax asset cannot be offset against the deferred tax liability and is, therefore, included in debtors

A reduction in the UK Corporation Tax rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012 A rate of 23% has been used within the deferred tax calculations within these financial statement

Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 17 July 2013

The reduction to 20% will reduce the company's future current tax charge accordingly and further reduce the deferred tax liability at 31 March 2013 (which has been calculated based on the rate of 23% substantively enacted at the balance sheet date) by £3m

Notes to the Financial Statements

18 Provisions

	Aircraft maintenance £M	Legal and other £M	Restructuring costs and onerous leases £M	Total £M
Group				
At 1 April 2012	128	56	12	196
Additions	50	3	1	54
Amounts used	(44)	(1)	(2)	(47)
Amounts released	-	(37)	-	(37)
Reclassifications	-	(7)	-	(7)
Foreign exchange translation	6	-	-	6
At 31 March 2013	140	14	11	165

Aircraft maintenance

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

Legal and other

£12million (2012 £54million) represents the estimated outstanding cost arising from the settlement of civil actions against Virgin Atlantic Airways Limited The information usually required by Financial Reporting Standard 12 for these litigation provisions is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation

Reclassifications relates to amounts transferred to creditors falling due within one year

Restructuring costs and onerous lease provisions

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

Restructuring costs and onerous leases provisions principally comprise of the following

Virgin Atlantic Airways Limited's onerous lease provisions and potential dilapidation costs of £4million (2012 £3million)

£1million (2012 £3million) of dilapidations costs relates to costs required to be incurred at properties leased by Virgin Rail in accordance with lease obligations These costs are expected to be incurred by the end of the West Coast franchise as extended by the Interim Franchise Agreement

£2million (2012 £2million) relates to Virgin Enterprises Limited's onerous lease provision

£3million (2012 £3million) relates to Cribyn Limited's onerous lease provision

£1million (2012 £1million) relates to Virgin Management Limited's onerous lease provision

Notes to the Financial Statements

19 Share capital

	2013 £M	2012 £M
Allotted, called up and fully paid		
421,023,992 (2012 - 421.023,986) ordinary shares of £1 each	**421**	421

During the year, Bluebottle USA Mobile Inc subscribed for 6 ordinary £1 shares in the Company at a premium of £1million

20. Reserves

Group	**Share premium account £M**	**Profit and loss account £M**
At 1 April 2012	-	(374)
Profit for the year	-	106
Premium on shares issued during the year	1	-
Currency translation differences on net foreign currency investments	-	1
At 31 March 2013	1	(267)

Company	**Share premium account £M**	**Profit and loss account £M**
At 1 April 2012	-	(230)
Loss for the year	-	(83)
Premium on shares issued during the year	1	-
At 31 March 2013	1	(313)

Notes to the Financial Statements

21. Reconciliation of movement in shareholders' funds

Group	2013 £M	2012 £M
Opening shareholders' funds	47	61
Profit/(loss) for the year	106	(114)
Shares issued during the year	-	83
Share premium on shares issued (net of expenses)	1	-
Actuarial loss on pension scheme	-	(1)
Unrealised gain on sale of subsidiaries and other shareholdings	-	13
Currency translation differences on net foreign currency investments	1	2
Unrealised gain on sale of intangible assets net of tax	-	3
Closing shareholders' funds	155	47

Company	2013 £M	2012 £M
Opening shareholders' funds	191	83
(Loss)/profit for the year	(83)	25
Shares issued during the year	-	83
Share premium on shares issued (net of expenses)	1	-
Closing shareholders' funds	109	191

The Company has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own profit and loss account

22. Minority interests

Equity	£M
At 1 April 2012	(80)
Minority interests share of loss after taxation for the year	9
Dividends paid to minority interests	22
At 31 March 2013	(49)

Notes to the Financial Statements

23. Contingent liabilities

In accordance with the Interim Franchise Agreement for West Coast, Virgin Rail Group Limited has procured a performance bond in favour of the DfT for West Coast The West Coast bond has been issued by ACE European Group Limited for up to £21million (2012 £21million)

Virgin Voyager Limited and Voyager Group Limited guarantee the operating lease commitments in relation to various properties leased by Virgin Active Group Limited, Virgin Clubs Limited and Virgin Management Limited The total agregate liability is £90million

Virgin Holdings Limited has given the following guarantees

Beneficiary	**Obligation**	**Aggregate Liability**
Standard Life Investment Funds	Various Virgin Active Holdings Limited property subleases	£14million
Virgin Galactic customers	Aggregate Virgin Galactic customer deposits	$82million
NHS Surrey Primary Care Trust	Provision of community health services	£9million
New Devon CCG	Provision of community health services	£5million
Nozee Limited	Obligations and amounts payable in relation to the sale of Virgin Games' assets	£10million

24. Capital commitments

At 31 March 2013 the Group and Company had capital commitments as follows

	Group		**Company**	
	2013	2012	**2013**	2012
	£M	£M	**£M**	£M
Contracted for but not provided in these financial statements	**2,488**	2 753	-	-

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

Notes to the Financial Statements

25. Pension commitments

Defined contribution plans

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 £22million (2012 £21million) There were no outstanding or prepaid contributions at year end (2012 £nil)

Virgin Management Limited operates a defined contribution pension scheme The assets of the scheme are held separately from those of the Group in independently administered funds The total expense relating to the plan in the current year was £1million (2012 £1million) There were no outstanding or prepaid contributions at year end (2012 £nil)

Virgin Healthcare Holdings Limited operates a defined contribution pension scheme The assets of the scheme are held separately from those of the Group in independently administered funds The total expense relating to the plan in the current year was £8million (2012 £nil) There were no outstanding or prepaid contributions at year end (2012 £nil)

Defined benefit plans

Rail scheme

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

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

The latest actuarial valuation of the West Coast's section of the RPS was undertaken at 31 December 2010 using the projected unit method This valuation has been updated to 31 March 2013 by a qualified independent actuary, using revised assumptions that are consistent with the requirements of FRS 17

Net pension liability	**2013 £M**	2012 £M
Present value of defined benefit obligations	**(553)**	(478)
Fair value of section assets	**383**	347
Deficit in section	**(170)**	(131)
Members share of section	**68**	52
Franchise adjustment	**101**	78
Deficit recognised by the Group	**(1)**	(1)
Related deferred tax asset	**-**	-
Net pension liability	**(1)**	(1)

Notes to the Financial Statements

25. Pension commitments (continued)

Movements in present value of defined benefit obligation	**2013**	2012
	£M	£M
At beginning of year	**478**	385
Employer share of current service cost	**15**	12
Member share of current service cost	**9**	8
Interest cost	**23**	24
Benefits paid	**(13)**	(11)
Actuarial losses	**41**	60
At end of year	**553**	478

Movements in fair value of section assets	**2013**	2012
	£M	£M
At beginning of year	**347**	327
Expected return on section assets	**25**	28
Contributions by employer	**11**	11
Contributions by members	**7**	7
Benefits paid	**(13)**	(11)
Actuarial gains/(losses)	**6**	(15)
At end of year	**383**	347

Expense recognised in the profit and loss account	**2013**	2012
	£M	£M
Current service cost	**15**	12
Expected return on section assets	**(15)**	(16)
Interest on section liabilities	**14**	14
Interest credit on franchise adjustment	**(4)**	(2)
	10	8

Notes to the Financial Statements

25 Pension commitments (continued)

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

	2013 £M	2012 £M
Administrative expenses - staff costs	15	12
Other finance income	(5)	(4)
	10	8

Amounts recognised in the statement of total recognised gains and losses

The total amount recognised in the consolidated statement of total recognised gains and losses in respect of actuarial gains and losses is £nil (2012 £1million loss)

Cumulative actuarial gains/losses reported in the consolidated statement of total recognised gains and losses since 1 March 2004 are £2million gain (2012 £2million gain)

Movement in deficit recognised by Group	2013 £M	2012 £M
At beginning of year	(1)	(3)
Current service cost	(15)	(12)
Contributions	11	11
Other finance income	5	4
Actuarial loss	-	(1)
Deficit at start of Interim Franchise Agreement	(1)	-
	(1)	(1)

Fair value of section assets	2013 £M	2012 £M
Equities	162	180
Bonds	62	55
Property	36	42
Other	123	70
	383	347
Actual return on section assets	31	13

Future contributions

The Group currently expects to pay contributions of £11million over the period of the 2013/2014 financial statements

Notes to the Financial Statements

25 Pension commitments (continued)

Actuarial assumptions

Principal actuarial assumptions at the balance sheet date were as follows

	2013	2012
	%	%
Rate of increase of salaries	**4 3**	4 3
Rate of increase in pensions in payment and deferred pensions	**2 3**	2 3
Discount rate	**4 6**	4 85
Inflation assumption	**3 3**	3 3
CPI inflation assumption	**2 3**	2 3
Long term rate of return expected on		
- Equities	**8 0**	7 75
- Bonds	**3 9**	4 7
- Property	**7 5**	7 5
- Other	**7 0**	7 25
- Overall	**7 0**	7 1

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

Member aged 60 (current life expectancy) 26 years (male), 28½ years (female)
Member aged 40 (life expectancy from age 60) 28½ years (male), 31 years (female)

The inflation assumptions for certain benefits are now based on the consumer Price Index ("CPI") rather than the Retail Price Index ("RPI") following the change announced by the UK Government in 2010

History of sections

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

Balance sheet	**2013**	2012	2011	2010	2009
	£M	£M	£M	£M	£M
Present value of section liabilities	**(553)**	(478)	(385)	(387)	(298)
Fair value of section assets	**383**	347	327	294	211
Deficit in section	**(170)**	(131)	(58)	(93)	(87)
Members share of section	**68**	52	23	37	35
Franchise adjustment	**101**	78	32	53	47
Deficit recognised by Group	**(1)**	(1)	(3)	(3)	(5)

Notes to the Financial Statements

25. Pension commitments (continued)

Experience adjustments	**2013**	2012	2011	2010	2009
Experience adjustments on section assets					
amount (£m)	**4**	(8)	3	36	(67)
percentage of section assets	**1%**	3%	1%	12%	(32%)
Experience adjustments on section liabilities					
amount (£m)	**(8)**	(6)	1	(2)	(1)
percentage of present value of section liabilities	(1%)	(1%)	-	(1%)	(1%)

26. Operating lease commitments

At 31 March 2013 the Group had annual commitments under non-cancellable operating leases as follows

	Land and buildings		**Aircraft and other**	
	2013	2012	**2013**	2012
Group	**£M**	£M	**£M**	£M
Expiry date:				
Within 1 year	**6**	14	**9**	109
Between 2 and 5 years	**26**	15	**192**	88
After more than 5 years	**12**	15	**145**	128
Total	**44**	44	**346**	325

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

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

Other commitments

The substantial proportion of capital expenditure, leasing commitments, fuel and other operating costs of Virgin Atlantic Limited are denominated in US dollars A number of derivative financial instruments have been taken out to cover part of the exposure risk The timing difference between derivative maturity date and current mark-to-market value can give rise to cash margin exposure This risk is managed through a choice of instruments, appropriate counterparty agreements and, where required, cash deposits with counterparties

Notes to the Financial Statements

27 Share based payments

In the prior year the Group entered into a Long Term Incentive Plan arrangement with certain staff to reward them with a cash bonus based on the growth in value of a portfolio of group companies relevant to their line of work The LTIP scheme vested at 31 October 2011 at which time the final valuation of group companies and bonus liability were determined Final payments under the scheme were made during the year The intrinsic carrying amount of liabilities in respect of vested benefits is £nil (2012 £5million)

The movement in the liability is as follows

	2013 £M	2012 £M
Liability at beginning of period	**5**	14
Income statement (credit) / charge	**-**	2
Cash payments	**(5)**	(11)
Liability at end of period	**-**	5

28 Reconciliation of operating profit/(loss) to operating cash flows

	31 March 2013 £M	2012 £M
Operating profit/(loss)	**98**	(229)
Share based payments	**-**	2
Depreciation, amortisation and impairment charges	**89**	263
Increase in stocks	**-**	(9)
Decrease in debtors	**101**	93
Decrease in creditors	**(67)**	(13)
(Decrease)/increase in provisions	**(30)**	14
Difference between employer pension contributions and amounts recognised in the profit and loss account	**4**	1
Net cash inflow from operating activities	**195**	122

29 Analysis of net debt

	At 31 March 2012 £M	Cash flow £M	Exchange movements £M	Other non cash changes £M	At 31 March 2013 £M
Cash in hand, at bank	643	5	7	-	**655**
Overdrafts	(2)	1	-	-	**(1)**
	641	6	7	-	**654**
Debt due with one year	(120)	76	(1)	(11)	**(56)**
Debt due after one year	(401)	49	(3)	11	**(344)**
Finance leases	(14)	3	-	-	**(11)**
Group funding	(392)	(101)	(4)	120	**(377)**
Total	(286)	33	(1)	120	**(134)**

Notes to the Financial Statements

30 Analysis of cash flows

	2013 £M	2012 £M
Returns on investments and servicing of finance		
Interest received	5	18
Interest paid	(48)	(47)
Dividends paid to minorities	(22)	(17)
Interest element of finance lease rentals	-	(1)
Net cash outflow from returns on investments and servicing of finance	(65)	(47)

	2013 £M	2012 £M
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(103)	(92)
Purchase of intangible fixed assets	(11)	(23)
Sale of tangible fixed assets	18	7
Sale of intangible fixed assets	-	3
Repayments from joint ventures	4	10
Funding provided to related undertakings	(3)	(51)
Repayments from related undertakings	5	21
Net cash outflow from capital expenditure	(90)	(125)

	2013 £M	2012 £M
Acquisitions and disposals		
Purchase of subsidiary undertakings	(2)	-
Net cash balances acquired with subsidiary	3	-
Sale of business	-	24
Net cash balance disposed with subsidiary	-	(2)
Sale of other investments	2	3
Net cash inflow from acquisitions and disposals	3	25

Notes to the Financial Statements

30 Analysis of cash flows (continued)

	2013 £M	2012 £M
Financing		
Issue of shares	-	83
Repurchase of shares	-	(24)
Funding from related undertakings	105	9
Repayments to related undertakings	(4)	(20)
Debt due within one year		
Net repayments on bank loans	(76)	(17)
Other loan repayments	-	(1)
Debt due after more than one year		
Net repayments on bank loans	(49)	(102)
Settlement of share options	(5)	(12)
Capital elements of finance lease rental payments	(3)	(3)
Net cash outflow from financing	(32)	(87)

31 Post balance sheet events

On 30 April 2013, Virgin Money (Australia) Pty Limited was sold to Bank of Queensland Limited for a consideration of £20million (AUD$30million), settled through the issue of ordinary shares in Bank of Queensland Limited

On 24 June 2013, Singapore Airlines Limited transferred its entire shareholding in Virgin Atlantic Limited, being 49% of the issued capital, to Delta Air Lines Inc

Notes to the Financial Statements

32 Related party transactions

As at 31 March 2013, the Company's ultimate parent company was Virgin Group Holdings Limited, whose principal shareholders are Sir Richard Branson and 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

The Group has taken advantage of the exemption within Financial Reporting Standard 8 which allows transactions entered into by wholly owned Group subsidiaries to be excluded from disclosure 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

	Turnover	Purchases	Interest receivable	Debtors	Creditors	Dividends received
	£M	£M	£M	£M	£M	£M
Companies related by virtue of common control or ownership						
Virgin America Inc	-	-	8	52	-	-
Activetopco Ltd	13	-	-	6	-	-
Virgin Money Holdings (UK) Ltd	19	-	-	4	-	-
Virgin Australia Holdings Ltd	12	(17)	-	2	-	-
Virgin Media Ltd	10	-	-	3	-	-
Companies related by virtue of being joint ventures or associates of the Group						
Omer Telecom Ltd	2	-	1	20	-	-
Companies related by virtue of being investors in the Group						
Singapore Airlines Ltd	-	-	-	-	-	1
Stagecoach Group Ltd	-	(2)	-	-	-	20
Assura Group Ltd	-	-	-	-	(4)	-

33. Controlling party

At 31 March 2013, the ultimate parent undertaking was Virgin Group Holdings Limited, a company registered in the British Virgin Islands