LOW COST
GREAT SERVICE
TRUE VALUE
First of all, I’d like to welcome all shareholders to the inaugural annual report from Virgin Blue, Australia’s leading national low-cost airline. Virgin Blue was founded to make air travel affordable for all Australians. Since we first took to the skies in August 2000, we have brought low fares to over 20 million guests.

Over the past 12 months, Virgin Blue has continued to grow significantly and trade profitably. Passengers increased by 53 percent, traffic was up by 61 percent and capacity rose by 55 percent. We retained our position among the world’s most profitable airlines by recording EBITDAR and PBT margins which were among the highest recorded by any airline in the world. Our net profit after tax was $158.5 million, an increase of 47 percent over the previous year.

As at 31 March 2004, we had 44 aircraft flying 43 routes to 22 destinations. Our extensive network around Australia makes Virgin Blue the only low-cost carrier in the world offering national coverage. In January 2004, we commenced flying between Australia and New Zealand under the brand, Pacific Blue.

Virgin Blue will continue to offer value for money to our guests by increasing frequencies on our existing routes, launching routes to new destinations and expanding our international presence. Our strong brand, low-cost model and unique culture will enable us to continue pursuing profitable growth opportunities during the years to come.

Chris Corrigan
Chairman

Virgin Blue Holdings Limited
ACN 100 686 226
Everyone at Virgin Blue is focused on delivering the very best service at the lowest possible cost. We readily spend money on those things we regard as essential, such as aircraft, maintenance and training. But by eliminating many other traditional airline expenses, we are able to keep our costs low, which in turn, allows us to offer consistently low fares.

Virgin Blue’s low cost structure is underpinned by:

• our modern, single-type aircraft fleet;
• competitive aircraft purchase cost arrangements;
• cost-effective and functional airport facilities;
• efficient sales, distribution and booking systems;
• competitive and flexible workplace agreements; and
• the elimination of expensive, non-essential service add-ons.

Single type of aircraft

Flying a modern, single type of aircraft enables us to minimise the complexity of our operations (including spare parts and training), take advantage of economies of scale and achieve high utilisation rates. The average age of Virgin Blue’s fleet of Boeing 737-700 and 737-800 Next Generation planes is under two years, making it one of the world’s youngest airline fleets. In addition to providing fuel efficiencies, younger aircraft reduce maintenance costs and aircraft down time.

Aircraft at highly competitive prices

As at 31 March 2004, under our December 2002 agreement with Boeing, we had access to a further 43 737-700/800 Next Generation aircraft at highly competitive prices, ensuring the continued expansion of our fleet while maintaining our low cost base. We have already purchased 10 aircraft under this Agreement and have another seven on order.

Cost-effective terminal access

Our low-cost model is further reinforced by agreements we have reached with the key airports around Australia – Brisbane, Sydney and Melbourne. These provide us with cost-effective access to the terminal space we require, both now and as we continue to grow our business.

Ticketless booking system

Distribution and bookings costs are minimised by operating a low-cost, ticketless booking system. With around 90 percent of Virgin Blue fares booked via the internet, the most cost-effective distribution medium, we are able to consistently charge low fares.

Flexible workplace agreements

Operational economies are facilitated by our competitive and flexible workplace agreements. These agreements provide us with the latitude to cross-train and multi-task our staff.

A “user-pays” concept

At every level, Virgin Blue’s low-cost model has been driven by the elimination of “free” non-essential services. Our service offering has been designed around a “user-pays” concept. A range of services is available to those guests who choose them, at a fee that covers the cost of providing that service.

We will continue to enhance Virgin Blue’s value to both business and leisure guests by offering more frequencies and more destinations across the network. By maintaining our vigorous commitment to cost management, we will remain price-competitive while continually striving to maximise profitability.

We will continue to grow our business aggressively by actively pursuing profitable growth opportunities. The addition of another five aircraft to our fleet by March 2005 will allow us to increase frequencies on existing routes, as well as offer new services. We will continue to focus on securing an increasing share of the high-yielding business market. We are increasing the frequency of services on key business routes, and maintaining our commitment to on-time performance. Our Blue Room lounges are now up and running, and we expect that these, together with other service enhancements such as Blue Zone seating, Express Check-In and Valet Parking, will enable us to continue to attract a growing number of corporate customers.

Continuing significant growth

Over 10 million passengers

Virgin Blue carried over 10 million passengers during the year, an increase of 53 percent. Another significant milestone was passed in April 2004 when we welcomed aboard our 20-millionth passenger, doubling our passenger numbers in a third of the time it took to clock-up our 10-millionth passenger in 2003.

RPKs up 61 percent, ASKs up 55 percent

During 2004 Financial Year, Virgin Blue traffic, as measured by RPKs, increased by 61 percent to 11,584 million. Capacity (as measured by ASKs) increased by 55 percent to 14,024 million. Load Factor remained strong at 82.6 percent for the year.

Profit up 47 percent

Virgin Blue’s revenue for 2004 Financial Year was $1,362.3 million, up 43 percent from the previous year. EBITDA was up 43 percent to $409.5 million, while Profit Before Tax was up 45 percent to $226.2 million. Our continued focus on costs enabled us to report a record Net Profit After Tax of $158.5 million, up 47 percent.

15 new aircraft in 2004 Financial Year

As at 31 March 2004, Virgin Blue’s fleet comprised 44 Boeing Next Generation 737-700 and 737-800 aircraft. Of these, 36 were leased and eight were owned. During 2004 Financial Year, we increased our fleet by 15 aircraft. The average number of aircraft in operation throughout the year increased from 24.1 to 34.9.

In a competitive environment, our unique low-cost business model allows us to aggressively pursue profitable new growth opportunities.
In less than four years, Virgin Blue has captured around a third of the total domestic market. This has been achieved by ensuring our cost base remains the lowest of any airline in the country, while delivering an unrivalled customer service experience.

At Virgin Blue, we have proven that low cost doesn’t mean you need to sacrifice service. Since our launch, Virgin Blue has been and will continue to remain at the forefront of innovation within Australia’s aviation industry. We led the way by encouraging guests and travel agents to book on-line via our easy-to-use internet booking system. Then we followed through with the introduction of a range of unique value-added, user-pays services.

Our renowned service culture has won us a number of prestigious awards including, most recently, the OAG Award for World’s Best Low Cost Carrier. By anticipating guest needs and market trends, we will continue to deliver innovative service enhancements and remain relevant to each of the markets that we choose to serve.

Brett Godfrey
Chief Executive Officer

NOT ONLY ARE WE KEEPING THE AIR FAIR, WE ARE REVOLUTIONISING THE AVIATION BUSINESS
Virgin Blue offers a range of unique user-pays service enhancements. These initiatives allow guests to enjoy the services which are important to them, without raising the cost to guests who simply want a low-priced seat. All service and product initiatives are required to at least cover their costs. Key service enhancements currently offered include Blue Room Lounges, Blue Zone seating, on-board sales and Blue Holidays packages.

Any guest looking for a little extra legroom can pay a small premium and upgrade to a seat in one of our Blue Zones (located at the front row of the aircraft and next to the emergency exits). The new Blue Zone seats available on each flight offer guests what has traditionally been business class legroom. Blue Zone seats can be secured for an additional $30 a sector. Guests can request an upgrade to Blue Zone by phoning our Guest Contact Centre on 13 6789 once they have purchased their tickets.

As part of our effort to keep our costs down, Virgin Blue does not provide so-called “free” meals on board. However, we do offer a range of mid-flight munchies and tummy terrorsers from our “A la Cart” in-flight menu.

Virgin Blue operates a low-cost, ticketless booking system which enables us to minimise sales and distribution costs. Instead of a traditional paper ticket, we issue a booking number. When guests check in at the airport, all they have to do is quote this number and confirm their identity.

Almost 90 percent of Virgin Blue fares are booked via the internet, one of the highest proportions of on-line airline seat sales in the world. Because we sell such a high proportion of our seats through the highest-cost distribution medium, we are able to continue to offer lower fares. As well as being inexpensive, internet booking is easy. Should a guest or travel agent need to make or change a booking, all they have to do is visit www.virginblue.com.au if they’d prefer to book a flight over the phone, for just $10 more per sector, they can call 13 6789 (the easy-to-remember number emblazoned on our planes) and talk to a member of Virgin Blue’s award-winning Guest Contact Centre.

In 2003, when we discovered an anomaly in Virgin Blue’s Blue Room Lounge system, we voluntarily notified the Civil Aviation Safety Authority (CASA). This anomaly, which related to the recording of serial numbers for parts and spares that are due for expiry in five years, had no impact on the safety of Virgin Blue aircraft and had no material impact on Virgin Blue’s financial or operational performance.

We recently completed the upgrade of our maintenance record system to accommodate future growth and do not believe the matter will have any further consequences.

**Why Compromise? User-Pays Allows Us to Offer Low Fares, with Full Service**

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VIRGIN BLUE’S ENTREPRENEURIAL SPIRIT, ENTHUSIASM AND VIBRANT CULTURE WINS A BIGGER SHARE OF THE MARKET

One of Virgin Blue’s key advantages is the enthusiasm, commitment and productivity of our workforce. Our strong culture is a product of our intensive recruiting procedures and a shared belief in the values of our Company.

As at 31 March 2004, we employed 3,440 people throughout Virgin Blue, Pacific Blue and Virgin Tech, our Melbourne-based line maintenance facility.

We invest a significant amount of time and money identifying and recruiting people with specific characteristics consistent with our culture. After our staff come on board, we reinforce this culture through extensive training and performance management.

Virgin Blue strives to maintain close links between management and staff at all levels by always keeping our lines of communication open. The result is close teamwork, strong leadership, high levels of proactivity, high levels of customer service and very high levels of customer satisfaction.

Members of the senior management team regularly visit the various ports around the Virgin Blue network to make sure they retain close working relationships with all our staff. By supporting this with an open-door policy and a professional and relaxed working environment, we believe the foundation is set for a happy and productive workplace.
THEY CAN COPY OUR PLANES, THEY CAN COPY OUR FARES, BUT THEY CAN’T COPY OUR CULTURE
VIRGIN BLUE’S LOW-COST STRUCTURE IS UNDERPINNED BY THE ELIMINATION OF EXPENSIVE, NON-ESSENTIAL ADD-ONS

In 2004, Virgin Blue achieved a record net profit after tax of $158.5 million, an increase of 47 percent year on year. Our EBITDAR (earnings before interest, tax, depreciation, amortisation and aircraft rentals) and PBT (profit before tax) margins of 30.1 percent and 16.6 percent respectively were among the highest recorded during the period by any airline in the world.

At Virgin Blue, a key focus of the whole Company, not just the management team, is on controlling our cost base. Even though we established the business as a low cost airline, we are continually looking for new ways of reducing our cost base even further, be it through working smarter, productivity improvements, or straightforward cost management.

One of the key performance measures used in the industry is CASK – cost per Available Seat Kilometre. Our CASK fell 0.30 cents during the 2004 Financial Year to 8.16 cents. More importantly, it fell from 8.72 cents in the first half of the year, to 7.73 cents for the second half of the year as the cost benefits of the fleet expansion were driven through. This commitment to continued cost reduction has meant we have been able to maintain our operating margin despite an environment of declining yields.

Keith Neate
Chief Financial Officer

FINANCIAL HIGHLIGHTS

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<th>$ millions</th>
<th>FY2002</th>
<th>FY2003</th>
<th>FY2004</th>
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<tr>
<td>Total Revenue</td>
<td>388.3</td>
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<tr>
<td>EBITDAR</td>
<td>107.6</td>
<td>285.9</td>
<td>409.5</td>
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<td>EBITDAR Margin</td>
<td>27.7%</td>
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<tr>
<td>PBT</td>
<td>46.9</td>
<td>155.6</td>
<td>226.2</td>
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<tr>
<td>PBT Margin</td>
<td>12.1%</td>
<td>17.0%</td>
<td>16.6%</td>
</tr>
<tr>
<td>NPAT</td>
<td>34.8</td>
<td>107.8</td>
<td>158.5</td>
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OPERATING STATISTICS

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<th></th>
<th>FY2002</th>
<th>FY2003</th>
<th>FY2004</th>
</tr>
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<tbody>
<tr>
<td>Passengers Carried</td>
<td>3,178,000</td>
<td>6,591,120</td>
<td>10,063,813</td>
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<tr>
<td>Revenue Passenger Kilometres (m)</td>
<td>3,169</td>
<td>7,194</td>
<td>11,584</td>
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<tr>
<td>Available Seat Kilometres (m)</td>
<td>3,898</td>
<td>9,078</td>
<td>14,024</td>
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<tr>
<td>Load Factor</td>
<td>81.3%</td>
<td>79.3%</td>
<td>82.6%</td>
</tr>
<tr>
<td>Yield (cents)</td>
<td>12.25</td>
<td>12.71</td>
<td>11.76</td>
</tr>
<tr>
<td>Cost per ASK (cents)</td>
<td>8.82</td>
<td>8.46</td>
<td>8.16</td>
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FINANCIAL POSITION

<table>
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<tr>
<th>$ millions</th>
<th>FY2003</th>
<th>FY2004</th>
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<tbody>
<tr>
<td>Total Assets</td>
<td>609.7</td>
<td>1,456.9</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>425.7</td>
<td>895.4</td>
</tr>
<tr>
<td>Total Equity</td>
<td>184.0</td>
<td>601.5</td>
</tr>
<tr>
<td>Gearing Adjusted Net Debt/Adjusted Net Debt plus Equity(i)</td>
<td>83%</td>
<td>66%</td>
</tr>
</tbody>
</table>

(i) Adjusted to include aircraft rental expense capitalised at seven times.
Virgin Blue continued to demonstrate strong growth and profitability despite increasing domestic competition during the year.

Total revenue increased by 49 percent to $1,362 million, with passenger ticket revenue up 54 percent. Yields fell 7.5 percent during the year, a result driven largely by the introduction of 10 new aircraft during the three months from September 2003 (representing a 30 percent capacity increase) and increases in capacity on longer haul sectors.

Although yields declined 7.5 percent during the year, Virgin Blue’s focus on cost management ensured margins remained high. Our focus has been and always will be on making profitable returns.

REVENUES

EXPENDITURES

We are committed to keeping our cost base low and are continually working on ways to reduce costs further. Low costs mean we can continue to offer consistently low fares and provide many more of them across the network.

Our cost per ASK for the 2004 Financial Year was 8.16 cents, a 3.5 percent decrease from the previous year. Scale and productivity benefits became increasingly apparent during the 2004 Financial Year. Cost per ASK in the six months to September 2003 was 8.72 cents, falling to 7.73 cents in the six months to March 2004.

The Company is exposed to movements in the exchange rate. Virgin Blue uses a mixture of forward exchange contracts and options to minimise the adverse affect of currency depreciation.

Airport-related costs included the higher terminal charges relating to the move into Terminal 2 at Sydney airport, as well as the unilateral decision by Sydney Airport to change the method of charging landing fees from a Maximum Takeoff Weight (MTOW) basis to a per-passenger basis. Virgin Blue is currently appealing this decision. Airport charges are largely an uncontrollable cost imposed by airport operators and therefore remain a real concern for both Virgin Blue and the industry.

Man expense increases were in fuel, airport-related and staff costs and were essentially driven by increased production. While underlying fuel prices increased by more than 28 percent during the year, the Company was substantially hedged for the financial year at below US$30 per barrel. Fuel increases were largely due to increased fleet requirements.

Fuel-related costs included the higher terminal charges relating to the move into Terminal 2 at Sydney airport, as well as the unilateral decision by Sydney Airport to change the method of charging landing fees from a Maximum Takeoff Weight (MTOW) basis to a per-passenger basis. Virgin Blue is currently appealing this decision. Airport charges are largely an uncontrollable cost imposed by airport operators and therefore remain a real concern for both Virgin Blue and the industry.

Staff-related cost increases (which were in line with production and agreed EBA increases) were offset by continuing productivity efficiencies.

Currency

Approximately 35 percent of Virgin Blue’s expenditures are in US dollars and relate mainly to fuel, aircraft leasing and certain maintenance costs. As a result, the Company is exposed to movements in the exchange rate. Virgin Blue uses a mixture of forward exchange contracts and options to minimise the adverse affect of currency depreciation.

Because we hedged the majority of Virgin Blue’s 2004 Financial Year exposure, the Company did not fully benefit from the appreciation in the exchange rate during the period. Going forward we have eliminated any downside risk that may arise from currency depreciation for the 2005 Financial Year through the use of financial instruments.

Fuel

Fuel costs represent a significant portion of Virgin Blue’s expenditures. We have no control over the fuel price or the events that affect fuel prices, which include global economic and political events. But we do use a mixture of commodity swaps and options on Singapore Jet Fuel to hedge Virgin Blue’s exposure to movements in fuel price.

In recent months, the fuel price has reached record highs. To mitigate the impact of rising fuel prices on the business, in line with other airlines around the world, we recently introduced a fuel surcharge of $6 per sector for Virgin Blue flights, and $10 per sector for Pacific Blue flights.

Managing Currency and Fuel Exposures

World Class Margins

Cost Per ASK

Balance Sheet and Cash Flow

Cash balances increased from $127 million to $469 million during the year, giving Virgin Blue 150 days operating cash reserves as at 31 March 2004. This demonstrates continuing strong growth in the cash flow from operations, together with proceeds from the IPO.

Key capital expenditure items included the acquisition of eight aircraft from Boeing and the flight simulator facility which recently opened in Brisbane. Finance for the aircraft has been fixed at current low interest rates for the term of the facility. Virgin Blue’s net-debt to net-debt-plus-equity ratio, adjusted for off-balance sheet aircraft leases, was 66 percent, down from 83 percent as at 31 March 2003.

Strong Profitability Underpinned By Our Low-Cost Structure Generates Returns Well In Excess of the Cost of Capital
Chris Corrigan
Non-Executive Chairman
BEcons
(Age 56)

David Ryan, AO
Independent Non-Executive Director
BBus, FCPA, FAICD
(Age 50)

William Hara
Non-Executive Director
BCom, LLB
(Age 38)

David Mortimer
Independent Non-Executive Director
BEcon (Hons) FCPA
(Age 59)

David is currently responsible for Australia and New Zealand.

Group with operations throughout international freight forwarding.

Liberty was a wharf transport, was acquired by Patrick in 1999.

Shareholder and Director of
logistics throughout the world
experience in transport and

David was appointed to the Board of Virgin Blue in November 2003.

David is Chairman of Tooth & Co. as well as other residual Ascot Group limited companies. He is a Director of Transurban Holdings Limited and other Transurban Group entities. He is a Director of ABC Learning Centres Limited and is a member of the Calium Partnership Advisory Board. David was previously the Managing Director of Adsteam Marine Limited and a Director of Bankers Trust Australia Limited. David has had over 20 years of experience in investment banking. David is the Chairman of the Audit Committee and the Remuneration and Governance Committee.

David was appointed to the Board of Virgin Blue in November 2003. From 1992 to 1996, David was the Managing Director and Chief Executive Officer of the TNT Limited worldwide group. He was Deputy Chairman of Ansett Australia Holdings Limited from 1992 to 1996 and Chairman of SD Express Worldwide from 1992 to 1996. From July 1998 until its sale in July 2002, David was Chairman of Sydney Airport Corporation Limited.

David is presently Chairman of Citicorp Corporation Limited, MJA Group Limited, Crescent Capital Partners Limited and Deputy Chairman of Australia Post. He is a Director of Petsec Energy Limited, Adsteam Marine Limited, Macquarie Infrastructure Investment Management Limited, Leighton Holdings Limited and Arrow Pharmaceuticals Limited. David is a member of the Audit Committee and the Remuneration and Governance Committee.

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William is a commercial lawyer and has been Patrick Corporation’s General Counsel since July 1997.

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Independent Non-Executive Director
BBus, FCPA, FAICD
(Age 50)

David Mortimer
Independent Non-Executive Director
BEcon (Hons) FCPA
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CORPORATE GOVERNANCE

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

This statement outlines the main corporate governance policies and practices formally adopted by the Company on 10 October 2003 in preparation of the Company listing on ASX. The policies and practices of the Company are in accordance with the ASX Corporate Governance Council recommendations, unless otherwise stated.

ROLE OF THE BOARD

The role of the Board is to provide strategic guidance for Virgin Blue and effective oversight of management. The Board has also established a framework of control and a set of procedures and delegations of authority to the Chief Executive Officer and other senior executives.

The Board operates in accordance with Virgin Blue’s Constitution and Board Charter. The Board’s functions are set out in Virgin Blue’s Constitution and include:

• setting the direction, strategic and financial objectives of the Company;
• approving, reviewing the performance of and removing the Chief Executive Officer;
• monitoring senior management’s performance;
• monitoring internal control and accountability systems;
• approving and monitoring major capital expenditure, capital management, acquisitions, divestitures;
• approving compliance with regulatory requirements and ethical standards;
• approving and monitoring financial and other reporting.


COMPOSITION OF THE BOARD

The Board currently comprises eight Directors, which is made up of seven non-executive directors and the Managing Director.

Each of the directors is a senior and experienced executive with skills and experience necessary for the proper supervision and leadership of the Company. As a result of these agreements:

• Patrick Corporation is entitled to appoint one of its nominees to the Board;
• the Remuneration and Governance Committee. The performance appraisal system will be disclosed once it has been adopted and implemented.

Virgin Blue’s remuneration policy is structured to ensure the remuneration package properly reflects the person’s duties and responsibilities.

The role of the Remuneration and Governance Committee is to provide advice and assistance to the Board by:

• recommending to the Board appropriate remuneration policies and packages applicable to the Board members and the senior executives of the Company and monitoring their implementation;
• establishing systems designed to encourage corporate and individual performance;
• recommending to the Board a system of performance appraisal for directors and the Board as a whole; and
• recommending to the Board the system for the effective induction of new directors and senior executives.

The names of the members of the Remuneration and Governance Committee and their attendance at meetings are disclosed on page 21.

REMUNERATION POLICY

Virgin Blue’s remuneration policy is structured to ensure the remuneration package properly reflects the person’s duties and responsibilities and level of performance and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Executive remuneration comprises these elements:

• fixed remuneration, including superannuation;
• performance based remuneration applies where the executive is in a position to directly impact the performance of the Company. The variable pay is determined by the executive’s performance in achieving goals and competencies and the performance of the business unit or department;
• equity-based remuneration such as share options may apply. Depending on the plan, the ability to exercise options is conditional on either continuity of employment or the Company achieving certain performance hurdles.

Further details of remuneration of directors and key executives can be found on page 22.

PERFORMANCE REVIEW

The ASD Guidelines require the disclosure of the process for performance evaluation of the Board, individual directors and key executives.

Virgin Blue’s current Board was constituted in November 2003 and no formal performance appraisal was undertaken in the year ended 31 March 2004. The Board has delegated the responsibility for designing a system of performance appraisal to the Remuneration and Governance Committee. The performance appraisal system will be disclosed once it has been adopted by the Board.

CORPORATE GOVERNANCE

• has not within the last three years been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;
• has not within the last three years been a principal or employee of a material professional adviser or a material consultant to the Company or another group member;
• has not been employed by or a partner of an firm that has been the Company’s external auditor within the last three years;
• is not a significant supplier or customer of the Company or another group member, or an officer of or otherwise associated, directly or indirectly, with a significant supplier or customer;
• has no material contractual relationship with the Company or another group member other than as a director of the Company;
• is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director’s ability to act in the best interests of the Company.

Virgin Blue recognises that the ASX Corporate Governance Guidelines recommend that a listed company should have a majority of directors who are independent and that the chairperson should be an independent director. The Board as currently comprised does not comply with these recommendations. Patrick Corporation and the Virgin Group shareholders currently hold substantially more than a majority of the shares in the Company. These shareholders have participated in the growth and development of Virgin Blue and have significant interest in the Company’s continued success. Given their history, skills and the size of their investment in the Company, it is appropriate for each of these shareholders to be well represented on the Board.

Virgin Blue believes that the Board, as currently composed, has the necessary skills and expertise to ensure that the Company continues to perform strongly, notwithstanding the fact that overall composition does not meet ASX guidelines on independence.

DIRECTORS SEEKING INDEPENDENT ADVICE

A director will seek prior consultation with the independent professional adviser (including legal advice) at the Company’s expense. Except in extraordinary cases (where the director will have notified the other Board members in writing), a copy of any such advice received is to be made available to other Board members.

BOARD COMMITTEES

The Board has established two committees of Directors, the Audit Committee and the Remuneration and Governance Committee, to carry out certain tasks. Each committee has a documented charter approved by the Board, copies of which can be found on the Company’s website, www.virginblue.com.au.

The Board does not believe that additional committees are appropriate or necessary for Virgin Blue in its current form. For example, the Board has not created a formal nomination committee, but will revisit that decision from time to time as the Company continues to grow. One of the tasks often delegated to a nomination committee, that of establishing systems for performance appraisal and evaluation, has, however, been delegated to the Remuneration and Governance Committee instead.

The Board has also decided against the establishment of a separate risk management committee. Given the nature of Virgin Blue’s operations, the Board believes that risk management is a core responsibility of the entire Board. Further information in relation to Virgin Blue’s Risk Management Policy is set out below.

AUDIT COMMITTEE

The Board has established an Audit Committee which is structured as the committee consists of:

• at least three members;
• the majority of members are independent directors;
• all the members are non-executive directors;
• the chairman of the Committee is an independent director and is not Chairperson of the Board.

The role of the Audit Committee is to verify and safeguard the integrity of the Company’s financial reporting and to provide advice and assistance to the Board to allow the Board to carry out its responsibilities for:

• fulfilling its accounting, auditing and reporting obligations;
• monitor external auditors’ performance (including the independence of external auditors);
• recommending to the Board a system of performance appraisal for directors and the Board as a whole;
• investigating and analysis of key strategic, operational and compliance risks; and
• implementation of the necessary controls and policies to manage these risks.

In addition, the Board and management have designed a detailed risk management framework, which integrates risk management into all of the activities undertaken within the business. Virgin Blue is consistently identifying ways to ensure that information gathering is improved and that it is conducted in a coordinated and effective manner so that risk controls can be successfully implemented and managed. As a result, risk management forms an integral part of all decision making and an essential part of every employee’s training so that there is accountability for action, including compliance with policies and procedures.

Awareness of, and compliance with, regulation and legislation is also critical to the ongoing sustainability of the business. A compliance and risk business department has been established to coordinate risk management within the Company and to assist each department in understanding its own internal audit and risk assessment.

ETHICS AND CODES OF CONDUCT

Virgin Blue has adopted two policies, a Guide to Business Conduct which applies to all directors, staff and contractors working for Virgin Blue and a Code of Conduct which applies to directors and senior executives.

The Guide to Business Conduct formalises Virgin Blue’s belief that business objectives are best achieved through acting at all times fairly, honestly and with integrity. It contains policy statements and summaries of what is expected of staff and contractors in many key areas of business conduct.

The Code of Conduct further reflects the commitment of Virgin Blue to ethical standards and practices. This Code deals with issues specific to directors and senior executives.

Copies of both the Guide to Business Conduct and the Code of Conduct are available on the Company’s website.

SHARE TRADING POLICY

Virgin Blue has implemented a policy on securities trading which binds all Virgin Blue officers, employees and directors. In addition to ensuring that all employees and directors are aware of the legal restrictions on trading in the Company’s securities while in possession of confidential or price-sensitive information, the Policy also restricts the times when directors, officers and employees may deal in the Company’s securities.

COMMUNICATION WITH SHAREHOLDERS AND THE MARKET

Virgin Blue’s commitment to communicating with its shareholders is embedded in its Market Disclosure and Communication Policy, which contains policies and procedures designed to ensure accessibility at senior management level for compliance with disclosure obligations. Importantly, the policy addresses Virgin Blue’s responsibility to ensure its market announcements and media releases are timely and accurate, and does not omit material information and are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

In addition to the distribution of the Annual Report, information is communicated to shareholders via the Investor Information section of Virgin Blue’s website.

Further, Virgin Blue will require its external auditor to attend the Annual General Meeting and be available to answer any shareholders’ questions about the conduct of the audit and the preparation and content of the Auditor’s Report.


RISK MANAGEMENT POLICY

The Board believes that it has ultimate responsibility to ensure that the Company’s risk management systems are both in place and effective. To discharge that responsibility, the Board has issued a Risk Management Policy, a copy of which is available on Virgin Blue’s website at www.virginblue.com.au. The purpose of this Risk Management Policy is to establish a formalised system which facilitates:

• identification and analysis of key strategic, operational and compliance risks; and
• implementation of the necessary controls and policies to manage these risks.

In addition, the Board and management have designed a detailed risk management framework, which integrates risk management into all of the activities undertaken within the business. Virgin Blue is consistently identifying ways to ensure that information gathering is improved and that it is conducted in a coordinated and effective manner so that risk controls can be successfully implemented and managed. As a result, risk management forms an integral part of all decision making and an essential part of every employee’s training so that there is accountability for action, including compliance with policies and procedures.

The directors present their report together with the financial report of Virgin Blue Holdings Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 31 March 2004 and the auditor’s report thereon.

DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

<table>
<thead>
<tr>
<th>NAME</th>
<th>POSITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr Oliver Corrigan</td>
<td>Non-Executive Chairman</td>
</tr>
<tr>
<td>Mr Richard Branson</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>Mr Brett Godfrey</td>
<td>Managing Director</td>
</tr>
<tr>
<td>Mr William Hara</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>Mr David Knight</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>Mr Michael McCullough</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>Mr Stephan Murphy</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>Mr Mark Poole</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>Mr David Ryan, AO</td>
<td>Independent Non-Executive Director</td>
</tr>
<tr>
<td>Mr Peter Scarron</td>
<td>Non-Executive Director</td>
</tr>
</tbody>
</table>

Details of directors, their experience and any special responsibilities are set out on pages 17 and 18.

DIRECTORS’ MEETINGS

The number of directors’ meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

<table>
<thead>
<tr>
<th>DIRECTOR</th>
<th>BOARD MEETINGS</th>
<th>COMMITTEE MEETINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr C Corrigan</td>
<td>10</td>
<td>–</td>
</tr>
<tr>
<td>Sir R Branson</td>
<td>11</td>
<td>–</td>
</tr>
<tr>
<td>Mr B Godfrey</td>
<td>11</td>
<td>–</td>
</tr>
<tr>
<td>Mr W Hara</td>
<td>11</td>
<td>–</td>
</tr>
<tr>
<td>Mr D Knight</td>
<td>11</td>
<td>–</td>
</tr>
<tr>
<td>Mr P McCullough</td>
<td>11</td>
<td>–</td>
</tr>
<tr>
<td>Mr D Morgan</td>
<td>11</td>
<td>–</td>
</tr>
<tr>
<td>Mr S Murphy</td>
<td>11</td>
<td>–</td>
</tr>
<tr>
<td>Mr M Poole</td>
<td>11</td>
<td>–</td>
</tr>
<tr>
<td>Mr D Ryan</td>
<td>11</td>
<td>–</td>
</tr>
<tr>
<td>Mr P Scarron</td>
<td>11</td>
<td>–</td>
</tr>
</tbody>
</table>

EXECUTIVE OFFICERS

The Company—Executive officers are employed by Virgin Blue Airlines Pty Limited.

<table>
<thead>
<tr>
<th>NAME</th>
<th>POSITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr David Ryan, AO</td>
<td>Independent Non-Executive Director</td>
</tr>
<tr>
<td>Mr Mark Poole</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>Mr Peter Scarron</td>
<td>Non-Executive Director</td>
</tr>
</tbody>
</table>

EMOLUMENTS

The Remuneration and Governance Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person’s duties and responsibilities and of performance; and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. Executive directors and senior executives may receive bonuses based on the achievement of specific goals related to the performance of the consolidated entity (including operational results and cash flow). Options are also issued under certain Share Option Plans. Depending on the plan, the ability to exercise the options is conditional on either continuity of performance of the consolidated entity (including operational results and cash flow). Options are also issued under certain Share Option Plans. Depending on the plan, the ability to exercise the options is conditional on either continuity of employment or the Company achieving certain performance hurdles. Non-executive directors do not receive any performance related remuneration.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the course of the financial year were the continued strategic development and operation of the Virgin Blue group of companies. There were no other significant changes in the nature of the activities of the consolidated entity during the year.

REVIEW AND RESULTS OF OPERATIONS

Net profit after income tax for the year ended 31 March 2004 was $158.5 million which reflects a 47% increase compared with the prior year ended 31 March 2003.

In the 12 months to 31 March 2004, EBITDA (earnings before interest, tax, depreciation, amortisation and aircraft rentals) increased by 43% to $409.5 million. EBIT (earnings before interest and tax) increased by 49% to $218.3 million during the same period.

During the year, the Company listed on the Australian Stock Exchange, raising net proceeds of $371.7 million and issuing 177,777,778 new shares.

Basic earnings per share, as shown in the financial statements was 17.3 cents per share and on a diluted basis, as shown in the financial statements was 16.8 cents per share. These calculations are after deduction of amortisation of goodwill.

DIVIDENDS

In line with the prospectus dated 10 November 2003, no dividends were paid or declared by the Company to members during the financial year or since the end of the financial year.

During the year the Company completed a share buy-back which was fully franked. Refer Note 1B.

STATE OF AFFAIRS

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

| INITIAL PUBLIC OFFERING (IPO) – the Company listed on the Australian Stock Exchange on 9 December 2003. 177,777,778 new shares were issued at $2.25 per share raising net proceeds of $371.7 million in capital for the Company.

Share buy-back – on 8 December 2003 the Company undertook an equal access buy-back from existing shareholders (Patrick Corporation, Virgin Group and CU Nominees), returning aggregate proceeds of $90.4 million. The return of capital was affected through the cancellation of existing loans due from the shareholders to the Company and a cash payment to existing shareholders.

ENVIRONMENTAL REGULATION

The consolidated entity’s operations are subject to noise pollution and other similar environmental regulations. The directors believe that the consolidated entity has adequate systems in place for the management of its environmental requirements and are not aware of any breach of those environmental requirements as they apply to the consolidated entity.

EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

LIKELY DEVELOPMENTS

The directors have no comments on the likely developments in the operation of the consolidated entity and the expected results of operations because it would be likely to result in unreasonable prejudice to the Company.

DIRECTORS’ AND SENIOR EXECUTIVES’ EMOLUMENTS

The Remuneration and Governance Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person’s duties and responsibilities and of performance; and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. Executive directors and senior executives may receive bonuses based on the achievement of specific goals related to the performance of the consolidated entity (including operational results and cash flow). Options are also issued under certain Share Option Plans. Depending on the plan, the ability to exercise the options is conditional on either continuity of employment or the Company achieving certain performance hurdles. Non-executive directors do not receive any performance related remuneration.

UNISSUED SHARES UNDER OPTION

At the date of this report, the Company did not hold any unissued shares.

ORDINARY SHARES OPTIONS

The maximum number of ordinary shares available under the options is as set out in Note 15.

OPTIONS

During or since the end of the financial year, the Company granted options over unissued ordinary shares to the following directors and to the following of the five most highly remunerated officers of the Company as part of their remuneration:

<table>
<thead>
<tr>
<th>DIRECTOR</th>
<th>NUMBER OF OPTIONS GRANTED</th>
<th>EXERCISE PRICE</th>
<th>EXPIRY DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr B Godfrey</td>
<td>10,278,859</td>
<td>$2.25</td>
<td>8 December 2008</td>
</tr>
<tr>
<td>Mr R Sharrard</td>
<td>807,391</td>
<td>$2.25</td>
<td>8 December 2008</td>
</tr>
<tr>
<td>Mr D Knight</td>
<td>538,260</td>
<td>$2.25</td>
<td>8 December 2008</td>
</tr>
<tr>
<td>Mr S Swift</td>
<td>538,260</td>
<td>$2.25</td>
<td>8 December 2008</td>
</tr>
<tr>
<td>Mr B Highfield</td>
<td>538,260</td>
<td>$2.25</td>
<td>8 December 2008</td>
</tr>
<tr>
<td>Mr G North</td>
<td>282,587</td>
<td>$2.25</td>
<td>8 December 2008</td>
</tr>
</tbody>
</table>

No options were granted during the financial year. No options have been granted since the end of the financial year.

EXECUTIVE SHARE OPTION PLAN

On 9 December 2003, the Company announced the establishment of an Executive Share Option Plan (the “Plan”). The Plan provides the opportunity for employees of the Company to be granted options over unissued ordinary shares in the Company. The Plan will be governed by the terms of the Plan and a deed of deed of trust to be entered into by the Plan Trustee (being the Company) and the Plan Trustee’s nominees. The Plan Trustee will be responsible for the administration of the Plan and for ensuring that all applicable laws and regulations are complied with.

SHARES ISSUED ON EXERCISE OF OPTIONS

During or since the end of the financial year, the Company issued 10,278,859 ordinary shares under the Plan.

SHARES ISSUED ON EXERCISE OF OPTIONS

The maximum number of share options available under the Plan is as set out below:

<table>
<thead>
<tr>
<th>DIRECTOR</th>
<th>NUMBER OF SHARES</th>
<th>AMOUNT PAID ON EACH SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr B Godfrey</td>
<td>10,278,859</td>
<td>$0.0009</td>
</tr>
</tbody>
</table>

There were no other significant changes in the nature of the activities of the consolidated entity during the year.

DIRECTORS’ INTERESTS

The relevant interest of each director in the shares and options over shares issued by the companies within the consolidated entity and other related bodies corporate, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001 (Cwlth), at the date of this report is as follows:

<table>
<thead>
<tr>
<th>DIRECTOR</th>
<th>OPTIONS OVER ORDINARY SHARES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr B Godfrey</td>
<td>10,278,859</td>
</tr>
<tr>
<td>Mr R Sharrard</td>
<td>807,391</td>
</tr>
<tr>
<td>Mr D Knight</td>
<td>538,260</td>
</tr>
<tr>
<td>Mr G North</td>
<td>282,587</td>
</tr>
<tr>
<td>Mr D Ryan</td>
<td>100,000</td>
</tr>
<tr>
<td>Mr D Murphy</td>
<td>245,000</td>
</tr>
<tr>
<td>Mr M Gill</td>
<td>282,587</td>
</tr>
</tbody>
</table>

The estimated options value disclosed above is calculated at the date of grant using a Black-Scholes model.
## Directors' Report

The Company has agreed to indemnify the directors and officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as a director or an officer of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

The Company has Directors’ and Officers’ Liability insurance contracts in place, for all current and former officers of the Company (including Directors and the Company Secretaries). The directors have not included the details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' Liability insurance contracts, as such disclosure is prohibited under the terms of the contract.

### Rounding Off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors’ report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors:

Brett Godfrey
Director

Chris Corrigan
Chairman

---

## Statements of Financial Performance

For the year ended 31 March 2004

### Operating Revenue

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airline passenger ticket revenue</td>
<td>$3,122,000</td>
<td>$2,946,100</td>
</tr>
<tr>
<td>Other revenue</td>
<td>$60,116</td>
<td>$70,846</td>
</tr>
</tbody>
</table>

Total operating revenue: $3,182,116

### Operating Expenditure

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel and oil</td>
<td>$177,181</td>
<td>$130,391</td>
</tr>
<tr>
<td>Labour and staff related costs</td>
<td>$243,359</td>
<td>$182,359</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>$30,135</td>
<td>$27,400</td>
</tr>
</tbody>
</table>

Total operating expenses: $3,431,285

### Profit from Ordinary Activities before Income Tax Expense

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings before interest and tax</td>
<td>$13,933</td>
<td>$13,833</td>
</tr>
<tr>
<td>Borrowing costs</td>
<td>$4,125</td>
<td>$4,025</td>
</tr>
<tr>
<td>Dividends received</td>
<td>$90,650</td>
<td>$90,650</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>$30,135</td>
<td>$27,400</td>
</tr>
</tbody>
</table>

Total profit for the year: $114,051

### Dividends Paid

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preference dividends</td>
<td>$10,350</td>
<td>$10,350</td>
</tr>
</tbody>
</table>

---

## Statements of Cash Flows

For the year ended 31 March 2004

### Cash Flows from Operating Activities

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue</td>
<td>$3,182,116</td>
<td>$2,946,100</td>
</tr>
<tr>
<td>Operating expenditure</td>
<td>$(3,431,285)</td>
<td>$(3,072,375)</td>
</tr>
<tr>
<td>Earnings before interest and tax</td>
<td>$13,933</td>
<td>$13,833</td>
</tr>
<tr>
<td>Borrowing costs</td>
<td>$4,125</td>
<td>$4,025</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>$30,135</td>
<td>$27,400</td>
</tr>
</tbody>
</table>

Net cash provided by operating activities: $190,166

### Cash Flows from Investing Activities

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash used in investing activities</td>
<td>$550,378</td>
<td>$550,378</td>
</tr>
</tbody>
</table>

### Cash Flows from Financing Activities

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from borrowings</td>
<td>$377,813</td>
<td>$377,813</td>
</tr>
<tr>
<td>Loan (to)/from related party</td>
<td>$(4,025)</td>
<td>$(4,025)</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>$(27,400)</td>
<td>$(27,400)</td>
</tr>
<tr>
<td>Share buy-back</td>
<td>$(20,040)</td>
<td>$(20,040)</td>
</tr>
</tbody>
</table>

Net cash used in financing activities: $(91,701)

---

## Balance Sheet

### As at 31 March 2004

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>$302,603</td>
<td>$288,467</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>$592,638</td>
<td>$592,638</td>
</tr>
<tr>
<td>Total assets</td>
<td>$895,241</td>
<td>$881,105</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>$208,519</td>
<td>$208,163</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>$380,616</td>
<td>$380,616</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$589,135</td>
<td>$588,779</td>
</tr>
<tr>
<td>Net assets</td>
<td>$306,106</td>
<td>$302,326</td>
</tr>
</tbody>
</table>

---

## Notes to the Financial Statements

The Statements of Financial Performances are to be read in conjunction with the notes to the financial statements set out on pages 25 to 41.
1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of this financial report are:

(A) BASIS OF PREPARATION

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there has been a change in accounting policy as set out in Note 2, are consistent with those of the previous year.

(B) RECLASSIFICATION OF FINANCIAL INFORMATION

Deposits paid in respect of aircraft yet to be delivered have been reclassified from Other Financial Assets to Property, Plant and Equipment in the 2004 Statements of Financial Position for consistency with the current year disclosure.

(C) PRINCIPLES OF CONSOLIDATION

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

(D) REVENUE RECOGNITION

Scheduled revenue

Scheduled revenue comprises revenue from passenger ticket sales. Revenue is recognised when carriage (uplift) is performed. Scheduled revenue received in advance, together with any commission thereon, is carried forward in the Statements of Financial Position as unearned passenger revenue.

Other revenue

Other revenue comprises revenue earned from the provision of other airline related services, government mandated charges and financial assistance received and receivable from government agencies. Other revenue is recognised in the Statements of Financial Performance as it is earned.

Interest revenue

Interest revenue is recognised in the Statements of Financial Performance as it accrues.

Dividends

Revenue from dividends and distributions from controlled entities are recognised by the parent entity when they are declared by the controlled entities.

(E) GOODS AND SERVICES TAX

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included.

The net amount of GST receivable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the Statements of Financial Position.

Cash flows are included in the Statements of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(F) FOREIGN CURRENCY

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the Statements of Financial Performance in the financial year in which the exchange rates change, except where relating to acquisition of qualifying assets (see Note 19) and hedging of specific anticipated transactions.

The assets and liabilities of foreign controlled entities are translated at the rates of exchange ruling at the reporting date. Equity items are translated at historical rates.

(G) DERIVATIVES/FINANCIAL INSTRUMENTS

The consolidated entity is exposed to changes in foreign exchange rates and commodity prices from its activities, and interest rate fluctuations from borrowings. The consolidated entity uses forward foreign exchange contracts and options to hedge foreign exchange risks. The consolidated entity enters into forward purchase contracts to hedge movements in jet fuel prices. Interest rate swaps are used to hedge interest rate risk. Derivative financial instruments are not held for speculative purposes.

Hedging

Anticipated transactions

Transactions are designated as a hedge of the anticipated purchase or sale of goods or services, purchase of qualifying assets, or an anticipated interest transaction, only when they are expected to reduce exposure to the risks being hedged, and are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated.

Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction occurred as designated. Any gains or losses on the hedge transaction after that date are included in the Statements of Financial Performance.

The net amounts receivable or payable under the hedge agreements and the associated deferred gains or losses are recorded on the Statements of Financial Position from the date of inception of the hedge transaction. When recognised, the net receivables or payables are revalued using the foreign currency current at reporting date. Refer to Note 22.

(I) ACQUISITIONS OF ASSETS

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity, by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after-tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

(J) K2 CONSOLIDATION

The financial effect of this change has been brought to account in the financial statements for the Company and consolidated entity for the year ended 31 March 2004 as set out in Notes in accordance with UIG 52 “Income Tax Accounting under the Tax Consolidation System”.

All of the group members’ deferred tax balances have been recognised by the Company as the head entity.

All members of the tax consolidated group have agreed to enter into a Tax Funding Arrangement (TFA).

The main provisions of the TFA will result in the following:

• allocation of the group tax liability to all members on the basis of a Contribution Amount, being profit adjusted for permanent and timing differences;

• any deferred tax balances arising on initial application that are assumed/received by the Head Company are paid off between each Contributing Member and the Head Company;

• income tax expense based on the Contribution Amount allocations is recognised by Contributing Members.

At the time of this report, a statement had not yet been made to formally notify the ATO that the tax consolidation regime has been adopted by the consolidated entity.

(k) ACQUISITIONS OF ASSETS

Note 1(h).

(k) ACQUISITIONS OF ASSETS

The consolidated entity adopts the income statement liability method of tax effect accounting.

• income tax expense based on the Contribution Amount allocations is recognised by Contributing Members.

(l) EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity, by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after-tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

(m) ACQUISITIONS OF ASSETS

All assets acquired, including property, plant and equipment, are initially recorded at their cost at acquisition on the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Borrowing costs associated with the acquisition of qualifying assets such as aircraft and the costs associated with placing the aircraft into service are capitalised as part of the cost of the asset to which they relate as set out in Note 22.

Advance payments made in respect of aircraft purchase commitments are recorded at cost. On acquisition of the related aircraft, these payments are included as part of the cost of aircraft and are depreciated from that date.

Income tax expenditure is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred that are probable and can be measured reliably.

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years, otherwise, expensed as incurred.

All items of property, plant and equipment are carried at the lower of cost less accumulated depreciation/amortisation and recoverable amount.

(T) TAXATION

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income.

The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the Statements of Financial Position as future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses when realisation is virtually certain.

Tax consolidation legislation

It has been determined that the Company will be the head entity in a tax consolidated group comprising the Company and all of its Australian wholly owned subsidiaries from an implementation date of 1 April 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004 (continued)

Page 25

Page 26
1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent additional costs
Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years, otherwise, expensed as incurred.

(i) REVISIONS OF ACCOUNTING ESTIMATES
Revisions to accounting estimates are recognised prospectively in current and future periods only.

(ii) RECEIVABLES
The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful accounts. A general provision is also maintained. A significant proportion of the consolidated entity’s revenue is derived from credit cards. Credit card charges are normally settled within seven days and are carried at amounts due. The remainder of the consolidated entity’s trade debtors are normally settled within 45 days and are carried at amounts due.

(iii) INVESTMENTS
Maintenance spare parts are expected to be consumed in the following financial year and are carried at the lower of cost and net realisable value.
Catering, consumables, uniforms and merchandise inventory is valued at the lowest of cost and net realisable value.

(iv) INVESTMENTS
Investments in controlled entities are carried in the Company’s financial statements at the lower of cost and recoverable amount.

(v) LEASED ASSETS
Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.
Finance leases
Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Contingent rentals are written off as an expense of the accounting period in which they are incurred. Capitalised lease assets are amortised over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.
Repayments of principal reduce lease liabilities. The interest component of the lease payments is expensed.

Operating leases
Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.
Lease incentives are recognised as liabilities. Lease rental payments are allocated between rental expense and reduction of the liability, on a straight line basis, over the period of the incentive.

(vi) GOODWILL
Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired. Goodwill is amortised on a straight line basis over a period of 20 years. The unamortised balance of goodwill is reviewed at least annually. Where the balance exceeds the value of expected future benefits the difference is charged to the Statements of Financial Performance.

(vii) FINISHES
Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

(ix) INTEREST BORING LIABILITIES
Bank loans are recognised at their principal amount. Interest expense is accrued at the contracted rate and included in “Current Liabilities – Payables”.

(x) EMPLOYEE ENTITLEMENTS
Annual leave
The provision for employee entitlements to annual leave represents the amounts which the consolidated entity has a present obligation to pay resulting from employees’ services provided up to balance date. The provisions have been calculated at undiscounted amounts based on expected wage and salary rates and include related on-costs.
Long service leave
The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees’ services provided to reporting date.
The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected entitlement dates based on tenure history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities.
Superannuation plan
The consolidated entity is required to make contributions to defined contribution employee superannuation funds. Such contributions are charged to the Statements of Financial Performance as they are made.

(xi) PROVISIONS
A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

II) RECOVERABLE AMOUNT OF NON-CURRENT ASSETS VALUED ON COST BASIS
The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expressed in the reporting period in which it occurs.
Where a group of assets working together supports the generation of cash inflows, the recoverable amount is assessed in relation to that group of assets.
In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value.

III) DEPRECIATION AND AMORTISATION
Complex assets
The components of major assets that have materially different useful lives are effectively accounted for as separate assets, and are separately depreciated.

Useful lives
Items of property, plant and equipment are depreciated/amortised using the straight line method over their estimated useful lives, taking into account estimated residual values, with the exception of finance lease assets which are amortised over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.
Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

The depreciation and amortisation rates used for each class of asset are as follows:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Rate %</th>
<th>Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>11 – 20 years</td>
<td>11 years</td>
</tr>
<tr>
<td>Aircraft and aeronautical related assets*:</td>
<td>- Modifications to leased aircraft: 20 – 40%</td>
<td>20 – 40%</td>
</tr>
<tr>
<td>- Rotables and maintenance parts**:</td>
<td>7.25%</td>
<td>7.25%</td>
</tr>
<tr>
<td>- Rotables and maintenance parts not yet used*:</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>- Aircraft and landing gear***:</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Plant and equipment:</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Leased plant and equipment:</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Computer equipment:</td>
<td>33.3%</td>
<td>33.3%</td>
</tr>
<tr>
<td>Leased computer equipment:</td>
<td>33.3%</td>
<td>33.3%</td>
</tr>
</tbody>
</table>

* During the current year, the following classes of non-current assets were reclassified into a new class titled aircraft and aeronautical related assets – modifications to leased aircraft, rotables and maintenance parts, and rotables and maintenance parts not yet used.
** Rotables and maintenance parts are depreciated from the date of installation.
*** The residual life to the consolidated entity of owned aircraft is estimated to be 10 years. The owned aircraft is depreciated down to its estimated residual value of 40%.

Repairs and maintenance – leased aircraft
Routine maintenance costs including annual airframe checks are written off to the Statements of Financial Performance as incurred.

4 2 CHANGE IN ACCOUNTING POLICIES
Employee benefits
The consolidated entity has applied the revised AASB 1028 “Employee Benefits” for the first time from 1 April 2003.

The liability for wages and salaries, annual leave and sick leave is now calculated using the remuneration rates the consolidated entity expects to pay as at each reporting date, and not wage and salary rates current at reporting date. As this change resulted in an immaterial adjustment to the provision for employee benefits the amount was expensed in the Statements of Financial Performance rather than adjusted against opening retained earnings.

3 REVENUE FROM ORDINARY ACTIVITIES

<table>
<thead>
<tr>
<th>NOTE</th>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOUTH PACIFIC AIRLINES</td>
<td>1,362,316</td>
<td>914,972</td>
<td>181,946</td>
<td>13,833</td>
</tr>
<tr>
<td>OTHER</td>
<td>–</td>
<td>–</td>
<td>185,034</td>
<td>13,837</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,381,569</td>
<td>924,301</td>
<td>181,946</td>
<td>13,833</td>
</tr>
</tbody>
</table>

1,381,569 924,301 181,946 13,833
Depreciation/amortisation of:

- related assets at a weighted average rate of 5.7% (2003: nil%)

Borrowing costs were capitalised to aircraft and aeronautic assets relate to operations predominantly in Australia.

The consolidated entity operates predominantly in Australia within the airline industry. All revenue, operating profit and

7 SEGMENT REPORTING

The weighted average number included is 6,370,114.

On 8 December 2003, 20,273,580 options were converted to ordinary shares. The diluted EPS calculation includes that portion of these options assumed to be issued for nil consideration, weighted with reference to the date of conversion.

The following securities have been classified as potential ordinary shares and included in diluted earnings per share for

6 EARNINGS PER SHARE

Ordinary shares have been included in the calculation of basic earnings per share.

CLASSIFICATION OF SECURITIES AS ORDINARY SHARES

The following securities have been classified as potential ordinary shares and included in diluted earnings per share for ordinary shares only:

- options outstanding under the Executive Share Option Plan
- options outstanding under the CFO Plan

Further details of these securities are contained in Note 27.

Net tax and doubtful debts expense including movements in provision for doubtful debts

Net loss on disposal of non-current assets

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004 (continued)

5 TAXATION

(a) INCOME TAX EXPENSE

Prime facie income tax expense calculated at 30% (2003: 30%) on the profit from ordinary activities

Increase in income tax expense due to:

- non-deductible expenses
- amortisation of goodwill
- under/borrowed provision in prior year

Income tax expense related to current and deferred tax transactions of the wholly owned subsidiaries in the tax-consolidated group

Decrease in income tax expense due to:

- amortisation of equity raising costs
- non-assessable dividend received from a member of the consolidated group
- recovery of income tax expense under a tax funding arrangement

Income tax expense on the profit from ordinary activities before individually significant income tax items

Net deferred tax balances recognised by head entity in relation to wholly owned subsidiaries within the tax consolidated group upon implementation of Tax Consolidation

Recovery of income tax expense under a tax funding agreement at transition

Income tax expense attributable to profit from ordinary activities

Income tax expense attributable to profit from ordinary activities is made up of:

Current income tax provision

Deferred income tax provision

Deferred tax asset

Under/borrowed provision in prior year

Intercompany receivables under funding arrangements

CONSOLIDATED

2004 $’000

Earnings reclassification

Net profit

Basis earnings

After tax effect of interest on options

Diluted earnings

CONSOLIDATED

2004 $’000

Weighted average number of shares used as the denominator

NUMBER FOR BASIC EARNINGS PER SHARE

Ordinary shares

NUMBER FOR DILUTED EARNINGS PER SHARE

Ordinary share number

Effect of executive share options on issue

Effect of CFO options on issue

Effect of senior executive share options on issue

4,983,259

845,981,210

On 8 December 2003, 20,273,580 options were converted to ordinary shares. The diluted EPS calculation includes that portion of those options assumed to be issued for nil consideration, weighted with reference to the date of conversion.

9 INVENTORIES

Maintenance spare parts – at cost

Catering, consumables, uniforms and merchandise inventory – at cost

10 OTHER FINANCIAL ASSETS

Current

Deferred hedge exchange differences and costs

Term and other deposits

8 RECEIVABLES

Trade debtors

Less: Provision for doubtful trade debtors

Other debtors

Related entity loans – unsecured

AXL CURRENT

Controlled entity loans – unsecured

CONSOLIDATED

2004 $’000

9 INVENTORIES

4,983,259

8 RECEIVABLES

519,918

365,405

1,746

Consolidated entity operates predominantly in Australia within the airline industry. All revenue, operating profit and assets relate to operations predominantly in Australia.

7 SEGMENT REPORTING

The consolidated entity listed on the Australian Stock Exchange on 8 December 2003.

CONSOLIDATED

2004 $’000

CONSOLIDATED

2004 $’000
### 11 OTHER ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leased computer equipment – at capitalised cost</td>
<td>9,311</td>
<td>8,970</td>
<td>9,311</td>
<td>8,970</td>
</tr>
<tr>
<td>Leased plant and equipment – at capitalised cost</td>
<td>15,050</td>
<td>8,040</td>
<td>15,050</td>
<td>8,040</td>
</tr>
<tr>
<td>Aircraft and aeronautic related assets*</td>
<td>646,826</td>
<td>181,818</td>
<td>646,826</td>
<td>181,818</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(1,272)</td>
<td>(407)</td>
<td>(1,272)</td>
<td>(407)</td>
</tr>
<tr>
<td>Total</td>
<td>627,531</td>
<td>190,320</td>
<td>627,531</td>
<td>190,320</td>
</tr>
</tbody>
</table>

* As at 31 March 2004, included in aircraft and aeronautic related assets are deposits and other costs incurred in respect of aircraft which have not yet been delivered. Such costs amount to $124,293,000 (2003: $155,722,000).

Refer to Note 15 for details of security over property, plant and equipment.

### 12 PROPERTY, PLANT AND EQUIPMENT

#### RECONCILIATIONS

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>8,040</td>
<td>7,875</td>
<td>8,040</td>
<td>7,875</td>
</tr>
<tr>
<td>Aircraft and aeronautic related assets</td>
<td>188,320</td>
<td>463,449</td>
<td>188,320</td>
<td>463,449</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>16,708</td>
<td>16,458</td>
<td>16,708</td>
<td>16,458</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(570)</td>
<td>(4,496)</td>
<td>(570)</td>
<td>(4,496)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(4,496)</td>
<td>8,759</td>
<td>(4,496)</td>
<td>8,759</td>
</tr>
<tr>
<td>Total</td>
<td>212,072</td>
<td>494,465</td>
<td>212,072</td>
<td>494,465</td>
</tr>
</tbody>
</table>

The Company has no fixed assets.

### 13 INTANGIBLE ASSETS

#### Trade creditors and accruals

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade creditors and accruals</td>
<td>101,103</td>
<td>103,119</td>
</tr>
<tr>
<td>Trade creditors and accruals – related entities</td>
<td>553</td>
<td>1,830</td>
</tr>
<tr>
<td>Other creditors</td>
<td>51</td>
<td>6,683</td>
</tr>
<tr>
<td>Deferred hedge exchange differences and costs</td>
<td>9,859</td>
<td>5,727</td>
</tr>
<tr>
<td>Total</td>
<td>111,068</td>
<td>110,277</td>
</tr>
</tbody>
</table>

### 14 PAYABLES

#### Current

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans – secured</td>
<td>159,121</td>
<td>157,425</td>
<td>159,121</td>
<td>157,425</td>
</tr>
<tr>
<td>Accrued employee benefits</td>
<td>5,994</td>
<td>3,976</td>
<td>5,994</td>
<td>3,976</td>
</tr>
<tr>
<td>Non-current</td>
<td>13,432</td>
<td>2,969</td>
<td>13,432</td>
<td>2,969</td>
</tr>
</tbody>
</table>

### 15 INTEREST BEARING LIABILITIES

#### Current

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans – secured</td>
<td>112,661</td>
<td>110,377</td>
</tr>
<tr>
<td>Non-current</td>
<td>112,661</td>
<td>110,377</td>
</tr>
<tr>
<td>Total</td>
<td>225,322</td>
<td>220,754</td>
</tr>
</tbody>
</table>

### 16 PROVISIONS

#### Current

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee benefits</td>
<td>27</td>
<td>14,817</td>
<td>27</td>
<td>8,745</td>
</tr>
<tr>
<td>Other</td>
<td>11,288</td>
<td>2,669</td>
<td>11,288</td>
<td>2,669</td>
</tr>
<tr>
<td>Total</td>
<td>13,462</td>
<td>2,969</td>
<td>13,462</td>
<td>2,969</td>
</tr>
</tbody>
</table>

### STANDBY LETTERS OF CREDIT

The standby letter of credit facility is a committed facility, available to be drawn down over the next year. The standby letter of credit are secured over term deposits of an equivalent amount.

### BANK GUARANTEE

The guarantees are secured over term deposits of an equivalent amount. The amount of the standby letters of credit and bank guarantee facilities can be increased by the provision of additional security.

### AERONAUTIC FINANCES FACILITIES

These facilities are available to assist the consolidated entity to finance purchases of aeronautical assets. The facilities are secured over assets purchased and issued capital of VBN2 Pty Limited and VBN1 Pty Limited. A commitment has been made for the purchase of an additional seven aircraft for which the financing facility is currently being finalised.

### Notes to the Financial Statements

For the year ended 31 March 2004 (continued)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>8,040</td>
<td>7,875</td>
<td>8,040</td>
<td>7,875</td>
</tr>
<tr>
<td>Aircraft and aeronautic related assets</td>
<td>188,320</td>
<td>463,449</td>
<td>188,320</td>
<td>463,449</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>16,708</td>
<td>16,458</td>
<td>16,708</td>
<td>16,458</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(570)</td>
<td>(4,496)</td>
<td>(570)</td>
<td>(4,496)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(4,496)</td>
<td>8,759</td>
<td>(4,496)</td>
<td>8,759</td>
</tr>
<tr>
<td>Total</td>
<td>212,072</td>
<td>494,465</td>
<td>212,072</td>
<td>494,465</td>
</tr>
</tbody>
</table>

The Company has no fixed assets.

### Reconciliations

Reconciliations of the carrying amounts of each class of provision, except for employee benefits and restoration provision are set out below:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>8,040</td>
<td>7,875</td>
<td>8,040</td>
<td>7,875</td>
</tr>
<tr>
<td>Aircraft and aeronautic related assets</td>
<td>188,320</td>
<td>463,449</td>
<td>188,320</td>
<td>463,449</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>16,708</td>
<td>16,458</td>
<td>16,708</td>
<td>16,458</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>6,521</td>
<td>6,683</td>
<td>6,521</td>
<td>6,683</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(570)</td>
<td>(4,496)</td>
<td>(570)</td>
<td>(4,496)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(4,496)</td>
<td>8,759</td>
<td>(4,496)</td>
<td>8,759</td>
</tr>
<tr>
<td>Total</td>
<td>212,072</td>
<td>494,465</td>
<td>212,072</td>
<td>494,465</td>
</tr>
</tbody>
</table>

The Company has no fixed assets.

### Intangible Assets

#### Trade creditors and accruals

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade creditors and accruals</td>
<td>101,103</td>
<td>103,119</td>
</tr>
<tr>
<td>Trade creditors and accruals – related entities</td>
<td>553</td>
<td>1,830</td>
</tr>
<tr>
<td>Other creditors</td>
<td>51</td>
<td>6,683</td>
</tr>
<tr>
<td>Deferred hedge exchange differences and costs</td>
<td>9,859</td>
<td>5,727</td>
</tr>
<tr>
<td>Total</td>
<td>111,068</td>
<td>110,277</td>
</tr>
</tbody>
</table>

### Payables

#### Current

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans – secured</td>
<td>159,121</td>
<td>157,425</td>
<td>159,121</td>
<td>157,425</td>
</tr>
<tr>
<td>Accrued employee benefits</td>
<td>5,994</td>
<td>3,976</td>
<td>5,994</td>
<td>3,976</td>
</tr>
<tr>
<td>Non-current</td>
<td>13,432</td>
<td>2,969</td>
<td>13,432</td>
<td>2,969</td>
</tr>
</tbody>
</table>

### 16 PROVISIONS

#### Current

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee benefits</td>
<td>27</td>
<td>14,817</td>
<td>27</td>
<td>8,745</td>
</tr>
<tr>
<td>Other</td>
<td>11,288</td>
<td>2,669</td>
<td>11,288</td>
<td>2,669</td>
</tr>
<tr>
<td>Total</td>
<td>13,462</td>
<td>2,969</td>
<td>13,462</td>
<td>2,969</td>
</tr>
</tbody>
</table>

### Reconciliations

Reconciliations of the carrying amounts of each class of provision, except for employee benefits and restoration provision are set out below:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>8,040</td>
</tr>
<tr>
<td>Aircraft and aeronautic related assets</td>
<td>188,320</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>16,708</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>6,521</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(570)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(4,496)</td>
</tr>
<tr>
<td>Total</td>
<td>212,072</td>
</tr>
</tbody>
</table>

The Company has no fixed assets.
18 CONTRIBUTED EQUITY (CONTINUED)

SHARE BUY-BACK

On 12 December 2003, the Company completed the buy-back of 40,177,778 ordinary shares, representing 4.6% of ordinary shares on issue on that date, under the terms of the Buy-Back Agreement dated 8 December 2003, approved by shareholders on 8 December 2003. The total consideration of shares bought back was $90,400,000, being an average, including incidental costs, of $2.25 per share. The consideration was allocated in the following proportions as set out in the Buy-Back Agreement:

- Share capital – $2,117,000
- Retained profits (Note 19) – $88,283,000

Total $90,400,000

On 5 May 2002, the Company completed the buy-back of 188,701 shares, representing 3% of ordinary shares on issue on that date. The total consideration of shares bought back was $14,325,000, being an average of $76 per share. The consideration was allocated in full to share capital.

TERMS AND CONDITIONS

With the exception of shares held in trust for Key Employee Performance Plans, shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders’ meetings. 

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation. 

The trustee for the Key Employee Performance Plan holds 10,000,000 shares. A participating employee is not entitled to any income or other rights (including voting rights) derived from any shares acquired by the trustee under KEPP and until the shares are transferred to the employee, following satisfaction of any vesting conditions – refer to Note 27. 

Note 27 provides details of shares issued on exercise of options.

20 DIVIDENDS

No dividends have been recognised by the consolidated entity and the Company in 2004 or 2003. The part of the share buy-back consideration charged against retained profits of $88,283,000 has been treated as a fully franked dividend for taxation purposes.

21 TOTAL EQUITY RECONCILIATION

Total equity at beginning of year 184,018 49,731 181,514 13,942

Total changes in parent entity interest in equity recognised in statement of financial performance 181,514 13,942 13,942

Shares held for Key Employee Performance Plan transactions 22,500

Shares issued 18 (2,117) (14,325)

Total equity at end of year 208,465 138,229 107,173 13,942

22 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

4 INTEREST RATE RISK

The consolidated entity enters into interest rate swaps to manage cash flow risks associated with the interest rates on borrowings that are floating predominately relating to aircraft lease facilities. Interest rate swaps allow the consolidated entity to swap floating rate borrowings into fixed rates. Maturities of swap contracts are principally 12 years. Each contract involves quarterly payment or receipt of the net amount of interest. The gross recognisable loss on hedges at the end of the financial year was $8,517,000 (2003: nil).

The consolidated entity’s exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

The above table presents the sensitivity of the carrying amount of the Company’s financial assets and liabilities to changes in interest rates. The table is presented at the Company’s risk-free rates and rates consistent with market expectations. 

23 TRANSLATION RISK

24 OTHER FINANCIAL RISKS

25 CREDIT RISK

26 CASHFLOW RISK

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2004 (continued)


NOTE $’000 $’000 $’000 $’000 $’000 $’000

#DIV/0! #DIV/0! #DIV/0! #DIV/0!

Page 33

Page 34
22 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

(9) FOREIGN EXCHANGE RISK

The consolidated entity enters into forward foreign exchange contracts and option contracts to hedge a proportion of anticipated purchase commitments denominated in foreign currencies (principally United States dollars). The amount of anticipated future purchases is forecast in light of the current budget commitments. The following table sets out the gross value (in Australian dollars) to be received under foreign currency contracts, the weighted average contract exchange rates and the settlement periods of outstanding contracts for the consolidated entity.

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>BUY US DOLLAR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not later than one year</td>
<td>0.044</td>
<td>0.571</td>
</tr>
<tr>
<td></td>
<td>349,849</td>
<td>441,768</td>
</tr>
<tr>
<td>Buy US Dollar</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>511</td>
<td>511</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(10) CREDIT RISK EXPOSURES

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

Recognised financial instruments

The credit risk on financial assets, excluding investments, of the consolidated entity which have been recognised on the Statements of Financial Position, is the carrying amount, net of any provision for doubtful debts. The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties.

The consolidated entity is not materially exposed to any individual overseas country or individual customer.

Unrecognised financial instruments

Foreign exchange contracts are subject to credit risk in relation to the relevant counterparties. Credit risk on these contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency. The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the consolidated entity pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay to the consolidated entity. The full amount of the exposure is disclosed in Note 22.

Unrecognised financial instruments

The fair value of unrecognised financial instruments (foreign exchange contracts and commodity hedges) detailed in Note 22(b) and Note 22(d) reflects the estimated amounts which the consolidated entity expects to pay should it choose to terminate the contracts at their current market rates as at reporting date.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2004 (continued)

23 COMMITMENTS

23 COMMITMENTS

AIRCRAFT AND AERONAUTIC RELATED CAPITAL EXPENDITURE COMMITMENTS

Contracted but not provided for and payable

- Within one year: 323,375
- One year or later and no later than five years: 323,375

Non-cancellable operating lease expense commitments

Future operating lease commitments not provided for in the financial statements and payable

- Within one year: 516,220
- Later than five years: 2,968,000

The consolidated entity leases property, equipment, principally aircraft, under non-cancellable operating leases expiring from one to ten years. Aircraft lease payments are payable in United States dollars. Leases of property and equipment generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated or the asset is returned to the lessor.

FINANCE LEASE COMMITMENTS

Finance lease commitments are payable:

- Within one year: 511
- Less: Future lease finance charges: 511

Lease liabilities provided for in the financial statements:

- Current: 511
- Non-current: 511

Total lease liability: 511

The consolidated entity leases computer equipment, office equipment and ground support equipment under finance lease agreements. Each of these leases expired during the year ended 31 March 2004.

24 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Details of contingent liabilities and contingent assets where the probability of future payments/receipts is not considered remote are set out below, as well as details of contingent liabilities and contingent assets, which although considered remote, the directors consider should be disclosed.

CONTINGENT LIABILITIES NOT CONSIDERED REMOTE

The consolidated entity has provided bank guarantees and standby letters of credit to third parties as guarantees of payment for fuel, hedging of foreign currency transactions and fulfilment of obligations under government assistance agreements. The value of bank guarantees and standby letters of credit issued, and obliged to be issued, as at the end of the financial year was $21,947,000 (2003: $27,604,065).

CONTINGENT LIABILITIES CONSIDERED REMOTE

Government assistance

Some government assistance received may be refundable if agreed performance criteria are not achieved each year for a five year period. The directors are of the opinion that no amounts will be refundable.

Aircraft leases

The Australian Tax Office has made routine enquiries of the Company in relation to general GST compliance requirements. In the course of so doing, it has reviewed certain of the Company’s aircraft leases and related transactions to which the Company is a party, as lessee. There are other arrangements entered into before March 2002 to which the Chief Executive Officer and entities within the Virgin Group are parties. The Company is not a party to these other arrangements. Under these other arrangements those parties could receive payments of up to US$18 million, although there is no certainty that all of these amounts will be paid. No further arrangements of this type exist.

As the achievement of incentive requirements is contingent upon the occurrence of certain future events the amounts receivable cannot be reliably measured. Total contingent assets receivable under current arrangements, should the consolidated entity meet all requirements, amount to $8,655,000. This amount will not be recognised as income until it is earned.

The consolidated entity enters into future contracts to hedge (or a hedge of a portion of) specific commodity purchase prices on anticipated purchase commitments of aircraft fuel. The terms of these contracts are currently less than one year. The specific contracts outstanding at balance date are:

<table>
<thead>
<tr>
<th></th>
<th>CONSOLIDATED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
</tr>
<tr>
<td>Anticipated purchases</td>
<td></td>
</tr>
<tr>
<td>Not later than one year</td>
<td>30,429</td>
</tr>
</tbody>
</table>

The deferred gains on hedges of anticipated future commodity purchases, not later than one year: 7,993

7,993

1,752

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

Recognised financial instruments

The credit risk on financial assets, excluding investments, of the consolidated entity which have been recognised on the Statements of Financial Position, is the carrying amount, net of any provision for doubtful debts. The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties.

The consolidated entity is not materially exposed to any individual overseas country or individual customer.

Unrecognised financial instruments

Foreign exchange contracts are subject to credit risk in relation to the relevant counterparties. Credit risk on these contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency. The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the consolidated entity pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay to the consolidated entity. The full amount of the exposure is disclosed in Note 22.

Unrecognised financial instruments

The fair value of unrecognised financial instruments (foreign exchange contracts and commodity hedges) detailed in Note 22(b) and Note 22(d) reflects the estimated amounts which the consolidated entity expects to pay should it choose to terminate the contracts at their current market rates as at reporting date.
## 26 CONTROLLED ENTITIES

### (a) PARTICULARS IN RELATION TO CONTROLLED ENTITIES

<table>
<thead>
<tr>
<th>NAME</th>
<th>ORINARY SHARE</th>
<th>CONSOLIDATED ENTITY INTEREST</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PARENT ENTITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Virgin Blue Holdings Limited</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CONTROLLED ENTITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Virgin Australia Holdings Pty Limited</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Virgin Blue Airlines Pty Limited</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Virgin Tech Pty Ltd</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Stava No.2 Pty Ltd</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Pacific Blue Airlines (AUS) Pty Ltd</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Pacific Blue Airlines (NZ) Ltd</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>VBNC1 Pty Ltd</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>VBNC2 Pty Ltd</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>VBNC3 Pty Ltd</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Key Employee Performance Plan</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) Virgin Blue Holdings Limited administers the Key Employee Performance Plan through an appointed Trustee.

All entities with the exception of Pacific Blue Airlines (NZ) Ltd were incorporated in Australia. Pacific Blue Airlines (NZ) Ltd was incorporated in New Zealand.

## 26 NOTES TO THE STATEMENTS OF CASH FLOWS

### (a) RECONCILIATION OF CASH

For the purposes of the Statements of Cash Flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdraws. Cash as at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the Statements of Financial Position as follows:

<table>
<thead>
<tr>
<th>CONSOLIDATED</th>
<th>THE COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash</strong></td>
<td></td>
</tr>
<tr>
<td>114,486</td>
<td>126,876</td>
</tr>
<tr>
<td><strong>Other financial assets</strong></td>
<td></td>
</tr>
<tr>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total cash and short-term investments</strong></td>
<td>489,299</td>
</tr>
</tbody>
</table>

### (b) RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES

| Profit from ordinary activities after income tax | 158,519 | 107,799 | 181,514 | 13,833 |
| Add/(less) items classified as investing/financing activities | (Profit)/loss on sale of non-current assets | – | 120 | – | – |
| | Interest received | (19,258) | (9,729) | – | – |
| | Add/(less) non-cash items | – | – | – | – |
| | Depreciation/amortisation | 35,135 | 10,259 | – | – |
| | Unrealised foreign exchange (gain)/loss | – | (520) | 118 | 8 |

Change in assets and liabilities during the financial year:

| Increase/(decrease) in financial assets | – | – | – | – |
| Increase in employee entitlements | – | – | – | – |
| Increase in other provisions | – | – | – | – |
| Increase in operating financial assets | – | – | – | – |
| Increase in tax liabilities | – | – | – | – |
| Increase in unearned passenger revenue | – | – | – | – |
| **Net cash provided by operating activities** | 190,166 | 184,596 | 180,634 | 13,827 |

## 27 EMPLOYEE BENEFITS (CONTINUED)

### EMPLOYEE OPTION PLANS (1),(2),(3),(4),(5)

<table>
<thead>
<tr>
<th>OPTION PLAN</th>
<th>NUMBER OF OPTIONS AT BEGINNING OF THE YEAR</th>
<th>NUMBER OF OPTIONS EXERCISED DURING THE FINANCIAL YEAR</th>
<th>NUMBER OF SHARE UNDER OPTION AT YEAR END</th>
<th>EXERCISE PRICE</th>
<th>EARLIEST EXERCISE DATE OF OPTIONS AS AT 31 MARCH 2004</th>
<th>EXPIRY DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive 30 May 2002 Share Option Plan</td>
<td>49,547,160</td>
<td>9,249,053</td>
<td>40,298,097</td>
<td>$0.008</td>
<td>28 December 2007</td>
<td>31 December 2003 or such later date as the Board may determine</td>
</tr>
<tr>
<td>Senior 8 December 2003 Executive Option Plan</td>
<td>–</td>
<td>–</td>
<td>5,600,000</td>
<td>$2.25</td>
<td>8 December 2008</td>
<td>8 December 2003</td>
</tr>
<tr>
<td>Senior 8 December 2003 Executive Option Plan</td>
<td>–</td>
<td>–</td>
<td>10,279,500</td>
<td>$2.25</td>
<td>8 December 2008</td>
<td>8 December 2003</td>
</tr>
</tbody>
</table>

(1) All options are convertible to one ordinary share.

(2) There are no voting rights attached to options until converted to ordinary shares.

(3) Options were issued on 8 December 2003. These were the only options granted during the year.

(4) Proceeds received on options exercised on 8 December 2003 were $105,000,000 at a fair value of $2.25 per share. Aggregate fair value was $45,165,000.

(5) No options lapsed during the current or previous financial year.

### CONSOLIDATED THE COMPANY

<table>
<thead>
<tr>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in unearned passenger revenue</td>
<td>190,166</td>
<td>184,596</td>
<td>180,634</td>
</tr>
</tbody>
</table>
### SUMMARY OF OPTIONS OVER UNISSUED ORDINARY SHARES

#### Details of options over unissued ordinary shares under all Option Plans as at the beginning and ending of the reporting date and movements during the year are set out previously in Note 27.

The amounts recognised in the financial statements of the Company and consolidated entity in relation to executive share options exercised during the financial year were:

<table>
<thead>
<tr>
<th>PLAN</th>
<th>COMPANY</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Issued ordinary share capital</td>
<td>18</td>
<td>183</td>
<td>183</td>
</tr>
</tbody>
</table>

#### SHARE PLAN RISKS

<table>
<thead>
<tr>
<th>SHARE PLAN</th>
<th>DATE ESTABLISHED</th>
<th>DETAILS</th>
<th>RESTRICTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Employee Share Plan (GESP)</td>
<td>8 December 2003</td>
<td>$1.00 worth of shares to certain employees for nil consideration. Number of shares issued and vested during the year was $1,957,996 at a fair value of $2.25 per share.</td>
<td>Directors or participants in the GESP Executive Option Plan not eligible. Share recipients not entitled to sell or transfer the shares until the earlier of the end of three years from the date of acquisition of the shares or the time at which the person ceases to be an employee of the Virgin Blue Group.</td>
</tr>
<tr>
<td>Key Employee Performance Plan (KEPP)</td>
<td>8 December 2003</td>
<td>Directors may grant performance rights to eligible full-time permanent part-time employees of the Virgin Blue Group, other than a non-executive director of a member of the Virgin Blue Group. The Company has appointed CPF Share Plans Pty Limited as Trustee to acquire and hold shares under the KEPP. The Trustee will transfer shares held by it to a participating employee when the vesting conditions in relation to a performance right have been satisfied or have been waived by the Board. The Company provides all remuneration required by the Trustee to acquire shares for the purposes of the KEPP, including costs and duties. The KEPP Trustee was issued, and continues to hold these shares at year end, 10,000,000 shares in the Initial Public Offering at a fair value of $2.25 per share.</td>
<td>A participating employee is not entitled to receive any income or other rights (including voting rights) derived from any shares acquired by the Trustee under the KEPP, unless and until the shares are transferred to the employee, following satisfaction of any vesting conditions. The vesting conditions require employees to hold and not sell any of their initial purchase of shares and to remain a Virgin Blue employee throughout the period.</td>
</tr>
</tbody>
</table>

### SUMMARY OF SHARE MOVEMENTS UNDER EMPLOYEE SHARE PLANS

Details of movements in ordinary shares under all employee share plans are set out in Note 27. The fair value of shares issued during the reporting period at their issue date is the market price of shares of the Company on the Australian Stock Exchange as at close of trading on each of the issue dates. No amounts were recognised in the financial statements of the Company and consolidated entity in relation to employee share plans during the financial year.

### SUMMARY OF SHARE MOVEMENTS UNDER EMPLOYEE SHARE PLANS

<table>
<thead>
<tr>
<th>PLAN</th>
<th>COMPANY</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>3,371,667</td>
<td>10,278,859</td>
<td></td>
</tr>
</tbody>
</table>
DIRECTORS’ DECLARATION

In our opinion, the financial report of Virgin Blue Holdings Limited is in accordance with:

AUDIT OPINION

In conducting our audit, we followed applicable independence requirements of Australian professional ethical nature and extent of our procedures, our audit was not designed to provide assurance on internal controls. We formed our audit opinion on the basis of these procedures, which included:

- reviewing the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management’s internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

INDEPENDENCE

In our opinion, the financial report of Virgin Blue Holdings Limited is in accordance with:

- the Corporations Act 2001, including:
  i. giving a true and fair view of the Company’s financial position as at 31 March 2004 and of its performance for the financial year ended on that date; and
  ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- other mandatory financial reporting requirements in Australia.

INDEPENDENT AUDIT REPORT TO MEMBERS OF VIRGIN BLUE HOLDINGS LIMITED

SCOPE

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with the Corporations Act 2001, the Corporations Regulations 2001 and the Accounting Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selection, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, the financial position, the financial performance, and the changes in financial position for the year ended 31 March 2004 of the consolidated entity.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. The directors are also responsible for making the financial report and the directors’ report publicly available.

We express our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

AUDIT OPINION

In our opinion, the financial report of Virgin Blue Holdings Limited is in accordance with:

- the Corporations Act 2001, including:
  i. giving a true and fair view of the Company’s and Consolidated Entity’s financial position as at 31 March 2004 and of their performance for the financial year ended on that date; and
  ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- other mandatory financial reporting requirements in Australia.

AXS ADDITIONAL INFORMATION

DISTRIBUTION OF EQUITY SECURITY HOLDERS

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>ORDINARY SHARES</th>
<th>OPTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 1,000</td>
<td>2,831 –</td>
<td></td>
</tr>
<tr>
<td>1,001 – 5,000</td>
<td>13,908 –</td>
<td></td>
</tr>
<tr>
<td>5,001 – 10,000</td>
<td>946 –</td>
<td></td>
</tr>
<tr>
<td>10,001 – 100,000</td>
<td>566 –</td>
<td></td>
</tr>
<tr>
<td>100,001 and over</td>
<td>89 – 15</td>
<td></td>
</tr>
</tbody>
</table>

The number of shareholders holding less than a marketable parcel of ordinary shares is 447.

ON-MARKET BUY-BACK

There is no current on-market buy-back.

ADDITIONAL INFORMATION required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below:

SHAREHOLDERS (AS AT 31 MAY 2004)

<table>
<thead>
<tr>
<th>SHAREHOLDERS</th>
<th>NUMBER OF ORDINARY SHARES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pitney Limited</td>
<td>472,262,876</td>
</tr>
</tbody>
</table>

VOTING RIGHTS

<table>
<thead>
<tr>
<th>Ordinary shares</th>
<th>OPTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refer to Note 18</td>
<td></td>
</tr>
</tbody>
</table>

| Options | Refer to Note 27 |

TWENTY LARGEST SHAREHOLDERS

<table>
<thead>
<tr>
<th>NAME</th>
<th>NUMBER OF ORDINARY SHARES HELD</th>
<th>PERCENTAGE OF CAPITAL HELD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pitney Limited</td>
<td>472,262,876</td>
<td>46.0</td>
</tr>
<tr>
<td>Citicorp Nominees Pty Limited (CFS WSEL Impayment Ind A/C)</td>
<td>8,548,302</td>
<td>0.8</td>
</tr>
<tr>
<td>Queensland Investment Corporation</td>
<td>8,027,736</td>
<td>0.8</td>
</tr>
<tr>
<td>J P Morgan Nominees Australia Limited</td>
<td>21,824,745</td>
<td>2.1</td>
</tr>
<tr>
<td>Westpac Australian Nominees Limited</td>
<td>18,496,323</td>
<td>1.8</td>
</tr>
<tr>
<td>CitiKynsley Nominees Pty Limited</td>
<td>12,894,807</td>
<td>1.3</td>
</tr>
<tr>
<td>CitiKynsley Nominees Pty Limited (CFS WSEL Impayment Ind A/C)</td>
<td>10,000,000</td>
<td>1.0</td>
</tr>
<tr>
<td>CitiKynsley Nominees Pty Limited (CFS WSEL Impayment Ind A/C)</td>
<td>8,548,302</td>
<td>0.8</td>
</tr>
<tr>
<td>Queensland Investment Corporation</td>
<td>8,027,736</td>
<td>0.8</td>
</tr>
<tr>
<td>J P Morgan Nominees Australia Limited</td>
<td>7,017,749</td>
<td>0.7</td>
</tr>
<tr>
<td>J P Morgan Nominees Australia Limited</td>
<td>5,473,810</td>
<td>0.5</td>
</tr>
<tr>
<td>CitiKynsley Nominees Pty Limited (CFS WSEL Impayment Ind A/C)</td>
<td>5,182,154</td>
<td>0.5</td>
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<tr>
<td>CitiKynsley Nominees Pty Limited</td>
<td>5,089,468</td>
<td>0.5</td>
</tr>
<tr>
<td>CitiKynsley Nominees Pty Limited (CFS WSEL Impayment Ind A/C)</td>
<td>5,089,339</td>
<td>0.5</td>
</tr>
<tr>
<td>CitiKynsley Nominees Pty Limited (CFS WSEL Impayment Ind A/C)</td>
<td>5,000,000</td>
<td>0.5</td>
</tr>
<tr>
<td>CitiKynsley Nominees Pty Limited (CFS WSEL Impayment Ind A/C)</td>
<td>3,895,000</td>
<td>0.4</td>
</tr>
<tr>
<td>AMP Life Limited</td>
<td>3,394,120</td>
<td>0.3</td>
</tr>
<tr>
<td>Cigna Nominees Pty Limited</td>
<td>3,390,570</td>
<td>0.3</td>
</tr>
</tbody>
</table>

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Virgin Blue’s annual report has been produced in A3 format to considerably reduce the cost of production. If you’d like to further reduce the cost of reporting to shareholders by receiving future annual reports via email, please complete and return the enclosed form.

GLOSSARY

- **2004 Financial Year**: Means the financial year ended 31 March 2004
- **2005 Financial Year**: Means the financial year ended 31 March 2005
- **ASK**: Available seat kilometre – the total number of seats available for passengers multiplied by the number of kilometres flown
- **Capacity**: The revenue generating seats on an aircraft
- **Company**: Virgin Blue Holdings Ltd (ACN 100 686 226) and unless the context requires otherwise, includes its subsidiaries and controlled entities or any one or more of them
- **Cost per ASK**: Total operating costs per ASK
- **EBITDA**: Earnings before interest, tax, depreciation, amortisation and operating aircraft leases (rentals)
- **Load factor**: Means RPKs divided by ASKs
- **NPAT**: Net Profit After Tax
- **Pacific Blue**: The brand under which Virgin Blue operates international services
- **Patrick Corporation**: Patrick Corporation Limited (ACN 008 660 124) and its subsidiaries and controlled entities, including the Patrick Shareholder
- **PBT**: Profit Before Tax
- **RPK**: Revenue passenger kilometre – number of paying passengers carried multiplied by the number of kilometres flown
- **Yield**: Total revenue divided by RPKs
- **Virgin Blue**: Virgin Blue Holdings Ltd (ACN 100 686 226) and unless the context requires otherwise, includes its subsidiaries and controlled entities or any one or more of them
- **Virgin Group**: Virgin Holdings S.A., a company incorporated in Switzerland with number CH-660 1578998-2 and Cricket S.A.
World’s Best Low Cost Airline.

(That’s an award money can’t buy).

Virgin Blue was recently awarded OAG World’s Best Low Cost Airline 2004. We won due to our continuing innovations and overall performance. We’re not having a big party though. Like you we invest in our future and save money where we can.

At Virgin Blue we take our guests suggestions onboard and are constantly delivering innovative service improvements to make your travel experience even more enjoyable. We may be the victor, but it’s our guests that get the spoiling.