Company Registration No. 3707664

Virgin Mobile Telecoms Limited

Report and Financial Statements

31 December 2003

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Virgin Mobile Telecoms Limited

Report and financial statements 2003

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Virgin Mobile Telecoms Limited

Chairman's statement

I am delighted to be able to report an extremely successful year of trading for Virgin Mobile. The company has continued to attract a high number of customers, reaching our three millionth customer in August 2003 and ending the year with 3,644,795 customers. The net new customers of 1,260,883 attracted to Virgin Mobile during the year meant that the company was the fastest growing operator in 2003.

We have continued our strong financial performance achieving revenues of £458 million, EBITDA of £81 million and operating profit of £67 million.

During the year, various disputes involving Virgin Mobile, T-Mobile and certain Virgin Group companies were escalated to the High Court and the Court of Appeal. I am pleased to report that on 29 January 2004, the three organisations settled all outstanding litigation and established an enhanced telecoms supply agreement, between Virgin Mobile and T-Mobile, running for a minimum of ten years which provides substantial benefits for both Virgin Mobile and T-Mobile. Features include:

- the company maintaining its position in voice and text services with a long term, non-exclusive deal, including improved access to 2.5 and 3G services; and
- the end of the monthly marketing support contribution and the introduction of the company receiving inbound, as well as outbound, revenues.

With the above legal disputes settled and a new relationship with our network provider, a fast growing customer base and a strong financial performance, I believe Virgin Mobile is well placed to continue its success in 2004 and beyond.

Sir Richard C.N. Branson
Chairman

Virgin Mobile Telecoms Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

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 profit for the financial year were £458,281,000 (2002 – £287,720,000) and £89,890,000 (2002 – £1,996,000) respectively. Details of the group's financial position as at 31 December 2003 are given in the group's Consolidated Balance Sheet.

No equity dividends were paid or proposed. A preference dividend of £9,011 (2002 – £9,011) per share totalling £2,703,300 (2002 – £2,703,300) has been calculated on the issue price of the 300 cumulative redeemable preference shares at the rate of 9% per annum. Interest on late payment of cumulative dividends of £1,852,000 (2002 – £1,235,000) is calculated at 11% above the Natwest lending rate and is included in the finance costs of non-equity shares. An indication of future developments of the business is given in the Chairman's Statement.

Financial position

As at 31 December 2003 the group had net liabilities of £69,863,000 (2002 – £159,753,000). The group is currently being financed by its previous shareholder, T-Mobile (see notes 25 and 26 to the financial statements), and the Virgin Group (see notes 25 and 26 to the financial statements). On 18 May 2004 the group repaid in full the syndicated bank loan (see note 16 to the financial statements). During 2003 the group repaid £25,588,000 of the syndicated bank loan and £69,412,000 was outstanding as at 31 December 2003. Following a renegotiation of the group's loans in January 2004 the T-Mobile loan is repayable in eight quarterly instalments commencing 31 March 2006, although this may be repaid earlier if the Virgin Group loan is repaid earlier than the T-Mobile repayment instalments are due. The Virgin Group loan is repayable upon demand, but the Virgin Group have indicated that they will not demand repayment of this loan during the next twelve months such that the group will not be able to meet its liabilities as they fall due.

Directors

The directors who served during the year were as follows:

Sir Richard C.N. Branson	(Chairman – appointed as Chairman by rotation on 9 August 2003)
Julia S Chain	(resigned on 29 January 2004)
Thomas Dannenfeldt	(appointed on 30 June 2003; resigned on 29 January 2004)
Harris Jones	(Chairman – resigned as director and Chairman on 30 June 2003)
Brian J McBride	(Chairman – appointed as director and Chairman on 30 June 2003; resigned as Chairman by rotation on 9 August 2003; resigned as director on 29 January 2004)
Gordon D McCallum	
Andrew R Peters	(resigned on 30 June 2003)
Robert W Samuelson	
William E Whitehorn	(alternate director to Richard Branson)

Details of directors' share interests are given in Note 7 to the accounts.

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.

Virgin Mobile Telecoms Limited

Directors' report

Employee consultation

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group. Employee representatives are consulted regularly on a wide range of matters affecting current and future interests.

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

On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP under the provisions of section 26(5) of the Companies Act 1989. The members of the Company have passed elective resolutions in accordance with Sections 366A, 252 and 386 of the Companies Act 1985 dispensing with the previous statutory requirements of holding annual general meetings, laying accounts before the company in general meetings and re-appointing auditors annually.

Approved by the Board of Directors
and signed on behalf of the Board

Peter Gram
Company Secretary

120 Campden Hill Road
London
W8 7AR
England

11 June 2004

Virgin Mobile Telecoms Limited

Statement of directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditors' report to the members of Virgin Mobile Telecoms Limited

We have audited the financial statements of Virgin Mobile Telecoms Limited for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheets, the cash flow statement, and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, 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 the directors' report and the chairman's statement contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and group as at 31 December 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

11 June 2004

Virgin Mobile Telecoms Limited

Consolidated profit and loss account
Year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Turnover before exceptional item		442,039	287,720
Exceptional turnover	4	16,242	-
Turnover	2	458,281	287,720
Cost of sales		(238,403)	(175,682)
Gross profit		219,878	112,038
Administrative expenses before exceptional item		(128,963)	-
Exceptional operating costs	4	(23,575)	-
Administrative expenses		(152,538)	(107,202)
Operating profit before exceptional items		74,673	4,836
Exceptional items (net)	4	(7,333)	-
Operating profit		67,340	4,836
Finance charges (net)	3	(10,629)	(11,841)
Profit (loss) on ordinary activities before taxation	5	56,711	(7,005)
Tax on loss on ordinary activities	8	33,179	9,001
Profit for the financial year		89,890	1,996
Finance costs of non-equity shares		(4,555)	(3,938)
Retained profit/(loss) for the year		85,335	(1,942)

All amounts derive from continuing operations.

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

Virgin Mobile Telecoms Limited

Consolidated balance sheet
31 December 2003

	Note	2003 £'000	2002 £'000
Fixed assets			
Tangible assets	10	28,730	24,828
Current assets			
Stocks	12	6,567	5,671
Debtors	13	70,570	43,705
Deferred tax asset	13	42,180	9,001
Cash at bank and in hand		46,599	13,110
		165,916	71,487
Creditors: amounts falling due within one year	14	(263,250)	(112,924)
Net current liabilities		(97,334)	(41,437)
Total assets less current liabilities		(68,604)	(16,609)
Creditors: amounts falling due after more than one year	15	(1,259)	(143,144)
Net liabilities		(69,863)	(159,753)
Capital and reserves			
Called up share capital	17	19	19
Share premium account	18	30,036	30,036
Profit and loss account	18	(99,918)	(189,808)
Accumulated deficit	19	(69,863)	(159,753)
Accumulated deficit may be analysed as:			
Equity interests		(115,530)	(200,865)
Non-equity interests		45,667	41,112
		(69,863)	(159,753)

These financial statements were approved by the Board of Directors on 11 June 2004 and signed on its behalf by:

Gordon D. McCallum

Director

Virgin Mobile Telecoms Limited

Company balance sheet
31 December 2003

	Note	2003 £'000	2002 £'000
Fixed assets			
Tangible assets	10	28,644	23,735
Investments	11	-	-
		28,644	23,735
Current assets			
Stocks	12	6,567	5,671
Debtors	13	75,703	49,399
Deferred tax asset	13	40,390	8,852
Cash at bank and in hand		46,598	13,109
		169,258	77,031
Creditors: amounts falling due within one year	14	(263,101)	(112,778)
Net current liabilities		(93,843)	(35,747)
Total assets less current liabilities		(65,199)	(12,012)
Creditors: amounts falling due after more than one year	15	(53)	(141,729)
Net liabilities		(65,252)	(153,741)
Capital and reserves			
Called up share capital	17	19	19
Share premium account	18	30,036	30,036
Profit and loss account	18	(95,307)	(183,796)
Accumulated deficit		(65,252)	(153,741)
Accumulated deficit may be analysed as:			
Equity interests		(110,919)	(194,853)
Non-equity interests		45,667	41,112
		(65,252)	(153,741)

These financial statements were approved by the Board of Directors on 11 June 2004 and signed on its behalf by:

Gordon D. McCallum

Director

Virgin Mobile Telecoms Limited

Consolidated cash flow statement
Year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Net cash inflow from operating activities	20	82,812	34,712
Returns on investments and servicing of finance	21	(4,291)	(7,746)
Capital expenditure and financial investment	21	(19,211)	(18,315)
Cash inflow before financing		59,310	8,651
Financing	21	(25,821)	(5,255)
Increase in cash in the year	22	33,489	3,396

Virgin Mobile Telecoms Limited

Notes to the accounts
Year ended 31 December 2003

1. **Accounting policies**

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted, all of which have been applied consistently throughout the current and prior year, are described below.

Basis of preparation

The financial statements are prepared under the historical cost convention.

The group has considered the implication of adopting Financial Reporting Standard 5 "Reporting the Substance of Transactions", Application Note G "Revenue Recognition" for the first time in the year ending 31 December 2003. The group has determined that Application Note G does not have a material impact on its financial results and has continued to adopt the accounting policies as set out below.

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.

Turnover

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

Handset and other equipment revenue is recognised based on the amounts receivable at the date of sale. Airtime turnover derived from customers is recognised based on the usage of the network in the period. Prepaid airtime sales are deferred until the customer uses the stored value.

Subscriber acquisition costs

Subscriber acquisition costs, which include the commission costs associated with acquiring new customers and other incremental costs of customer acquisition, are recognised in the profit and loss account as incurred.

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. Depreciation is not charged on assets in the course of construction until they are ready for service.

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.

Notes to the accounts
Year ended 31 December 2003

1. **Accounting policies (continued)**

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 tax is provided in full on all timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

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. The finance cost charged in the period for non-equity shares is written back through the profit and loss reserve if the company is unable to pay the dividend.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

Notes to the accounts
Year ended 31 December 2003

1. Accounting policies (continued)

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.

2. Segmental information

The group's operations and markets are located within the United Kingdom and form a segment with two types of product; service and equipment.

3. Finance charges (net)

	2003 £'000	2002 £'000
Bank loans and overdrafts	(5,969)	(6,944)
Finance lease interest	(16)	(57)
Interest payable to related companies	(5,566)	(5,362)
Interest payable and similar charges	(11,551)	(12,363)
Interest receivable and similar income	922	522
	(10,629)	(11,841)

4. Exceptional operating items

	2003 £'000	2002 £'000
Revenue for previously withheld marketing support contributions	16,242	-
Long term bonus	(23,575)	-
	(7,333)	-

4. Exceptional operating items (continued)

At the end of 2002, T-Mobile were withholding certain amounts for marketing support contributions. As a result of the settlement of various disputes involving Virgin Mobile, T-Mobile and certain Virgin Group companies, Virgin Mobile was entitled to receive certain amounts for previously withheld marketing support contributions that would be determined following future proceedings. The amount has now been determined with certainty and £16,242,000 has been recognised as turnover in the results for the year ended 31 December 2003 for disputed marketing support contributions for the periods ended prior to 31 December 2002 and the year 31 December 2003.

The expense for £23,575,000 relates to the implementation of the long term bonus paid to selected employees as a reward for growing the business in the period from launch to 31 December 2003.

5. Profit (loss) on ordinary activities before taxation

Profit (loss) on ordinary activities before taxation is stated after charging:

	2003 £'000	2002 £'000
Depreciation and amounts written off tangible fixed assets		
- Owned assets	12,997	11,071
- Leased assets	322	215
Operating lease rentals		
- Leasehold property	1,187	1,179
Auditors' remuneration for audit services	168	151

Amounts payable to the auditors by the company and its subsidiary undertaking in respect of non-audit services were £160,000 (2002 – £491,000).

6. Staff costs

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

	2003 No.	2002 No.
Distribution	112	43
Marketing	49	45
Administration	1,133	1,039
	1,294	1,127

Their aggregate remuneration comprised:

	£'000	£'000
Wages and salaries	56,508	27,921
Social security costs	3,006	2,432
Other pension costs (see note 24)	955	776
	60,469	31,129

Included in the above for the year ended 31 December 2003 is an exceptional operating expense of £23,575,000 (2002 – £nil) relating to the implementation of the long term bonus paid to selected employees as a reward for growing the business in the period from launch to 31 December 2003 (see note 4).

Notes to the accounts
Year ended 31 December 2003

7. Directors' remuneration, interests and transactions

Aggregate remuneration

Virgin Management Limited and T-Mobile each provide three directors of the company and receive a £45,000 (2002 – £45,000) consultancy fee for these executive services. The total amount of directors' remuneration and other benefits were £90,000 (2002 – £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.

8. Tax on profit (loss) on ordinary activities

The tax credit comprises:

	2003 £'000	2002 £'000
Current tax		
UK corporation tax	-	-
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	33,179	9,001
Total deferred tax (see note 13)	33,179	9,001
Total tax credit on profit (loss) on ordinary activities	33,179	9,001

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	2003 £'000	2002 £'000
Profit (loss) on ordinary activities before tax	56,711	(7,005)
Tax on profit (loss) on ordinary activities at standard UK corporation tax rate of 30% (2002 – 30%)	17,013	(2,102)
Effects of:		
Expenses not deductible for tax purposes	231	158
Deprecation in excess of capital allowances	219	3,346
Utilisation of brought forward losses	(17,463)	(1,402)
	-	-

Notes to the accounts
Year ended 31 December 2003

9. Profit (loss) attributable to Virgin Mobile Telecoms Limited

The retained profit for the financial period dealt with in the accounts of the company, Virgin Mobile Telecoms Limited, was £83,934,000 (2002 – loss of £630,000). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the company.

10. Tangible fixed assets

Group	Leasehold improvements £'000	Fixtures and fittings £'000	Office equipment £'000	Computer systems £'000	Total £'000
Cost					
At 1 January 2003	7,795	704	299	48,361	57,159
Additions	2	62	113	18,341	18,518
Transfer to current assets	-	-	-	(2,594)	(2,594)
At 31 December 2003	7,797	766	412	64,108	73,083
Accumulated depreciation					
At 1 January 2003	6,578	651	262	24,840	32,331
Charge for the year	1,133	40	44	12,102	13,319
Transfer to current assets	-	-	-	(1,297)	(1,297)
At 31 December 2003	7,711	691	306	35,645	44,353
Net book value					
At 31 December 2003	86	75	106	28,463	28,730
At 31 December 2002	1,217	53	37	23,521	24,828

Company	Leasehold improvements £'000	Fixtures and fittings £'000	Office equipment £'000	Computer systems £'000	Total £'000
Cost					
At 1 January 2003	447	704	299	48,361	49,811
Additions	-	62	113	18,341	18,516
Transfer to current assets	-	-	-	(2,594)	(2,594)
At 31 December 2003	447	766	412	64,108	65,733
Accumulated depreciation					
At 1 January 2003	323	651	262	24,840	26,076
Charge for the year	124	40	44	12,102	12,310
Transfer to current assets	-	-	-	(1,297)	(1,297)
At 31 December 2003	447	691	306	35,645	37,089
Net book value					
At 31 December 2003	-	75	106	28,463	28,644
At 31 December 2002	124	53	37	23,521	23,735

Tangible fixed assets include computer equipment and office equipment at a cost of £663,000 (2002 – £644,000) and net book value of £19,000 (2002 – £322,000) in respect of assets held under a finance lease.

Computer systems for the group and company includes £5,119,000 (2002 – £15,314,000) of assets in the course of construction.

£1,297,000 was transferred to current assets representing amounts owing from T-Mobile in respect of assets in the course of development.

Notes to the accounts
Year ended 31 December 2003

11. 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. Bluebottle Call Limited is incorporated in Great Britain.

12. Stocks

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Finished goods held for resale	6,567	5,671	6,567	5,671

13. Debtors

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade debtors	33,898	27,542	33,898	27,542
Amounts owed by other related companies (see note 25)	33,619	13,019	33,619	13,019
Amounts owed by subsidiary undertaking	-	-	6,154	6,689
Prepayments and accrued income	3,053	3,144	2,032	2,149
	70,570	43,705	75,703	49,399
Deferred tax asset	42,180	9,001	40,390	8,852

A group deferred tax asset of £42,180,000 has been recognised at 31 December 2003 (2002 – £9,001,000). Detailed group budgets indicate that taxable profits will arise in the future. Based on these budgets the directors consider that a deferred tax asset of £42,180,000 in respect of tax losses and tax allowances should be recognised. As at 31 December 2003 there was no deferred tax asset which was not recognised (31 December 2002 – a deferred tax asset of £49,908,000 was not recognised in respect of certain tax losses and tax allowances as there remained a high enough degree of uncertainty regarding the future for these assets not to be regarded as more likely than not to reverse at that time).

A company deferred tax asset of £40,390,000 has been recognised at 31 December 2003 (2002 - £8,852,000).

Virgin Mobile Telecoms Limited

Notes to the accounts
Year ended 31 December 2003

14. Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Bank loans	69,412	23,000	69,412	23,000
Obligations under finance lease contract	6	233	6	233
Trade creditors	10,114	21,203	10,114	21,203
Amounts owed to other related companies (see note 25)	78,105	1,842	78,105	1,842
Other taxation and social security	6,314	5,415	6,375	5,478
Other creditors	1,159	392	1,159	392
Accruals and deferred income	98,140	60,839	97,930	60,630
	263,250	112,924	263,101	112,778

During the year ending 31 December 2003 the company has repaid £25,588,000 of the syndicated loan facility. The company's arrangements regarding bank and shareholder loans have changed post year end (see note 26). The loan facility is secured on the share capital and assets of the group.

15. Creditors: amounts falling due after more than one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Obligations under finance lease contract	13	-	13	-
Bank loans	-	72,000	-	72,000
Amounts owed to other related companies (see note 25)	-	69,676	-	69,676
Accruals and deferred income	1,246	1,468	40	53
	1,259	143,144	53	141,729

The net finance lease obligations to which the group and company are committed and which are secured on the related assets are:

	Group and Company	
	2003	2002
	£'000	£'000
In one year or less	6	233
Between one and two years	13	-
	19	233

Notes to the accounts
Year ended 31 December 2003

16. 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 which are reviewed annually by the Board or Audit committee to ensure they remain relevant to rapid business change.

The major financial risks faced by the group are exchange rate and interest rate exposure and liquidity risks. 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, 58 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 2003 was as follows:

	2003		
Currency	**Total £'000**	**Floating rate £'000**	**Fixed rate £'000**
Sterling			
- Borrowings	144,673	104,654	40,019
- Non-equity shares	30,050	-	30,050
Total	174,723	104,654	70,069

Notes to the accounts
Year ended 31 December 2003

16. Derivatives and other financial instruments (continued)

The profile at 31 December 2002 for comparison purposes was as follows:

	2002		
Currency	**Total £'000**	**Floating rate £'000**	**Fixed rate £'000**
Sterling			
- Borrowings	164,909	89,676	75,233
- Non-equity shares	30,050	-	30,050
Total	194,959	89,676	105,283

Further analysis of the interest rate profile at 31 December 2003 and at 31 December 2002 is as follows:

	2003 Fixed rate	
Currency	**Weighted average interest rate (%)**	**Weighted average period for which rate is fixed Years**
Sterling		
- Borrowings	7.0	0.3

	2002 Fixed rate	
Currency	**Weighted average interest rate (%)**	**Weighted average period for which rate is fixed Years**
Sterling		
- Borrowings	7.4	1.0

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 the 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.

Currency exposures

As at 31 December 2003, after taking into account the effects of forward foreign exchange contracts the company had no currency exposures (2002 – £nil).

Notes to the accounts
Year ended 31 December 2003

16. Derivatives and other financial instruments (continued)

Maturity of financial liabilities

The maturity profile of the group's financial liabilities at 31 December 2003 was as follows:

	Non-equity shares £'000	Borrowings £'000	Total £'000
In one year or less (see note 26)	-	144,673	144,673
In more than one year but not more than two years	-	-	-
In more than two years but not more than five years	-	-	-
In more than five years	30,050	-	30,050
Total	30,050	144,673	174,723

The profile at 31 December 2002 for comparison purposes was as follows:

	Non-equity shares £'000	Borrowings £'000	Total £'000
In one year or less	-	23,233	23,233
In more than one year but not more than two years	-	46,000	46,000
In more than two years but not more than five years	-	95,676	95,676
In more than five years	30,050	-	30,050
Total	30,050	164,909	194,959

Borrowing facilities

The group had undrawn committed borrowing facilities at 31 December 2003 and 31 December 2002 in respect of which all conditions precedent had been met, as follows:

	2003 £'000	2002 £'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	10,000	15,000
Total	10,000	15,000

Notes to the accounts
Year ended 31 December 2003

16. 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 2003 and 31 December 2002.

	2003		2002	
	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	144,660	146,582	23,233	23,751
Long term borrowings	30,063	30,063	72,000	75,738
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps	168	331	375	1,778
Forward foreign exchange contracts	-	-	-	(165)

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 group believes that the fair value of the shareholder loans (see note 25) and the cumulative redeemable preference shares approximate their book value. As at 31 December 2002, the fair value of the shareholder loans and the cumulative redeemable preference shares were not presented as they were not publicly traded and the timing and nature of repayments were uncertain.

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.

Notes to the accounts
Year ended 31 December 2003

16. Derivatives and other financial instruments (continued)

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

	2003		
	Gains £'000	Losses £'000	Net £'000
Unrecognised gains and losses on hedges at 1 January 2003	165	1,403	1,238
Gains and losses arising in previous years that were recognised in 2003	(165)	(1,328)	(1,163)
Gains and losses arising before 1 January that were not recognised in 2003	-	75	75
Gains and losses arising in 2003 that were not recognised in 2003	-	88	88
Unrecognised gains and losses on hedges at 31 December 2003	-	163	163
Of which:			
Gains and losses expected to be recognised in 2004	-	163	163
Gains and losses expected to be recognised in 2005 or later	-	-	-

An analysis of these unrecognised gains and losses in 2002 is as follows:

	2002		
	Gains £'000	Losses £'000	Net £'000
Unrecognised gains and losses on hedges at 1 January 2002	287	1,313	1,026
Gains and losses arising in previous years that were recognised in 2002	(287)	(1,116)	(829)
Gains and losses arising before 1 January that were not recognised in 2002	-	197	197
Gains and losses arising in 2002 that were not recognised in 2002	165	1,206	1,041
Unrecognised gains and losses on hedges at 31 December 2002	165	1,403	1,238
Of which:			
Gains and losses expected to be recognised in 2003	165	1,251	1,086
Gains and losses expected to be recognised in 2004 or later	-	152	152

Notes to the accounts
Year ended 31 December 2003

17. Called up share capital

	2003 £	2002 £
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
Called up, allotted and fully paid		
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
13,500 'E' shares of £0.02 each	270	270
300 cumulative redeemable preference shares of £0.01 each	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	4,750
	19,573	19,573

The shareholders funds attributable to non-equity shares is the nominal value of the respective non-equity shares plus £45,653,000 (2002 – £41,098,000) attributable to the cumulative redeemable preference shares.

'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.

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.

17. Called up share capital (continued)

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.

See note 26 for changes to called up share capital since the balance sheet date.

18. Reserves

Group	**Share premium account £'000**	**Profit and loss account £'000**	**Total £'000**
At 1 January 2003	30,036	(189,808)	(159,772)
Retained profit for the year	-	85,335	85,335
Finance costs of non-equity shares	-	4,555	4,555
At 31 December 2003	30,036	(99,918)	(69,882)

Company	**Share premium account £'000**	**Profit and loss account £'000**	**Total £'000**
At 1 January 2003	30,036	(183,796)	(153,760)
Retained profit for the year	-	83,934	83,934
Finance costs of non-equity shares	-	4,555	4,555
At 31 December 2003	30,036	(95,307)	(65,271)

Notes to the accounts
Year ended 31 December 2003

19. Reconciliation of movements in group shareholders' funds

	2003 £'000	2002 £'000
Retained profit (loss) for the year	85,335	(1,942)
Finance cost of non-equity shares	4,555	3,938
Net movement to accumulated deficit	89,890	1,996
Opening accumulated deficit	(159,753)	(161,749)
Closing accumulated deficit	(69,863)	(159,753)

20. Reconciliation of operating loss to operating cash flows

	2003 £'000	2002 £'000
Operating profit	67,340	4,836
Depreciation charges	13,319	11,286
Increase in stocks	(896)	(744)
Increase in debtors	(25,573)	(4,701)
Increase in creditors	28,622	24,035
Net cash inflow (outflow) from operating activities	82,812	34,712

Notes to the accounts
Year ended 31 December 2003

21. Analysis of cash flows

	2003 £'000	2002 £'000
Returns on investments and servicing finance		
Interest received	922	522
Interest paid	(5,202)	(8,220)
Interest element of finance lease rentals	(11)	(48)
Net cash outflow	(4,291)	(7,746)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(19,211)	(18,315)
Financing		
Repayment of loans secured on share capital and assets of the group	(25,588)	(5,000)
Repayment of capital element of finance lease	(233)	(255)
Net cash outflow	(25,821)	(5,255)

22. Analysis and reconciliation of net debt

	1 January 2003 £'000	Cash flow £'000	Other non-cash changes £'000	31 December 2003 £'000
Cash in hand, at bank	13,110	33,489	-	46,599
Debt due within one year and after one year	(164,676)	25,588	(5,566)	(144,654)
Finance lease	(233)	233	(19)	(19)
Net debt	(151,799)	59,310	(5,585)	(98,074)

	2003 £'000	2002 £'000
Increase in cash in the period	33,489	3,396
Cash used to repay debt	25,588	5,000
Cash used to repay finance lease	233	255
Change in net debt resulting from cash flows	59,310	8,651
Other non-cash changes	(5,585)	(5,362)
Movement in net debt in period	53,725	3,289
Net debt brought forward	(151,799)	(155,088)
Net debt at 31 December	(98,074)	(151,799)

The non-cash changes represent the interest on the shareholder loans that is rolled up into the principal on a quarterly basis (see note 16).

Notes to the accounts
Year ended 31 December 2003

23. Financial commitments

Annual minimum lease commitments:

	Group Land and buildings		Company Land and buildings	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Expiry date				
- within one year	-	-	-	-
- between two and five years	-	-	-	-
- after five years	1,092	1,092	240	240
	1,092	1,092	240	240

The group and company have £nil (2002 – £776,000) of capital commitments contracted but not provided for.

24. Pension arrangements

The company operates a defined contribution scheme for which the pension cost charge for the year amounted to £955,000 (2002 – £776,000).

25. Related party transactions

T-Mobile, through T-Mobile (UK) Limited, and The Virgin Group, through Bluebottle Investments S.A. and Bluebottle Investment Inc, were joint venture partners in Virgin Mobile during the year. This relationship has changed since the balance sheet date (see note 26). The following transactions occurred with these partners in the year.

T-Mobile

The company was partially financed by a loan facility provided by T-Mobile on which interest at variable rates accrues. The principal amount of £37,621,000 (2002 – £34,838,000) was outstanding as at 31 December 2003. Interest has been rolled up to the principal quarterly. Total interest for the year payable to T-Mobile is £2,783,000 (2002 – £2,609,000). As at 31 December 2003, there were no fixed repayment dates. However a repayment schedule has been agreed since the balance sheet date (see note 26).

Some handsets, service packs and other accessories are purchased by T-Mobile on behalf of the company. The total cost to the company in respect of such purchases amounted to £6,973,000 (2002 – £5,888,000) and of this £1,226,000 remained unpaid as at 31 December 2003 (2002 – £3,528,000).

T-Mobile pays a marketing support contribution to the company and the company pays charges to T-Mobile for the use of its network. The total income from marketing support contributions to the company, net of payments to T-Mobile for use of its network, amounted to £45,051,000 (2002 – £15,161,000) of which a net amount of £21,005,000 (2002 – £8,538,000) remained outstanding as at 31 December 2003.

T-Mobile distributes 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 £5,921,000 (2002 – £11,716,000). £369,000 (2002 – £1,717,000) of this total remained outstanding from T-Mobile as at 31 December 2003.

T-Mobile 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 T-Mobile. The net amount recharged by T-Mobile was £3,000 (2002 – £395,000). As at 31 December 2003, a net amount of £178,000 (2002 – £1,464,000) was owing from the company to T-Mobile. In addition, a further £1,297,000 was owing from T-Mobile to the company in respect of assets in the course of development.

T-Mobile provides three directors of the company and receives a £45,000 (2002 – £45,000) annual consultancy fee for these executive services. An amount of £109,000 (2002 – £64,000) remained outstanding at the end of 31 December 2003.

25. Related party transactions (continued)

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 £37,621,000 (2002 – £34,838,000) was outstanding as at 31 December 2003. Interest has been rolled up to the principal quarterly. Total interest for the year payable to companies within the Virgin Group was £2,783,000 (2002 – £2,681,000). As at 31 December 2003, there were no fixed repayment dates. Since the balance sheet date, the company and the Virgin Group have agreed that the loan is repayable upon demand subject to the syndicated bank loan having been repaid in full (see note 26).

During the period, handset, airtime vouchers and other stock items were sold through retailers who are members of the Virgin Group. These sales, net of charges with respect to the distribution channels, amounted to £19,484,000 (2002 – £22,991,000) of which £12,461,000 (2002 – £7,756,000) remained outstanding as at 31 December 2003.

Members of the Virgin Group performed additional services including printing, brand licensing and promotion, which were recharged on to the company. These amounted to £5,353,000 (2002 – £5,446,000) of which £2,797,000 (2002 – £1,408,000) remained unpaid as at 31 December 2003.

Virgin Management Limited provides three directors of the company and receives a £45,000 (2002 – £45,000) annual consultancy fee for these executive services. An amount of £8,000 (2002 – £19,000) remained outstanding at the end of 31 December 2003.

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.

26. Post balance sheet events

On 29 January 2004, the company, T-Mobile (UK) Limited and the Virgin Group shareholders announced that the three organisations had settled all outstanding litigation and established new agreements between the company and T-Mobile, with the approval of the bank syndicate.

The company and T-Mobile have entered into an enhanced telecoms supply agreement running for a minimum of ten years which provides substantial benefits for both the company and T-Mobile. Features include:

- the company maintaining its position in voice and text services with a long term, non-exclusive deal, including improved access to 2.5 and 3G services; and
- the end of the monthly marketing support contribution and the introduction of the company receiving inbound, as well as outbound, revenues.

Separately, the Virgin Group shareholders acquired T-Mobile's stake in the company and the 485,000 preference voting 'A' shares of £0.02 each were reclassified as 485,000 non-voting preference 'B' shares of £0.01 each and 485,000 zero dividend voting 'C' shares of £0.01 each. The loan facilities previously provided by T-Mobile and the Virgin Group remain in place. These loans are not repayable until the syndicated bank loan has been repaid in full. The T-Mobile loan is repayable in eight quarterly instalments commencing 31 March 2006, although this may be repaid earlier if the Virgin Group loan is repaid earlier than the T-Mobile repayment instalments are due. The Virgin Group loan is repayable upon demand, but the Virgin Group have indicated that they will not demand repayment of this loan during the next twelve months such that the group will not be able to meet its liabilities as they fall due. The bank facility agreement has been revised with all scheduled repayments now falling due within one year.

Also, on 18 May 2004 the group repaid in full the syndicated bank loan.