ARTHUR ANDERSEN

Virgin Mobile Telecoms Limited

Annual report and accounts

for the 11 months ended 31 December 1999

Registered number: 3707664

Directors' report

For the 11 months ended 31 December 1999

The directors present their annual report on the affairs of the group, together with the accounts and auditors' report, for the 11 months ended 31 December 1999.

The commercial launch of Virgin Mobile occurred on 11 November 1999. These accounts represent 2 months trading and substantial setup costs for the company. Prior to the year end the company achieved proposed targets for the sale of handsets and the directors are pleased with the company's sales results to date.

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.

The subsidiary undertaking principally affecting the profits or net assets of the group in the period is listed in note 7 to the accounts.

Business review and results

The company was incorporated on 29 January 1999. The commercial launch of Virgin Mobile occurred on 11 November 1999. The turnover and loss for the financial period was £9,795,000 and £26,334,000 respectively.

No dividends were paid or proposed.

The audited accounts for the 11 months ended 31 December 1999 are set out on pages 5 to 22.

Directors

The directors who served during the period were as follows:

Sir Richard C.N. Branson (Chairman)	(appointed 9 August 1999)
Julia S. Chain	(appointed 9 August 1999)
Alexis P.M. Dormandy	(appointed 9 August 1999)
Robert J. Koenig	(appointed 10 November 1999)
Gordon D. McCallum	(appointed 26 May 1999)
Timothy A. Samples	(appointed 9 August 1999, resigned 31 January 2000)
Bibi R. Ally	(appointed 29 January 1999, resigned 26 May 1999)
Brian Collett	(appointed 29 January 1999, resigned 18 March 1999)
Steven E. Evans	(appointed 9 August 1999, resigned 10 November 1999)
Ronald A. Robinson	(appointed 18 March 1999, resigned 26 May 1999)

None of the directors had any interest in the share capital of the company or its subsidiaries.

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.

Year 2000

The group's plans to minimise risks associated with Year 2000 compliance were completed successfully. No significant problems have come to light since 31 December 1999 and the directors are continuing to monitor the position.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution to re-appoint 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,

SECRETARY

15 March 2000

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which 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.

ARTHUR ANDERSEN

To the Shareholders of Virgin Mobile Telecoms Limited:

We have audited the accounts on pages 5 to 22 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 3 the directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of opinion

We conducted our audit in accordance with 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 and of the group, 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.

Going concern

The company is in its first year of operations and has secured financing until 30 April 2000. After this date, additional funding will be required to continue operations. In forming our opinion we have considered the adequacy of the disclosures made in note 21 to the accounts. In view of the significance of the fact that the preparation of the accounts on the going concern basis assumes the successful conclusion of negotiations in relation to such facilities, we consider that this matter should be brought to your attention. Our opinion is not qualified in this respect.

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 1999 and of the group's loss and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
1 Surrey Street
London
WC2R 2PS

15 March 2000

Consolidated profit and loss account

For the 11 months ended 31 December 1999

	Notes	1999 £'000
Turnover		9,795
Cost of sales		(14,462)
Gross profit		(4,667)
Other operating expenses		(21,714)
Operating loss		(26,381)
Interest receivable and similar income		47
Loss on ordinary activities before taxation	1	(26,334)
Taxation		-
Loss for the financial period		(26,334)

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

There were no other recognised gains or losses in the period.

Consolidated balance sheet

31 December 1999

	Notes	1999 £'000
Fixed assets		
Tangible assets	6	14,560
Current assets		
Stocks		10,827
Debtors	8	12,689
Cash at bank and in hand		11,181
		34,697
Creditors: Amounts falling due within one year	9	(39,992)
Net current liabilities		(5,295)
Total assets less current liabilities		9,265
Creditors: Amounts falling due after more than one year	10	(5,544)
Net assets		3,721
Capital and reserves		
Called-up share capital	11	19
Share premium account	12	30,036
Profit and loss account	12	(26,334)
Shareholders' funds	13	3,721

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

Company balance sheet
31 December 1999

	Notes	1999 £'000
Fixed assets		
Tangible assets	6	11,983
Current assets		
Stocks		10,827
Debtors	8	15,736
Cash at bank and in hand		9,627
		36,190
Creditors: Amounts falling due within one year	9	(38,571)
Net current liabilities		(2,381)
Total assets less current liabilities		9,602
Creditors: Amounts falling due after more than one year	10	(5,000)
Net assets		4,602
Capital and reserves		
Called-up share capital	11	19
Share premium account	12	30,036
Profit and loss account	12	(25,453)
Shareholders' funds		4,602

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

The accounts on pages 5 to 22 were approved by the board of directors on 15 March 2000 and signed on its behalf by:

15 March 2000

G D McCALLUM
DIRECTOR

Consolidated cash flow statement

For the 11 months ended 31 December 1999

	Notes	1999 £'000
Net cash outflow from operating activities	14	(9,586)
Returns on investments and servicing of finance	15	47
Capital expenditure and financial investment	15	(13,764)
Acquisitions and disposals	15	3,429
Cash outflow before financing		(19,874)
Financing	15	31,055
Increase in cash in the year		11,181

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

Statement of accounting policies

31 December 1999

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

Basis of accounting

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

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 or sold are consolidated for the periods from or to the date on 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, other than investment properties and freehold land, 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.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is the standard cost of purchase. 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.

Taxation

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.

Leases

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.

Notes to accounts

31 December 1999

1 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	1999 £'000
Depreciation and amounts written off tangible fixed assets	1,000
Impairment loss on goodwill	681
Operating lease rentals	
- Leasehold property	11
Staff costs (note 2)	579
Auditors' remuneration for audit services	50

Amounts payable to Arthur Andersen by the company and its UK subsidiary undertaking in respect of non-audit services were £397,000.

2 Staff costs

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

	1999 Number
Distribution	10
Marketing	7
Administration	21
	38

	1999 £'000
Their aggregate remuneration comprised:	
Wages and salaries	519
Social security costs	57
Other pension costs	3
	579

3 Directors' remuneration, interests and transactions

None of the directors received any emoluments, or held any interests in the company or its subsidiaries, during the period.

4 Loss attributable to Virgin Mobile Telecoms Limited

The loss for the financial period dealt within the accounts of the parent company, Virgin Mobile Telecoms Limited, was £25,453,000. As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

5 Intangible fixed assets – goodwill

	£'000
Cost	
Additions in the period	681
At 31 December 1999	681
Amortisation	
Impairment losses	681
At 31 December 1999	681
Net book value	
At 31 December 1999	-

The goodwill arising in the period related to the acquisition of Bluebottle Call Limited as discussed in note 7. The directors are of the opinion that the recoverable amount of the goodwill has been permanently impaired and has no value. Consequently this goodwill has been written down to £nil during the period.

6 Tangible fixed assets

Group	Leasehold improvements £'000	Fixtures and fittings £'000	Office equipment £'000	Computer systems £'000	Total £'000
Cost					
Additions in the period	2,749	626	38	12,147	15,560
At 31 December 1999	2,749	626	38	12,147	15,560
Depreciation					
Charge for the period	172	56	2	770	1,000
At 31 December 1999	172	56	2	770	1,000
Net book value					
At 31 December 1999	2,577	570	36	11,377	14,560

Company	Fixtures and fittings £'000	Office equipment £'000	Computer systems £'000	Total £'000
Cost				
Additions for the period	626	38	12,147	12,811
At 31 December 1999	626	38	12,147	12,811
Depreciation				
Charge for the period	56	2	770	828
At 31 December 1999	56	2	770	828
Net book value				
At 31 December 1999	570	36	11,377	11,983

7 Fixed asset investments

Principal group investments

Virgin Mobile Telecoms Limited has a 100% holding in Bluebottle Call Limited, a subsidiary undertaking. Bluebottle Call Limited is incorporated in England.

Acquisition of subsidiary undertaking

On 9 August 1999 the company acquired 100% of the issued share capital of Bluebottle Call Limited for consideration comprising 200 C Shares of the company. The fair value of the total consideration was £2. In accordance with Section 131 and 133 of the Companies Act 1985, the company has taken no account of any premium on the shares issued and has recorded the cost of the investment at the nominal value of the shares issued.

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the group:

	Book value £'000	Fair value to group £'000
Fixed assets		
Tangible	1,796	1,796
Current assets		
Debtors	546	546
Cash	3,429	3,429
Total assets	5,771	5,771
Creditors		
Loans from related companies	4,000	4,000
Other creditors	2,452	2,452
Total liabilities	6,452	6,452
Net liabilities	(681)	(681)
Goodwill		681
		-
Satisfied by		
Shares issued		
200 zero dividend voting 'C' shares		-

7 Fixed asset investments (continued)

Bluebottle Call Limited incurred a loss after taxation of £882,000 in the period ended 31 December 1999, of which a loss of £681,000 arose in the period from 10 June 1999, being the date of incorporation, to 9 August 1999. The summarised profit and loss account for the period from 10 June 1999 to 9 August 1999, shown on the basis of the accounting policies of Bluebottle Call Limited prior to the acquisition, is as follows:

	£'000
Profit and loss account	
Operating expenses (net)	(658)
Operating loss	(658)
Finance charges (net)	(23)
Loss on ordinary activities before taxation	(681)
Taxation	-
Loss for the financial period	(681)

There were no other recognised gains or losses in the period.

8 Debtors

	Group 1999 £'000	Company 1999 £'000
Amounts falling due within one year:		
Trade debtors	1,526	688
Amounts owed by other related companies (see note 22)	4,901	4,901
Amounts owed by subsidiary undertaking	-	5,695
VAT recoverable	6,059	4,249
Called up share capital not paid	19	19
Prepayments and accrued income	184	184
	12,689	15,736

9 Creditors: Amounts falling due within one year

	Group 1999 £'000	Company 1999 £'000
Trade creditors	14,178	12,838
Amounts owed to other related companies (see note 22)	18,016	18,016
Other creditors	219	189
Accruals and deferred income	7,579	7,528
	39,992	38,571

10 Creditors: Amounts falling due after more than one year

	Group 1999 £'000	Company 1999 £'000
Amounts owed to other related companies (see note 22)	5,000	5,000
Accruals and deferred income	544	-
	5,544	5,000

11 Called-up share capital

	1999 £
Authorised	
10,000 'D' ordinary shares of £0.01 each	100
475,000 non-voting preference 'B' shares of £0.01 each	4,750
30,000 'E' shares of £0.02 each	600
500,000,000 cumulative redeemable preference shares of £0.01 each	5,000,000
485,000 preference voting 'A' shares of £0.02 each	9,700
475,000 zero dividend voting 'C' shares of £0.01 each	4,750
	5,019,900

11 Called-up share capital (continued)

	Number	1999 £
	Allotted, called-up and fully-paid	*Allotted and called-up*
10,000 'D' ordinary share of £0.01 each	-	100
475,000 non-voting preference 'B' share of £0.01 each	-	4,750
13,500 'E' share of £0.02 each	-	270
300 cumulative redeemable preference shares of £0.01 each	3	-
485,000 preference voting 'A' shares of £0.02 each	-	9,700
475,000 zero dividend voting 'C' shares of £0.01 each	200	4,550
	203	19,370

During the period the company allotted 200 zero dividends voting 'C' shares of £0.01 each in connection with the acquisition of Bluebottle Call Limited (see note 7).

12 Reserves

Group	Share premium account £'000	Profit and loss account £'000	Total £'000
Share issues	30,036		30,036
Retained loss for the year	-	(26,334)	(26,334)
At 31 December 1999	30,036	(26,334)	3,702

Company	£'000	£'000	£'000
Share issues	30,036	-	30,036
Retained loss for the year	-	(25,453)	(25,453)
At 31 December 1999	30,036	(25,453)	4,583

13 Reconciliation of movements in group shareholders' funds

	1999 £'000
Loss for the financial period	(26,334)
New shares issued	30,055
Closing shareholders' funds	3,721

14 Reconciliation of operating loss to operating cash flows

	1999 £'000
Operating loss	(26,381)
Depreciation and amortisation charges	1,681
Increase in stocks	(10,827)
Increase in debtors	(12,142)
Increase in creditors	38,083
Net cash outflow from operating activities	(9,586)

15 Analysis of cash flows

	1999 £'000
Returns on investments and servicing of finance	
Interest received	47
Capital expenditure and financial investment	
Purchase of tangible fixed assets	(13,764)

Acquisitions and disposals

	1999 £'000
Net cash acquired with subsidiary undertaking	3,429
Financing	
Issue of ordinary share capital	30,055
Increase in unsecured loans	1,000
Net cash inflow	31,055

15 Analysis of cash flows (continued)

The company acquired in the year contributed £2,489,000 to the group's net operating cash flows, received £52,000 in respect of net returns on investment and servicing of finance and utilised £2,208,000 for capital expenditure.

16 Analysis and reconciliation of net debt

	Cash flow £'000	1999 £'000
Cash in hand, at bank	11,181	11,181
Debt due after 1 year	(5,000)	(5,000)
Net funds	6,181	6,181

	1999 £'000
Increase in cash in the year	11,181
Cash inflow from increase in debt	(5,000)
Movement in net funds in year	6,181
Net funds at 31 December 1999	6,181

17 Major non-cash transactions

The consideration for the acquisition of the subsidiary undertaking during the year comprised shares. Further details are given in note 7.

18 Financial commitments

Capital commitments are as follows:

	1999	
	Group 1999 £'000	Company 1999 £'000
Contracted for but not provided for	395	395

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

	1999
	Land and buildings £'000
Group	
Expiry date	
- within one year	-
- between two and five years	-
- after five years	575
	575

19 Pension arrangements

The company provided pension contributions of £3,000 in respect of employees transferred from related companies. Although a pension scheme had not been established as at 31 December 1999, these amounts reflect the contributions that would be payable under the terms of the employees' previous schemes. These contributions were transferred into the group's pension scheme which was established subsequent to the period end.

20 Subsequent events

The company agreed a loan facility for £49,500,000 with One2One at the end of February 2000, the agreement is conditional upon immediate repayment of £21,700,000 owed to One2One at the date of the loan agreement. The loan facility ends on 30th April 2000 and all amounts borrowed under the agreement will then be immediately repayable by Virgin Mobile.

21 Financing

As at 31 December 1999, the group had net current liabilities of £5,295,000. The group is currently being financed by its shareholders, One2One and the Virgin Group.

Additional funding has been secured until 30 April 2000. Subsequent to this date additional funding will be required to continue operations. The directors are confident that a new loan facility will be agreed by both shareholders that will provide adequate funding for the business over the course of the next twelve months.

22 Related party transactions

One2One and The Virgin Group are joint venture partners in Virgin Mobile. The following transactions occurred with these partners in the period.

One2One

The company was partially financed by a loan facility provided by One2One on which interest at 9% accrues on a straight-line basis. The principal amount of £2,500,000 was outstanding as at 31 December 1999.

Handsets, service packs and other accessories are purchased by One2One on behalf of the company. The total cost to the company in respect of such purchases amounted to £22,844,000 and remained unpaid as at 31 December 1999.

The company uses One2One's Personal Communications Network for which it is charged at agreed rates. Of the total charge for the period of £477,000, an amount of £218,000 remained unpaid as at 31 December 1999.

One2One distribute airtime vouchers to certain retailers on behalf of the company. The total amount invoiced during the period in respect of these vouchers amounted to £1,638,000. £1,514,000 of this total remained outstanding from One2One as at 31 December 1999. One2One charged a management and distribution fee for performing the service of £22,000.

One2One assisted with the launch of Virgin Mobile primarily through the purchase of capital assets and through Information Technology development expenditure and operations. The total expense of £1,480,000 incurred by One2One on behalf of the company was unpaid as at 31 December 1999. One2One also incurred additional expenses, particularly staff time, which were recharged on to the company. These recharges amounted to £1,610,000 and were unpaid as at 31 December 1999.

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 9% accrues on a straight-line basis. The principal amount of £2,500,000 was outstanding as at 31 December 1999.

As at 31 December 1999, an amount of £201,000 was owing to Virgin Management Limited representing the cost of staff time for work performed on behalf of the company.

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 £8,424,000 of which £5,718,000 remained outstanding as at 31 December 1999.

22 Related party transactions (continued)

In December Virgin Management Limited were sold a number of handsets at preferential price. These sales amounted to £404,000 and this amount remained outstanding as at 31 December 1999.

Virgin Projects Limited performed printing and promotional services for the company. The full amount charged of £1,253,000 remained unpaid as at 31 December 1999.

The company acquired Bluebottle Call Limited from a member of the Virgin Group for consideration of 200 C shares in the company. The fair value of this consideration was £2.

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