LOW COST
GREAT SERVICE
TRUE VALUE
WELCOME TO VIRGIN BLUE – LOW COST, INNOVATIVE AND PROFITABLE

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

NATIONWIDE NETWORK AND INTERNATIONAL OPERATIONS

Virgin Blue now flies to 20 destinations around Australia. During the past year, we added five new destinations – Alice Springs, Broome, Canberra, Newcastle and the Whitsunday Coast. Since then we’ve been proud to announce another new destination: from August 2004 we will be flying to Ballina/Byron Bay. We will continue to add new direct routes linking key destinations throughout the year ahead.

Pacific Blue
In January 2004, we began flying internationally under the Pacific Blue brand. We now fly from Christchurch and Wellington to a number of Australian cities, with convenient connections across the country. From September 2004, Pacific Blue will begin flying to Vanuatu and Fiji subject to government approvals. Other destinations are expected to follow.

Virgin Blue Holdings Limited
ACN 100 686 226
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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 economics 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.

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 56 percent to 14,624 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. EBITDAR was up 43 percent to $409.5 million, while Profit Before Tax was up 49 percent to $226.2 million. Our continued focus on costs enabled us to report a record Net Profit After Tax of $159.5 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.

Our Low-Cost Model

Continuing significant growth

Outlook and Strategy

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.
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**In a competitive environment, our doubling our passenger numbers in a third of the time we welcomed aboard our 20-millionth passenger, significant milestone was passed in April 2004 when Virgin Blue carried over 10 million passengers**

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**Picture Table:**

<table>
<thead>
<tr>
<th>Passengers Carried (millions)</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
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<tbody>
<tr>
<td>Passengers Carried (millions)</td>
<td>9.6</td>
<td>10.1</td>
<td>11.5</td>
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NOT ONLY ARE WE KEEPING THE AIR FAIR, WE ARE REVOLUTIONISING THE AVIATION BUSINESS

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.

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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 nine 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 terrors from our “A la Cart” in-flight menu.**

**Virgin Blue is committed to providing a range of beauty treatments.**

**Inflight Catering and Sky Shopping**

Gourmet wraps, sandwiches, hot meals (on longer flights), cheese and crackers, chocolate bars and muffins are all available for purchase. We also sell a range of soft drinks and alcohol.

Sky Shopping offers a variety of unique items for guests to purchase, including playing cards, Virgin Blue model planes and much more.

**Valet Parking**

Valet parking is available for our guests travelling to and from the Sydney Domestic terminal.

**Ticketless Sales and Distribution**

While travel agents can book fares through our Guest Contact Centre or our website, the majority choose to book on line.

**On-time Performance and Safety**

On-time performance (OTP) is important to us because it’s important to our guests. During the 2004 Financial Year, more than 87 percent of our flights departed on time, making Virgin Blue one of the most reliable airlines in the world.

Virgin Blue is committed to achieving the highest levels of safety for our guests and our staff. In January 2004, we completed the fit-out of reinforced cockpit doors in all our aircraft.

In November 2003, when we discovered an anomaly in Virgin Blue’s maintenance record 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.**

**Our Productive and Flexible Team**

Our ability to compete is reinforced by our workplace agreements, which have revolutionised workplace relations for airlines in Australia. The interest of over 85 percent of Virgin Blue staff are represented by just three unions, a fraction of the number covering the employees of traditional airlines. The flexible work practices and removal of traditional demarcations embodied in each of our agreements enable significant productivity benefits which are key to Virgin Blue’s ability to keep costs down and provide our staff with career opportunities. Unlike our competition, we have no ground crew demarcation at any of our airports. Our Guest Contact Centre staff operate as casual airport guest check-in staff when required, and in every port, we also have ground crew capable of acting as relief cabin crew. All of these give Virgin Blue the flexibility required to maximise efficiencies and provide our staff to broaden their professional experience by moving around the Company.

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Key service enhancements currently offered include:
- Blue Room Lounges
- Blue Zones seating
- on-board sales
- Blue Holidays packages

**Adjacent Services**

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 nine Blue Zone seats available on each flight offer guests what has traditionally been a business class legroom. Blue Zone seats can be secured for an additional $30 a sector.

**Embedded Value**

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**Ticketless Sales and Distribution**

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 ticketless booking system, all they have to do is visit www.blueholidays.com.au or by calling 13 1516.

**In-flight Performance and Safety**

Virgin Blue committed to providing a complete set of travel and associated services to the Australian public. Blue Holidays provides guests with innovative, value-for-money holiday packages to a wide range of destinations around our network. Whether you are looking for a two-and-a-half star or a five-star holiday, Blue Holidays has something for everyone, plus plenty of special extras, including car hire and insurance.

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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.
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“We can provide a much better service because many of us have worked in different parts of the business. This gives us a greater insight into the business as a whole. I believe this makes Virgin Blue the great airline it is today.”
Scott Webb, guest services/pit crew trained

“We’re in IT, but we’re not geeks. We’re just lucky to be part of an outfit that genuinely believes in innovation. One that is happy to give us the resources and support we need to make this airline really fly. Actually, some of us are geeks!”
John Morrison, IT

“We had to turn this incoming plane around really quickly to get it back to Sydney before the night curfew. So we lined up the waiting guests in the lounge in an order that exactly matched their seat allocations. When that plane arrived, we turned it around quickly and safely in 12 minutes flat, a new record at the time.”
Amanda Smith, ground services

“At Virgin Blue we pride ourselves on our excellent customer service. We deliberately go out of our way to employ staff who are friendly, professional and determined to make the travelling experience enjoyable for Virgin Blue guests. Our service standards department designs and oversees all guest service aspects of the business, including bookings, check-in, boarding and in-flight service.

The focus on service throughout the Company has earned Virgin Blue a number of industry awards, including:
• 2004 OAG Best Low-Cost Airline of the Year
• 2004 Harris Interactive – Number 1 Corporate Reputation
• 2004 Skytrax Best Low-Cost Airline Asia Pacific
• 2003 Runner-up Hewitt Associates Best Employer
• 2002 Skytrax Best Low-Cost Airline Australasia
• 2001 and 2002 Teleperformance Grand Prix Awards

Virgin Blue believes in giving back to the community. Last year we contributed nearly $0.5 million worth of flights to over 94 charities, community groups and fund raising events throughout Australia, including:
• The Humour Foundation Clown Doctors
• Royal Flying Doctor Service
• Lifeline Cairns
• Queensland Paraplegic and Quadriplegic Association
• Young Achiever of the Year Awards (South Australia, Victoria and Tasmania)
• Corporate Angel
• Kids Alive Swim Program
• Rotary

In addition, Virgin Blue recently donated over $0.5 million of interest earned on application monies and refund amounts from the IPO to the following registered charities:
• Father Chris O’Riley “Youth off the Streets”
• The Abused Child Trust Inc
• Endeavour Foundation (for intellectually disabled people)
• Beyond Blue (youth suicide prevention)
• Bravehearts Inc (against abuse to children)
• Surf Lifesaving Queensland
• Families in Distress Foundation
• The Humour Foundation Clown Doctors

Virgin Blue likes being different. Our dedication to innovation and fun is reflected in everything we do. Our planes are red. Our uniforms reflect our relaxed atmosphere, our approachability and our high professional standards – and all this without a hint of standard airline paraphernalia like scarves or navy blue!

Virgin Blue pilots don’t wear hats, but they do sport epaulettes and leather flying jackets. Behind the scenes (including head office) the casual air continues with a no-tie dress policy.

At Virgin Blue, we really have no fear of being copied. They can copy our planes, they can copy our fares, but they can’t copy our culture.
“We can provide a much better service because many of us have worked in different parts of the business. This gives us a greater insight into the business as a whole. I believe this makes Virgin Blue the great airline it is today.”
Scott Webb, guest services/pit crew trained

“We’re in IT, but we’re not geeks. We’re just lucky to be part of an outfit that genuinely believes in innovation. One that is happy to give us the resources and support we need to make this airline really fly. Actually, some of us are geeks!”
John Morrison, IT

“We had to turn this incoming plane around really quickly to get it back to Sydney before the night curfew. So we lined up the waiting guests in the lounge in an order that exactly matched their seat allocations. When that plane arrived, we turned it around quickly and safely in 12 minutes flat, a new record at the time.”
Amanda Smith, ground services

“In IT, we’re not geeks. We’re just lucky to be part of an outfit that genuinely believes in innovation. One that is happy to give us the resources and support we need to make this airline really fly. Actually, some of us are geeks!”
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Virgin Blue believes in giving back to the community. Last year we contributed nearly $0.5 million worth of flights to over 94 charities, community groups and fund raising events throughout Australia, including:
• The Humour Foundation Clown Doctors
• Royal Flying Doctor Service
• Lifeline Cairns
• Queensland Paraplegic and Quadriplegic Association
• Young Achiever of the Year Awards (South Australia, Victoria and Tasmania)
• Corporate Angel
• Kids Alive Swim Program
• Rotary

“We can provide a much better service because many of us have worked in different parts of the business. This gives us a greater insight into the business as a whole. I believe this makes Virgin Blue the great airline it is today.”
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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

<table>
<thead>
<tr>
<th>FINANCIAL HIGHLIGHTS</th>
<th>FY2002</th>
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<td>Total Revenue</td>
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Chief Financial Officer

FINANCIAL HIGHLIGHTS

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(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.

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 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.

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.

Cash balances increased from $127 million to $489 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.
Virgin Blue continued to demonstrate strong growth and profitability despite increasing domestic competition during the year.

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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

Total costs were $1,144 million, up 49 percent from the previous year. Cost per ASK fell 0.30 cents to 8.16 cents for the full year, largely driven by scale and productivity. Our focus remains on reducing costs as evidenced by the further reduction in the Company’s cost per ASK to 7.73 cents during the second half of the financial year.

Main 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.

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.

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

WORLD CLASS MARGINS

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MANAGING CURRENCY AND FUEL EXPOSURES

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STRICT PROFITABILITY UNDERPINNED BY OUR LOW-COST STRUCTURE GENERATES RETURNS WELL IN EXCESS OF THE COST OF CAPITAL
David Ryan, AO
Independent Non-Executive Director
BBus, FCPA, FAIMD
(Age 52)
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 Mortimer
Independent Non-Executive Director
BCom (Hons), FCPA
(Age 59)
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 Aerporo Corporation Limited. David is presently Chairman of Citicorp Corporation Limited, MIA 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.

William Hara
Non-Executive Director
BCom, LLB
(Age 38)
William was appointed a Director of Virgin Blue in May 2002. William is a senior executive of Patrick Corporation and holds a number of directorships within the Patrick group of companies including its aviation support companies, Jet Care, Patrick Cargo, Liberty Air and Esco. William is a commercial lawyer and has been Patrick Corporation’s General Counsel since July 1997.
Liberty Air Services.

These businesses include Patrick operations of Patrick Corporation.

David is currently responsible for group with operations throughout the world.

Patrick Corporation has significant trade through Patrick Terminals, handles international sea based trade through Patrick Terminals, Australia’s largest stevedore. Patrick Corporation has significant interests in Pacific National, Australia’s largest domestic intermodal rail operator, and holds a 46% interest in Virgin Blue.

David has over 20 years of experience in investment banking.

David is the Chairman of the Audit Committee and the Remuneration and Governance Committee.

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David Knight
Non-Executive Director
BCom Econs
(Age 45)

David Ryan, AO
Independent Non-Executive Director
BBus, FCPA, FAICD
(Age 52)

David Mortimer
Independent Non-Executive Director
BCom (Hons) FCPA
(Age 58)

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(Age 38)

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Chris was appointed to the Board of Virgin Blue in May 2002. Chris had a career with Bankers Trust spanning 20 years, including periods as Managing Director of Bankers Trust in Australia and for the Asia-Pacific region.

Chris is the Managing Director of Patrick Corporation, which handles international sea based trade through Patrick Terminals, Australia’s largest stevedore. Patrick Corporation has significant interests in Pacific National, Australia’s largest domestic intermodal rail operator, and holds a 46% interest in Virgin Blue.

Chris is a member of the Audit Committee and the Remuneration and Governance Committee.

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Non-Executive Director
BCom Econs
(Age 45)

Patrick McCall
Non-Executive Director
BSc Econs
(Age 39)

Stephen Murphy
Non-Executive Director
BApp(Hons), ACMA
(Age 47)

Brett Godfrey
Managing Director and Chief Executive Officer
BBus
(Age 40)

Brett was Finance Manager at Virgin Atlantic Airways until 1996, when he was seconded to Virgin Express before being appointed Chief Financial Officer. Brett returned to Australia in February 2000 to establish the airline and take up the role of CEO of Virgin Blue.
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, strategies and financial objectives of the Company;
• appointing, 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;
• monitoring 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. As a result of these agreements:

(a) three directors of the Company have been elected after being nominated by Patrick Corporation. One of these is to be Chairman, the other two act as representatives of Patrick Corporation; and
(b) two of the Company’s directors have been elected after being nominated by Virgin Group and act as its representatives.

The remaining three directors on the Board are comprised of two non-executive, independent directors, being David Ryan and David Mowbray, and the Chief Executive Officer.

The criteria for assessing the independence of a director are set out in Virgin Blue’s Board Charter, a copy of which is available from the Company’s website, www.virginblue.com.au.

In summary, an independent director is a director who:

• is not a member of management (a non-executive director) and who:
  • is not a substantial shareholder of the Company or an officer of, or otherwise associated, directly or indirectly, with a substantial shareholder of the Company;
  • 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 exercised any right conferred on him to subscribe for, or purchase or acquire, options or other obligations convertible into, or exchangeable for, shares of the Company, whether by way of share or bond rights or otherwise;
  • has not been employed by or a partner of any 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 other than that of a director of the Company;
  • is free from any interest and any business or other relationship which could, or could reasonably be considered to, materially interfere with the director’s ability to act in the best interests of the Company.

Virgin Blue recognises the ASX Corporate Governance Guidelines recommend that a listed company should have a majority of directors who are independent, and that the chairman should be an independent director. The Board as currently composed 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 motivation to ensure that the Company continues to perform strongly, notwithstanding that its overall composition does not meet ASX guidelines on independence.

DIRECTORS SEEKING INDEPENDENT ADVICE

A director may seek prior consultation with an independent professional advisor (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 evaluations, 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 so that 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 discharge its obligations:

• fulfils its audit, accounting and reporting obligations;
• monitors external auditors’ performance (including the independence of external auditors).

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 actions, including compliance with policies and procedures.

Awareness of, and compliance with, legislation and regulation is also critical to the ongoing sustainability of the business. A compliance and risk business systems 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 unpublished 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 Disclosures 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 are made in a timely manner; are factual; do not emit 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 shareholder questions about the conduct of the audit and the preparation and content of the Audit Report. A copy of Virgin Blue’s Market Disclosures and Communication Policy is available on the Company’s website at www.virginblue.com.au.
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 Board Charter, which includes:

- setting the direction, strategies 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;
- monitoring 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 such, the Board brings a broad range of qualifications, with considerable experience and expertise in aviation, transport, finance, accounting, marketing and public company affairs. Details regarding Virgin Blue’s directors, including their relevant qualifications and experience, are set out on pages 17 and 18.

The Company is aware that the Patriarch Corporation and Virgin Group shareholders are parties to an Ongoing Shareholders Agreement which requires each shareholder to support the election and re-election of directors as two persons nominated by the other of them, for so long as the nominee is registered holder of 15% or more of the issued capital. If the nominee is the registered holder of greater than 40% but less than 15% of the issued capital, then only one of its nominees will be supported by the other shareholder in this way.

In addition, Patrick and Virgin Group shareholders also agree that for so long as Patrick Corporation’s shareholding in the Company exceeds 40%, a third person nominated by it would be Chairman. As a result of these agreements:

- up to two of the directors of the Company have been elected after being nominated by Patriarch Corporation. One of these is to be Chairman, the other two act as representatives of Patriarch Corporation; and
- two of the directors have been elected after being nominated by Virgin Group and act as its representatives.

The remaining three directors on the Board are comprised of two non-executive, independent directors, being David Ryan and David Michael Montgomery and the Chief Executive Officer.

The criteria for assessing the independence of a director are set out in Virgin Blue’s Board Charter, a copy of which is available from the Company’s website at www.virginblue.com.au.

In summary, an independent director is a director who is not a member of management (a non-executive director) and who:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated, directly or indirectly, with a substantial shareholder of the Company;
- 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 any 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 that are independent and that the chairman 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 comprised, has the necessary skills and motivation 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 seeking to provide independent professional advice (including legal advice) to the Company. 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 question 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 executive succession, 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 so that 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 Chairman 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 in allowing it to fulfill its audit, accounting and reporting obligations and monitor external auditors’ performance (including the independence of external auditors).

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;
- 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 taken, 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 management system 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 unpublished 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 Disclosures 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 made in a timely manner; are factual; do not emit 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 shareholder questions about the conduct of the audit and the preparation and content of its Auditor’s Report.

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 C Corrigan</td>
<td>Non-Executive Chairman</td>
</tr>
<tr>
<td>Sr Richard Branson</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>Mr B Godfrey</td>
<td>Managing Director</td>
</tr>
<tr>
<td>Mr W Hara</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>Mr D Knight</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>Mr P McCall</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>Mr D Mortimer</td>
<td>Independent Non-Executive Director</td>
</tr>
<tr>
<td>Mr Stephen Murphy</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>Mr Mark Postle</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 remuneration 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>
<th>REMUNERATION AND GOVERNANCE COMMITTEE MEETINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr C Corrigan</td>
<td>10</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Mr B Godfrey</td>
<td>11</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>Mr W Hara</td>
<td>11</td>
<td>11</td>
<td>–</td>
</tr>
<tr>
<td>Mr D Knight</td>
<td>11</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>Mr P McCall</td>
<td>11</td>
<td>11</td>
<td>–</td>
</tr>
<tr>
<td>Mr D Mortimer</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Mr S Murphy</td>
<td>10</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Mr M Postle</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Mr D Ryan</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Mr P Scarron</td>
<td>1</td>
<td>1</td>
<td>–</td>
</tr>
</tbody>
</table>

The number of meetings of the committees of directors attended by each director is:

<table>
<thead>
<tr>
<th>DIRECTOR</th>
<th>MEETINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr C Corrigan</td>
<td>10</td>
</tr>
<tr>
<td>Mr B Godfrey</td>
<td>10</td>
</tr>
<tr>
<td>Mr W Hara</td>
<td>10</td>
</tr>
<tr>
<td>Mr D Knight</td>
<td>10</td>
</tr>
<tr>
<td>Mr P McCall</td>
<td>10</td>
</tr>
<tr>
<td>Mr D Mortimer</td>
<td>3</td>
</tr>
<tr>
<td>Mr S Murphy</td>
<td>10</td>
</tr>
<tr>
<td>Mr M Postle</td>
<td>1</td>
</tr>
<tr>
<td>Mr D Ryan</td>
<td>3</td>
</tr>
<tr>
<td>Mr P Scarron</td>
<td>1</td>
</tr>
</tbody>
</table>

The Remuneration and Governance Committee was created just prior to listing. The responsibilities of this committee were previously handled by the full board without relevant. No meetings of the committees were held prior to year end.

DIRECTORS’ REPORT

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 $156.5 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 expectations 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 18.

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 OJ 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.

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>NAME</th>
<th>NUMBER OF OPTIONS GRANTED</th>
<th>EXERCISE PRICE</th>
<th>EXPyre 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 Sherrard</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 R Ryan</td>
<td>290,587</td>
<td>$2.25</td>
<td>8 December 2008</td>
</tr>
</tbody>
</table>

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

UNAUSSUED SHARES UNDER OPTION

At the end of the financial year, the Company had unissued ordinary shares of the Company under option are:

<table>
<thead>
<tr>
<th>OPTIONS PLAN</th>
<th>NUMBER OF SHARES</th>
<th>EXERCISE PRICE</th>
<th>EXPyre DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Share Option Plan</td>
<td>20,273,580</td>
<td>$0.006</td>
<td>31 December 2005</td>
</tr>
<tr>
<td>CFO Plan</td>
<td>1,952,580</td>
<td>$0.017</td>
<td>28 January 2007</td>
</tr>
<tr>
<td>Senior Executive Option Plan</td>
<td>15,878,859</td>
<td>$2.25</td>
<td>8 December 2008</td>
</tr>
</tbody>
</table>

SHARES ISSUED ON EXERCISE OF OPTIONS

During or since the end of the financial year, the Company issued ordinary shares as result of the exercise of options as follows:

<table>
<thead>
<tr>
<th>OPTIONS PLAN</th>
<th>NUMBER OF SHARES</th>
<th>AMOUNT PAID IN EACH SHARE</th>
<th>EXPyre DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Share Option Plan</td>
<td>20,273,580</td>
<td>$0.006</td>
<td></td>
</tr>
</tbody>
</table>
**DIRECTORS**

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’ REPORT**

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 Chris Corrigan</td>
<td>Non-Executive Chairman</td>
</tr>
<tr>
<td>Dr 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>Chief Executive Officer</td>
</tr>
<tr>
<td>Mr David Knight</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>Mr Patrick McCall</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>Mr David Mortimer</td>
<td>Independent Non-Executive Director</td>
</tr>
<tr>
<td>Mr Stephen Murphy</td>
<td>Non-Executive Director</td>
</tr>
<tr>
<td>Mr Mark Pasley</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 Scatton</td>
<td>Non-Executive Director</td>
</tr>
</tbody>
</table>

Details of directors, their special responsibilities and any other significant events 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>AUDIT COMMITTEE MEETINGS</th>
<th>REMUNERATION AND GOVERNANCE COMMITTEE MEETINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr C Corrigan</td>
<td>10</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Sr R Branson</td>
<td>0</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mr B Godfrey</td>
<td>11</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mr W Hara</td>
<td>9</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mr D Knight</td>
<td>13,333</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mr P McCall</td>
<td>11</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mr D Mortimer</td>
<td>3</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mr S Murphy</td>
<td>10</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mr M Puck</td>
<td>1</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mr D Ryan</td>
<td>3</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mr P Scatton</td>
<td>11</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

**DIRECTORS’ REPORT**

**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 flows). Options are also issued under certain Share Option Plans. Depending on the plan, the ability to exercise the options is conditional on certain conditions.

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 flows). Options are also issued under certain Share Option Plans. Depending on the plan, the ability to exercise the options is conditional on certain conditions.

Details of the nature and amount of each major element of the emoluments of each director of the Company, and each of the five officers of the Company and the consolidated entity receiving the highest emoluments are:

<table>
<thead>
<tr>
<th>DIRECTOR</th>
<th>BASE EMOLIEMENT</th>
<th>BONUS</th>
<th>NON-CASH BENEFITS</th>
<th>SUPERANNUATION</th>
<th>OPTIONS</th>
<th>VALUE</th>
<th>RETIREMENT BENEFITS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr C Corrigan</td>
<td>$54,282</td>
<td>–</td>
<td>$10,717</td>
<td>$4,885</td>
<td>–</td>
<td>–</td>
<td>$69,184</td>
<td></td>
</tr>
<tr>
<td>Sr R Branson</td>
<td>$26,666</td>
<td>–</td>
<td>$7,145</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>$33,811</td>
<td></td>
</tr>
<tr>
<td>Mr W Hara</td>
<td>$39,679</td>
<td>–</td>
<td>$10,717</td>
<td>$3,571</td>
<td>–</td>
<td>–</td>
<td>$53,967</td>
<td></td>
</tr>
<tr>
<td>Mr D Knight</td>
<td>$28,870</td>
<td>–</td>
<td>$3,572</td>
<td>$2,580</td>
<td>–</td>
<td>–</td>
<td>$34,322</td>
<td></td>
</tr>
<tr>
<td>Mr P McCall</td>
<td>$43,349</td>
<td>–</td>
<td>$10,717</td>
<td>$3,901</td>
<td>–</td>
<td>–</td>
<td>$57,967</td>
<td></td>
</tr>
<tr>
<td>Mr D Mortimer</td>
<td>$39,168</td>
<td>–</td>
<td>$3,572</td>
<td>$1,166</td>
<td>–</td>
<td>–</td>
<td>$41,905</td>
<td></td>
</tr>
<tr>
<td>Mr S Murphy</td>
<td>$45,260</td>
<td>–</td>
<td>$10,717</td>
<td>$4,073</td>
<td>–</td>
<td>–</td>
<td>$60,050</td>
<td></td>
</tr>
<tr>
<td>Mr M Puck</td>
<td>$2,000</td>
<td>–</td>
<td>$7,145</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>$9,145</td>
<td></td>
</tr>
<tr>
<td>Mr D Ryan</td>
<td>$36,315</td>
<td>–</td>
<td>$3,572</td>
<td>$3,268</td>
<td>–</td>
<td>–</td>
<td>$43,155</td>
<td></td>
</tr>
<tr>
<td>Mr P Scatton</td>
<td>$6,000</td>
<td>–</td>
<td>$7,145</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>$13,145</td>
<td></td>
</tr>
<tr>
<td>Mr B Godfrey</td>
<td>$330,623</td>
<td>–</td>
<td>$10,717</td>
<td>$30,026</td>
<td>$175,135</td>
<td>–</td>
<td>$549,501</td>
<td></td>
</tr>
</tbody>
</table>

**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>NAME</th>
<th>NUMBER OF OPTIONS GRANTED</th>
<th>EXERCISE PRICE</th>
<th>EXPiring 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 M Puck</td>
<td>2,000</td>
<td>$2.25</td>
<td>8 December 2008</td>
</tr>
<tr>
<td>Mr D Ryan</td>
<td>330,623</td>
<td>$2.25</td>
<td>8 December 2008</td>
</tr>
<tr>
<td>Mr D Knight</td>
<td>13,333</td>
<td>$2.25</td>
<td>8 December 2008</td>
</tr>
</tbody>
</table>

**DIVIDENDS**

In line with the prospects dated 10 November 2003, no dividends were paid or declared by the Company or its controlled entities.

**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 8 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 Nonissim), 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.

**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 13.7 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.

**SHRAVES ISSUED ON EXERCISE OF OPTIONS**

During or since the end of the financial year, the Company issued ordinary shares as result of the exercise of options as follows:

<table>
<thead>
<tr>
<th>NUMBER OF SHARES</th>
<th>AMOUNT PAID PER SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>20,273,580</td>
<td>$0.006</td>
</tr>
</tbody>
</table>

There were no amounts paid on the shares issued.

**DIRECTORS’ INTERESTS**

The relevant interest of each director in the shares and options shares over 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 S205(1) of the Corporations Act 2001 (Cwlth), at the date of this report is as follows:

**VIRGIN BLUE HOLDINGS LIMITED**

<table>
<thead>
<tr>
<th>OPTIONS OVER ORDINARY SHARES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr B Godfrey</td>
</tr>
<tr>
<td>Mr M Puck</td>
</tr>
<tr>
<td>Mr D Ryan</td>
</tr>
<tr>
<td>Mr D Knight</td>
</tr>
</tbody>
</table>

**ORDINARY SHARES**

<table>
<thead>
<tr>
<th>OPTIONS OVER ORDINARY SHARES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr B Godfrey</td>
</tr>
<tr>
<td>Mr M Puck</td>
</tr>
<tr>
<td>Mr D Ryan</td>
</tr>
<tr>
<td>Mr D Knight</td>
</tr>
</tbody>
</table>
## 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.

## Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 (Cwlth) for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001 (Cwlth).

## 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.

Dated at Brisbane this 17th day of May 2004.

Signed in accordance with a resolution of the directors:

Brett Godfrey
Director

Chris Corrigan
Chairman

### Statements of Financial Position

**As at 31 March 2004**

<table>
<thead>
<tr>
<th>NOTE</th>
<th>2004</th>
<th>$’000</th>
<th>2003</th>
<th>$’000</th>
<th>2004</th>
<th>$’000</th>
<th>2003</th>
<th>$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash assets</td>
<td>26(a)</td>
<td>1,149,495</td>
<td>1,268,678</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>8</td>
<td>16,445</td>
<td>72,547</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>9</td>
<td>1,688</td>
<td>2,041</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other financial assets</td>
<td>10</td>
<td>519,918</td>
<td>99,301</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>11</td>
<td>9,742</td>
<td>8,970</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current assets</td>
<td>26(b)</td>
<td>1,458,915</td>
<td>903,710</td>
<td>545,912</td>
<td></td>
<td></td>
<td></td>
<td>56,731</td>
</tr>
<tr>
<td><strong>NON-CURRENT ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>12</td>
<td>34,245</td>
<td>52,941</td>
<td>56,616</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>13</td>
<td>48,250</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>26(c)</td>
<td>754,667</td>
<td>303,941</td>
<td>545,912</td>
<td></td>
<td></td>
<td></td>
<td>56,731</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,213,582</td>
<td>1,268,678</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>14</td>
<td>11,108</td>
<td>119,277</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>15</td>
<td>109,888</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td>16</td>
<td>1,151</td>
<td>19,839</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>26(d)</td>
<td>130,159</td>
<td>129,195</td>
<td>19,839</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,546,915</td>
<td>903,710</td>
<td>545,912</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>56,731</td>
</tr>
</tbody>
</table>

### Statements of Cash Flows

**For the year ended 31 March 2004**

<table>
<thead>
<tr>
<th>NOTE</th>
<th>2004</th>
<th>$’000</th>
<th>2003</th>
<th>$’000</th>
<th>2004</th>
<th>$’000</th>
<th>2003</th>
<th>$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash received from customers</td>
<td>19</td>
<td>844,506</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends received</td>
<td>20</td>
<td></td>
<td></td>
<td>180,634</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>844,506</td>
<td></td>
<td></td>
<td>180,634</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**The Statements of Financial Position 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 disclosures.

(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 (upfront) 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 comprise 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 receivable and payable 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 10) 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.

Hedges

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, 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.

Hedging relationships

The hedge is considered to be an effective hedge of the anticipated transaction where the changes in the fair value or cash flows of the hedge are offset by changes in the fair value or cash flows of the hedged item and there is no material ineffectiveness.

In a discontinued operation, the gains and losses that were originally included in the change in fair value of the hedging instrument are reclassified from other comprehensive income to earnings in the year in which that entity's exposure to the risk is no longer significant.

J) 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, 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.

K) ACQUISITIONS OF ASSETS

All assets acquired, including property, plant and equipment, are initially recorded at their cost at acquisition at 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 10B.

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. 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.
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 where such costs cannot be determined, using the net realisable value or the profit or loss on disposal of the asset.

(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 disclosures.

(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) BORROWING COSTS

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and foreign exchange differences net of hedged amounts on borrowings.

All borrowings incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings, being 12 years.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In those circumstances, borrowing costs are capitalised to the cost of the asset. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

(F) 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 a 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 in relation to tax losses when realisation is virtually certain.

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 for 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.

(G) 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 rate change, except where relating to acquisition of qualifying assets (see Note 1(k)) and hedging of specific anticipated transactions.

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

(H) 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, 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 occurs 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.

THE CONSOLIDATED ENTITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004 (continued)

The net amounts receivable or payable under open swaps and the associated deferred gains or losses are not recorded on the Statements of Financial Position until the hedge transaction occurs. When recognised the net receivables or payables are revalued using the interest rate current at reporting date. Refer to Note 22.

Option premiums are recorded in “other financial assets” when paid and included in the measurement of the transaction when it occurs.

When the anticipated transaction is no longer expected to occur as designated any deferred gains and losses relating to the hedged transaction are recognised immediately in the Statements of Financial Performance.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains or losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale or interest transaction when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains or losses that arose on the hedge prior to its termination are included in the Statements of Financial Performance for the year.

Where a hedge is redesignated as a hedge of another transaction, gains or losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. When the original anticipated transaction is no longer expected to occur as designated, any gains or losses relating to the hedge instrument are included in the Statements of Financial Performance for the year.

F) 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.

(I) 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 rate change, except where relating to acquisition of qualifying assets (see Note 1(k)) and hedging of specific anticipated transactions.

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

Notes to the financial statements for the year ended 31 March 2004

Page 25

Page 26
NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2004 (continued)

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.

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

12) 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.

13) Inventories
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.

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

16) 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 are 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.

18) 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.

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

2 CHANGE IN ACCOUNTING POLICIES
Employee benefits
The consolidated entity has applied the revised ASAB 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

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Page 28
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.

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

(2) RECEIVABLES
The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful accounts.

(3) 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.

(4) 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.

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

(6) INCOME TAXES
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.

(7) INVESTMENTS
Catering, consumables, uniforms and merchandise inventory is valued at the lower of cost and net realisable value.

(8) INVESTMENTS

(9) 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 expensed 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.

(10) DEPRECIATION AND AMORTISATION

Complex assets
The components of major assets that have materially different useful lives are individually 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:

(11) 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

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</table>

| REVENUE FROM OPERATING ACTIVITIES | 1,392,200 | 944,506 | – | – |
| SCHEDULED REVENUE | 1,392,200 | 944,506 | – | – |
| Other revenue | 60,116 | 70,066 | 912 | 6 |
| Dividend revenue – controlled entities | 1,392,316 | 944,506 | 180,834 | 13,827 |
| Total revenue | 1,392,316 | 944,506 | 180,834 | 13,827 |

| REVENUE FROM OUTSIDE OPERATING ACTIVITIES | 1,381,578 | 934,506 | 180,834 | 13,827 |
| Interest | 31 | 1,846 | 1,739 | – |
| Total other revenues | 12,472 | 7,860 | – | – |
| Total revenue from ordinary activities | 1,392,316 | 944,370 | 180,834 | 13,827 |
| | 13,833 | 13,833 | | |
4 PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

(a) PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE HAS BEEN ARRIVED AT AFTER CHARGING/(CREDITING) THE FOLLOWING ITEMS:

Borrowing costs:
- other parties 19,337 – – –
- related parties – 496 – –
- finance charges on capitalised leases 7 22 – –
- less: capitalised/borrowing costs (8,022) – – –

Total borrowing costs 11,322 518 – –

Borrowing costs were capitalised to aircraft and aeronautical related assets at a weighted average rate of 5.7% (2003: nil%)

5 TAXATION

(a) INCOME TAX EXPENSE

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

Income and other tax expense:
- non-deductible expenses 658 678 – –
- amortisation of goodwill 745 745 – –
- under/over provision in prior year 630 (312) – –

Income tax expense related to current and deferred tax transactions of the wholly owned subsidiaries in the tax-consolidated group – – 60,883 –

Increase in income tax expense due to:
- amortisation of equity raising costs (1,448) – (5,448) –
- non-deductible investment in new project (774) – (774) –
- non-transparent dividend income – – – (4,150)
- non-assessable dividend received from a non-member of the consolidated group – – – (54,193)
- recovery of income tax expense under a tax funding arrangement – – – (88,571)

Income tax expense on the profit from ordinary activities before individually significant income tax items 67,917 47,787 (898) –

Net deferred tax balance 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

Income tax expense attributable to profit from ordinary activities 67,917 47,787 (898) –

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

Current income tax provision 66,329 95,796 (2,320)
Deferred income tax provision 10,277 124 – –
Deferred tax asset 18,698 (8,723) – –
Under/over provision in prior year (241) 1,300 – –
Intercompany receivables under funding arrangements – – 1,322 –

67,917 47,787 (898) –

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

6 EARNINGS PER SHARE

CLASSIFICATION OF SECURITIES AS ORDINARY SHARES

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

CLASSIFICATION OF SECURITIES AS POTENTIAL ORDINARY SHARES

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

(a) options outstanding under the Executive Share Option Plan
(b) options outstanding under the CFO Plan
(c) options outstanding under the Senior Executive Option Plan

Further details of these securities are contained in Note 27.

CONSOLIDATED

2004 2003

Earnings reclassification $'000
Net profit 158,519

Basic earnings per share 158,519

After tax effect of interest on options 476

Diluted earnings per share 158,995

The Company listed on the Australian Stock Exchange on 8 December 2003.

CONSOLIDATED

2004 2003

Weighted average number of shares used as the denominator NUMBER FOR BASIC EARNINGS PER SHARE

Ordinary shares 9,183,033,616

NUMBER FOR DILUTED EARNINGS PER SHARE

Ordinary share number 9,183,033,616

Effect of executive share options on issue 20,273,980

Effect of CFO options on issue 1,357,560

Effect of Senior Executive share options on issue 3,083,209

845,061,210

On 8 December 2003, 20,273,980 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 weighted average number included is 6,370,114.

7 SEGMENT REPORTING

The consolidated entity operates predominantly in Australia within the airline industry. All revenue, operating profit and assets relate to operations predominantly in Australia.
4 PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

(a) PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE HAS BEEN ARRIVED AT AFTER CHARGING/(CREDITING) THE FOLLOWING ITEMS:

Borrowing costs:
- other parties 19,337 – – –
- related parties – 496 – –
- finance charges on capitalised leases 7 22 – –
- less: capitalised/borrowing costs (8,022) – – –

Total borrowing costs 11,322 518 – –

Borrowing costs were capitalised to aircraft and aeronautic related assets at a weighted average rate of 5.7% (2003: nil%)

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

7 SEGMENT REPORTING

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

5 TAXATION

(a) INCOME TAX EXPENSE

Prima 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 658 678 – –
- amortisation of goodwill 745 745 – –
- under/(over) provision in prior year 630 (312) – –

Income tax expense related to current and deferred tax transactions of the wholly owned subsidiaries in the tax-consolidated group – – 60,883 –

Decrease in income tax expense due to:
- amortisation of equity raising costs (1,440) – (1,440) –
- employee share gift offer (774) – (774) –
- non-recoverable dividend income – – – (4,150)
- non-assessable dividend received from a member of the consolidated group – – (54,193) –
- recovery of income tax expense under a tax funding arrangement – – 988,571 –

Income tax expense on the profit from ordinary activities before individually significant income tax items 67,617 47,787 (898) –

Net deferred tax balances recognised by head entity in relation to wholly owned subsidiaries within the tax consolidated group upon implementation of Tax Consolidation – – (5,419) –

Recovery of income tax expense under a tax funding agreement at transition – – 9,419 –

Income tax expense attributable to profit from ordinary activities 67,617 47,787 (888) –

Income tax expense attributable to profit from ordinary activities is made up of:
Current income tax provision 66,329 95,976 (2,220) –
Deferred income tax provision 10,277 124 – –
Deferred tax asset 18,699 (8,724) – –
Under/(over) provision in prior year (241) 1,300 – –
Intercompany receivables under funding arrangements – – 1,322 –

67,617 47,787 (888) –

8 RECEIVABLES

CURRENT

Trade debtors 43,077 30,299 52,641 59,616
Less: Provision for doubtful debtors 4,493 4,493
43,077 30,299 52,641 59,616

Other debtors 13,328 2,123 – –
Related entity loans – unsecured 40,125 40,125

58,425 54,541 – –

9 INVENTORIES

Maintenance spare parts – at cost 549 1,192 – –
Catering, consumables, uniforms and merchandise inventory – at cost 1,139 949 – –

1,688 2,141 – –

10 OTHER FINANCIAL ASSETS

CURRENT

Deferred hedge exchange differences and costs 19,089 11,377 – –
Term and other deposits 500,829 83,064 – –

519,918 95,331 – –

ASX-CURRENT

Investments in consolidated entity – unlisted shares at cost – – 52,641 59,616
Term and other deposits 7,676 34,425 – –

7,676 34,425 52,641 59,616

Various term deposits are required to be maintained with the consolidated entity’s financiers as security for bank guarantees, letters of credit and hedging instruments issued by those financiers on behalf of the consolidated entity. They are classified as current or non-current depending upon when the obligations to which they relate are expected to fall due.

The following securities have been classified as potential ordinary shares and included in diluted earnings per share for current period:
(a) options outstanding under the Executive Share Option Plan
(b) options outstanding under the CFO Plan

Further details of these securities are contained in Note 27.

CLASSIFICATION OF SECURITIES AS ORDINARY SHARES

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

CLASSIFICATION OF SECURITIES AS POTENTIAL ORDINARY SHARES

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

6 EARNINGS PER SHARE

CONSOLIDATED THE COMPANY

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<tr>
<th>2004</th>
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CONSOLIDATED THE COMPANY

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CONSOLIDATED THE COMPANY

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CONSOLIDATED THE COMPANY

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

11 OTHER ASSETS

CURRENT
Prepayments 9,311 8,970 – –
Deferred borrowing costs 431 – – –
Non-current 9,742 8,970 – –

12 PROPERTY, PLANT AND EQUIPMENT

Buildings – at cost 16,322 8,447 – –
Accumulated depreciation (1,272) (407) – –
15,050 8,040 – –

Aircraft and aeronautic related assets* 646,826 181,818 – –
Accumulated depreciation (19,296) (1,498) – –
627,531 180,320 – –

Plant and equipment – at cost 39,083 20,014 – –
Accumulated depreciation (9,137) (3,358) – –
27,946 16,656 – –

Leased plant and equipment – at capitalised cost 15,050 8,040 – –
Accumulated amortisation – (590) – –
Amortised cost – 5,450 – –
8,590 5,450 – –

Computer equipment – at cost 17,194 8,374 – –
Accumulated depreciation (8,435) (2,253) – –
8,759 6,121 – –

Leased computer equipment – at capitalised cost 27,946 16,656 – –
Accumulated amortisation – (154) – –
Amortised cost – 26,302 – –
26,302 – –

Total property, plant and equipment – net book value 678,886 212,072 – –

* 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.

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

15 INTEREST BEARING LIABILITIES

CURRENT
Lease liabilities 112,661 110,377 – –
Loans – secured 112,661 110,377 – –
Non-current 112,661 110,377 – –

FINANCING ARRANGEMENTS

The consolidated entity has access to the following lines of credit:

Total facilities available:

Loans – secured 393,653 28,777 – –

Loans utilised at balance date:

Standby letters of credit 3,015 1,563 – –
Bank guarantees 18,032 17,818 – –
Aerodynamic finance facilities 579,960 139,154 – –
Lease finance facilities – 321 – –
587,877 199,256 – –

Facilities not utilised at balance date:

Standby letters of credit 3,015 1,563 – –
Bank guarantees 18,032 17,818 – –
Aerodynamic finance facilities 579,960 139,154 – –
Lease finance facilities – 321 – –
528,161 199,121 – –

16 PROVISIONS

CURRENT
Employee benefits 27 14,817 8,745 – –
Maintenance 11,288 2,969 – –
Other 13,511 6,564 – –
37,402 21,949 – –

Non-current 111,098 115,277 – –

Employee benefits 27 14,817 8,745 – –
Maintenance 11,288 2,969 – –
Other 13,511 6,564 – –
13,462 2,969 – –

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

CONSOLIDATED

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

CONSOLIDATED

12 PROPERTY, PLANT AND EQUIPMENT

RECONCILIATIONS

CONSOLIDATED

199,466 212,072 – –

13 INTANGIBLE ASSETS

Goodwill
At cost 49,651 49,651 – –
Accumulated amortisation 13,841 (3,358) – –
43,809 46,293 – –

14 PAYABLES

CURRENT
Trade creditors and accruals 101,103 103,119 – –
Other creditors 503 4,601 – –
Deferred hedge exchange differences and costs 5,809 5,727 – –
111,098 110,277 – –

Non-current 2,210 – – –

CONSOLIDATED

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

CONSOLIDATED

CARRYING AMOUNT AT BEGINNING OF YEAR $’000

CARRYING AMOUNT AT END OF YEAR $’000

Note 2004 2003 2004 2003

Buildings 8,040 7,875 – – (865) 15,050

Aircraft and aeronautic related assets 188,320 463,449 – 1,002 (17,243) 627,531

Plant and equipment 16,708 16,458 – (570) (5,050) 27,546

Leased plant and equipment 432 – – (452) – –

Computer equipment 6,521 6,683 – 51 (4,498) 8,759

Leased computer equipment 51 – – (51) – –

Total 212,072 494,465 – – (27,651) 678,886

The Company has no fixed assets.
### 11 OTHER ASSETS

<table>
<thead>
<tr>
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<th>2004 $'000</th>
<th>2003 $'000</th>
<th>2004 $'000</th>
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<tbody>
<tr>
<td><strong>CURRENT</strong></td>
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<td></td>
</tr>
<tr>
<td>Prepayments</td>
<td>9,311</td>
<td>8,970</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Deferred borrowing costs</td>
<td>431</td>
<td>–</td>
<td>9,742</td>
<td>8,970</td>
</tr>
<tr>
<td><strong>NON-CURRENT</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Deferred borrowing costs</td>
<td>4,496</td>
<td>–</td>
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### 12 PROPERTY, PLANT AND EQUIPMENT

#### Reconciliations

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<th>2004 $'000</th>
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<tr>
<td><strong>CARRYING AMOUNT AT BEGINNING OF YEAR $'000</strong></td>
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<td></td>
</tr>
<tr>
<td>Buildings</td>
<td>8,040</td>
<td>7,875</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Aircraft and aeronautic related assets</td>
<td>188,320</td>
<td>463,449</td>
<td>–</td>
<td>1,032 (17,240)</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>16,708</td>
<td>16,458</td>
<td>–</td>
<td>675 (5,052)</td>
</tr>
<tr>
<td>Leased plant and equipment</td>
<td>432</td>
<td>–</td>
<td>6,521</td>
<td>6,683</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>6,521</td>
<td>6,683</td>
<td>–</td>
<td>51 (4,498)</td>
</tr>
<tr>
<td>Leased computer equipment</td>
<td>51</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>212,072</td>
<td>214,501</td>
<td>–</td>
<td>7,312</td>
</tr>
</tbody>
</table>

The Company has no fixed assets.

### 13 INTANGIBLE ASSETS

**Goodwill**
- **At cost** 49,651 49,651
- Accumulated amortisation 14,817 8,745

### 14 PAYABLES

**CURRENT**
- Trade creditors and accruals 101,103 103,119
- Other creditors 51 4,601
- Deferred hedge exchange differences and costs 5,809 5,727

**NON-CURRENT**
- Other creditors 2,219

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004 (continued)

#### 15 INTEREST BEARING LIABILITIES

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<th>2004 $'000</th>
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<tbody>
<tr>
<td><strong>CURRENT</strong></td>
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<tr>
<td>Lease liabilities</td>
<td>–</td>
<td>511</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Loans – secured</td>
<td>112,661</td>
<td>110,377</td>
<td>112,661</td>
<td>110,377</td>
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<tr>
<td><strong>NON-CURRENT</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Loans – secured</td>
<td>393,953</td>
<td>28,777</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

**FINANCING ARRANGEMENTS**
The consolidated entity has access to the following lines of credit:

- **Total facilities available:**
  - Standby letters of credit 3,015 1,563
  - Bank guarantees 18,802 17,818
  - Aeronautic finance facilities 579,980 139,154
  - Lease finance facilities – 521
  - Total 579,980 199,256

Facilities utilised at balance date:
- Standby letters of credit 3,015 1,563
- Bank guarantees 18,802 17,818
- Aeronautic finance facilities 568,314 138,154
- Lease finance facilities 186
- Total 528,161 199,121

Facilities not utilised at balance date:
- Standby letters of credit – –
- Bank guarantees – –
- Aeronautic finance facilities 69,946
- Lease finance facilities 135
- Total 69,946 135

**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 letters of credit are secured over term deposits of an equivalent amount.

**BANK GUARANTEES**
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 VBNC2 Pty Limited and VBNC1 Pty Limited. A commitment has been made for the purchase of an additional seven aircraft for which the financing facility is currently being finalised.

### 12 PROPERTY, PLANT AND EQUIPMENT

#### Reconciliations

<table>
<thead>
<tr>
<th></th>
<th>2004 $'000</th>
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<tr>
<td><strong>CARRYING AMOUNT AT BEGINNING OF YEAR $'000</strong></td>
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<tr>
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<td>6,683</td>
<td>–</td>
<td>51 (4,498)</td>
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<td>Leased computer equipment</td>
<td>51</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>212,072</td>
<td>214,501</td>
<td>–</td>
<td>7,312</td>
</tr>
</tbody>
</table>

The Company has no fixed assets.

### 13 INTANGIBLE ASSETS

**Goodwill**
- **At cost** 49,651 49,651
- Accumulated amortisation 14,817 8,745

### 14 PAYABLES

**CURRENT**
- Trade creditors and accruals 101,103 103,119
- Other creditors 51 4,601
- Deferred hedge exchange differences and costs 5,809 5,727

**NON-CURRENT**
- Other creditors 2,219

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

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<tr>
<td><strong>CARRYING AMOUNT AT BEGINNING OF YEAR $'000</strong></td>
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<tr>
<td>Maintenance</td>
<td>6,540</td>
<td>7,700</td>
<td>(4,998)</td>
<td>9,081</td>
</tr>
<tr>
<td>Maintenance – non-current</td>
<td>2,869</td>
<td>8,319</td>
<td>–</td>
<td>11,288</td>
</tr>
<tr>
<td>Other – current</td>
<td>6,654</td>
<td>6,947</td>
<td>–</td>
<td>13,511</td>
</tr>
</tbody>
</table>

**THE COMPANY**
- Maintenance – current –
- Maintenance – non-current –
- Other – current –
## NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 31 March 2004 (continued)

### 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** – $2,174,000
- **Retained profits (Note 19)** – $88,283,000

Total $90,400,000

On 3 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 under the Key Employee Performance Plan, holders of ordinary 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.

### 19 RETAINED PROFITS

Retained profits at beginning of year

138,229

30,430

13,942

109

Net profit attributable to members of the

parent entity

158,519

107,799

181,514

13,803

Dividends recognised during the year

20

–

–

–

Reduction on share buy-back

18

–

–

–

Retained profits at end of year

208,465

138,229

107,799

13,942

109

### 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 RECONCILATION

Total equity at beginning of year

184,018

48,944

99,731

18,623

Total changes in parent entity interest in equity recognised in statement of financial performance

158,519

107,799

181,514

13,833

Shares held for Key Employee Performance Plan

(22,930)

–

–

–

Transactions with owners as owners:

Share buy-back

18

–

–

–

Shares issued

18

–

–

–

Total equity at end of year

50,731

72,678

102,523

–
### 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.

### 18 CONTRIBUTED EQUITY

<table>
<thead>
<tr>
<th>Note</th>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### SHARE CAPITAL

<table>
<thead>
<tr>
<th>Note</th>
<th>1,027,896,918 (2003: 2,740,542) ordinary shares, fully paid</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
</tr>
</tbody>
</table>

#### ORDINARY SHARES

Movements during the year

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares issued</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### UNRECONGNISED PROFITS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares held for Key Employee Performance Plan</td>
<td>(22,500)</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

#### TOTAL EQUITY AT END OF YEAR

<table>
<thead>
<tr>
<th>Total equity at end of year</th>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td></td>
</tr>
</tbody>
</table>

---

### 19 RETAINED PROFITS

Retained profits at beginning of year

<table>
<thead>
<tr>
<th>Retained profits at beginning of year</th>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>$'000</td>
<td>$'000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 22 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

#### (A) 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 or are related to a fixed rate facility. 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 unrecognised 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:

<table>
<thead>
<tr>
<th>Company</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>$'000</td>
<td>$'000</td>
<td></td>
</tr>
</tbody>
</table>

---

### NOTES TO THE FINANCIAL STATEMENTS

#### For the year ended 31 March 2004 (continued)

<table>
<thead>
<tr>
<th>Page 33</th>
</tr>
</thead>
</table>

---

### NOTES TO THE FINANCIAL STATEMENTS

#### For the year ended 31 March 2004 (continued)

<table>
<thead>
<tr>
<th>Page 34</th>
</tr>
</thead>
</table>
22 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (CONTINUED)

(a) 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 forecasted 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 contracted 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>WEIGHTED AVERAGE RATE</td>
<td></td>
</tr>
<tr>
<td>BUY US DOLLAR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not later than one year</td>
<td>0.094</td>
<td>0.571</td>
</tr>
<tr>
<td></td>
<td>240,849</td>
<td>411,748</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CREDIT RISK EXPOSURES</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recognised financial instruments</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrecognised financial instruments</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.

The consolidated entity enters into future contracts to hedge (or hedge 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:

CONTRACTED BUT NOT PROVIDED FOR AND PAYABLE

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The consolidated entity is a party to various agreements under which it may receive grants or incentives. Entitlement to these incentives is contingent upon the consolidated entity meeting the necessary requirements set out in these agreements. 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 revenue until it is earned.
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 forecasted 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 contracted exchange rates and the settlement periods of outstanding contracts for the consolidated entity.

### BUY US DOLLAR

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not later than one year</td>
<td>0,044</td>
<td>0,571</td>
<td>849,849</td>
<td>441,769</td>
<td></td>
</tr>
</tbody>
</table>

As these contracts are hedging anticipated purchases, any unrealised gains and losses on the contracts, together with the costs of the contracts, will be recognised in the financial statements at the time the underlying transaction occurs. The gross recognised loss on hedges of anticipated foreign currency purchases at the end of the financial year was $3,966,000 (2003: $7,479,000) including a gain of $895,000 for the fair value of the options contracts. The weighted average rate includes the options at the strike rate (i.e. the lowest possible rate outcome). The hedging contracts noted above as at 31 March 2004 have been replaced following market movements since year end.

### 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.

### COMMUNITY PRICE RISK

The consolidated entity enters into future contracts to hedge (or hedge 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>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td></td>
</tr>
<tr>
<td>AVOIDING PURCHASES</td>
<td>30,429</td>
<td>6,341</td>
</tr>
</tbody>
</table>

The deferred gains on hedges includes the options at the strike rate (i.e. the highest possible price outcome).

### NET FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Valuation approach

Not fair values of financial assets and liabilities are determined by the consolidated entity on the following bases:

- **Recognised financial instruments**
  - The carrying value of recognised financial instruments approximate their fair values.

- **Unrecognised financial instruments**
  - The fair value of unrecognised financial instruments (foreign exchange contracts and commodity hedged) 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.

### COMMUNITY PRICE RISK

The consolidated entity enters into future contracts to hedge (or hedge 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:

- **CONSOLIDATED**
  - 2004 $'000 2003 $'000
    - AVOIDING PURCHASES 30,429 6,341

The deferred gains on hedges includes the options at the strike rate (i.e. the highest possible price outcome).

### NET FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Valuation approach

Not fair values of financial assets and liabilities are determined by the consolidated entity on the following bases:

- **Recognised financial instruments**
  - The carrying value of recognised financial instruments approximate their fair values.

- **Unrecognised financial instruments**
  - The fair value of unrecognised financial instruments (foreign exchange contracts and commodity hedged) 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.

### 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: $27,964,065).

#### 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 leas**

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. The Company has taken advice on this matter and believes that no adverse consequences have resulted or will result to the consolidated entity as a result of these enquiries or the arrangements.

#### CONTINGENT ASSETS NOT CONSIDERED REMOTE

The consolidated entity is a party to various agreements under which it may receive grants or incentives. Entitlement to these incentives is contingent upon the consolidated entity meeting the necessary requirements set out in these agreements. 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 $8,855,000. This amount will not be recognised as revenue until it is earned.
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>Virgin Blue Holdings Limited</td>
<td>100%</td>
<td>100%</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>100%</td>
<td>100%</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 Airways (NZ) Ltd</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Pacific Blue Airlines (Aust) Ltd</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>VBNC1 Pty Ltd</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>VBNC2 Pty Ltd</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Key Employee Performance Plan</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

27 EMPLOYEE BENEFITS

27 EMPLOYEE BENEFITS (CONTINUED)

2004 $'000 2003 $'000 2004 $'000 2003 $'000

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 overdrafts. 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>2004 $'000 2003 $'000 2004 $'000 2003 $'000</td>
<td></td>
</tr>
</tbody>
</table>

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.

The present values of employee entitlements not expected to be settled within 12 months of reporting date have been calculated using the following weighted averages:

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

<table>
<thead>
<tr>
<th>CONSOLIDATED</th>
<th>THE COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004 $'000 2003 $'000 2004 $'000 2003 $'000</td>
<td></td>
</tr>
</tbody>
</table>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004 (continued)

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

(1) Virgin Blue Holdings Limited administers the Key Employee Performance Plan through an appointed Trustee.
(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 $169,000 at a fair value of $2.25 per share. Aggregate fair value was $405,615,000.
(5) No options lapsed during the current or previous financial year.
NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2004 (continued)

25 CONTROLLED ENTITIES

(a) PARTICULARS IN RELATION TO CONTROLLED ENTITIES

<table>
<thead>
<tr>
<th>NAME</th>
<th>CONSOLIDATED ENTITY INTEREST</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
</tr>
<tr>
<td>Virgin Blue Holdings Limited</td>
<td>100%</td>
</tr>
<tr>
<td>Virgin Australia Holdings Pty Limited</td>
<td>100%</td>
</tr>
<tr>
<td>Virgin Blue Airlines Pty Limited</td>
<td>100%</td>
</tr>
<tr>
<td>Virgin Tech Pty Ltd</td>
<td>100%</td>
</tr>
<tr>
<td>Stava No.2 Pty Ltd</td>
<td>100%</td>
</tr>
<tr>
<td>Pacific Blue Airlines (NZ) Ltd</td>
<td>100%</td>
</tr>
<tr>
<td>Pacific Blue Airlines (Aust) Ltd</td>
<td>100%</td>
</tr>
<tr>
<td>VBNC1 Pty Ltd</td>
<td>100%</td>
</tr>
<tr>
<td>VBNC2 Pty Ltd</td>
<td>100%</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.

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

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 overdrafts. Cash 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>2004 $'000</td>
<td>2003 $'000</td>
</tr>
<tr>
<td>Cash assets</td>
<td>114,669</td>
</tr>
<tr>
<td>Other financial assets – term and other deposits at call</td>
<td>354,604</td>
</tr>
<tr>
<td>469,293</td>
<td>126,878</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 | 107,798 | 181,514 | 13,833 |

Add/(loss) on items classified as investing/financing activities:

Add (loss) on sale of non-current assets | – | 120 | – | – |

Interest received | (19,258) | (9,729) | – | – |

Add/(loss) non-cash items:

Depreciation/amortisation | 30,135 | 10,259 | – | – |

Unrealised foreign exchange gain/(loss) | – | (920) | 18 | (6) |

Change in assets and liabilities during the financial year:

Increase in unearned passenger revenue | 59,186 | 39,176 | – | – |

Increase/(decrease) in tax liabilities | (20,173) | 28,801 | 23,234 | – |

Increase/(decrease) in operating financial assets | (7,600) | (20,599) | – | – |

Increase in employee entitlements | 8,246 | 4,379 | – | – |

Increase/(decrease) in maintenance provisions | 10,860 | 7,915 | – | – |

Increase in other provisions | 6,247 | – | – | – |

Increase in operating financial assets | (7,600) | (20,599) | – | – |

Increase/(decrease) in tax liabilities | (23,173) | 23,234 | – | – |

Increase in unearned passenger revenue | 53,198 | 39,176 | – | – |

Net cash provided by operating activities | 199,166 | 184,596 | 180,634 | 13,833 |

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

27 EMPLOYEE BENEFITS (CONTINUED)

EMPLOYEE OPTION PLANS

<table>
<thead>
<tr>
<th>OPTION PLAN</th>
<th>DATE ESTABLISHED</th>
<th>NUMBER OF OPTIONS AT BEGINNING OF THE YEAR</th>
<th>OPTIONS EXERCISED DURING THE FINANCIAL YEAR</th>
<th>NUMBER OF SHARES 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 Share Option Plan</td>
<td>30 May 2002</td>
<td>40,547,160</td>
<td>20,273,580</td>
<td>20,273,580</td>
<td>$0.008</td>
<td>31 December 2005 or such later date as the Board may determine</td>
<td>28 January 2007</td>
</tr>
<tr>
<td>CFO Plan</td>
<td>28 January 2003</td>
<td>1,357,960</td>
<td>–</td>
<td>1,357,960</td>
<td>$0.97</td>
<td>Equal proportions over a three year period with a first anniversary date of 8 December 2004</td>
<td>8 December 2005</td>
</tr>
<tr>
<td>Senior Executive Option Plan</td>
<td>8 December 2003</td>
<td>–</td>
<td>–</td>
<td>5,600,000</td>
<td>$2.25</td>
<td>Equal proportions over a five year period with a first anniversary date of 8 December 2004</td>
<td>8 December 2008</td>
</tr>
<tr>
<td>Senior Executive Option Plan</td>
<td>8 December 2003</td>
<td>–</td>
<td>–</td>
<td>10,278,709</td>
<td>$2.25</td>
<td>Equal proportions over a three year period with a first anniversary date of 8 December 2004</td>
<td>8 December 2008</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 $109,660,000 at a fair value of $2.25 per share. Aggregate fair value was $45,816,000.

5) No options lapsed during the current or previous financial year.
27 EMPLOYEE BENEFITS (CONTINUED)

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>CONSOLIDATED</th>
<th>THE COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOTE</td>
<td>2004</td>
</tr>
<tr>
<td>Issued ordinary share capital</td>
<td>$</td>
</tr>
<tr>
<td>18</td>
<td>169</td>
</tr>
</tbody>
</table>

EMPLOYEE SHARE PLANS

SHARE PLAN | DATE ESTABLISHED | DETAILS | RESTRICTIONS
---|---|---|---
General Employee Share Plan (ESOP) | B December 2000 | $1,000 worth of shares to certain employees for Snr consideration. Number of shares issued and vested during the year was $1,147,256 at a fair value of $2.25 per share. | Directors or participants in the Senior 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. A participating employee is not entitled to 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.
Key Employee Performance Plan (KEPP) | B December 2003 | Directors may grant performance rights to eligible full-time or 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 monies 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. | — |

29 EXECUTIVES’ REMUNERATION

The number of Australian based executive officers (excluding executive directors) of the Company and of controlled entities, whose remuneration from the Company or related parties, and from entities in the consolidated entity, falls within the following bands:

| $150,000 – $199,999 | 2 | — | — |
| $100,000 – $149,999 | 2 | — | — |
| $110,000 – $179,999 | 1 | — | — |
| $180,000 – $209,999 | 3 | — | — |
| $200,000 – $229,999 | 1 | — | — |
| $270,000 – $279,999 | 1 | — | — |
| $280,000 – $289,999 | 1 | — | — |
| $340,000 – $349,999 | 1 | — | — |

Total income in respect of the financial year received, or due and receivable, from the Company, entities in the consolidated entity or related parties by executive officers of the Company and of controlled entities whose income is $100,000 or more was $2,474,430. Executive officers are those officers involved in the strategic direction, general management or control of business at a company or operating division level. Executive remuneration includes amounts paid by the Company during the year to indemnify executives, and an allocation of insurance premiums paid by the Company or related parties in respect of directors’ and officers’ liabilities and legal expenses’ insurance contracts, in accordance with common commercial practice. The remuneration bands are not consistent with the emoluments disclosed in the directors’ report as the basis of calculation differs due to the differing requirements of the Corporations Act 2001 and the Accounting Standards.

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 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.

SUPERANNUATION PLANS

The consolidated entity contributes to several defined contribution superannuation plans.

28 DIRECTORS’ REMUNERATION

DIRECTORS’ INCOME

The number of directors of the Company whose income from the Company or any related party falls within the following bands:

| $0 – $9,999 | 1 | 1 |
| $10,000 – $19,999 | 1 | 5 |
| $20,000 – $30,000 | 2 | 1 |
| $30,000 – $40,000 | 2 | 1 |
| $40,000 – $50,000 | 2 | 1 |
| $50,000 – $60,000 | 2 | 1 |
| $60,000 – $69,999 | 2 | — |
| $70,000 – $79,999 | — | — |
| $80,000 – $89,999 | — | — |
| $90,000 – $99,999 | — | — |
| $100,000 – $199,999 | — | — |
| $200,000 – $299,999 | — | — |
| $300,000 – $399,999 | — | — |
| $400,000 – $499,999 | — | — |
| $500,000 – $599,999 | — | — |
| $600,000 – $699,999 | — | — |
| $700,000 – $799,999 | — | — |
| $800,000 – $899,999 | — | — |
| $900,000 – $999,999 | — | — |
| $1,000,000 – $1,299,999 | — | — |
| $1,300,000 – $1,499,999 | — | — |
| $1,500,000 – $1,699,999 | — | — |
| $1,700,000 – $1,899,999 | — | — |
| $1,900,000 – $1,999,999 | — | — |
| $2,000,000 – $2,999,999 | — | — |
| $3,000,000 – $3,999,999 | — | — |
| $4,000,000 – $4,999,999 | — | — |
| $5,000,000 – $5,999,999 | — | — |
| $6,000,000 – $6,999,999 | — | — |
| $7,000,000 – $7,999,999 | — | — |
| $8,000,000 – $8,999,999 | — | — |
| $9,000,000 – $9,999,999 | — | — |
| $10,000,000 – $10,999,999 | — | — |
| $11,000,000 – $11,999,999 | — | — |
| $12,000,000 – $12,999,999 | — | — |
| $13,000,000 – $13,999,999 | — | — |
| $14,000,000 – $14,999,999 | — | — |
| $15,000,000 – $15,999,999 | — | — |
| $16,000,000 – $16,999,999 | — | — |
| $17,000,000 – $17,999,999 | — | — |
| $18,000,000 – $18,999,999 | — | — |
| $19,000,000 – $19,999,999 | — | — |
| $20,000,000 plus | — | — |

The remuneration bands are not consistent with the emoluments disclosed in the directors’ report as the basis of calculation differs due to the differing requirements of the Corporations Act 2001 and the Accounting Standards.

30 AUDITORS’ REMUNERATION

AUDIT SERVICES

Auditors of the Company – KPMG
— audit of financial report
391,000 170,000 5,000 5,000

OTHER SERVICES

Auditors of the Company – KPMG
— Initial Public Offering services
590,000 — — —
preparation of Investigating Accountant’s Report
160,000 140,000 — —
accounting and other assurance services provided prior to the Company listing on ASX
303,434 146,290 — 8,000
accounting and other assurance services provided since the Company listed on ASX
15,250 — — —
1,195,854 496,290 5,000 13,000

(1) Audit fees and other services are paid by Virgin Blue Airlines Pty Limited on behalf of the Company.

31 RELATED PARTIES

DIRECTORS

The names of each person holding the position of director of Virgin Blue Holdings Limited during the financial year are Messrs Chris Corrigan, David Ryan, David Mortimer, William Hara, David Knight, Patrick McCall, Stephen Murphy, Brett Godfrey, Mark Poole, Peter Scanlon and Sir Richard Branson. Mark Poole, Peter Scanlon and Sir Richard Branson resigned during the year.

Details of directors’ remuneration and retirement benefits are set out in Note 28. Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors’ interests subsisting at year-end.

Directors’ holdings of shares and share options

The interests of directors of the reporting entity and their director related entities in shares and share options of entities within the consolidated entity at year-end are set out below.

CONSOLIDATED

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NUMBER HELD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>33,371,857</td>
</tr>
<tr>
<td>2004</td>
<td>31,371,857</td>
</tr>
</tbody>
</table>

Virgin Blue Holdings Limited:
Ordinary shares
33,371,857
Options over ordinary shares
10,278,859
27 EMPLOYEE BENEFITS (CONTINUED)

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>NOTE</th>
<th>2004</th>
<th>$</th>
<th>2003</th>
<th>$</th>
<th>2004</th>
<th>$</th>
<th>2003</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issued ordinary share capital</td>
<td>18</td>
<td>--</td>
<td>18</td>
<td>--</td>
<td>18</td>
<td>--</td>
<td>18</td>
<td>--</td>
</tr>
</tbody>
</table>

EMPLOYEE SHARE PLANS

<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>$1,000 worth of shares to certain employees for nil consideration. Number of shares issued and vested during the year was $1,140,796 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.</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 or 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 CPU 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 wound up 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 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 remain a Virgin Blue employee throughout the period.</td>
</tr>
</tbody>
</table>

Key Employee Performance Plan

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 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.

SUPERANNUATION PLANS

The consolidated entity contributes to several defined contribution superannuation plans.

28 DIRECTORS’ REMUNERATION

DIRECTORS’ INCOME

The number of directors of the Company whose income from the Company or any related party falls within the following bands:

- $0 – $9,999 - 1
- $10,000 – $19,999 - 1
- $20,000 – $29,999 - 2
- $30,000 – $39,999 - 1
- $40,000 – $49,999 - 2
- $50,000 – $59,999 - 2
- $60,000 – $69,999 - 2
- $70,000 – $79,999 - 1
- $80,000 – $89,999 - 2
- $90,000 – $99,999 - 1
- $100,000 – $149,999 - 2
- $150,000 – $199,999 - 2
- $200,000 – $299,999 - 3
- $300,000 – $399,999 - 3
- $400,000 – $499,999 - 2

The remuneration bands are not consistent with the remuneration disclosed in the directors’ report as the basis of calculation differs due to the differing requirements of the Corporations Act 2001 and the Accounting Standards.

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

29 EXECUTIVES’ REMUNERATION

The number of Australian based executive officers (including executive directors) of the Company and controlled entities, whose remuneration from the Company or related parties, and from entities in the consolidated entity, falls within the following bands:

- $150,000 – $199,999 - 2
- $160,000 – $199,999 - 2
- $170,000 – $179,999 - 1
- $180,000 – $189,999 - 3
- $200,000 – $219,999 - 3
- $220,000 – $229,999 - 1
- $270,000 – $279,999 - 1
- $280,000 – $289,999 - 1
- $330,000 – $349,999 - 2

The following tables set out details of remuneration paid by the Company during the year to non-executive directors, remuneration paid to directors of the Company and controlled entities from other sources and remuneration paid to directors of controlled entities whose income is $100,000 or more.

<table>
<thead>
<tr>
<th>NOTE</th>
<th>2004</th>
<th>$</th>
<th>2003</th>
<th>$</th>
<th>2004</th>
<th>$</th>
<th>2003</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income in respect of the financial year received, or due and receivable, from the Company, entities in the consolidated entity or related parties by executive officers of the Company and of controlled entities whose income is $100,000 or more</td>
<td>2,474,430</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td></td>
</tr>
</tbody>
</table>

Executive officers are those officers involved in the strategic direction, general management or control of business at a company or operating division level. Executive remuneration includes amounts paid by the Company during the year to indemnify executives, and an allocation of insurance premiums paid by the Company or related parties in respect of directors’ and officers’ liabilities and legal expenses’ insurance contracts, in accordance with common commercial practice.

The remuneration bands are not consistent with the remuneration disclosed in the directors’ report as the basis of calculation differs due to the differing requirements of the Corporations Act 2001 and the Accounting Standards.

30 AUDITORS’ REMUNERATION

AUDIT SERVICES

The names of each person holding the position of director of Virgin Blue Holdings Limited during the financial year are Messrs Chris Corrigan, David Ryan, David Mortimer, William Hara, David Knight, Patrick McCall, Stephen Murphy, Brett Godfry, Mark Poste, Peter Scallon and Sir Richard Branson. Mark Poste, Peter Scallon and Sir Richard Branson resigned during the year. Details of directors’ remuneration and retirement benefits are set out in Note 28.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors’ interests subsisting at year-end.

DIRECTORS’ HOLDINGS OF SHARES AND OPTIONS

The interests of directors of the reporting entity and their related director entities in shares and share options within the consolidated entity at year-end are set out below.

CONSOLIDATED

<table>
<thead>
<tr>
<th>2004</th>
<th>$</th>
<th>2003</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Virgin Blue Holdings Limited:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>33,371,957</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Options over ordinary shares</td>
<td>10,278,859</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
31 RELATED PARTIES (CONTINUED)

Directors’ transactions in shares and share options

During the year, Virgin Blue Holdings Limited granted options over 19,879,802 unissued shares under the Senior Executive Option Plan. Of these options, 10,279,859 were granted to the Managing Director and his director related entities on the terms and conditions set out in Note 27. During the year, none of the options granted to directors and their director related entities were exercised resulting in directors’ holdings of ordinary shares increasing by nil shares. Refer to Note 27 and Note 18.

Directors’ transactions with the Company or its controlled entities

A number of directors of the Company, or their director related entities, held positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. The terms and conditions of the transactions with directors and their director related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm’s length basis.

Other related parties

A related entity, Barfield Limited, loaned the consolidated entity funds to assist in the establishment of its airline operation in Australia. The loan is unsecured and is repayable on demand. No interest was charged during the financial year. The amount payable by the consolidated entity was fully repaid during the financial year.

During the financial year, Barfield Limited acted as guarantor for a number of the consolidated entity’s aircraft leases. These leases expired during the financial year. Under the Counter-Indemnity and Guarantee Fee Agreement the consolidated entity is liable to pay a quarterly fee for this guarantee. This arrangement is conducted on normal terms and conditions. The amount payable by the consolidated entity was fully repaid during the financial year.

The consolidated entity had loaned $20,000,000 to Piont Pty Ltd, a related entity. The loan was unsecured and was repayable on demand or at the end of seven years. Interest was charged monthly on a variable interest rate basis and interest totalling $1,577,000 was charged during the financial year. The loan was fully repaid during the financial year.

The consolidated entity had loaned $18,400,000 to Kanzo Limited, a related entity. The loan was unsecured and was repayable within seven years. Interest was charged monthly on a variable interest rate basis and interest totalling $819,000 was charged during the period. The loan was fully repaid during the financial year.

The consolidated entity leased two aircraft from Virgin Express Holdings plc, a related entity, during the year ended 31 March 2003. The lease agreements were on normal terms and conditions and were entered into on an arm’s length basis. The leased aircraft were returned during the year ended 31 March 2003. No lease payments were made in the current financial year. The amount payable by the consolidated entity at the end of the financial year in respect of the lease agreements was $919,000.

The consolidated entity is party to an agreement with a related entity to use the “Virgin” and “Virgin Blue” brand names. During the financial year, $5,301,000 was charged by the related entity in respect of this agreement. This charge is calculated based on a fixed percentage of defined revenue. The amount payable by the consolidated entity at the end of the financial year was $1,596,000.

During the financial year, Jetcare Pty Limited, a related entity, provided maintenance services to the consolidated entity on normal terms and conditions. An amount of $16,033,000 was paid during the financial year. The amount payable by the consolidated entity at the end of the financial year was $729,000.

During the financial year, Liberty Air Services Pty Limited, a related entity, provided water and sewage services, security equipment and freight handling services to the consolidated entity on normal terms and conditions. An amount of $1,188,000 was paid during the financial year. The amount payable by the consolidated entity at the end of the financial year was $24,000.

During the financial year, Jetcare Pty Limited, a related entity, provided ground handling services to the consolidated entity on normal terms and conditions. An amount of $29,000 was paid during the financial year. The amount payable by the consolidated entity at the end of the financial year was $729,000.

Personal travel by directors and their related parties is undertaken on terms no more favourable than those of employees, as per consolidated entity policy.

INDEPENDENT AUDIT REPORT TO MEMBERS OF VIRGIN BLUE HOLDINGS LIMITED

SCOPE

The financial report comprises the Statements of Financial Position, Statements of Financial Performance, Statements of Cash Flows, accompanying notes to the financial statements, and the directors’ declarations set out on pages 23 to 41 for both Virgin Blue Holdings Limited (the “Company”) and Virgin Blue Holdings Limited and its Controlled Entities (the “Consolidated Entity”), for the year ended 31 March 2004. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

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. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

AUDIT APPROACH

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing 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, testing 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, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company’s and the Consolidated Entity’s financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion by procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report;
- 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 audits was not designed to provide assurance on internal controls.

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

- evaluating the general effect of the estimates inherent in the financial report.

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:

a) 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

b) other mandatory financial reporting requirements in Australia.

DIRECTORS’ DECLARATION

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

a) the financial statements and notes, set out on pages 23 to 41, are in accordance with the Corporations Act 2001, including:

i. giving a true and fair view of the financial position of the Company and consolidated entity as at 31 March 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Brett Godfrey

Director

ASX ADDITIONAL INFORMATION

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

SHAREHOLDINGS (AS AT 31 MAY 2004)

SUBSTANTIAL SHAREHOLDERS

The number of shares held by substantial shareholders and their associates is set out below:

SHAREHOLDERS NUMBER OF ORDINARY SHARES

Plax Pty Limited 472,282,676

VOTING RIGHTS

Ordinary shares Refer to Note 18

Options Refer to Note 27

TWENTY LARGEST SHAREHOLDERS

NAME NUMBER OF ORDINARY SHARES HELD PERCENTAGE OF CAPITAL HELD

Plax Pty Limited 472,282,676 48.0

Citicorp Nominees (Australia) Limited 236,174,620 24.0

Westpac Australian Nominees Limited 40,377,684 4.2

Centrelink Nominees Pty Limited 30,147,133 3.2

National Nominees Limited 25,972,136 2.7

Virgin Holdings SA 21,824,745 2.2

JP Morgan Nominees Australia Limited 18,496,323 1.9

HSBC Global Services Australia Nominees Pty Limited 12,894,807 1.3

Citicorp Nominees Limited (EFS WISE Imputation Fund A/C) 10,000,000 1.0

Citicorp Nominees Limited (EFS WISE Imputation Fund B/C) 8,548,302 0.9

Qantas/Investment Corporation 8,027,736 0.8

Mr Robert Sheard 7,017,494 0.7

HSBC Custodian Nominees (Australia) Limited 5,473,810 0.6

Citicorp Nominees Limited (EFS WISE Imputation Fund D/F) 5,158,164 0.5

Citicorp Nominees Limited 5,089,468 0.5

Citicorp Nominees Limited (EFS WISE Aust. Share Fund A/C) 5,089,339 0.5

Perpetual Trust Company Limited (VHARG AG D/V) 5,003,000 0.5

Citicorp Nominees Limited (EFS WISE Industrial Share A/C) 3,965,000 0.4

AMP Life Limited 3,394,120 0.3

Cologan Nominees Pty Limited 3,390,570 0.3

19,131,060 19.6

DISTRIBUTION OF EQUITY SECURITY HOLDERS

CATEGORY NUMBER OF ORDINARY SHARES OPTIONS

1 = 1,000 2,831 –

1,001 – 5,000 13,908 –

5,001 – 10,000 946 –

10,001 – 100,000 156 –

100,001 and over 89 15

18,300 15

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.
INDEPENDENT AUDIT REPORT TO MEMBERS OF VIRGIN BLUE HOLDINGS LIMITED

SCOPE

The financial report comprises the Statements of Financial Position, Statements of Financial Performance, Statements of Cash Flows, accompanying notes to the financial statements, and the directors’ declarations set out on pages 23 to 41 for both Virgin Blue Holdings Limited (the “Company”) and Virgin Blue Holdings Limited and its Controlled Entities (the “Consolidated Entity”), for the year ended 31 March 2004. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

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. This includes responsibility for the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

AUDIT APPROACH

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing 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, testing 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, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company and the Consolidated Entity’s financial position, and of their performance as represented by the results of their operations and their cash flows, for the year ended on that date; and

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.

Alex Kwan
KPMG
Mitchell Priebe
Partner
Brett Syddome
Director

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DISTRIBUTION OF EQUITY SECURITY HOLDERS

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

SHAREHOLDINGS (AS AT 31 MAY 2004)

The number of shares held by substantial shareholders and their associates is set out below:

SHAREHOLDERS NUMBER OF ORDINARY SHARES

<table>
<thead>
<tr>
<th>Name of Shareholder</th>
<th>Number of Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plaze Pty Limited</td>
<td>472,282,676</td>
</tr>
</tbody>
</table>

VOTING RIGHTS

Ordinary shares

Options

Refer to Note 18

Refer to Note 27

DIRECORS’ DECLARATION

(1) In the opinion of the directors of Virgin Blue Holdings Limited ("the Company"):

(a) the financial statements and notes, set out on pages 23 to 41, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 31 March 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Brisbane this 17th day of May 2004.

Signed in accordance with a resolution of the directors:

Brett Syddome
Director

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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**

| Term               | Definition                                                                 |
|--------------------|---------------------------------------------------------------------------|---|
| 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 (rental) |
| 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 088 660 124) 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-680 157688 2 and Cricket S.A. |

**CORPORATE DIRECTORY**

COMPANY SECRETARY  
Mr Scott Swift

PRINCIPAL ADMINISTRATION OFFICE  
Virgin Blue Holdings Limited  
131 Barry Parade  
Spring Hill QLD 4006  
Australia  
Telephone: (07) 3295 3000

REGISTERED OFFICE  
Virgin Blue Holdings Limited  
Level 26  
273 Adelaide Street  
Brisbane QLD 4001

SHARE REGISTRY  
Computershare Investor Services Pty Limited  
Level 3  
6D Carrington Street  
Sydney NSW 2000

STOCK EXCHANGE  
The Company is listed on the Australian Stock Exchange.  
The Home Exchange is Brisbane.

OTHER INFORMATION  
Virgin Blue Holdings Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

www.virginblue.com.au
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(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.
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