Virgin Wings Limited and subsidiary companies

Strategic Report, Directors' Report and Financial Statements

Registered number 03160887

31 December 2013

Contents

Group Strategic Report
For the Period Ended 31 December 2013

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

Business review

Given the diverse nature of the Group's activities, the review focuses individually on the principal businesses consolidated or equity accounted for in these financial statements. During the period, the Group changed its year end from 31 March to 31 December. The business review for all material subsidiaries except Virgin Atlantic Limited reflects the 9 month period. For Virgin Atlantic, their previous year end was 28 February and therefore the Group accounts reflect 10 months' results to 31 December 2013.

Air Travel and Holidays

Virgin Atlantic Limited and its subsidiary companies ("Virgin Atlantic") is the principal airline and holidays business consolidated in these financial statements. Virgin Atlantic comprises Virgin Atlantic Airways Limited ("Airline"), a significant UK international scheduled airline operating principally from Heathrow and Gatwick, and Virgin Holidays Limited ("Holidays"), a tour operator providing inclusive package holidays and flights from the UK to the United States, the Caribbean and other worldwide destinations.

For the ten months ended 31 December 2013 Virgin Atlantic recorded a profit before tax and exceptional items of £7million like for like; this represented an improvement of £57million over the same period in 2012. Virgin Atlantic recorded a loss after tax of £0.3million for the ten months ended 31 December 2013 (12 months ended 28 February 2013: £43million). The Group's share of this is a loss of £0.1million (12 months ended 28 February 2013: £22million).

The Airline has set out a two year recovery programme to bring the airline business back to profitability, whilst protecting key elements of the business, such as customer service, in order to provide firm foundations for future developments. In the first year of the programme, the Airline has recorded a marked improvement in financial performance and seen customer measures improve.

The transaction agreed and announced in December 2012 where Delta Air Lines Inc ("Delta") acquired the 49% stake in Virgin Atlantic from Singapore Airlines Limited successfully closed in June 2013, having received appropriate approvals from regulatory authorities in Europe and the US. The commercial relationship between Virgin Atlantic and Delta has strengthened through the year, and will strengthen further from January 2014: this marks the start of full commercial co-operation under the Anti-Trust Immunity ("ATI") clearance that was granted by the US regulators in the autumn.

Virgin Atlantic has made good progress in 2013 and is confident that the target of profitability will be achieved in 2014 with positive impact from the Delta relationship, an improving result from the domestic services and improvements in selling activity; these gains will be supported by a strong focus on managing the cost base of the business, including fuel efficiency gains. These financial improvements will be balanced by continuing to focus on customer service and employee engagement with the objective of building firm foundations for a sustainable future business.

Group Strategic Report (continued)

Pro forma financial performance

	12 months ended 31 December 2013 Pro forma £m	12 months ended 31 December 2012 Pro forma £m	Better/(Worse)
Turnover by activity			
Airline passenger and ancillary services	**2,588**	2,498	3.6%
Holiday tour operations	**534**	494	8.1%
Other	**(147)**	(156)	5.8%
	2,975	2,836	4.9%
(Loss)/Profit on ordinary activities before tax and exceptional items by activity			
Airline passenger and ancillary services	**(74)**	(124)	40.3%
Holiday tour operations	**1**	3	(66.7)%
Other	**22**	19	15.8%
	(51)	(102)	50.0%
Key airline statistics			
Available Seat Kilometres (ASK) (m)	**50,330**	50,466	(0.3)%
Revenue Passenger Kilometres (RPK) (m)	**41,092**	40,883	0.5%
Passenger load factor	**81.6%**	81.0%	0.6pt
Passenger Revenue per ASK (p)	**4.35**	4.04	7.7%
Passenger Revenue per RPK (p)	**5.33**	4.99	6.8%
Fuel cost per ASK (p)	**1.94**	2.01	3.5%
Non-fuel cost per ASK (p)	**3.35**	3.15	(6.3)%

On a pro forma basis (adjusting the ten month period to provide a full twelve month comparative review) the Airline operation saw an increase in revenue of 3.6% compared with the previous year, which included an increase in passenger revenue of £153m generated by an increase in traffic and yield. Cargo revenue declined by 3.4% as a result of a weak cargo market. Fuel costs decreased by 3.5% year-on-year as a result of decreased fuel prices and reduced fuel burn on the long-haul fleet as the more efficient A330-300 aircraft entered service, slightly offset by the introduction of short-haul operations. Non-fuel costs rose by 6.3%; the growth was dominated by costs associated with the short-haul operation. For the 12 months ended December 2013 the Airline recorded a loss before tax and exceptional items of £74m; this represented an improvement of £50m year-on-year.

Virgin Holidays has continued to deliver growth with an 8.1% increase in revenue driven by growth in online bookings, coupled with the retail distribution network delivering increased bookings and margin year-on-year (106 retail outlets open at end of period compared with 104 at prior year). During the ten months ended 31 December 2013 Holidays delivered a number of plans designed to increase operational efficiency including reducing the number of UK locations from 3 to 1 resulting in one-off costs of £2million. Holidays has entered a three-year strategic plan and will continue to work with the Airline to ensure that it can continue to expand capacity on key leisure routes and increase the amount of seats it sells on Virgin Atlantic Airways' aircrafts.

Virgin Atlantic's liquidity position remains healthy with £320m cash at bank and in hand at 31 December 2013. The period end cash balance represents a low point in the annual cash cycle: the average 12 month balance was £385m.

The loss after tax for the ten month accounting period was £0.2m, with an additional other recognised losses of £0.1m. In addition, Virgin Atlantic paid a preference dividend of £1.8m. As a result, net assets declined from £73m at 28 February 2013 to £71m as at 31 December 2013.

Group Strategic Report (continued)

Virgin Atlantic has rights to and operates a valuable landing and take-off slot portfolio at London Heathrow Airport, which consists of 26 slot pairs with an estimated market value of £300 - £380m; these slots can be traded with other airlines. The current value shown on the balance sheet is £80m, reflecting only the cost of slots purchased from third parties less amortisation.

Rail

Virgin Rail Group Holdings Limited and its subsidiary companies ("Virgin Rail") operates passenger rail services between London (Euston) and Birmingham, Wolverhampton, Holyhead, Chester, Liverpool, Manchester, Preston, Carlisle and Glasgow under the franchise operated by West Coast Trains Limited ("West Coast"). The profit for the nine month period ended 31 December 2013, after taxation and minority interests, amounted to £8million (Year ended 31 March 2013: £26million). The Group's share of this is a profit of £4million (Year ended 31 March 2013: £13million).

Virgin Rail operated its services under the terms of the Interim Franchise Agreement, dated 5 December 2012, for the operation of services from 9 December 2012 to 8 November 2014. The Interim Franchise Agreement operates as a management contract, with both revenue and cost risk being borne by the Department for Transport ("DfT").

On 26 March 2013 the DfT announced a programme for letting future franchises, with the long-term West Coast franchise expected to start in April 2017. Following the issue of the Prior Information Notice dated 26 March 20113, the DfT issued a Request for Proposal on 18 March 2014, to which Virgin Rail responded on 5 April 2014. Following negotiations with the DfT, a new Franchise Agreement was signed in June 2014. This is effective for the period 22 June 2014 to 31 March 2017 with an option to be extended by up to one year at the discretion of the DfT.

The new Franchise Agreement sees Virgin Rail taking on a greater revenue and cost risk in return for a commercial margin. It will see the operations of Virgin Rail extended to Shrewsbury and Blackpool from December 2014 as well as delivering improvements to the customer experience, local communities and the environment.

Virgin Rail has seen passenger revenue and journey growth during the period. Virgin Rail is focused on continually improving its customer service and satisfaction levels. The selection, training and encouragement of staff continues to reflect this; while management is continually reviewing operations to provide the best value for money service to customers.

Customer satisfaction as measured by the independent National Passenger Survey is positive and Virgin Rail has been at the top of long distance train operators, in terms of overall satisfaction scores, for the last nine bi-annual surveys.

Virgin Rail continues to experience days of poor infrastructure performance by Network Rail which impacts its overall Public Performance Measure ("PPM") being the percentage of trains that arrive at their destination within 10 minutes of their scheduled arrival time having called at all scheduled stations. Virgin Rail continues to press for improvements from Network Rail's performance contract to ensure that the effects of poor performance days are minimised. In addition, Virgin Rail entered into an alliance with Network Rail in December 2013 to focus on performance improvements and efficiency savings.

Financial KPIs focus on profitability and cash management. Financial results are closely monitored by management, shareholders and the DfT.

Revenue is a key driver of profitability levels and Virgin Rail has seen an increase in passenger journeys year on year. Annual passenger journeys now stand at 31.9m, a 5% increase from the previous financial year.

Group Strategic Report (continued)

Mobile telecoms

The Group holds an interest in Omer Telecom Limited ("Omer"), a joint venture mobile operator which distributes Virgin, Tele2, Casino and Breizh mobile products and services in France. Omer's principal income streams are mobile service revenues generated from its customers and revenue on the sale of mobile equipment. The loss for the 9 month period ended 31 December 2013, after taxation, amounted to £7million (Year ended 31 March 2013: loss of £3million). The Group's share of this is a loss of £3million (Year ended 31 March 2013: loss of £1million). The Group's share of turnover for the period was £120million (Year ended 31 March 2013: £211million).

The Group's interest in Omer is held by Bluebottle UK Limited ("Bluebottle"). On 16 May 2014, Bluebottle and the other shareholders in Omer entered into an exclusivity agreement with Numericable Group in respect of a proposed acquisition by Numericable of the entire issued share capital of Omer for an enterprise value of approximately €325million. An acquisition of the Omer shares by Numericable would be subject to completion of consultation processes with Numericable's employee works council and with the employee works council of Omer's French operating subsidiary, Omea Telecom SAS. The acquisition would also be subject to the approval of the French Competition Authority.

Healthcare

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

Virgin Care's largest contract is to provide Surrey Community Health services, with revenue of approximately £100million per annum. This includes the provision of NHS primary healthcare services, specifically community services across north-west and south-west Surrey, as well as some county-wide services including sexual health and prison healthcare. In addition, since 1 April 2013 Virgin Care has provided combined NHS and Local Authority services under the Devon Integrated Children's Services contract. Virgin Care's loss for the period ended 31 December 2013, after taxation, amounted to £4million (Year ended 31 March 2013: £8million). The Group's share of this is a loss of £3million (Year ended 31 March 2013: £7million).

Principal risks and uncertainties

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

Economic conditions

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

Brand reputation

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

Cyber risk

The Group, whilst maintaining adequate protection, is aware that the risks of cyber attacks are increasing. The Group, along with its suppliers, is constantly monitoring the risk to its operations.

Group Strategic Report (continued)

Risks specific to Virgin Atlantic:

Safety, terrorism and security incidents

The safety and security of passengers, crew and staff forms the foundation of everything Virgin Atlantic do. The history of terrorist attacks against aviation and tour operating industries demonstrates that the Group's business is exposed to the results of such action even if the attacks are not directed at the Group. Failure to prevent or respond effectively to a major safety, terrorism or security incident may adversely impact operations and financial performance.

Government intervention

Regulation of the aviation and tour operator industries is increasing and covers many of the Group's activities including safety, security, route flying rights, airport slot access, environmental controls and government taxes and levies. The ability to both comply with and influence any changes in these regulations is critical to maintaining operational and financial performance.

Risks specific to Virgin Rail:

Major incidents/Terrorism

As with any operator of public transportation, there is a risk that Virgin Rail is involved in a major incident which could result in injury to customers or staff. The potential impact on Virgin Rail includes damage to reputation and possible claims made against them. Virgin Rail has procedures in place to respond to any major incident that may occur.

Franchise Risk

The new Franchise Agreement was negotiated using a range of assumptions with regard to revenue growth and cost base. It is imperative that Virgin Rail takes all actions outlined in its bid to ensure that its targets are met.

Virgin Rail is required to comply with certain conditions as part of its rail franchise agreement. If it fails to comply with these conditions, it may be liable to penalties or the potential termination of the franchise. Compliance with franchise conditions are closely managed and monitored and procedures are in place to minimise the risk of noncompliance.

Ongoing Network Rail performance

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

Failure of critical suppliers

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

Group Strategic Report (continued)

Risks specific to Virgin Care:

Business growth

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

Government regulation

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

Financial Risk Management

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

Financing and interest rate risk

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

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

Virgin Atlantic interest rate management policy aims to provide a degree of certainty for future financing costs; this is achieved by funding the majority of loans and operating leases on a fixed interest rate basis. Virgin Atlantic's loans and operating leases are principally denominated in US dollars.

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

Group Strategic Report (continued)

Foreign currency risk

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

Fuel price risk

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

Derivative financial instruments

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

Virgin Atlantic's policy is not to trade in derivatives but to use these instruments to hedge anticipated future cash flows.

Virgin Atlantic does not permit selling currency or jet fuel options, except as part of a fully matched collar hedging structure. All derivatives are used for the purpose of risk management and accordingly they do not expose Virgin Atlantic to market risk as they are matched to identify physical exposures within these businesses. However, the timing difference between derivative maturity date and current mark-to-market value can give rise to cash margin exposure; this risk is managed through choice of instrument, appropriate counterparty agreements and, where required, cash deposits with counterparties. Counterparty credit risk is controlled through mark-to-market based credit limits.

Working capital and cash flow

As noted above, working capital and cashflow of operating subsidiaries are managed by those subsidiaries according to their immediate requirements. Across the group/investment holding companies, cash balances held will fluctuate according to immediate requirements. Cash is managed centrally across the companies on review of their cashflows. The directors have determined it appropriate to prepare these financial statements on a going concern basis.

This report was approved by the board on 25 June 2014 and signed on its behalf.

B A R Gerrard
Secretary

The Battleship Building
179 Harrow Road
London
W2 6NB

Directors' Report

The directors present their report and the consolidated financial statements for the 9 month period ended 31 December 2013. The previous financial statements were for the 12 month period ended 31 March 2013.

Results and dividends

The results of the Group for the period are set out on page 13 and are commented on within the Strategic Report.

The Group has considerable financial resources, and no significant changes are expected in relation to its income streams or cost base that could jeopardise this. As a consquence, the directors believe that the Group is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The directors recommend that no ordinary dividend be paid by the Company in respect of the period ended 31 December 2013 (Year ended 31 March 2013: £nil)

Virgin Atlantic Limited

Preference dividends of £2million (Year ended 31 March 2013: £3million) were paid during the period, of which £1million (Year ended 31 March 2013: £1million) related to minority interests.

Virgin Rail Group Holdings Limited

Dividends paid during the period totalled £14million (Year ended 31 March 2013: £40million), of which £7million (Year ended 31 March 2013: £20million) related to minority interests.

Directors

The directors who served during the period were:

I P Woods	Alternate R P Blok
R P Blok (appointed 21 June 2013)	
N A R Fox (appointed 21 June 2013)	
C R Stent (resigned 21 June 2013)	

Employees

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

The Group uses the consultative procedures agreed with its staff and elected representatives with a view to ensuring that its employees are aware of the financial and economic factors that affect the Group's performance and prospects. Within the bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect the progress of the Group and are of interest and concern to them as employees. The Group also encourages employees, where relevant, to meet on a regular basis to discuss matters affecting them.

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

Directors' Report

Political and charitable contributions

The Group made no political contributions during the period (Year ended 31 March 2013: £nil). Donations to UK charities amounted to £4million (Year ended 31 March 2013: £5million) of which £4million (Year ended 31 March 2013: £5million) was made to Virgin Unite, a charity affiliated to the Group.

Environmental impact *(applicable primarily to Virgin Atlantic)*

Virgin Atlantic is committed to addressing and promoting sustainable solutions for its business and the wider airline industry.

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

Sustainability is very much aligned with Virgin Atlantic's brand values, and it is in the process of being embedded firmly into the way the Airline does business. Virgin Atlantic are committed to including sustainability objectives into business plans, and regularly monitor progress against susbtainability targets to ensure that commitments are being delivered.

Over 99% of Virgin Atlantic's measurable carbon footprint comes from flying aircraft so Virgin Atlantic is primarily focused on improving fuel and carbon efficiency. Virgin Atlantic has a target to reduce $CO2$ emissions by 30% per Revenue Tonne Kilometre between 2007 and 2020. At the end of 2012 Virgin Atlantic had reduced its $CO2$ emissions by 4% per RTK against the 2007 baseline. Virgin Atlantic is also cutting down on ground energy use; buying renewable energy for UK ground operations; buying more fuel efficient ground vehicles; reducing, reusing and recycling waste and improving what is designed and bought.

Through the Virgin Atlantic Foundation (VAF), Virgin Atlantic continues supporting its charity partner Free the Children (FTC). FTC is a charity which shares Virgin Atlantic's objectives of supporting sustainable communities in its destinations, as well as providing young people in the UK with the skills and support needed to get involved in the social and environmental issues that matter to them. In 2013, almost £1.2 million was given in time, flights, baggage allowance and money. Onboard passenger donations totalled £0.6m and staff fundraising raised £0.2million. During the 2012/13 school year 72 UK schools signed up for 'Be The Change' school programmes with 18,000 students receiving a motivational speech, 2,160 students participating in leadership workshops and 211 'Youth in Action' groups being formed. The international development programme is also producing fantastic results, focusing on projects in eight communities in India, China, Ghana and Kenya. These projects deliver real and sustainable improvements in education, water and sanitation, healthcare and alternative income generation in pooer communities.

Directors' Report

Provision of information to auditor

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

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

Auditor

The auditor, KPMG LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 25 June 2014 and signed on its behalf.

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

Directors' Responsibilities Statement
For the Period Ended 31 December 2013

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

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

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

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

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

We have audited the financial statements of Virgin Wings Limited and subsidiary companies for the 9 month period ended 31 December 2013, set out on pages 13 to 58. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2013 and of the Group's profit for the 9 month period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Group Strategic Report and the Directors' Report for the financial 9 month period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Sarah Styant (Senior Statutory Auditor)

KPMG LLP
Chartered Accountants
Statutory Auditor
15 Canada Square
London
E14 5GL

25 June 2014

Consolidated Profit and Loss Account
For the Period Ended 31 December 2013

	Note	**9 months ended 31 December 2013 £M**	12 months ended 31 March 2013 £M
Turnover			
Group and share of joint venture's turnover		**3,671**	4,261
Less: share of joint venture's turnover		**(123)**	(215)
Group turnover	2	**3,548**	4,046
Cost of sales		**(2,899)**	(3,369)
Gross profit		**649**	677
Administrative expenses		**(592)**	(580)
Exceptional administrative credit	6	**47**	34
Total administrative expenses		**(545)**	(546)
Other operating expenses		**(33)**	(44)
Exceptional other operating income	6	**2**	11
Total other operating expense	4	**(31)**	(33)
Operating profit	3	**73**	98
Share of operating (loss)/profit in joint ventures		**(3)**	1
Total operating profit		**70**	99
Net exceptional (loss)/profit on sale of fixed assets	6	**(5)**	1
Profit on ordinary activities before interest		**65**	100
Interest receivable and similar income	9	**20**	37
Interest payable and similar charges	10	**(27)**	(56)
Other finance income	27	**4**	5
Profit on ordinary activities before taxation		**62**	86
Tax on profit on ordinary activities	11	**2**	11
Profit on ordinary activities after taxation		**64**	97
Minority interests	24	**(4)**	9
Profit for the financial period	22	**60**	106

All amounts relate to continuing operations.

The notes on pages 19 to 58 form part of these financial statements.

Registered number: 03160887

Consolidated Balance Sheet
As at 31 December 2013

	Note	£M	31 December 2013 £M	£M	31 March 2013 £M
Fixed assets					
Other intangible assets		140		138	
Goodwill		354		310	
Negative goodwill		(9)		(10)	
Net goodwill		345		300	
Intangible assets	12		485		438
Tangible assets	13		403		416
Investments	14		15		19
Investments in joint ventures					
-Share of gross assets		79		82	
-Share of gross liabilities		(102)		(102)	
Share of net liabilities	14		(23)		(20)
			880		853
Current assets					
Stocks	15	45		45	
Debtors (including £116million (Year ended 31 March 2013: £108 million) due after more than one year)	16	803		968	
Cash at bank		535		655	
		1,383		1,668	
Creditors: amounts falling due within one year	17	(1,419)		(1,725)	
Net current liabilities			(36)		(57)
Total assets less current liabilities			844		796
Creditors: amounts falling due after more than one year	18		(373)		(392)
Provisions for liabilities					
Deferred tax	19	(25)		(34)	
Other provisions	20	(160)		(165)	
			(185)		(199)
Net assets excluding pension scheme liabilities			286		205
Defined benefit pension scheme liability	27		(1)		(1)
Net assets			285		204

Capital and reserves			
Called up share capital	21	**421**	421
Share premium account	22	**1**	1
Profit and loss account	22	**(182)**	(267)
Shareholders' funds	23	**240**	155
Minority interests	24	**45**	49
		285	204

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 25 June 2014.

R P Blok
Director

The notes on pages 19 to 58 form part of these financial statements.

Registered number: 03160887

Company Balance Sheet
As at 31 December 2013

	Note	£M	31 December 2013 £M	£M	31 March 2013 £M
Fixed assets					
Investments	14		**2,529**		2,529
Current assets					
Debtors	16	**111**		104	
Creditors: amounts falling due within one year	17	**(2,579)**		(2,524)	
Net current liabilities			**(2,468)**		(2,420)
Net assets			**61**		109
Capital and Reserves					
Called up share capital	21		**421**		421
Share premium account	22		**1**		1
Profit and loss account	22		**(361)**		(313)
Shareholders' funds	23		**61**		109

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 25 June 2014.

R P Blok
Director

The notes on pages 19 to 58 form part of these financial statements.

Consolidated statement of total recognised gains and losses
For the Period Ended 31 December 2013

	Note	**9 months ended 31 December 2013 £M**	**12 months ended 31 March 2013** 2013 £M
Gain/(loss) for the financial period/year			
Group		**63**	108
Share of joint ventures	14	**(3)**	(2)
	22	**60**	106
Currency translation differences on net foreign currency investments	22	**5**	1
Net unrealised gain on disposal of investments	22	**20**	-
		25	1
Total recognised gains/(losses) relating to the financial period/year		**85**	107

The notes on pages 19 to 58 form part of these financial statements.

Consolidated Cash Flow Statement
For the Period Ended 31 December 2013

	Note	**9 months ended 31 December 2013 £M**	12 months ended 31 March 2013 £M
Net cash flow from operating activities	29	**(82)**	195
Returns on investments and servicing of finance	31	**(31)**	(65)
Taxation		**(6)**	(5)
Capital expenditure and financial investment	31	**(72)**	(90)
Acquisitions and disposals	31	**23**	3
Cash (outflow)/inflow before financing		**(168)**	38
Financing	31	**43**	(32)
(Decrease)/Increase in cash in the period		**(125)**	6

Reconciliation of Net Cash Flow to Movement in Net Debt
For the Period Ended 31 December 2013

	Note	**9 months ended 31 December 2013 £M**	12 months ended 31 March 2013 £M
(Decrease)/Increase in cash in the period		**(125)**	6
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing		**(43)**	27
Change in net debt resulting from cash flows		**(168)**	33
Other non-cash changes		**209**	120
Translation differences		**44**	(1)
Movement in net debt in the period		**85**	152
Net debt at 1 April 2013		**(134)**	(286)
Net debt at 31 December 2013	30	**(49)**	(134)

The notes on pages 19 to 58 form part of these financial statements.

Notes to the Financial Statements

1. Accounting Policies

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

1.1 Basis of preparation of financial statements

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

The holding company has taken advantage of section 408 of the Companies Act 2006, and a separate profit and loss account of the Company has not been published. The profit for the period attributable to the Company is disclosed in Note 23.

1.2 Basis of consolidation

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

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

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

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

A joint venture is an undertaking in which the Group has a long term interest and over which it exercises joint control. The Group's share of the profits less losses of joint ventures is included in the consolidated profit and loss account, and its interest in their net assets is included in investments on the balance sheet.

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

	Subsidiary's year end	Length of period included in these accounts	Length of period included in the comparatives
Virgin Atlantic Limited	31 December 2013 *	10 months	12 months

During the period the Group changed its accounting reference date from 31 March to 31 December, resulting in a 9 month reporting period. As this is the first period of alignment for the entity listed above, it was appropriate to include their results in excess of 9 months in the current period.

* During the period Virgin Atlantic Limited aligned its accounting reference date from 28 February to 31 December.

Notes to the Financial Statements

1. Accounting Policies (continued)

1.3 Turnover

Turnover comprises revenue recognised by the Company in respect of goods and services supplied during the period, exclusive of VAT and trade discounts.

Air travel

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

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

Rail

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

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

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

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

Royalties

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

1.4 Rail franchise expense

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

1.5 Compensation for service disruption

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

Notes to the Financial Statements

1. Accounting Policies (continued)

1.6 Administrative expenses

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

1.7 Goodwill, negative goodwill and other intangible fixed assets

In accordance with Financial Reporting Standard 10, "Goodwill and Intangible Assets", positive goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised in the balance sheet as an intangible asset at cost and amortised to nil by equal annual instalments over its estimated useful economic life as set out in Note 12. If the goodwill is considered to have an indefinite useful life, it is not amortised but is subject to annual review for impairment. Negative goodwill arising on consolidation in respect of acquisitions is included within intangible fixed assets and released to the profit and loss account in the period in which the fair value of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale. On the subsequent disposal or termination of a business acquired, the profit or loss on disposal or termination is calculated after charging (crediting) the unamortised amount of any related goodwill (negative goodwill). In the Group's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off.

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

EU Emissions Trading Scheme (ETS)

On 24 April 2013 the EU removed the compliance requirements on international aviation for the 2012 calendar year. On 4 October 2013 the International Civil Aviation Organisation decided on a roadmap for a global market-based mechanism to tackle aviation emissions to be implemented by 2020. On the same date the EU again announced its intention to remove the compliance requirement on international aviation for the 2013 calendar year and for 2014 - 2020 to limit the EU ETS to only cover part of the international flight within EEA airspace.

Emissions on intra-EU flights:

Carbon allowances received free of charge are recognised as intangible assets at market value on the date of receipt. Consistent with Statement of Standard Accounting Practice 4 'Accounting for Government Grants', the value of allowances received is deferred and recognised in income on a systematic basis over the period to which the grant relates. The estimated gross cost of settling the liability for CO2 emitted in the period is recognised in the profit and loss account as incurred.

Emissions on international flights:

Given the current global position the Directors consider there to be sufficient uncertainty surrounding the operation of the EU ETS for international flying to not recognise any net assets or liabilities under the scheme as at the balance sheet date.

Notes to the Financial Statements

1. Accounting Policies (continued)

1.8 Development expenditure

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

Development expenditure is capitalised when the criteria for recognition as an asset are met, when the Group can demonstrate the technical feasibility of completing the project so that it will be available for use or sale, its intention to complete, its availability of resources to complete and that costs attributable to the asset in its development can be measured reliably. Regulatory and other uncertainties generally mean that such criteria are not met. When development costs are capitalised they are amortised over their useful economic lives. The expenditure capitalised is tested for impairment annually

1.9 Landing slot expenditure

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

1.10 Tangible fixed assets and depreciation

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

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

Notes to the Financial Statements

1. Accounting Policies (continued)

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

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

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

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

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

1.11 Investments

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

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

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

1.12 Leasing and hire purchase

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

Notes to the Financial Statements

1. Accounting Policies (continued)

1.13 Operating leases

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

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

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

1.14 Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements. As at 31 December 2013, there is no dividend liability (Year ended 31 March 2013: £nil).

1.15 Aircraft maintenance costs

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

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

1.16 New train service arrangement costs

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

1.17 Track access costs

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

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

Notes to the Financial Statements

1. Accounting Policies (continued)

1.18 Fuel costs

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

1.19 Frequent flyer programme

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

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

1.20 Cash and liquid resources

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

1.21 Provisions

Provisions are recognised where the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. The amounts recognised are the best estimate of the expenditure that will be required to meet the Group's obligation. Where provisions are discounted, the unwinding of the discount is taken to the profit and loss account.

1.22 Stocks and work in progress

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

1.23 Deferred taxation

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

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Deferred tax assets and liabilities are not discounted.

Notes to the Financial Statements

1. Accounting Policies (continued)

1.24 Foreign currencies

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

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

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

The assets and liabilities of overseas subsidiary undertakings, joint ventures and associated undertakings, are translated at the closing exchange rates or, where applicable, at hedged rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations, net of exchange differences arising on related foreign currency borrowings are taken directly to reserves and reported within the statement of total recognised gains and losses.

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

1.25 Pensions

The Group operates a defined contribution pension scheme and the pension charge represents the amounts payable by the Group to the fund in respect of the period.

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

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

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

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

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

Notes to the Financial Statements

1. Accounting Policies (continued)

1.26 Long Term Incentive Plan (LTIP)

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

1.27 Classification of financial instruments issued by the Group

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

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

(a) they include no contractual obligations upon the Company (or Group, as the case may be) to deliver cash or other financial assets, or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments, or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares. Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds are dealt with as appropriations in the reconciliation of movements in shareholders' funds. For the year ended 31 December 2013, preference dividends payable of £nil (Year ended 31 March 2013: £nil) were recognised within the total interest payable expense, as disclosed in Note 10.

1.28 Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the Profit and Loss Account over the expected useful lives of the assets concerned. Other grants are credited to the Profit and Loss Account as the related expenditure is incurred.

1.29 Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount of debt is increased by the finance cost that is charged to the profit and loss account in respect of the accounting period, and reduced by payments made in the period.

Notes to the Financial Statements

2. Segmental information

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

By activity	**Turnover by activity**	Turnover by activity	**Group operating profit/(loss)**	Group operating profit/(loss)	**Net operating assets/ (liabilities)**	Net operating assets/ (liabilities)
	9 months ended 31 December 2013	Year ended 31 March 2013	**9 months ended 31 December 2013**	Year ended 31 March 2013	**31 December 2013**	31 March 2013
	£M	£M	**£M**	£M	**£M**	£M
Air travel	**2,554**	2,854	**20**	(78)	**(123)**	(247)
Rail	**716**	898	**8**	31	**(33)**	(43)
Mobile telecoms	**120**	211	**(3)**	1	**(23)**	(20)
Financial services	**25**	29	**(2)**	(4)	**(5)**	(8)
Hotels	**22**	28	**(2)**	(5)	**51**	45
Healthcare	**153**	156	**(3)**	(5)	**(11)**	(8)
Other trading	**22**	30	**8**	10	**32**	30
Management services	**59**	55	**44**	149	**423**	410
	3,671	4,261	**70**	99	**311**	159
Less share of joint ventures turnover/ operating loss/(profit)	**(123)**	(215)	**3**	(1)		
Total	**3,548**	4,046	**73**	98		

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

Other trading principally includes brand licensing.

Notes to the Financial Statements

2. Segmental information (continued)

By geographical market	Turnover by origin 9 months ended 31 December 2013 £M	Turnover by origin Year ended 31 March 2013 £M	Turnover by destination 9 months ended 31 December 2013 £M	Turnover by destination Year ended 31 March 2013 £M
UK	2,491	2,881	833	1,098
Europe	236	360	166	271
North America	484	499	1,881	1,960
Africa	121	153	225	307
Asia	211	222	438	477
Australasia	69	91	69	93
Management services	59	55	59	55
	3,671	4,261	3,671	4,261
Less share of joint ventures' turnover	(123)	(215)	(123)	(215)
Total	3,548	4,046	3,548	4,046

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

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

By geographical market	Group operating profit/(loss) 9 months ended 31 December 2013 £M	Group operating profit/(loss) Year ended 31 March 2013 £M	Net operating assets/ (liabilities) 31 December 2013 £M	Net operating assets/ (liabilities) 31 March 2013 £M
UK	26	(56)	(208)	(336)
Europe	4	13	78	73
North America	(3)	(5)	21	17
Africa	-	-	(3)	(3)
Asia	-	-	-	-
Australasia	(1)	(2)	-	(2)
Management services	44	149	423	410
	70	99	311	159
Less share of joint ventures' operating loss/(profit)	3	(1)		
Total	73	98		

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

Notes to the Financial Statements

3. Operating profit

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

	9 months ended 31 December 2013 £M	12 months ended 31 March 2013 £M
Amortisation - intangible fixed assets	17	19
Depreciation of tangible fixed assets:		
- owned by the group	61	63
- held under finance leases	5	6
Reversal of impairment provisions against fixed assets	(58)	1
Operating lease rentals:		
- land and buildings	20	27
- aircraft and other	305	352
Provision charged against debts owed by group and fellow subsidiary undertakings	2	1
Provision writeback against debts owed by group and fellow subsidiary undertakings	-	(178)

4. Other operating (expense)/income

	9 months ended 31 December 2013 £M	12 months ended 31 March 2013 £M
Other operating income	3	5
Rail franchise expense	(69)	(104)
Network change compensation and performance regime	29	40
Operating income from related parties	4	15
	(33)	(44)
Other exceptional operating income being bid costs refund	2	11
	(31)	(33)

5. Auditors' remuneration

	9 months ended 31 December 2013 £M	12 months ended 31 March 2013 £M
Fees payable to the Company's auditor and its associates in respect of:		
The auditing of accounts of subsidiaries of the Company pursuant to legislation	1	1

Fees payable for the audit of these financial statements is £nil (Year ended 31 March 2013: £nil).

Notes to the Financial Statements

6. Exceptional items

	9 months ended 31 December 2013 £M	12 months ended 31 March 2013 £M
Administrative income/(expenses)	**47**	34
Other operating income	**2**	11
Net (loss)/profit on sale of fixed assets	**(5)**	1
	44	46

Exceptional administrative credit in the current period relates to the release of investment provisions of £1million and fixed asset impairment reversal of £58million (note 11) (Year ended 31 March 2013: exceptional administrative income of £34million).

Exceptional administrative expenses of £12million in the current period comprise legal costs and payments to certain directors of subsidiary undertakings together with associated social security costs, arising as a consequence of the acqusition by Delta Air Lines, Inc. of 49% of Virgin Atlantic Limited's share capital from Singapore Airlines Limited.

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

Loss on disposal of fixed assets relates to the sale of a subsidiary undertaking during the year. The assets and liabilities of Network Distributing Limited were sold for £2 consideration, resulting in a loss on disposal of assets of £5million.

7. Directors' remuneration

The directors did not receive any remuneration during the year for services to the Company (Year ended 31 March 2013 - £nil).

Notes to the Financial Statements

8. Staff costs

Staff costs were as follows:

	31 December 2013 £M	31 March 2013 £M
Wages and salaries	475	552
Social security costs	46	52
Other pension costs (Note 27)	44	46
Other costs	3	3
	568	653

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

Management and administration	2,168	1,841
Flight and cabin crew	4,457	4,476
Reservations and sales	3,056	2,840
Engineering, cargo and production	1,215	1,427
Operations	7,299	6,126
	18,195	16,710

The Company had no employees in the period (Year ended 31 March 2013: nil).

9. Interest receivable

	9 months ended 31 December 2013 £M	12 months ended 31 March 2013 £M
Interest receivable from related undertakings	9	20
Bank interest receivable	1	2
Other interest receivable	9	14
Net foreign exchange gains	1	1
	20	37

Notes to the Financial Statements

10. Interest payable and similar charges

	9 months ended 31 December 2013 £M	12 months ended 31 March 2013 £M
On bank loans and overdrafts	**18**	32
On finance leases and hire purchase contracts	**-**	1
On loans from related undertakings	**-**	6
Share of joint ventures' interest payable	**1**	1
Other interest payable	**8**	16
	27	56

11. Taxation

	9 months ended 31 December 2013 £M	12 months ended 31 March 2013 £M
Analysis of tax charge in the period/year		
Current tax		
UK corporation tax charge on profit for the period/year	**6**	9
Adjustments in respect of prior periods	**-**	(2)
	6	7
Double taxation relief	**(1)**	(1)
	5	6
Foreign tax on income for the period/year	**2**	2
Total current tax	**7**	8
Deferred tax		
Origination and reversal of timing differences	**(2)**	(15)
Effect of rate change	**(5)**	(5)
Adjustments in respect of prior periods	**(1)**	(1)
	(8)	(21)
Share of joint ventures' deferred tax	**(1)**	2
Total deferred tax	**(9)**	(19)
Tax on profit on ordinary activities	**(2)**	(11)

Notes to the Financial Statements

11. Taxation (continued)

Factors affecting tax charge for the period/year

The tax assessed for the period/year is lower than (2013 - lower than) the standard rate of corporation tax in the UK of 23% (2013 - 24%). The differences are explained below:

	9 months ended 31 December 2013 £M	12 months ended 31 March 2013 £M
Profit on ordinary activities before tax	**62**	86
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23% (2013 - 24%)	**14**	21
Effects of:		
Expenses not deductible for tax purposes	**10**	12
Capital allowances for period/year in excess of depreciation	**10**	11
Utilisation of tax losses	**(13)**	(6)
Adjustments to tax charge in respect of prior periods	**-**	(2)
Other timing differences leading to a decrease in taxation	**(2)**	(4)
Non-taxable income	**(14)**	(55)
Unrelieved tax losses carried forward	**2**	31
Current tax charge for the period/year	**7**	8

Notes to the Financial Statements

12. Intangible fixed assets

Group	Goodwill £M	Negative goodwill £M	Landing slots £M	Intellectual property £M	Carbon Licenses £M	Total £M
Cost						
At 1 April 2013	680	(13)	80	80	1	828
Additions	-	(1)	8	-	-	7
Relcassification	2	-	3	(5)	-	-
Disposals	(1)	-	-	-	-	(1)
At 31 December 2013	681	(14)	91	75	1	834
Amortisation						
At 1 April 2013	370	(3)	4	19	-	390
Charge for the period	16	(2)	-	3	-	17
Reclassification	(1)	-	7	(6)	-	-
Reversal of impairment charge	(58)	-	-	-	-	(58)
At 31 December 2013	327	(5)	11	16	-	349
Net book value						
At 31 December 2013	354	(9)	80	59	1	485
At 31 March 2013	310	(10)	76	61	1	438

Intellectual property

Virgin Enterprises Limited holds intellectual property licences amounting to £59million (31 March 2013: £61million). A licence agreement with Virgin Active IPCO Limited, an associate of its ultimate parent undertaking Virgin Group Holdings Limited entered into on 20 October 2011, required an upfront payment of £60million, which is being amortised over 27 years, representing the period of the head licence.

Carbon Licenses

Carbon licenses amounting to £1million (31 March 2013: £1million) relates to licenses obtained under the EU Emissions Trading Scheme. Consistent with the Statement of Standard Accounting Practice 4 'Accounting for Government Grants', the value of allowances received is deferred and recognised in income on a systematic basis of the period to which the grant relates.

Landing slots

Landing slots amounting to £80million (31 March 2013: £76million) relates to the capitalisation of the cost of landing slots purchased by Virgin Atlantic Limited. These are considered to have an indefinite economic life and are not amortised, instead they are subject to an annual impairment review and a provision is recognised for any identified impairment.

Notes to the Financial Statements

12. Intangible fixed assets (continued)

Goodwill and negative goodwill

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

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

* Goodwill fully amortised

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

Impairment testing

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

During the year management conducted an impairment review of goodwill in Virgin Atlantic Limited. The review indicated that the recoverable amount exceeded the carrying amount by £289m. An impairment loss of £79m was previously recognised in the year ended 31 March 2012 and consequently £58m has been reversed in the current period to increase the carrying amount up to the amount that it would have been had the original impairment not occurred.

The recoverable amount of goodwill in Virgin Atlantic Limited is based on the net realisable value determined with reference to third party valuations obtained. The increase in the net realisable value can be attributed to improvements in the results of the business, and the valuation implied by the acquisition of Singapore Airlines' 49% share of Virgin Atlantic Limited by Delta Air Lines, Inc. which completed on 24 June 2013.

Notes to the Financial Statements

13. Tangible fixed assets

Group	Freehold property £M	Leasehold Property £M	Aircraft, aircraft spares and rotables £M	Plant & machinery £M	Furniture & fittings £M	Assets in the course of construction £M	Total £M
Cost							
At 1 April 2013	69	9	623	17	251	30	999
Additions	1	1	14	2	1	41	60
Disposals	(1)	-	(13)	(1)	(9)	(1)	(25)
On disposal of subsidiaries	-	-	-	-	(1)	-	(1)
Transfer between classes	-	-	12	(1)	26	(37)	-
Foreign exchange movement	(4)	-	-	(2)	(1)	-	(7)
At 31 December 2013	65	10	636	15	267	33	1,026
Depreciation							
At 1 April 2013	3	6	395	7	172	-	583
Charge for the period	2	-	35	3	26	-	66
On disposal of subsidiaries	-	-	-	-	(1)	-	(1)
On disposals	-	-	(11)	(1)	(9)	-	(21)
Foreign exchange movement	(1)	-	-	(3)	-	-	(4)
At 31 December 2013	4	6	419	6	188	-	623
Net book value							
At 31 December 2013	61	4	217	9	79	33	403
At 31 March 2013	66	3	228	10	79	30	416

Notes to the Financial Statements

13. Tangible fixed assets (continued)

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

	Net book value Period ended 31 December 2013 £M	**Depreciation charge Period ended 31 December 2013 £M**	Net book value Year ended 31March 2013 £M	Depreciation charge Year ended 31March 2013 £M
Aircraft, aircraft spares and rotables	**34**	5	36	5
Plant and machinery	**1**	-	1	-
	35	5	37	5

The net book value of land and buildings comprises:

	Group 31 December 2013 £M	Group 31 March 2013 £M
Freehold	**61**	66
Long leasehold	**-**	-
Short leasehold	**4**	3
	65	69

14. Fixed asset investments

Group	**Investment in joint ventures £M**	**Other investments £M**
Cost or valuation		
At 1 April 2013	**(20)**	**26**
Additions	**-**	**1**
Foreign exchange movement	**-**	**(1)**
Disposals	**-**	**(4)**
Share of loss	**(3)**	**-**
At 31 December 2013	**(23)**	**22**
Impairment		
At 1 April 2013 and 31 December 2013	**-**	**7**
Net book value		
At 31 December 2013	**(23)**	**15**
At 31 March 2013	(20)	19

Notes to the Financial Statements

14. Fixed asset investments (continued)

Participating interests

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

		31 December 2013		31 March 2013
	£M	**£M**	£M	£M
Share of assets				
Fixed assets	**18**		22	
Current assets	**61**		60	
		79		82
Share of liabilities				
Due within one year or less	**(98)**		(94)	
Due after more than one year	**(4)**		(8)	
		(102)		(102)
Share of net liabilities		**(23)**		(20)

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

Notes to the Financial Statements

14. Fixed asset investments (continued)

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

	Country of registration	Principal activity	Holding	Class of shares
Subsidiary undertakings				
Virgin Holdings Limited *	England & Wales	Investment holding company	100.0	Ordinary
Classboss Limited	England & Wales	Investment holding company	100.0	Ordinary
Virgin Rail Group Holdings Limited *	England & Wales	Train operator	51.0	Ordinary
Virgin Management SA *	Switzerland	Management services	100.0	Ordinary
Virgin Healthcare Holdings Limited *	England & Wales	Health service provider	93.8	Ordinary
VML 2 Limited *	British Virgin Islands	Investment holding company	100.0	Ordinary
Virgin Atlantic Limited *	England & Wales	Flight and holiday operator	51.0	Ordinary
			51.0	Preference
Barfair Limited *	England & Wales	Investment holding company	100.0	Ordinary
Vanson Developments Limited *	England & Wales	Investment holding company	100.0	Ordinary
Virgin Management Limited *	England & Wales	Management services	100.0	Ordinary
Virgin Models Limited *	England & Wales	Investment holding company	100.0	Ordinary
Voyager Group Limited *	Engalnd & Wales	Investment holding company	100.0	Ordinary
			100.0	Preference
Necker Island BVI Limited *	British Virgin Islands	Hotel operator	100.0	Ordinary
Virgin Life Care Investments Limited *	England & Wales	Health and rewards program	91.15	Ordinary
Virgin Management USA Inc *	USA	Management services	100.0	Common stock
Virgin Sky Investments Limited *	England & Wales	Investment holding company	100.0	Ordinary
Vexair Limited *	England & Wales	Investment holding company	100.0	Ordinary
Virgin Management Asia Pacific Pty Limited *	Australia	Management services	100.0	Ordinary
Bluebottle UK Limited *	England & Wales	Investment holding company	100.0	Ordinary
Bluebottle Investments (UK) Limited *	England & Wales	Investment holding company	100.0	Ordinary
Virgin Cinemas Group Limited *	England & Wales	Investment holding company	100.0	Ordinary
			100.0	Preference
VEL Holdings Limited *	England & Wales	Investment holding company	100.0	Ordinary
Virgin Enterprises Limited *	England & Wales	Brand licensing	100	Ordinary
Virgin Hotels Group Limited *	England & Wales	Hotel operator	100.0	Ordinary
Virgin Insight Limited *	England & Wales	Procurement services	100.0	Ordinary
Joint ventures				
Omer Telecom Limited * ^	England & Wales	Mobile phone operator	46.4	Ordinary
Trade investments				
Air Nigeria Development Limited * ^^	Nigeria	Flight operator	49.0	Ordinary

* Indirectly held investment
^ Virgin and Carphone Warehouse each own or control 46.4% of the voting rights but 46.2% of the economic rights. The remaining 7.2% of voting rights and 7.6% of economic rights are held by a third parties.
^^ The Group's interest in Air Nigeria Development Limited is classified as trade investments as the Group is unable to exercise significant influence as a result of the position of the major shareholders.

Notes to the Financial Statements

15. Stocks

	Group		Company	
	31 December 2013 £M	31 March 2013 £M	**31 December 2013 £M**	31 March 2013 £M
Raw materials	**-**	3	**-**	-
Work in progress	**-**	3	**-**	-
Finished goods and goods for resale	**10**	2	**-**	-
Aircraft consumable spares	**35**	37	**-**	-
	45	45	**-**	-

16. Debtors

	Group		Company	
	31 December 2013 £M	31 March 2013 £M	**31 December 2013 £M**	31 March 2013 £M
Due after more than one year				
Amounts owed by related undertakings	**59**	52	**-**	-
Other debtors	**41**	38	**-**	-
Prepayments and accrued income	**16**	18	**-**	-
Due within one year				
Trade debtors	**209**	250	**-**	-
Amounts owed by related undertakings	**66**	224	**111**	104
Other taxation and social security	**16**	16	**-**	-
Other debtors	**287**	270	**-**	-
Prepayments and accrued income	**108**	98	**-**	-
Deferred tax asset	**1**	2	**-**	-
	803	968	**111**	104

Notes to the Financial Statements

17. Creditors: Amounts falling due within one year

	Group		Company	
	31 December 2013 £M	31 March 2013 £M	**31 December 2013 £M**	31 March 2013 £M
Secured bank loans (note 18)	**15**	54	-	-
Other bank loans and overdrafts	**2**	3	-	-
Net obligations under finance leases and hire purchase contracts	**3**	3	-	-
Tradc creditors	**116**	154	-	-
Amounts owed to related undertakings	**245**	394	**2,579**	2,524
Corporation tax	**14**	14	-	-
Other taxation and social security	**23**	18	-	-
Other creditors	**161**	146	-	-
Accruals and deferred income	**840**	939	-	-
	1,419	1,725	**2,579**	2,524

Included within other creditors due within one year is an amount of £3million (31 March 2013: £12million) relating to margin calls on open derivative positions.

18. Creditors: Amounts falling due after more than one year

	Group		Company	
	31 December 2013 £M	31 March 2013 £M	**31 December 2013 £M**	31 March 2013 £M
Secured bank loans	**324**	334	-	-
Other bank loans and overdrafts	**4**	6	-	-
Net obligations under finance leases and hire purchase contracts	**4**	8	-	-
Accruals and deferred income	**37**	40	-	-
Shareholder loans	**4**	4	-	-
	373	392	-	-

Notes to the Financial Statements

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

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

	Group	
	31 December 2013 £M	31 March 2013 £M
Between one and five years	**4**	8

The Company has no commitments under finance lease and hire purchase contracts (Year ended 31 March 2013: £nil).

Financing

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

As at the balance sheet date, 31 December 2013, £300million was drawn down under the Facility (31 March 2013: £342million). The Facility will reduce to £250million on 30 June 2016. The final maturity date is 31 December 2016, although subject to mutual agreement between lender and borrowers, there is an option to extend this to 31 December 2017.

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

Interest is payable on amounts drawn under the Facility by reference to the London Inter Bank Offered Rate (LIBOR) for borrowings in Sterling or US Dollar, by reference to the Bank Bill Swap Reference Rate (BBSW) for borrowings in Australian Dollar, by reference to the Johannesburg Interbank Agreed Rate (JIBAR) for borrowings in South African Rand and by reference to the Euro Interbank Offered Rate (EURIBOR) for borrowings in Euro in each case plus a margin and mandatory costs. The margin is linked to the amount outstanding under the Facility, ranging from 3.00% to 4.75% and as at 31 December 2013 was 3.45% (31 March 2013: 3.75%).

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

On 24 December 2008, the Group entered into a £14million amortising term loan facility with Lloyds TSB Bank plc. On 30 November 2013 the outstanding amount of this loan was increased by a further £2million, and as at 31 December 2013 the balance was £8million (31 March 2013: £8million). The loan is repayable by 24 December 2016 and repayment instalments are £3million due annually on 24 December. Under the terms of the loan agreement, interest is payable on amounts drawn at LIBOR plus a margin of 2.30% per annum and mandatory costs.

Notes to the Financial Statements

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

Other secured loans

Virgin Atlantic has secured bank loans totalling £25million (31 March 2013: £24million) secured by mortgages over certain aircraft. None (31 March 2013: £9million) of these loans fall due for repayment after five years. The interest rates charged for the year are in the range from 3.00% - 3.35% above US$ LIBOR.

Necker Island (BVI) Limited has a secured bank loan to the value of £11million (31 March 2013: £12million) of which £8million (31 March 2013: £7million) is due for repayment after five years. The interest rate on this loan was 2.5% (Year ended 31 March 2013: 2.5%) above US$ LIBOR. The loan is secured on the island.

Virgin Hotels Group Limited has a secured bank loan of £10million (31 March 2013: £11million) of which none (31 March 2013: £10million) is due for repayment after five years. The interest rates in the year were fixed interest rates ranging from 1.35% to 1.86%. The loan is secured on the land and buildings of Verbier Lodge.

Financial instruments

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

US$66million interest rate swap at a fixed rate of 4.225%
£87.5million interest rate swap at a fixed rate of 4.425%
AU$170million interest rate swap at a fixed rate of 7.07%

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

Notes to the Financial Statements

19. Deferred taxation

Deferred tax liability

	31 December Period ended 31 December 2013 £M	31 March Year ended 31March 2013 £M
At beginning of year	**34**	60
Released during the year	**(8)**	(25)
Adjustments in respect of prior year	**(1)**	(1)
At end of year	**25**	34

The elements of deferred taxation are as follows:

	31 December 2013 Cumulative provided £M	**31 December 2013 Cumulative unprovided £M**	31 March 2013 Cumulative provided £M	31 March 2013 Cumulative unprovided £M
Accelerated capital allowances	**49**	**(2)**	72	(3)
Other timing differences	**(4)**	**-**	(6)	(1)
Tax losses	**(21)**	**(103)**	(34)	(126)
	24	**(105)**	32	(130)
Deferred tax asset	**(1)**	**(105)**	(2)	(130)
Deferred tax liability	**25**	**-**	34	-
	24	**(105)**	32	(130)

£1million (31 march 2013: £2million) of the deferred tax asset cannot be offset against the deferred tax liability and is, therefore, included in debtors.

Reductions in the UK tax rate from 23% to 21% (effective from 1 April 2014) and from 21% to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. A rate of 20% has been used within the deferred tax calculations within these financial statement.

Notes to the Financial Statements

20. Provisions

	Aircraft maintenance £M	Legal and other £M	Restructuring costs and onerous leases £M	Total £M
Group				
At 1 April 2013	140	14	11	165
Amounts used	(24)	(9)	(2)	(35)
Amounts charged/(released)	31	4	(1)	34
Reclassifications	2	4	-	6
Foreign exchange translation	(10)	-	-	(10)
At 31 December 2013	139	13	8	160

Aircraft maintenance

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

Legal and other

£11million (31 March 2013: £12million) represents the estimated outstanding cost arising from the settlement of civil actions against Virgin Atlantic Airways Limited. The information usually required by Financial Reporting Standard 12 for these litigation provisions is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation.

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

Restructuring costs and onerous lease provisions

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

Restructuring costs and onerous leases provisions principally comprise of the following:

Virgin Atlantic Airways Limited's onerous lease provisions and potential dilapidation costs of £3million (31 March 2013: £4million).

£1million (31 March 2013: £1million) of dilapidations costs relates to costs required to be incurred by Virgin Rail Group Holdings Limited at properties leased by West Coast in accordance with lease obligations. These costs are expected to be incurred by the end of the West Coast franchise as extended by the Interim Franchise Agreement.

£2million (31 March 2013: £2million) relates to Virgin Enterprises Limited's onerous lease provision.

£2million (31 March 2013: £3million) relates to Cribyn Limited's onerous lease provision.

Notes to the Financial Statements

21. Share capital

	31 December 2013 £M	31 March 2013 £M
Allotted, called up and fully paid		
421,023,992 ordinary shares of £1 each	421	421

22. Reserves

Group	Share premium account £M	Profit and loss account £M
At 1 April 2013	1	(267)
Profit for the financial period	-	60
Net unrealised gain on disposal of investments	-	20
Currency translation differences on net foreign currency investments	-	5
At 31 December 2013	1	(182)

Company	Share premium account £M	Profit and loss account £M
At 1 April 2013	1	(313)
Loss for the financial period	-	(48)
At 31 December 2013	1	(361)

Notes to the Financial Statements

23. Reconciliation of movement in shareholders' funds

Group	31 December 2013 £M	31 March 2013 £M
Opening shareholders' funds	155	47
Profit for the financial period/year	60	106
Share premium on shares issued (net of expenses)	-	1
Net unrealised gain on disposal of investments	20	-
Currency translation differences on net foreign currency investments	5	1
Closing shareholders' funds	240	155

Unrealised gain on disposal of investments relates to the disposal of Virgin Money (Australia) Pty Limited for consideration of £20million, resulting in an unrealised gain on disposal of £20million.

Company	31 December 2013 £M	31 March 2013 £M
Opening shareholders' funds	109	191
Loss for the financial period/year	(48)	(83)
Share premium on shares issued (net of expenses)	-	1
Closing shareholders' funds	61	109

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

24. Minority interests

Equity	£M
At 1 April 2013	(49)
Minority interests share of proft after taxation for the year	(4)
Dividends paid to minority interests	8
At 31 December 2013	(45)

Notes to the Financial Statements

25. Contingent liabilities

In accordance with the Interim Franchise Agreement for West Coast, Virgin Rail Group Limited has procured a performance bond in favour of the DfT for West Coast. The West Coast bond has been issued by ACE European Group Limited for up to £21million (31 March 2013: £21million).

Virgin Voyager Limited and Voyager Group Limited guarantee the operating lease commitments in relation to various properties leased by Virgin Active Group Limited, Virgin Clubs Limited and Virgin Management Limited. The total aggregate liability is £48million (31 March 2013: £90million).

Virgin Holdings Limited has given the following guarantees:

Beneficiary	**Obligation**	**Aggregate Liability**
Standard Life Investment Funds	Various Virgin Active Holdings Limited property subleases	£14million
Virgin Galactic customers	Aggregate Virgin Galactic customer deposits	$88million
NHS Surrey Primary Care Trust	Provision of community health services	£9million
New Devon CCG	Provision of community health services	£5million
Nozee Limited	Obligations and amounts payable in relation to the sale of Virgin Games' assets	£10million

26. Capital commitments

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

	Group		**Company**	
	31 December 2013 £M	31 March 2013 £M	**31 December 2013 £M**	31 March 2013 £M
Contracted for but not provided in these financial statements	**2,274**	2,488	**-**	-

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

Notes to the Financial Statements

27. Pension commitments

Defined contribution plans

Virgin Atlantic Limited operates defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The total expense relating to these plans in the current period was £21million (Year ended 31 March 2013: £22million). There were no outstanding or prepaid contributions at period end (31 March 2013: £nil).

Virgin Management Limited operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in independently administered funds. The total expense relating to the plan in the current year was £1million (Year ended 31 March 2013: £1million). There were no outstanding or prepaid contributions at year end (31 March 2013: £nil).

Virgin Healthcare Holdings Limited operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in independently administered funds. The total expense relating to the plan in the current year was £10million (Year ended 31 March 2013: £8million). There were no outstanding or prepaid contributions at year end (31 March 2013: £nil).

Defined benefit plans

Rail scheme

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

Net pension liability	**31 December 2013 £M**	31 March 2013 £M
Present value of defined benefit obligations	**(570)**	(553)
Fair value of section assets	**400**	383
Deficit in section	**(170)**	(170)
Members share of section	**68**	68
Franchise adjustment	**101**	101
Deficit recognised by the Group	**(1)**	(1)
Related deferred tax asset	**-**	-
Net pension liability	**(1)**	(1)

Notes to the Financial Statements

27. Pension commitments (continued)

Movements in present value of defined benefit obligation	31 December 2013 £M	31 March 2013 £M
At beginning of year	553	478
Employer share of current service cost	12	15
Member share of current service cost	8	9
Interest cost	20	23
Benefits paid	(11)	(13)
Actuarial (gains)/losses	(12)	41
At end of year	570	553

Movements in fair value of section assets	31 December 2013 £M	31 March 2013 £M
At beginning of year	383	347
Expected return on section assets	20	25
Contributions by employer	9	11
Contributions by members	5	7
Benefits paid	(11)	(13)
Actuarial (losses)/gains	(6)	6
At end of year	400	383

Expense recognised in the profit and loss account	31 December 2013 £M	31 March 2013 £M
Current service cost	12	15
Expected return on section assets	(12)	(15)
Interest on section liabilities	12	14
Interest credit on franchise adjustment	(4)	(4)
	8	10

Notes to the Financial Statements

27. Pension commitments (continued)

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

	31 December 2013 £M	31 March 2013 £M
Administrative expenses - staff costs	12	15
Other finance income	(4)	(5)
	8	10

Amounts recognised in the statement of total recognised gains and losses

The total amount recognised in the consolidated statement of total recognised gains and losses in respect of actuarial gains and losses is £nil (Year ended 31 March 2013: £nil).

Cumulative actuarial gains/losses reported in the consolidated statement of total recognised gains and losses since 1 March 2004 are £2million gain (Year ended 31 March 2013: £2million gain).

Movement in deficit recognised by Group	31 December 2013 £M	31 March 2013 £M
At beginning of year	(1)	(1)
Current service cost	(12)	(15)
Contributions	9	11
Other finance income	4	5
Actuarial loss	-	-
Deficit at start of Interim Franchise Agreement	(1)	(1)
	(1)	(1)

Fair value of section assets	31 December 2013 £M	31 March 2013 £M
Equities	168	162
Bonds	65	62
Property	39	36
Other	128	123
	400	383
Actual return on section assets	14	31

Future contributions

The Group currently expects to pay contributions of £10million in the period to 8 November 2014.

Notes to the Financial Statements

27. Pension commitments (continued)

Actuarial assumptions

Principal actuarial assumptions at the balance sheet date were as follows:

	31 December 2013 %	31 March 2013 %
Rate of increase of salaries	**4.3**	4.3
Rate of increase in pensions in payment and deferred pensions	**2.3**	2.3
Discount rate	**4.5**	4.6
Inflation assumption	**3.3**	3.3
CPI inflation assumption	**2.3**	2.3
Long term rate of return expected on		
- Equities	**8**	8.0
- Bonds	**4.3**	3.9
- Property	**7.5**	7.5
- Other	**7.0**	7.0
- Overall	**7.0**	7.0

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

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

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

History of sections

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

Balance sheet	**31 December 2013 £M**	31 March 2013 £M	31 March 2012 £M	31 March 2011 £M	31 March 2010 £M
Present value of section liabilities	**(570)**	(553)	(478)	(385)	(387)
Fair value of section assets	**400**	383	347	327	294
Deficit in section	**(170)**	(170)	(131)	(58)	(93)
Members share of section	**68**	68	52	23	37
Franchise adjustment	**101**	101	78	32	53
Deficit recognised by Group	**(1)**	(1)	(1)	(3)	(3)

Notes to the Financial Statements

27. Pension commitments (continued)

Experience adjustments	**31 December 2013**	31 March 2013	31 March 2012	31 March 2011	31 March 2010
Experience adjustments on section assets:					
amount (£m)	(4)	4	(8)	3	36
percentage of section assets	(1%)	1%	(2%)	1%	12%
Experience adjustments on section liabilities:					
amount (£m)	3	(8)	1	1	(2)
percentage of present value of section liabilities	1%	(1%)	-		(1%)

28. Operating lease commitments

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

	Land and buildings		**Aircraft and other**	
	31 December 2013	31 March 2013	**31 December 2013**	31 March 2013
Group	**£M**	£M	**£M**	£M
Expiry date:				
Within 1 year	19	6	125	9
Between 2 and 5 years	12	26	46	192
After more than 5 years	12	12	133	145
Total	43	44	304	346

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

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

Other commitments

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

Notes to the Financial Statements

29. Reconciliation of operating profit/(loss) to operating cash flows

	31 December 2013 £M	31 March 2013 £M
Operating profit	73	98
Depreciation, amortisation and impairment charges	25	89
Increase in stocks	(2)	-
Decrease in debtors	163	101
Decrease in creditors	(343)	(67)
Decrease in provisions	(2)	(30)
Difference between employer pension contributions and amounts recognised in the profit and loss account	4	4
Net cash inflow from operating activities	(82)	195

30. Analysis of net debt

	At 31 March 2013 £M	Cash flow £M	Exchange movements £M	Other non cash changes £M	At 31 December 2013 £M
Cash in hand, at bank	655	(126)	6	-	535
Overdrafts	(1)	1	-	-	-
	654	(125)	6	-	535
Debt due with one year	(56)	(2)	-	41	(17)
Debt due after one year	(344)	20	34	(42)	(332)
Finance leases	(11)	3	1	-	(7)
Group funding	(377)	(64)	3	210	(228)
Total	(134)	(168)	44	209	(49)

31. Analysis of cash flows

	31 December 2013 £M	31 March 2013 £M
Returns on investments and servicing of finance		
Interest received	3	5
Interest paid	(26)	(48)
Dividends paid to minorities	(8)	(22)
Net cash outflow from returns on investments and servicing of finance	(31)	(65)

Notes to the Financial Statements

31. Analysis of cash flows (continued)

	31 December 2013 £M	31 March 2013 £M
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(60)	(103)
Purchase of intangible fixed assets	(6)	(11)
Sale of intangible fixed assets	3	18
Repayments from joint ventures	2	4
Funding provided to related undertakings	(11)	(3)
Repayments from related undertakings	-	5
Net cash outflow from capital expenditure	(72)	(90)

	31 December 2013 £M	31 March 2013 £M
Acquisitions and disposals		
Purchase of subsidiary undertakings	-	(2)
Net cash balances acquired with subsidiary	-	3
Sale of subsidiary undertakings	20	-
Net cash balance disposed with subsidiary	(2)	-
Sale of other investments	5	2
Net cash inflow from acquisitions and disposals	23	3

	31 December 2013 £M	31 March 2013 £M
Financing		
Funding from related undertakings	110	105
Repayments to related undertakings	(46)	(4)
Debt due within one year:		
Net drawdowns/(repayments) on bank loans	2	(76)
Debt due after more than one year:		
Net repayments on bank loans	(20)	(49)
Settlement of share options	-	(5)
Capital elements of finance lease rental payments	(3)	(3)
Net cash outflow from financing	43	(32)

Notes to the Financial Statements

32. Acquisitions and Disposals

Disposals

On 30 April 2013, Virgin Money (Australia) Pty Limited was sold to Bank of Queensland Limited for a consideration of £20million (AUD$30million), settled through the issue of ordinary shares in Bank of Queensland Limited. The contribution to the results of these financial statements for the period to the transaction date of 30 April 2013 was a loss of £0.7million (AUD$1million) 2013: £3million (AUD$4million). The disposal resulted in an unrealised gain on disposal of £20million which has been recognised in the consolidated statement of total recognised gains and losses.

	£M
Net Liabilities (100%)	**(1)**
Goodwill	**1**
Gain on disposal	**20**
Net consideration received	**20**
Satisfied by	
Shares	20

Notes to the Financial Statements

33. Related party transactions

As at 31 December 2013, the Company's ultimate parent company was Virgin Group Holdings Limited, whose principal shareholders are Sir Richard Branson and certain trusts, none of which individually has a controlling interest in Virgin Group Holdings Limited. The principal beneficiaries of those trusts are Sir Richard Branson and/or members of his immediate family. Virgin Group Holdings Limited is incorporated in the British Virgin Islands. The shareholders of Virgin Group Holdings Limited have interests directly or indirectly in certain other companies which are considered to give rise to related party disclosures under Financial Reporting Standard 8.

The Group has taken advantage of the exemption within Financial Reporting Standard 8 which allows transactions entered into by wholly owned Group subsidiaries to be excluded from disclosure. The following is a summary of material transactions and balances by the Group with related entities, which are required to be disclosed by Financial Reporting Standard 8:

	Turnover	Purchases	Interest receivable	Debtors	Creditors	Dividends received
	£M	£M	£M	£M	£M	£M
Companies related by virtue of common control or ownership						
Virgin America Inc	-	-	4	59	-	-
Virgin Media Ltd	8	-	-	-	-	-
Virgin Australia Holdings Ltd	8	(14)		2	(1)	
Companies related by virtue of being joint ventures or associates of the Group						
Omer Telecom Ltd	1	-	-	18	-	-
Activetopco Ltd	10	-	-	10	-	-
Virgin Money Holdings (UK) Ltd	17	-	-	4	-	-
Companies related by virtue of being investors in the Group						
Delta Airlines Ltd	-	-	-	-	-	1
Stagecoach Group Ltd	-	(1)	-	-	-	9
Assura Group Ltd	-	-	-	-	(4)	-

34. Controlling party

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