Virgin Mobile Telecoms Limited

Annual report and accounts
for the year ended 31 December 2001

Registered number: 3707664

Chairman's statement

I am delighted to be able to report a very positive year for Virgin Mobile, in its second full year of trading.

The business has continued to perform well against expectations, despite a turbulent year in the global telecoms sector, and has consolidated its position as the largest, most successful virtual operator in the world. In industry terms, Virgin Mobile is now acknowledged as the prime example of the MVNO model, and its success can be measured by the volume of traffic it contributed to the network of One 2 One, its shareholding partner. Some 830 million minutes were used, and 225 million text messages sent, by Virgin Mobile customers during 2001.

Virgin Mobile's results and performance in respect of the financial year ended 31 December 2001 are ahead of expectations. The company enjoyed a robust financial performance, becoming EBITDA positive for the first time in August, and ended the year with a better-than-planned balance sheet. In 2002, I expect Virgin Mobile to become EBITDA positive from spring and profitable before interest and tax by the year-end.

I am pleased to report that the number of customers being attracted to Virgin Mobile is trending upwards in a slowing market. Our growth rate is particularly impressive when compared to those of our four rival operators, where growth rates have fallen dramatically during 2001.

The numbers of people switching to Virgin Mobile is testament to our strong mix of marketing, proposition design and customer service skills. In recognition of our achievements in these three areas we won several industry awards during the year: in March 2001, for the second year running, we won the Best PR, Marketing and Advertising Campaign at the Mobile News Awards; and in October, at Mobile Choice Magazine's consumer awards, we collected two trophies after the general public voted Virgin Mobile as offering the Best Pre-pay Product and the Best Customer Service.

The business began 2001 with 674,943 customers. By June, nineteen months after launch, the company attracted its millionth customer, making it the fastest-growing mobile start-up ever seen in the UK. During the twelve month period 770,549 joined Virgin Mobile, and as at 31 December 2001 there were 1,445,492 using the service. The growth rate during 2001 was up 32% year on year. Of particular note were successes in the final two quarters: during the three months to September-end, Virgin Mobile became the largest provider in net growth terms of Pre-pay services in the UK; and in the fourth quarter the business added more new customers than every other operator except Vodafone.

Our strong sales were achieved with the help of increased distribution during 2001. By the end of the year, Virgin Mobile had more than 5,000 distribution outlets, with many notable channel additions during the year. Sales were further helped by the addition of Northern Ireland to our coverage in April 2001.

A significant contribution to sales performance continued to be provided by other businesses in the Virgin Group, with Virgin Megastore and V.SHOP accounting for more than half of customer additions through 2001. Our direct telesales and web channels continue to perform strongly and provide a low-cost acquisition route to market. Virgin Mobile expects the market in 2002 to be even more challenging than in 2001, but we believe we are well placed to continue to grow sales.

The business continued its young tradition of introducing innovative and exciting mobile services to its customers at a rapid rate throughout the year. In February, free news, sports and entertainment text alerts began being offered to our customers. In May we introduced the Big Bonus, a service that rewards registered and high-spending customers with free airtime. A small business service, offering centralised billing, was introduced in June. In July, we began offering easy-to-understand, flat rate roaming for calls made abroad to the UK. In October we launched the first of a series of branded mobile phone games – Who Wants to be a Millionaire – and our voice portal, the first by any UK operator, was unveiled in November.

The expansion of the Virgin Mobile brand continued overseas with the announcement in October of a joint-venture partnership between the Virgin Group and Sprint PCS with the aim of launching Virgin Mobile USA in 2002. The launch of Virgin Mobile Asia in Singapore in October, a venture between Virgin and Singtel, was modelled on the pioneering of the British business.

I look forward to another exciting year for Virgin Mobile, a year of strong financial performance, a year of further growth.

I am confident with the continuing support of our customers and suppliers, and through the professionalism and enthusiasm of our staff, we shall continue to thrive in 2002 and beyond.

Harris Jones
Chairman

The directors present their annual report on the affairs of the group, together with the accounts and auditors' report, for the year ended 31 December 2001.

The financial year ended 31 December 2001 was the company's second full year in operation.

Principal activities

The principal activities of the group comprise of the sale of mobile phone handsets (both direct to end customers and to retailers) and the provision of mobile telecommunication services.

Business review and results

The turnover and loss for the financial year were £173,860,000 (2000 - £76,204,000) and £58,939,000 (2000 - £106,531,000) respectively.

No equity dividends were paid or proposed. A preference dividend of £9,011 (2000 - £9,011) per share totalling £2,703,300 (2000 - £2,703,300) has been calculated on the issue price of the 300 cumulative redeemable preference shares at the rate of 9% per annum. Dividend interest on late payment of £893,700 (2000 - £217,700) is calculated at 11% above the Natwest lending rate and is included in the finance costs of non-equity shares.

Directors

The directors who served during the year were as follows:

Sir Richard C.N. Branson	(Chairman – resigned as Chairman by rotation on 9 August 2001)
Julia S. Chain	
Harris Jones	(Chairman – appointed as Chairman by rotation on 9 August 2001)
Gordon D. McCallum	
Paul V. Meadows	(appointed 1 January 2001, resigned 17 July 2001)
Andrew R. Peters	(appointed 17 July 2001)
Alan D. Robbins	(alternate director to Gordon McCallum, revoked 15 February 2002)
Robert W. Samuelson	(appointed 1 January 2001)
William E. Whitehorn	(alternate director to Richard Branson, appointed 17 July 2001)

Supplier payment policy

The company's policy, which is also applied by the group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution to reappoint Arthur Andersen as auditors will be proposed at the Annual General Meeting.

120 Campden Hill Road
London
W8 7AR
England

By order of the Board,

Peter Gram

Company Secretary

28 February 2002

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year that give a true and fair view of the state of affairs of the company and group, and of the profit or loss of the group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

To the shareholders of Virgin Mobile Telecoms Limited:

We have audited the accounts of Virgin Mobile Telecoms Limited for the year ended 31 December 2001 which comprise Profit and loss account, Balance sheets, Cash flow statement, Statement of accounting polices and related notes numbered 1 to 23. These accounts have been prepared under the accounting polices set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the accounts in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of directors' responsibilities. Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited accounts. This other information comprises only the Directors' report and Chairman's statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 31 December 2001 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
180 Strand
London
WC2R 1BL

28 February 2002

Consolidated profit and loss account

For the year ended 31 December 2001

	Notes	2001 £'000	2000 £'000
Turnover	1	173,860	76,204
Cost of sales		(127,771)	(85,736)
Gross profit (loss)		46,089	(9,532)
Other operating expenses		(93,794)	(90,217)
Loss on ordinary activities before finance charges		(47,705)	(99,749)
Finance charges (net)	2	(11,234)	(6,782)
Loss on ordinary activities before taxation	3	(58,939)	(106,531)
Tax on loss on ordinary activities	6	-	-
Loss for the year		(58,939)	(106,531)
Finance costs of non-equity shares		(3,597)	(2,921)
Retained loss for the year		(62,536)	(109,452)

All amounts derive from continuing operations.

The accompanying notes are an integral part of this consolidated profit and loss account.

There were no other recognised gains or losses in either year.

Consolidated balance sheet

31 December 2001

	Notes	2001 £'000	2000 £'000
Fixed assets			
Tangible assets	8	16,798	21,894
Current assets			
Stocks	10	4,927	8,457
Debtors	11	33,749	17,818
Cash at bank and in hand		9,714	1,965
		48,390	28,240
Creditors: Amounts falling due within one year	12	(60,699)	(67,375)
Net current liabilities		(12,309)	(39,135)
Total assets less current liabilities		4,489	(17,241)
Creditors: Amounts falling due after more than one year	13	(166,238)	(85,569)
Net liabilities		(161,749)	(102,810)
Capital and reserves			
Called-up share capital	15	19	19
Share premium account	16	30,036	30,036
Profit and loss account	16	(191,804)	(132,865)
Accumulated deficit	17	(161,749)	(102,810)

Accumulated deficit may be analysed as:		
Equity interests	(198,923)	(136,387)
Non-equity interests	37,174	33,577
	(161,749)	(102,810)

The accompanying notes are an integral part of this consolidated balance sheet.

The accounts on pages 7 to 30 were approved by the board of directors on 28 February 2002 and signed on its behalf by:

R. Senh

Director

28 February 2002

Company balance sheet
31 December 2001

	Notes	2001 £'000	2000 £'000
Fixed assets			
Tangible assets	8	13,386	16,202
Investments	9	-	-
Current assets			
Stocks	10	4,927	8,457
Debtors	11	40,018	24,033
Cash at bank and in hand		9,713	1,964
		54,658	34,454
Creditors: Amounts falling due within one year	12	(60,480)	(67,165)
Net current liabilities		(5,822)	(32,711)
Total assets less current liabilities		7,564	(16,509)
Creditors: Amounts falling due after more than one year	13	(164,613)	(83,737)
Net liabilities		(157,049)	(100,246)
Capital and reserves			
Called-up share capital	15	19	19
Share premium account	16	30,036	30,036
Profit and loss account	16	(187,104)	(130,301)
Accumulated deficit		(157,049)	(100,246)

Accumulated deficit may be analysed as:		
Equity interests	(194,223)	(133,823)
Non-equity interests	37,174	33,577
	(157,049)	(100,246)

The accompanying notes are an integral part of this balance sheet.

The accounts on pages 7 to 30 were approved by the board of directors on 28 February 2002 and signed on its behalf by:

R. Sanders

Director

28 February 2002

Consolidated cash flow statement

For the year ended 31 December 2001

	Notes	2001 £'000	2000 £'000
Net cash outflow from operating activities	18	(54,065)	(66,129)
Returns on investments and servicing of finance	19	(4,208)	(2,339)
Capital expenditure and financial investment	19	(8,836)	(15,248)
Cash outflow before financing		(67,109)	(83,716)
Financing	19	74,858	74,500
Increase (decrease) in cash in the year	20	7,749	(9,216)

The accompanying notes are an integral part of this consolidated cash flow statement.

Statement of accounting policies
31 December 2001

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of preparation and future funding

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

As at 31 December 2001 the group had net liabilities of £161,749,000 (2000 - £102,810,000). The group is currently being financed by a syndicated bank loan (see note 13) and by its shareholders, One2One and the Virgin Group (see note 23). The group has drawn down £100,000,000 under the £115,000,000 syndicated bank loan. The continued availability of this funding is based on achieving a number of financial and operating covenants. While there can be no certainty about the group's future operating performance, based on the group's current approved plan for 2002 and forecasts for subsequent periods, the directors expect that the group will be cash neutral in the next twelve months and the group will comply with the syndicated bank loan covenants. Therefore, the directors have prepared these accounts on a going concern basis.

Basis of consolidation

The group accounts consolidate the accounts of Virgin Mobile Telecoms Limited and its subsidiary undertaking drawn up to 31 December each year. The results of subsidiaries acquired are consolidated for the periods from which control passed. Acquisitions are accounted for under the acquisition method.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Leasehold improvements	3 years
Computer systems	2-3 years
Fixtures and fittings	3 years
Office equipment	3 years

Residual value is calculated on prices prevailing at the date of acquisition.

Web site development costs

Design and content development costs 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.

Investments

Fixed asset investments are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling price, less further direct selling costs. Provision is made for obsolete, slow-moving or defective items where appropriate.

Pension costs

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Taxation

Corporation tax is provided on taxable profits at the current rate.

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions and other post-retirement benefits are always recognised in full.

Turnover

Turnover represents amounts receivable for handset and airtime services provided in the normal course of business, net of VAT and trade discounts.

Leases

Assets obtained under hire purchase contracts or finance leases are capitalised in the balance sheet. Those held under hire purchase contracts are depreciated over their useful economic lives. Those held under finance leases are depreciated over their estimated useful lives or the leases' term, whichever is shorter.

The interest element of these obligations is charged to the profit and loss account over the relevant period. The capital element of the future payments is treated as a liability.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Finance costs

Finance costs of debt and non-equity shares are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount. Where the finance costs for non-equity shares are not equal to the dividends on these instruments, the difference is also accounted for in the profit and loss account as an appropriation of profits.

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. Convertible debt is reported as a liability unless conversion actually occurs. No gain or loss is recognised on conversion.

Derivative financial instruments

The group uses derivative financial instruments to reduce exposure to interest rate movements and foreign exchange risk. The group does not hold or issue derivative financial instruments for speculative purposes.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

For a forward contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currencies or similar currencies as the hedged item and must also reduce the risk of foreign exchange movements on the group's operations. Gains and losses arising on these contracts are only recognised in the profit and loss account when the hedged transaction itself has been reflected in the group's accounts.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

1 Segment information

The group's operations and markets are located within the United Kingdom.

2 Finance charges (net)

	2001 £'000	2000 £'000
Bank loans and overdrafts	(6,004)	(2,591)
Finance lease interest	(58)	-
Interest payable to related companies	(5,655)	(4,707)
Interest receivable and similar income	483	516
	(11,234)	(6,782)

3 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	2001 £'000	2000 £'000
Depreciation and amounts written off tangible fixed assets		
- Owned assets	11,930	8,007
- Leased assets	108	-
Operating lease rentals		
- Leasehold property	1,120	770
Auditors' remuneration for audit services	142	95

Amounts payable to Arthur Andersen by the company and its subsidiary undertaking in respect of non-audit services were £136,324 (2000 - £3,133,191).

4 Staff costs

The average monthly number of employees (including executive directors) was:

	2001 Number	2000 Number
Distribution	48	19
Marketing	32	25
Administration	892	113
	972	157

	2001 £'000	2001 £'000
Their aggregate remuneration comprised:		
Wages and salaries	18,660	6,151
Social security costs	1,648	707
Other pension costs (see note 22)	549	160
	20,857	7,018

5 Directors' remuneration, interests and transactions

Aggregate remuneration

Virgin Management Limited and One 2 One each provide three directors of the company and receive a £45,000 (2000 - £45,000) consultancy fee for these executive services. The total amount of directors' remuneration and other benefits were £90,000 (2000 - £90,000).

Directors' interests

Sir Richard Branson is deemed to have an interest in the share capital of the company by virtue of being one of the principal beneficiaries of a number of trusts that own Virgin Group Investments Limited, the ultimate parent company of Bluebottle Investments Inc., Bluebottle Investments S.A. and Bluebottle UK Limited, which hold shares in the capital of the company.

Gordon D. McCallum is deemed to have an interest in the share capital of the company by virtue of being one of the beneficiaries of a trust that holds shares in the capital of the company.

6 Tax on loss on ordinary activities

No corporation tax has been charged during the year (2000 - £nil) due to available tax losses and there is no unprovided deferred tax liability (2000: £nil).

7 Loss attributable to Virgin Mobile Telecoms Limited

The loss for the financial period dealt with in the accounts of the parent company, Virgin Mobile Telecoms Limited, was £56,803,000 (2000 – loss of £104,848,000). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

8 Tangible fixed assets

Group	Leasehold improvements £'000	Fixtures and fittings £'000	Office equipment £'000	Computer systems £'000	Total £'000
Cost					
At 1 January 2001	7,718	642	271	22,270	30,901
Additions	74	20	2	6,846	6,942
At 31 December 2001	7,792	662	273	29,116	37,843
Depreciation					
At 1 January 2001	1,591	263	78	7,075	9,007
Charge for the period	2,517	213	101	9,207	12,038
At 31 December 2001	4,108	476	179	16,282	21,045
Net book value					
At 31 December 2001	3,684	186	94	12,834	16,798
At 31 December 2000	6,127	379	193	15,195	21,894

Company	Leasehold Improvements £'000	Fixtures and fittings £'000	Office equipment £'000	Computer systems £'000	Total £'000
Cost					
At 1 January 2001	435	642	271	22,270	23,618
Additions	12	20	2	6,846	6,880
At 31 December 2001	447	662	273	29,116	30,498
Depreciation					
At 1 January 2001	-	263	78	7,075	7,416
Charge for the period	174	213	101	9,207	9,695
At 31 December 2001	174	476	179	16,282	17,111
Net book value					
At 31 December 2001	273	186	94	12,834	13,387
At 31 December 2000	435	379	193	15,195	16,202

Tangible fixed assets include computer equipment at a cost of £644,375 (2000 : £nil) and net book value of £536,537 (2000 : £nil) in respect of assets held under a finance lease.

9 Fixed asset investments

Subsidiary undertaking

Virgin Mobile Telecoms Limited has a £2 investment representing a 100% holding in Bluebottle Call Limited, a subsidiary undertaking, the principal business of which is property investment. On 11 December 2001, the accounting period of Bluebottle Call Limited was changed from 30 June to 31 December. Bluebottle Call Limited is incorporated in England and Wales.

10 Stocks

	Group		Company	
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Finished good and goods for resale	4,927	8,457	4,927	8,457

11 Debtors

	Group		Company	
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Trade debtors	17,189	7,575	17,189	7,284
Amounts owed by other related companies (see note 23)	13,271	3,215	13,271	3,215
Amounts owed by subsidiary undertaking	-	-	7,305	7,333
VAT recoverable	516	5,059	494	5,239
Called up share capital not paid	-	14	-	14
Prepayments and accrued income	2,773	1,955	1,759	948
	33,749	17,818	40,018	24,033

12 Creditors: Amounts falling due within one year

	Group		Company	
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Obligations under finance lease contract	255	-	255	-
Trade creditors	21,664	12,527	21,664	12,527
Amounts owed to other related companies (see note 23)	2,874	28,329	2,874	28,329
Other taxation and social security	686	263	686	263
Other creditors	1,669	284	1,669	284
Accruals and deferred income	33,551	25,972	33,332	25,762
	60,699	67,375	60,480	67,165

13 Creditors: Amounts falling due after more than one year

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Obligations under finance lease contract	233	-	233	-
Bank loans	100,000	25,000	100,000	25,000
Amounts owed to other related companies (see note 23)	64,314	58,659	64,314	58,659
Accruals and deferred income	1,691	1,910	66	78
	166,238	85,569	164,613	83,737

In September 2000 the company secured additional bank debt funding in the form of a syndicated loan facility (see note 14). During the year ending 31 December 2001 the company has drawn down a further £75 million of the loan facility. The loan facility is secured on the share capital and assets of the group.

Finance leases

The net finance lease obligations to which the group and company are committed are:

	Group & Company	
	2001 £'000	2000 £'000
In one year or less	255	-
Between one and two years	233	-
	488	-

14 Derivatives and other financial instruments

Set out below is an explanation of the role financial instruments have had during the period in creating or changing the risks the group faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the period.

The company has established treasury policies that are reviewed annually by the Board or Audit committee to ensure they remain relevant to rapid business change.

14 Derivatives and other financial instruments (continued)

The major financial risks faced by the group are exchange rate, interest rate exposure and liquidity risk. These are outlined below:

Foreign currency risk

About one-third of the handset purchases made by the company are from suppliers in continental Europe. These purchases are invoiced in Euros. The company's policy is to eliminate some currency exposure on purchases at the time of purchase through forward currency contracts. All other purchases are denominated in sterling.

Interest rate risk

The company has entered into interest rate swaps to hedge against adverse movements in LIBOR in relation to its syndicated loan facility. The company's policy is to keep between 50 per cent and 75 percent of the syndicated loan borrowing at fixed rates of interest. At the year-end, 75 per cent of the syndicated loan was at fixed rates after taking account of interest rate swaps.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13 "Derivatives and other financial instruments: Disclosures" ("FRS 13"). For this purpose non-equity shares issued by the company are dealt with in the disclosures in the same way as the group's financial liabilities but separately disclosed. Certain financial assets such as investments in subsidiary and associated companies are also excluded from the scope of these disclosures.

As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

Liquidity risk

The company's overall objective is to ensure that it is, at all times, able to meet its financial commitments as and when they fall due. To this end, surplus funds are collected and invested with approved counterparties, within authorised limits, with the aim of maintaining short term liquidity while maximising yield.

Interest rate profile

The group has no financial assets other than cash at bank.

After taking into account interest rate swaps, the interest rate profile of the group's financial liabilities at 31 December 2001 was as follows.

	2001		
Currency	Total £'000	Floating rate £'000	Fixed rate £'000
Sterling			
- Borrowings	164,802	89,314	75,488
- Non-equity shares	30,050	-	30,050
Total	194,852	89,314	105,538

14 Derivatives and other financial instruments (continued)

The profile at 31 December 2000 for comparison purposes was as follows:

Currency	2000 Total £'000	2000 Floating rate £'000	2000 Fixed rate £'000
Sterling			
- Borrowings	83,659	63,659	20,000
- Non-equity shares	30,050	-	30,050
Total	113,709	63,659	50,050

Further analysis of the interest rate profile at 31 December 2001 and at 31 December 2000 is as follows.

Currency	2001 Fixed rate Weighted average interest rate (%)	2001 Fixed rate Weighted average period for which rate is fixed Years
Sterling		
- Borrowings	7.4	2.6

Currency	2000 Fixed rate Weighted average interest rate (%)	2000 Fixed rate Weighted average period for which rate is fixed Years
Sterling		
- Borrowings	7.9	2.9

Cumulative redeemable preference share dividends accrue on the non-equity shares at the rate of 9% per annum. Dividend interest on late payment is charged at 11% above the Natwest lending rate. As there is no defined maturity date, the non-equity shares have been excluded from the weighted average analysis.

The interest rate on floating rate shareholder loans is at 4% above the three-month LIBOR rate. The interest rate on the floating rate element of the facility loan is linked to the LIBOR for a comparable period to that of the remaining term of the facility.

14 Derivatives and other financial instruments (continued)

Currency exposures

As at 31 December 2001, after taking into account the effects of forward foreign exchange contracts the company had no currency exposures (2000 - £nil).

Maturity of financial liabilities

The maturity profile of the group's financial liabilities at 31 December 2001 was as follows:

	Non-equity shares 2001 £'000	Borrowings 2001 £'000	Total 2001 £'000
In one year or less	-	255	255
In more than one year but not more than two years	-	23,233	23,233
In more than two years but not more than five years	-	141,314	141,314
In more than five years	30,050	-	30,050
Total	30,050	164,802	194,852

The profile at 31 December 2000 for comparison purposes was as follows:

	Non-equity shares 2000 £'000	Borrowings 2000 £'000	Total 2000 £'000
In one year or less	-	-	-
In more than one year but not more than two years	-	-	-
In more than two years but not more than five years	-	83,659	83,659
In more than five years	30,050	-	30,050
Total	30,050	83,659	113,709

Borrowing facilities

The group had undrawn committed borrowing facilities at 31 December 2001 and 31 December 2000, in respect of which all conditions precedent had been met, as follows:

	2001 £'000	2000 £'000
Expiring in one year or less	-	-
Expiring in more than one year but not more than two years	-	-
Expiring in more than two years	15,000	55,000
Total	15,000	55,000

14 Derivatives and other financial instruments (continued)

Fair values

Set out below is a comparison by category of book values and fair values of the group's financial liabilities at 31 December 2001 and 31 December 2000.

	2001		2000	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Primary financial instruments held or issued to finance the group's operations				
Short term financial liabilities and current portion of long term borrowings	255	255	-	-
Long term borrowings	100,233	105,191	25,000	26,797
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps	266	1,256	7	347
Forward foreign exchange contracts	-	36	-	-

The fair value of the interest rate swaps and forward foreign exchange contracts have been determined by reference to prices available from the markets on which the instrument involved is traded. All the other fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

The fair values of shareholder loans have not been presented (see note 13). As they are not publicly traded and repayment is not necessarily in cash, it would be impractical to make an estimate with sufficient reliability.

The fair values of the cumulative redeemable preference shares have not been presented. As they are not publicly traded and can be redeemed at any time at the option of the company, it would be impractical to make an estimate with sufficient reliability.

Gains and losses on hedges

The group enters into forward foreign currency contracts to eliminate some of the currency exposures that arise on purchases denominated in foreign currencies. It also uses interest rate swaps to manage its interest rate profile. Changes in the fair value of instruments used as hedges are not recognised in the accounts until the hedged position matures.

15 Called-up share capital

	2001 £	2000 £
Authorised		
10,000 'D' ordinary shares of £0.01 each	100	100
475,000 non-voting preference 'B' shares of £0.01 each	4,750	4,750
30,000 'E' shares of £0.02 each	600	600
500,000,000 cumulative redeemable preference shares of £0.01 each	5,000,000	5,000,000
485,000 preference voting 'A' shares of £0.02 each	9,700	9,700
475,000 zero dividend voting 'C' shares of £0.01 each	4,750	4,750
	5,019,900	5,019,900

	2001	2000	
	Called-up and fully paid £	Called-up and fully-paid £	Called-up £
Allotted			
10,000 'D' ordinary shares of £0.01 each	100	100	100
475,000 non-voting preference 'B' shares of £0.01 each	4,750	4,750	4,750
13,500 'E' shares of £0.02 each	270	270	270
300 cumulative redeemable preference shares of £0.01 each	3	3	3
485,000 preference voting 'A' shares of £0.02 each	9,700	-	9,700
475,000 zero dividend voting 'C' shares of £0.01 each	4,750	2	4,750
	19,573	5,125	19,573

'D' Ordinary shares (" 'D' shares")

'D' shares are entitled to receive a preferred dividend being a portion of the first £100 million to be distributed after payment of cumulative redeemable preference share dividends and any arrears of that dividend. Holders of 'D' shares together with 'B' shareholders are entitled to receive 50% of this preferred dividend. 'D' shareholders are also eligible to receive ordinary dividends. Holders of 'D' shares receive 1 vote per share. On a winding-up, 'D' shareholders together with 'B' shareholders are eligible to receive, after payment to the cumulative redeemable preference shareholders, a 50% share in the first £100 million to be distributed together with an equal share of any remaining surplus assets.

14 Derivatives and other financial instruments (continued)

An analysis of these unrecognised gains and losses is as follows:

	2001		
	Gains £'000	Losses £'000	Net £'000
Unrecognised gains and losses on hedges at 1 January 2001	-	340	340
Gains and losses arising in previous years that were recognised in 2001	-	(340)	(340)
Gains and losses arising before 1 January that were not recognised in 2001	-	-	-
Gains and losses arising in 2001 that were not recognised in 2001	287	1,313	1,026
Unrecognised gains and losses on hedges at 31 December 2001	287	1,313	1,026
Of which:			
Gains and losses expected to be recognised in 2002	164	766	602
Gains and losses expected to be recognised in 2003 or later	123	547	424

The analysis of the unrecognised gains and losses at 31 December 2000 for comparison purposes was as follows:

	2000		
	Gains £'000	Losses £'000	Net £'000
Gains and losses arising in 2000 that were not recognised in 2000	-	340	340
Unrecognised gains and losses on hedges at 31 December 2000	-	340	340
Of which:			
Gains and losses expected to be recognised in 2001	-	57	57
Gains and losses expected to be recognised in 2002 or later	-	283	283

15 Called-up share capital (continued)

Non-voting preference 'B' shares (" 'B' shares")

'B' shares are entitled to receive a preferred dividend being a portion of the first £100 million to be distributed after payment of cumulative redeemable preference share dividends and any arrears of that dividend. Holders of 'B' shares together with 'D' shareholders are entitled to receive 50% of this preferred dividend. 'B' shareholders are also eligible to receive ordinary dividends. Holders of 'B' shares have no voting rights. On a winding-up, 'B' shareholders together with 'D' shareholders are entitled to receive, after payment to the cumulative redeemable preference shareholders, a 50% share in the first £100 million to be distributed together with an equal share of any remaining surplus assets.

'E' shares

'E' shares are only entitled to receive ordinary dividends (after cumulative redeemable preference share dividends and preferred dividends to 'A', 'B' and 'D' shareholders) at the earlier of 5 years after the date of issue of the shares and the date of realisation (being flotation, sale or a winding-up). After 5 years or realisation, 'E' shareholders are entitled to 1 vote per share. On a winding-up, they are entitled to receive a share in the surplus assets after payment to the cumulative redeemable preference shareholders and the 'A', 'B' and 'D' shareholders.

Cumulative redeemable preference shares

Cumulative redeemable preference shares carry an entitlement to dividend at the rate 9% per annum on the issue price and may be redeemed at £100,122 per share at any time at the option of the company. Holders of the cumulative redeemable preference shares have no voting rights. On a winding-up, the holders are entitled to receive, in priority to any other classes of shares, the sum of £100,122 per share together with any arrears of dividend.

Preference voting 'A' shares (" 'A' shares")

'A' shares are entitled to receive a preferred dividend of 50% of the first £100 million to be distributed after payment of cumulative redeemable preference share dividends and any arrears of that dividend. 'A' shareholders are also eligible to receive ordinary dividends and receive 1 vote per share. Holders of 'A' shares have the right on a winding-up to receive, after payment to the cumulative redeemable preference shareholders, a 50% share in the first £100 million to be distributed together with an equal share of any remaining surplus assets.

Zero dividend voting 'C' shares (" 'C' shares")

'C' shareholders are not entitled to receive any dividend income but have 1 vote per share. On a winding-up, they are entitled to receive a share in the surplus assets after payment to the cumulative redeemable preference shareholders and the A', 'B' and 'D' shareholders.

16 Reserves

Group	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2001	30,036	(132,865)	(102,829)
Retained loss for the year	-	(62,536)	(62,536)
Finance costs of non-equity shares	-	3,597	3,597
At 31 December 2001	30,036	(191,804)	(161,768)

Company	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2001	30,036	(130,301)	(100,265)
Retained loss for the year	-	(60,400)	(60,400)
Finance costs of non-equity shares	-	3,597	3,597
At 31 December 2001	30,036	(187,104)	(157,068)

17 Reconciliation of movements in group shareholders' funds

	2001 £'000	2000 £'000
Retained loss for the year	(62,536)	(109,452)
Finance cost of non-equity shares	3,597	2,921
Net additions to accumulated deficit	(58,939)	(106,531)
Opening (accumulated deficit) shareholders' funds	(102,810)	3,721
Closing accumulated deficit	(161,749)	(102,810)

18 Reconciliation of operating loss to operating cash flows

	2001 £'000	2000 £'000
Operating loss	(47,705)	(99,749)
Depreciation charges	12,038	8,007
Decrease in stocks	3,530	2,370
Increase in debtors	(15,931)	(5,129)
(Decrease) increase in creditors	(5,997)	28,372
Net cash outflow from operating activities	(54,065)	(66,129)

19 Analysis of cash flows

	2001 £'000	2000 £'000
Returns on investments and servicing of finance		
Interest received	483	516
Interest paid	(4,619)	(817)
Interest element of finance lease rentals	(72)	-
Issue costs of syndicated loan facility	-	(2,038)
Net cash outflow	(4,208)	(2,339)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(8,836)	(15,248)
Financing		
Share capital receipts for shares issued in previous years	14	-
Increase in loans secured on share capital and assets of the group	75,000	25,000
Increase in unsecured loans	-	49,500
Repayment of capital element of finance lease	(156)	-
Net cash inflow	74,858	74,500

20 Analysis and reconciliation of net debt

	1 January 2001 £'000	Cash flow £'000	Other non-cash changes £'000	31 December 2001 £'000
Cash in hand, at bank	1,965	7,749	-	9,714
Debt due after 1 year	(83,659)	(75,000)	(5,655)	(164,314)
Finance lease	-	156	(644)	(488)
Net debt	(81,694)	(67,095)	(6,299)	(155,088)

	2001 £'000	2000 £'000
Increase (decrease) in cash in the period	7,749	(9,216)
Cash inflow from increase in debt	(75,000)	(74,500)
Cash used to repay finance lease	156	-
Change in net debt resulting from cash flows	(67,095)	(83,716)
Other non-cash changes	(6,299)	(4,159)
Movement in net funds in period	(73,394)	(87,875)
Net (debt) funds brought forward	(81,694)	6,181
Net debt at 31 December	(155,088)	(81,694)

20 Analysis and reconciliation of net debt (continued)

The non-cash changes represent the interest on the shareholder loans that is rolled up into the principal on a quarterly basis (see note 13) and a finance lease entered into during the year ending 31 December 2001.

21 Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	2001 Land and Buildings £'000	2000 Land and buildings £'000
Group		
Expiry date		
- within one year	-	-
- between two and five years	-	-
- after five years	1,092	1,092
	1,092	1,092

	2001 Land and Buildings £'000	2000 Land and buildings £'000
Company		
Expiry date		
- within one year	-	-
- between two and five years	-	-
- after five years	240	240
	240	-

22 Pension arrangements

The company operates a defined contribution scheme for which the pension cost charge for the year amounted to £549,000 (2000 - £160,000).

23 Related party transactions

One 2 One, through One 2 One Personal Communications Limited, and The Virgin Group, through Bluebottle Investments S.A. and Bluebottle UK Limited, are joint venture partners in Virgin Mobile. The following transactions occurred with these partners in the year.

One 2 One

The company was partially financed by a loan facility provided by One 2 One on which interest at variable rates accrues. The principal amount of £32,156,945 (2000 - £29,329,643) was outstanding as at 31 December 2001. Interest has been rolled up to the principal quarterly. Total interest for the year payable to One 2 One is £2,827,303 (2000 - £2,627,874). There are no fixed repayment dates, however this loan and associated interest does not become repayable until the bank syndicated loan (see note 13) has been repaid.

Some handsets, service packs and other accessories are purchased by One 2 One on behalf of the company. The total cost to the company in respect of such purchases amounted to £18,116,136 (2000 - £55,366,696) and of this £880,190 remained unpaid as at 31 December 2001 (2000 - £28,088,902).

One 2 One pay a marketing support contribution to the company and the company pays charges to One 2 One for the use of its network. The total income from marketing support contributions to the company, net of payments to One 2 One for use of its network, amounted to £10,851,585 (2000 - £2,307,600) of which a net amount of £2,552,222 (2000 - £1,146,643) remained outstanding as at 31 December 2001.

One 2 One distribute airtime vouchers to certain retailers on behalf of the company. The total amount invoiced during the period in respect of these vouchers, net of management and distribution fees, amounted to £26,769,848 (2000 - £13,512,352). £2,041,684 (2000 - £4,400,690) of this total remained outstanding from One 2 One as at 31 December 2001.

One 2 One incurred additional expenses, particularly third party recharges and staff time, which were recharged on to the company and the company incurred similar expenses which were recharged to One 2 One. The net amount recharged by One 2 One was £463,179 (2000 - £1,828,440). As at 31 December, a net amount of £114,200 was owing from One 2 One to the company (2000 - £230,000 was owing from the company to One 2 One).

One 2 One provides three directors of the company and receives a £45,000 (2000 - £45,000) annual consultancy fee for these executive services. An amount of £18,750 (2000 - £64,000) remained outstanding at the end of December 2001.

Virgin Group

The company was partially financed by a loan facility provided by Bluebottle UK Limited, a member of the Virgin Group, on which interest at variable rates accrues. The principal amount of £32,156,945 (2000 - £29,329,643) was outstanding as at 31 December 2001. Interest has been rolled up to the principal quarterly. Total interest for the year payable to companies within the Virgin Group was £2,827,303 (2000 - £2,079,643). There are no fixed repayment dates, however this loan and associated interest does not become repayable until the bank syndicated loan (see note 13) has been repaid.

23 Related party transactions (continued)

During the period, handset, airtime vouchers and other stock items were sold through retailers who are members of the Virgin Group. These sales amounted to £36,639,689 (2000 - £33,909,281) of which £9,443,202 (2000 - £3,197,681) remained outstanding as at 31 December 2001.

Members of the Virgin Group performed additional services including printing, brand licensing and promotion, which were recharged on to the company. These amounted to £8,300,147 (2000 - £8,364,958) of which £2,532,076 (2000 - £580,230) remained unpaid as at 31 December 2001.

Virgin Management Limited provides three directors of the company and receives a £45,000 (2000 - £45,000) annual consultancy fee for these executive services. An amount of £7,500 (2000 - £64,000) remained outstanding at the end of December 2001.

The group uses some other sundry services provided by members of the Virgin Group. These are transacted on an arm's length basis under normal commercial terms.