Virgin Blue continues to play a vital role in Australia’s developing aviation market as an innovator and competition leader now with over 30% of the Australian domestic market.

After less than five years the airline has evolved from a start-up entrepreneurial business to an airline group, along the way cementing its position as one of the world’s most successful airlines and Australia’s number one airline for service and value for money.

With a modern fleet of 51 Boeing 737-700 and 800 Next Generation aircraft, Virgin Blue Airlines today flies to 22 Australian and eight international destinations.

Pacific Blue launched in 2004 and now offers flights to Fiji, Vanuatu, the Cook Islands, Tonga and New Zealand. Polynesian Blue launched in October 2005 and flies between Australia and New Zealand to Samoa.

Virgin Blue’s competitive advantage lies in its low-cost model, superior customer service, unique culture and highest commitment to service and innovation in order to enhance the travel experience of its business and leisure Guests.

The Virgin Blue vision remains clear and the airline will continue to make inroads into the high yield corporate markets. “Velocity” will spearhead the campaign to attract more business Guests and so too will other innovations to be rolled out over the next 12 months including the introduction of Live2Air, increased online conveniences and a new Blue Room product. With a suite of airlines in our family, we remain vigilant in terms of cost management to ensure we prudently balance competitiveness with profitability and retain our position as Australia’s leading low-cost, high-quality carrier.

Virgin Blue will continue to closely monitor its domestic and international route network to identify future opportunities for expansion and increased services to those destinations that require it. With the addition of two extra aircraft next year, we will deploy these on a combination of key business and leisure routes to maximise utilisation, convenience for Guests and profit opportunities for the airline. We believe that to excel in this highly volatile and fiercely competitive aviation market, the airline needs to stay true to its low-cost base while having the flexibility to evolve as the market demands and avoid lagging behind or becoming an imitator rather than an innovator.

> Performing

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue ($million)</th>
<th>Net Profit after tax ($million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>1,350</td>
<td>107.3</td>
</tr>
<tr>
<td>2003</td>
<td>1,642</td>
<td>113.4</td>
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<tr>
<td>2004</td>
<td>1,950</td>
<td>107.5</td>
</tr>
<tr>
<td>2005</td>
<td>2,242</td>
<td>116.2</td>
</tr>
</tbody>
</table>

> Revenues

Total revenue increased by 14.6% to $1.76 billion, with scheduled revenue up 14.7%, as passengers carried increased 13.9% to 13.4 million. Despite the difficult pricing environment throughout the year, scheduled yield rose 1.2% in the last 12 months compared to the prior year.

Revenue Passenger Kilometres (RPKs) were 15.7 billion and Available Seat Kilometres (ASKs) were 20.4 billion, up 13.8% and 16.6% respectively from the prior year. Load factor was 77.3%, down 2.8 points from 2004.

> Expenditures

Total operating costs were $1.60 billion, up 22.2% on the prior year due to the significant increase in fuel costs (up 68%) and airport, navigation and station operation costs (up 22.1%) compared to a 16.6% increase in production ASKs. Changes in charging regimes and deregulated pricing have seen airport charges to airlines increase dramatically - airport, terminal and landing fees alone now account for 18% of Virgin Blue’s operating cost base. Fuel price per barrel increased by over 76% in the year, pushing Cost per Available Seat Kilometre (CASK) to 7.84 cents compared to 7.47 cents in the corresponding 12 months.

> Balance Sheet and Cash Flows

Cash balances increased from $520 million to $616 million during the year prior to the dividend of $262 million, giving Virgin Blue 140 days operating cash reserves as at 30 September 2005.

Capital expenditure during the 12-month period was $303 million, principally in respect of new aircraft.

The Company’s net debt to net debt plus equity ratio was 60%, down from 65% as at 30 September 2005.
> Where we fly

Passengers Carried  
13.4 million

RPKs/ASKs  
15.7/20.4 billion

Fleet  
29 Boeing 737-800NG
22 Boeing 737-700NG

Our People
At Virgin Blue we pride ourselves on attracting, selecting and retaining only the highest calibre people. We firmly believe we have the best people in the business, both in the air and on the ground, and it’s these team members who ensure the smooth and successful day-to-day operation of the airline.

In 2005 the Virgin Blue team grew to some 4,000 staff to support our growing business adding new skills and specialists to support our new corporate traveller strategy, and our steady expansion in Australia, New Zealand and the South Pacific Islands.

Our Passion
Our belief in our low-cost model and our passion for providing genuine customer service delivered with Virgin Flair again led to worldwide recognition in 2005 with Virgin Blue being awarded “Low Cost Carrier of the Year” in the global OAG Awards for the second year running.

> What we are doing

Innovations during the year included:

**Blue Plus fare**
Virgin Blue launched a new fare called “Blue Plus” designed specifically for the business traveller which features, for the first time, a money-back refund. Other key benefits also include free Blue Room entry, priority check-in, generous checked baggage allowance of 32 kg as well as the ability to change names, flight dates and times without penalty.

**Blue Check Kiosks**
Blue Check Kiosks were introduced in Sydney, Melbourne, Adelaide and Brisbane airports, allowing Guests to check themselves in, choose their own seat and avoid standing in line.

**Web Check-in**
Virgin Blue was the first airline in Australia to launch a progressive new online “Web Check-in” service which allows Guests to check in for their flight from their home or office via any internet-connected personal computer up to 24 hours before their scheduled flight. As well as being an efficient and user-friendly service, it enables Guests to choose their own seat, print their own boarding pass and avoid waiting in check-in queues.

**API Technology**
Application Interface Technology (API) is a capability unique to Virgin Blue and is part of the airline’s mission to increase its share of the corporate and government travel markets. API is a breakthrough initiative allowing travel agencies and key corporate accounts direct, real-time booking integration with Virgin Blue’s reservations system. The technology was developed by Virgin Blue’s IT team and allows Virgin Blue to offer external parties streamlined and immediate access to its bookings system.

**digEplayer™ and Live2Air**
Virgin Blue’s sister airline Pacific Blue was the first carrier in the Southern Hemisphere to offer personal in-flight movie players to Guests travelling between Australia, New Zealand and the Pacific Islands. The digEplayer™ is a self-contained portable on-demand entertainment system, programmed with a selection of movies, cartoons, television shows and music videos ideal for the longer international sectors. Meanwhile, the Virgin Blue team continues to progress with plans to introduce live seatback television screens across its fleet of domestic aircraft. Live2Air will offer real-time viewing in conjunction with FOXTEL and Austar with revolutionary satellite technology being developed to enable Virgin Blue to be the first airline in the Southern Hemisphere to have Live2Air on board its aircraft.

**Blue Rooms**
Virgin Blue continues to review its successful Australian domestic terminal lounges with Adelaide’s brand new terminal the next in line to get a Blue Room lounge, joining Brisbane, Sydney and Melbourne. The Blue Room concept is currently being redefined in response to our growing business market and the needs of regular members and visitors. All Blue Rooms are run as cost-neutral to the Virgin Blue business while providing Guests with a “user-pays” facility that suits their needs, be it for business or relaxation.

> Our Passion

Our belief in our low-cost model and our passion for providing genuine customer service delivered with Virgin Flair again led to worldwide recognition in 2005 with Virgin Blue being awarded “Low Cost Carrier of the Year” in the global OAG Awards for the second year running.
Virgin Blue continues to play a vital role in Australia’s developing aviation market as an innovator and competition leader, now with more than 30% of the Australian domestic market. After less than five years the airline has evolved from a start-up entrepreneurial business to an airline group, along the way cementing its position as one of the world’s most successful airlines and Australia’s leading airline for service and value for money.

Virgin Blue’s competitive advantage lies in its low-cost model, superior customer service, unique culture and highest commitment to service and innovation in order to enhance the travel experience of its business and leisure Guests. Virgin Blue has maintained its position as Australia’s number one on-time major airline, with each and every team member doing their bit to help get Guests to their destination on time. For the 12 months ended September 2005, more than 89% of our flights departed on time. In the second half of the year our average on-time performance was 90%.

October 04 82% flights departed on time* November 04 88% flights departed on time* December 04 87% flights departed on time* January 05 91% flights departed on time* February 05 87% flights departed on time* March 05 92% flights departed on time* April 05 91% flights departed on time* May 05 93% flights departed on time* June 05 87% flights departed on time* July 05 88% flights departed on time* August 05 91% flights departed on time* September 05 91% flights departed on time*

Virgin Blue prides itself on its on-time performance standards. It has maintained its position as Australia’s number one on-time major airline, with each and every team member doing their bit to help get Guests to their destination on time. For the 12 months ended September 2005, more than 89% of our flights departed on time. In the second half of the year our average on-time performance was 90%.

Virgin Blue’s on-time performance statistics are audited and published by the Department of Transport.

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Virgin Blue has proven that it’s possible to offer high quality at low cost and we continue to remain steadfastly committed to our low-cost model.

We have never and will never compromise on the investment in the essential elements of our business such as aircraft maintenance, safety, security and training, however, we do actively pursue cost savings when it comes to:

- development of our modern 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 allows us to minimise the complexity of our operations (including spare parts and training), take advantage of economies of scale and achieve high utilisation rates. In addition to providing fuel efficiencies, younger aircraft reduce maintenance costs and aircraft down time.

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 long-term 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% of Virgin Blue fares booked via the internet, the most cost-effective distribution medium, we are able to consistently charge low fares.

Flexible workplace agreements

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

A “user-pays” concept

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

Chairman’s Comment

Virgin Blue has faced a transition year as the airline consolidated after five years of rapid growth and embarked on a new strategic direction to improve the quality of its revenue streams.

In 2005 the aviation industry worldwide experienced a challenging operating environment due to record fuel prices, and locally competition intensified in both the Australian domestic and trans-Tasman aviation markets.

Notwithstanding, by the last quarter the airline performed strongly as capacity aligned more closely with demand and following the introduction of the first of a range of marketing initiatives designed to attract a greater share of the business traveller market.

We remain committed to the Virgin Blue business model and are confident that Virgin Blue’s new corporate traveller strategy and further initiatives including the Velocity loyalty program will continue to deliver both for airline Guests and for shareholders.

Chris Corrigan
Virgin Blue continues to be an industry leader in terms of technology and innovation, introducing a range of brand-new products into the Australian market.

Some 54% of Australia's Top 100 companies have travel accounts with Virgin Blue, and while innovation is a priority, so too is evolving existing product offerings to further suit the needs of our increasing number of corporate Guests.

Advancements during the year included:

**Blue Plus fare**
Virgin Blue launched a new fare called “Blue Plus” designed specifically for the business traveler which features, for the first time, a money-back refund. Other key benefits also include free Blue Room entry, priority check-in, generous checked baggage allowance of 32 kg as well as the ability to change names, flight dates and times without penalty.

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### Chief Executive Officer’s Report

In 2005, following four years of unprecedented growth, Virgin Blue took the opportunity for the first time to focus on consolidating our business and to bring to market a number of key strategic projects.

The results were exciting and culminated with included development and delivery of our Velocity loyalty program and branded credit cards with National Australia Bank.

Other important introductions during the year included our progressive Web Check-in service, a first in Australasia; an Application Program Interface streamlining the Virgin Blue booking process for corporate partners; development of new code-share technology; and the launch of Polynesian Blue, our new joint venture airline with the Government of Samoa.

During the year we also continued selective development of our Australian, trans-Tasman and South Pacific island route networks, and by 30 September 2005, Virgin Blue offered more than 300 flights daily to 22 Australian and eight overseas destinations.

After 12 months of steady growth and consolidation including cost and productivity initiatives and withdrawal from unsustainable routes, we are now well positioned to accelerate our strategy, taking advantage of the size, scale and frequency achieved in 2004.

Brett Godfrey
21 October 2004 Virgin Blue implements a significant increase in flights to and from Tasmania due to strong demand. Virgin Blue introduced new direct flights from Sydney, Melbourne and Adelaide to Hobart and Launceston.

15 November 2004 “Blue Check” self-check in kiosks were launched in Brisbane and later Sydney, Melbourne and Adelaide.

18 January 2005 Work begins on Virgin Blue’s new Engineering Line Maintenance and Boeing 737 Hangar facility in Brisbane.

4 February 2005 Virgin Blue subsidiary Blue Holidays switched on its first online holiday booking website.

25 February 2005 Virgin Blue launched Australia’s first “skyboard”, a flying billboard concept with the first customer being Gillette. It made the Virgin Blue 737 the biggest mobile concept with the first customer being Gillette.

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7 March 2005 Virgin Blue introduced “Blue Plus” fares for business travellers in response to feedback from travellers from the corporate and government sectors.

26 March 2005 Pacific Blue added the Cook Islands to its international network with flights between Sydney-Christchurch-Rarotonga.

20 May 2005 Virgin Blue named QAG Low Cost Carrier of the Year 2005, for the second year running.

24 May 2005 Pacific Blue was the first airline in the region to introduce personal digiPlayers™ as a “user-pays” additional service onboard trans-Tasman and South Pacific flights.

7 June 2005 Virgin Blue confirmed decision to end discussions with potential joint venture partners regarding a prospective low-cost carrier start-up in Macau.

22 June 2005 Virgin Blue launched first national brand advertising campaign targeting business travellers.

7 March 2005 Virgin Blue introduced “Blue Plus” fares for business travellers in response to feedback from travellers from the corporate and government sectors.

31 August 2005 Virgin Blue turns five, celebrating its fifth year in the aviation industry.

8 September 2005 Virgin Blue launched new IT innovation, API (Application Interface Technology), as part of its strategy to capture greater share of the business market. The technology is unique to Virgin Blue and allows travel agencies and key corporate accounts direct, real-time booking integration with Virgin Blue’s reservations system.

During the 12-month period, Virgin Blue also inaugurated new routes including:
- Brisbane-Hamilton Island
- Sydney-Hervey Bay
- Melbourne-Coffs Harbour
- Newcastle-Gold Coast

Pacific Blue began new trans-Tasman services linking:
- Brisbane-Auckland
- Brisbane-Wellington
- Gold Coast-Christchurch
- Gold Coast-Auckland

1 July 2005 Virgin Blue reviewed its Northern Territory services, including withdrawal from unprofitable Adelaide-Alice Springs and Sydney-Darwin routes.

14 July 2005 Virgin Blue announced an agreement with the Government of Samoa to launch a joint venture airline, “Polynesian Blue”, to operate services between Australia and New Zealand and Samoa.

23 July 2005 Virgin Blue and sister carrier, Virgin Atlantic Airways, commenced a code-sharing agreement following development by Virgin Blue of new IT technology with Navitaire and Virgin Atlantic to allow seamless interaction between the two airlines’ reservations systems.

31 July 2005 Virgin Blue took delivery of “Virgin-ia Blue”, its 50th Boeing 737 aircraft.

As a valuable extension to the program, we also joined with National Australia Bank to launch two new Velocity branded credit cards – Velocity National Visa Card and the Velocity National Gold American Express® card. These are the only cards in the world that will earn Velocity points.

To develop Velocity and determine the key program benefits, we studied the experiences and frustrations of Australian frequent flyers including members of our competitor’s program and those who were members of the former Ansett Global Rewards.

We believe Australia’s frequent flyers will see our program as the very definition of what they have been looking for in loyalty programs. Simple, fair, transparent and generous. The way loyalty rewards should be.

Looking forward we’re a next generation airline with a next generation loyalty program.
Virgin Blue’s entrepreneurial spirit, enthusiasm and vibrant culture wins a bigger share of the market

Our People, Our Planes, Our Passion

Our People
At Virgin Blue we pride ourselves on attracting, selecting and retaining only the highest calibre people.

We firmly believe we have the best people in the business, both in the air and on the ground, and it’s these team members who ensure the smooth and successful day-to-day operation of the airline.

In 2005 the Virgin Blue team grew to some 4,000 staff to support our growing business, adding new skills and specialists to support our new corporate traveller strategy, and our steady expansion in Australia, New Zealand and the South Pacific Islands.

Our acclaimed team members offer instinctive customer service delivered in a friendly professional manner.

We really do believe that a happy team means happy customers and our aim is to ensure all of our Guests enjoy their travelling experience whether they are travelling on holidays, business or visiting friends and relatives.

Just a few more Red Jets … and even a Special Edition Blue One
Virgin Blue’s fleet of red jets continued to grow over the 12-month period although at a much slower rate than in some previous years.

In 2005 our fleet grew to 51 Boeing 737 aircraft with 49 painted in our hallmark red livery, one painted in a special edition blue livery and another painted green and black as our inaugural “skyboard”.

In 2005 Virgin Blue marked a major milestone with the delivery of aircraft number 50, direct from the Boeing factory in Seattle.

Our 50th aircraft stands out as our only blue jet, also featuring a 50th insignia on its exterior.

Inside, as a special tribute to the many people who have made, and continue to make, Virgin Blue one of Australia’s successful icon companies, the names of over 5,500 past and present team members are printed in alphabetical order on the aircraft interior.

Our black and green plane is a special “skyboard” Gillette jet. The “skyboard” concept is part of Virgin Blue’s strategy to use “out of the box” opportunities to source non-traditional revenue streams.

Our Passion
Our belief in our low-cost model and our passion for providing genuine customer service delivered with Virgin Flair again led to worldwide recognition in 2005 with Virgin Blue being awarded “Low Cost Carrier of the Year” in the global OAG Awards for the second year running.

While other carriers attempt to replicate our low-cost model, they have been unable to copy the unique culture that provides Virgin Blue with its “money-can’t-buy” competitive edge. Nor can the competition keep up with the way Virgin Blue has used innovation and technology to adapt the traditional low-cost carrier concept to suit the needs of the cost-and-service-conscious new age traveler.

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 are renowned—and all this without a hint of standard airline paraphernalia like scarves or navy blue court shoes!

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 national “no tie unless you really want one” policy and optional “jeans on Friday” dress code for all those who don’t wear our cool uniform as part of their regular day job.
As a low-cost carrier, and socially responsible company, Virgin Blue supports a wide variety of causes through ingenious ways of giving back to the community rather than through cash donations and sponsorships.

The Virgin Blue team responded immediately to the devastating Boxing Day Tsunami, with our Operations team inundated with calls from crew volunteering their time to operate relief flights to bring home stranded Australians.

Virgin Blue operated a flight to Phuket, Thailand, flying medical staff and emergency equipment to the region and bringing Aussies home. The airline then worked with the Australian Defence Force to operate further flights into Tsunami-affected regions.

Virgin Blue also launched its first annual Good Friday Charity Flight this year which involved donating an aircraft and crew donating their time to operate a spectacular Easter Charity Joy Flight, which featured breathtaking low level fly-bys of the Gold Coast and Sunshine Coast beaches.

The flight also featured an in-flight auction and, together with the seat sales, Virgin Blue raised $27,717, which was provided to the Premature Babies Unit at the Royal Brisbane Women’s Hospital for the purchase of lifesaving equipment.

Virgin Blue also threw its support behind Camp Quality, putting together a “Men of Virgin Blue” 2005 charity calendar with all $20,000 made from selling the calendar online and on board going to Camp Quality to help give some fun time-out for kids living with illnesses.

Throughout the past 12 months, we have been proud to provide our time, flights and encouragement to many organisations who contribute important services across Australia.

Some of these have included:
- Assistance Dogs Australia
- The Clown Doctors
- Constable Care’s Safety Books
- Eyre Peninsula Bushfire Relief Benefit Concert
- Childhood Cancer Association
- Newcastle Westpac Rescue Helicopter
- Royal Flying Doctors – Adelaide
- Mark Waugh Cricket Challenge for MS Society
- Kids Help Line
- Tsunami Appeal
- Surf Life Saving Foundation
- SA Southern Cross Young Achiever Awards
- TAS Southern Cross Young Achiever Awards
- St Vincent Hospital Dept Medical Oncology
- World Swim for Malaria
- Juvenile Diabetes Walk for a Cure

Virgin Blue
Charity Support

“For me the fun part of the job is keeping one step ahead of the competition when it comes to new technology and that’s what keeps us motivated. We are proud to be the innovators.”

Adam Humphris,
Software Development Manager, IT

“A little bit of kindness goes a long way … we get such pleasure out of people getting off our aircraft and saying ‘Thanks, that was a really great flight’.”

Tina Iseppi,
Cabin Crew Supervisor

“It’s still a great buzz seeing an aircraft push back on time with a full load of happy Guests and know we had a bit to do with getting them to where they want to go.”

John McKenna,
Operations Manager,
Guest Services Sydney

“Watching over 1,000 Virgin Blue team members and their families lining up for three hours to walk through our 50th blue jet to spot their own names really highlighted the pride our team members have in our company and the pride our CEO has in our team.”

Brett Coates,
Customer Service,
Brisbane Airport
Revenues

Total revenue increased by 14.6% to $1.76 billion, with scheduled revenue up 14.7%, as passengers carried increased 13.9% to 13.4 million. Despite the difficult pricing environment throughout the year, scheduled yield rose 1.2% compared to the prior year.

Revenue Passenger Kilometres (RPKs) were 15.7 billion and Available Seat Kilometres (ASKs) were 20.4 billion, up 13.8% and 16.6% respectively from the prior year. Load factor was 77.3%, down 2.8 points from 2004.

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Cash balances increased from $520 million to $616 million during the year prior to the dividend payment declared below, giving Virgin Blue 140 days’ operating cash reserves as at 30 September 2005.

Capital expenditure during the 12-month period was $303 million, principally in respect of new aircraft.

The Company’s net debt to net debt plus equity ratio was 60%, down from 65% as at 30 September 2005.

Expenditures

Total operating costs were $1.60 billion, up 22.2% on the prior year, due to the significant increase in total fuel costs (up 68%) and airport, navigation and station operation costs (up 22.1%) compared to a 16.6% increase in production (ASKs). Changes in charging regimes and deregulated pricing have seen airport charges to airlines increase dramatically – airport, terminal and landing fees alone now account for 18% of Virgin Blue’s operating cost base.

Fuel price per barrel increased by over 76% in the year, pushing Cost per Available Seat Kilometre (CASK) to 7.84 cents compared to 7.47 cents in the corresponding 12 months. Excluding fuel, CASK reduced for the third year in a row, a reflection of Virgin Blue’s inherent low-cost culture together with the flow-through benefit of cost-saving strategies implemented in the last 12 to 18 months.

Some of these included the introduction of Blue Check Kiosks, new and enhanced scheduling systems, outsourcing of Virgin Blue’s catering requirements, savings related to tighter controls on catering wastage, a new three-year heavy maintenance contract with Air New Zealand Engineering Services in Christchurch, and commencement of our “Fly-Smart Fuel Program” focusing on maximum fuel efficiency across Planning, Load, Flight and Maintenance disciplines.

Total revenue increased by 14.6% to $1.76 billion, with scheduled revenue up 14.7%, as passengers carried increased 13.9% to 13.4 million

Chief Financial Officer’s Comment

In 2005 Virgin Blue recorded a net profit after tax of $105.2 million. The airline achieved increases in total revenue of 14.6% and scheduled revenue of 14.7%. Despite a particularly difficult pricing environment throughout the year, scheduled yield rose 1.2% and Guests carried increased 13.9% to 13.4 million.

These gains were eroded by a 22.2% increase in operating costs compared with a 16.6% increase in production (measured in ASKs) – major factors included escalation in the price of jet fuel (up $115 million or 68%) and airport, navigation and station operation expenses (up 22.1%).

CASK including fuel (Costs per Available Seat Kilometre) increased 4.9% to 7.84 cents. Excluding fuel CASK reduced for the third year in a row (–3.0% to 6.03 cents) as a result of Virgin Blue’s inherent low-cost culture and flow-through benefits of cost-saving strategies implemented in the last 12 to 18 months.

Keith Neate
Chris joined 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 62.5% interest in Virgin Blue. Chris is a member of the Audit Committee and the Remuneration and Governance Committee.

David was appointed to the Board of Virgin Blue in November 2003. From 1992 to 1996, David was the Managing Director and Chief Executive Officer of the TNT Limited worldwide group. He was Deputy Chairman of Arnott Australia Holdings Limited from 1992 to 1996 and Chairman of GD Express Worldwide from 1992 to 1996. From July 1996 until its sale in July 2002, David was Chairman of Sydney Airports Corporation Limited. David is presently Chairman of Citect Corporation Limited, Crescent Capital Partners Limited and Deputy Chairman of Australia Post. He is a Director of Pbesec Energy Limited, Astdsteam Marine Limited, Macquarie Infrastructure Investment Management Limited, Leighton Holdings Limited and Sigma Pharmaceuticals Limited. David is a member of the Audit Committee and the Remuneration and Governance Committee.

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

David was appointed a Director of Virgin Blue in November 2003. David has over 25 years’ experience in transport and logistics throughout the world with Brambles and DHL and was a shareholder and Director of Liberty Cargo System, before it was acquired by Patrick in 1999. Liberty was a warehousing, warehousing, container park and international freight forwarding group with operations throughout Australia and New Zealand. David is currently responsible for marketing and development across the Patrick Group as well as heading the aviation support operations of Patrick Corporation. These businesses include Patrick Air Services, Jet Care, Jet Turbine Services and Liberty Air Services.

Patrick was appointed to the Board of Virgin Blue in May 2002. From May 1997 to April 1999, he wasVirgin Rail Group Planning Director. During 1999 and 2000, Patrick worked as the Deputy Chief Executive Officer of Vine Telecom, before rejoining the Virgin Group in February 2001. Patrick is currently Group Commercial Director. Patrick holds a number of other directorships within the Virgin Group. Patrick was previously an investment banker at SBC Warburg/SG Warburg.

Brett is co-founder of Virgin Blue and has been Chief Executive Officer of Virgin Blue since the Company’s inception. Brett has over 15 years of experience in the airline industry, most of which was gained with low-cost carriers. Brett joined National Jet Systems as Group Financial Controller in 1989 before he joined the Virgin Group in 1993. 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.

David was appointed a Director of Virgin Blue in September 2004. As CEO of Virgin Management Asia Pacific, David is responsible for all Virgin Group investments in the region. He began his association with Virgin in 1999, as an advisor to Virgin Group for Goldman Sachs. David has over 25 years’ experience in transport and logistics throughout the world with Brambles and DHL and was a shareholder and Director of Liberty Cargo System, before it was acquired by Patrick in 1999. Liberty was a warehousing, warehousing, container park and international freight forwarding group with operations throughout Australia and New Zealand. David is currently responsible for marketing and development across the Patrick Group as well as heading the aviation support operations of Patrick Corporation. These businesses include Patrick Air Services, Jet Care, Jet Turbine Services and Liberty Air Services.

David was appointed a Director of Virgin Blue in November 2003. David has over 25 years’ experience in transport and logistics throughout the world with Brambles and DHL and was a shareholder and Director of Liberty Cargo System, before it was acquired by Patrick in 1999. Liberty was a warehousing, warehousing, container park and international freight forwarding group with operations throughout Australia and New Zealand. David is currently responsible for marketing and development across the Patrick Group as well as heading the aviation support operations of Patrick Corporation. These businesses include Patrick Air Services, Jet Care, Jet Turbine Services and Liberty Air Services.
Financial Report 2005

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This financial report covers both Virgin Blue Holdings Limited as an individual entity and the consolidated entity consisting of Virgin Blue Holdings Limited and its controlled entities. Virgin Blue Holdings Limited is a company limited by shares, incorporated and domiciled in Australia. Details of its registered office and principal place of business are on page 33.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the Company. All press releases, financial reports and other information are available at our Investor Relations Centre on our website: www.virginblue.com.au.

**DIRECTORS’ REPORT**

The directors present their report on the consolidated entity, consisting of Virgin Blue Holdings Limited and the entities it controlled at the end of or during the 18 month period ended 30 September 2005.

**DIRECTORS**

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

<table>
<thead>
<tr>
<th>NAME</th>
<th>POSITION</th>
<th>EXPERIENCE</th>
<th>APPOINTMENT DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr Chris Corrigan</td>
<td>Non Executive Chairman</td>
<td>Member Audit Committee and Remuneration and Governance Committee. Appointed Chairman of Remuneration and Governance Committee on 6 April 2005.</td>
<td>Appointed 27 May 2002</td>
</tr>
<tr>
<td>Mr Brett Godfrey</td>
<td>Managing Director and Chief Executive Officer</td>
<td>Co-founder of Virgin Blue and CEO since Virgin Blue’s inception. Brett has over 15 years of experience in the airline industry, most of which was gained with low cost carriers. Age 42.</td>
<td>Appointed 27 May 2002</td>
</tr>
<tr>
<td>Mr William Hara</td>
<td>Non Executive Director</td>
<td>A commercial lawyer and Patrick Corporation’s General Counsel since July 1997. Holds a number of directorships within the Patrick group of companies, including Jet Care, Patrick Cargo and Jet Turbine Services. Age 39.</td>
<td>Appointed 27 May 2002</td>
</tr>
<tr>
<td>Mr Brett Godfrey</td>
<td>Managing Director and Chief Executive Officer</td>
<td>Co-founder of Virgin Blue and CEO since Virgin Blue’s inception. Brett has over 15 years of experience in the airline industry, most of which was gained with low cost carriers. Age 42.</td>
<td>Appointed 27 May 2002</td>
</tr>
<tr>
<td>Mr David Knight</td>
<td>Non Executive Director</td>
<td>Over 25 years’ experience in transport and logistics throughout the world with Brambles, DHL and other businesses. Age 52.</td>
<td>Appointed 6 November 2003</td>
</tr>
<tr>
<td>Mr Patrick McCall</td>
<td>Non Executive Director</td>
<td>Currently Virgin Group Commercial Director and holds a number of other directorships in the Virgin Group. Previously an investment banker at SBC Warburg/SGWarburg. Age 41.</td>
<td>Appointed 27 May 2002</td>
</tr>
<tr>
<td>Mr David Mortimer, AO</td>
<td>Independent Non Executive Director</td>
<td>Member Audit Committee and Remuneration and Governance Committee. Appointed Chairman of Audit Committee on 6 April 2005.</td>
<td>Appointed 6 November 2003</td>
</tr>
<tr>
<td>Mr Stephen Murphy</td>
<td>Non Executive Director</td>
<td>Currently Virgin Group CEO. Director of Virgin Atlantic Limited and Virgin Express Plc, and holds a number of other directorships in the Virgin Group. Previously held senior finance positions in Mars, Unilever and The Quaker Oats Company. Age 49.</td>
<td>Appointed 27 May 2002, resigned 30 September 2004.</td>
</tr>
<tr>
<td>Mr David Ryan, AO</td>
<td>Independent Non Executive Director</td>
<td>Chairman of Audit Committee and Remuneration and Governance Committee until resignation on 4 April 2005.</td>
<td>Appointed 6 November 2003, resigned 4 April 2005.</td>
</tr>
<tr>
<td>Mr David Baxby</td>
<td>Non Executive Director</td>
<td>Currently CEO of Virgin Management Asia-Pacific. David has extensive experience as an investment banker, formerly with Goldman Sachs JBWere, including acting as an adviser on the company’s IPO in 2004. Age 32.</td>
<td>Appointed 30 September 2004</td>
</tr>
<tr>
<td>Mr Robert Dunn</td>
<td>Non Executive Director</td>
<td>Finance Director of Patrick Corporation. Holds a number of directorships within the Patrick group of companies, including Jet Care, Patrick Cargo and Jet Turbine Services. Age 48.</td>
<td>Appointed 6 April 2005</td>
</tr>
<tr>
<td>Mr Paul Lewis</td>
<td>Alternate Director</td>
<td>Extensive experience in corporate development, acquisitions and strategy, formerly with Publishing and Broadcasting and Macquarie Bank. Paul is responsible for managing commercial analysis and due diligence in respect of major projects and acquisitions undertaken by Patrick Corporation. Age 32.</td>
<td>Appointed as alternate director for Mr Robert Dunn on 23 September 2005.</td>
</tr>
</tbody>
</table>

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DIRECTORS’ REPORT CONTINUED

COMPANY SECRETARY
Mr Scott Swift BLSSA, LLB(Hons), ACA, was appointed to the position of company secretary in October 2003. Mr Swift has 14 years’ experience in business within and outside the accounting profession in Australia and the United Kingdom. Mr Swift joined the Virgin Group in 1997 and has occupied various corporate and executive positions within the Virgin Group before joining Virgin Blue when it was launched in early 2000.

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 period 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 Corrigan</td>
<td>14</td>
<td>15</td>
<td>1</td>
</tr>
<tr>
<td>Mr R Dunn</td>
<td>10</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>Mr D Ryan</td>
<td>11</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>Mr D Baxby</td>
<td>10</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>Mr J Morton AO</td>
<td>1</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Mr M Lewis</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
</tbody>
</table>

(1) Resigned 30 September 2004.
(2) Resigned 4 April 2005.
(3) Appointed 30 September 2004.
(4) Appointed 6 April 2005.
(5) Appointed as alternate director for Mr R Dunn on 23 September 2005.

A = number of meetings attended;
B = number of meetings held during the time the director held office or was a member of the committee during the period;
X = not a member of the committee.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES
This statement outlines the main corporate governance policies and practices in place throughout the financial period ending 30 September 2005, which comply 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 and include:

- setting the directors, strategies and financial objectives of the Company;
- approving, reviewing 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; and
- 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 Virgin Blue. As a team, the Board brings a broad range of qualifications, in both the international and Australian markets, with considerable experience and expertise in aviation, transport, finance, accounting, marketing and public company affairs. Details regarding Virgin Blue’s directors, including their relevant skills, experience and expertise and terms of office can be found on pages 10 and 11.

The Company is aware that the Patrick Corporation and Virgin Group shareholders are parties to an Ongoing Shareholders Agreement which requires each shareholder to support the election and re-election as directors of two persons nominated by the other of them, for so long as the nominator is the registered holder of 15% or more of the issued capital. If the nominator is the registered holder of greater than 5% 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, the Patrick and Virgin Group shareholders also agree that for so long as Patrick Corporation’s shares are listed on the ASX, the Company will not appoint any director as a member of the Board who is not a member of the executive team of the Company, or who is a member of the executive team of the Company but is not a member of the Board.

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

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

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 Audit Committee has a documented Charter, approved by the Board. The Audit Committee’s Charter is available on the Company’s website.

Since the resignation of Mr David Ryan on 4 April 2005, the Audit Committee has been comprised of three non-executive directors, of which only one is an independent director. The Board is aware that Mr Ryan’s resignation means that the current composition of the Audit Committee does not comply with the ASX Corporate Governance Council best practice recommendation 4.3. The Company has been unable to identify a suitable replacement for Mr Ryan to date, however, the Board is actively seeking to appoint a suitable independent non-executive director to ensure that the Audit Committee in future is comprised of a majority of independent directors.

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:

- fulfill its audit, accounting and reporting obligations;
- monitor external auditors’ performance (including the independence of external auditors);
- comply with legal and regulatory requirements;
- comply with the Company’s Risk Management Policy;
- monitor compliance with acceptable accounting standards and other requirements relating to the preparation and presentation of financial results; and
- fulfill its responsibilities relating to financial statements, internal accounting and financial control systems.

The Audit Committee is empowered to investigate any matter brought to its attention and has direct access to any employee, the independent auditors or any other independent experts and advisers as it considers appropriate in order to ensure that its responsibilities can be carried out effectively.

The Chief Executive Officer and the Chief Financial Officer declared in writing to the Board that the financial records of the Company for the financial period have been properly maintained, the Company’s financial reports for the financial period ended 30 September 2005 comply with accounting standards and present a true and fair view of the Company’s financial condition and operational results. These declarations are made in accordance with the ASX Corporate Governance Council’s best practice recommendation 7.2.

Details of names and relevant qualifications of those directors appointed to the Audit Committee, the number of meetings the Audit Committee held during the 18 months ended 30 September 2005 and the names of the attendees can be found at pages 10, 12 and 13.

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

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

The names of the members of the Remuneration and Governance Committee and their attendance at meetings are disclosed at pages 10, 12 and 13. The Remuneration and Governance Committee’s Charter is available on the Company’s website.

REMUNERATION POLICY
Virgin Blue’s remuneration policy is designed to attract suitably qualified candidates, reward the achievement of strategic objectives and achieve the broader outcome of creation of value for shareholders. Non-executive directors are remunerated by way of fees and do not participate in schemes designed for the remuneration of executives. They do not receive options or bonus payments and are not provided with retirement benefits other than statutory superannuation.

Further details of remuneration of directors and key executives can be found in the Remuneration Report on page 14.
SHARE OPTIONS

OPTIONS GRANTED TO DIRECTORS AND OFFICERS OF THE COMPANY

During or since the end of the financial period, the Company granted options for no consideration over unissued ordinary shares in Virgin Blue Holdings Limited to the following of the five most highly remunerated officers of the Company as part of their remuneration:

<table>
<thead>
<tr>
<th>OPTION PLAN</th>
<th>OPTIONS GRANTED</th>
<th>EXERCISE PRICE</th>
<th>EXPIRY DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Officers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr S Pichler</td>
<td>1,005,935</td>
<td>$1.78</td>
<td>4 October 2009</td>
</tr>
</tbody>
</table>

No options were issued to directors.

UNISSUED SHARES UNDER OPTION

At the date of this report unissued ordinary shares of the Company under option are:

<table>
<thead>
<tr>
<th>OPTION PLAN</th>
<th>NUMBER OF SHARES</th>
<th>EXERCISE PRICE</th>
<th>EXPIRY DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFO Plan</td>
<td>1,207,560</td>
<td>$0.50</td>
<td>28 January 2007</td>
</tr>
<tr>
<td>Issue 1</td>
<td>2,745,125</td>
<td>$2.25</td>
<td>8 December 2008</td>
</tr>
<tr>
<td>Issue 2</td>
<td>10,278,859</td>
<td>$2.45</td>
<td>8 December 2008</td>
</tr>
<tr>
<td>Issue 3</td>
<td>1,005,935</td>
<td>$1.78</td>
<td>4 October 2009</td>
</tr>
<tr>
<td>Issue 4</td>
<td>756,354</td>
<td>$1.963</td>
<td>31 January 2010</td>
</tr>
</tbody>
</table>

Total SEOP: 14,781,272

All options expire on the earlier of their expiry date at termination of the employee's employment. In addition, the ability to exercise the options in the Senior Executive Option Plan is conditional on the consolidated entity achieving certain performance hurdles in relation to the share price of Virgin Blue Holdings Limited. These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

SHARES ISSUED ON EXERCISE OF OPTIONS

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

<table>
<thead>
<tr>
<th>OPTION PLAN</th>
<th>NUMBER OF SHARES</th>
<th>AMOUNT PAID ON EACH SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Share Option Plan</td>
<td>20,273,580</td>
<td>$0.008</td>
</tr>
<tr>
<td>CFO Plan</td>
<td>150,000</td>
<td>$0.50</td>
</tr>
</tbody>
</table>

There were no amounts unpaid on the shares issued.

REMUNERATION REPORT

REMUNERATION POLICIES

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 and consolidated entity (“the directors and senior executives”). The broad remuneration policy is to ensure the remuneration package properly reflects the person’s duties and responsibilities and level of performance; and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the directors and senior executives;
- the directors’ and senior executives’ ability to control the relevant segment’s performance;
- the consolidated entity’s performance including:
  - the consolidated entity’s earnings;
  - the growth in share price and returns on shareholder wealth;
  - the amount of incentives within each director’s and senior executive’s remuneration.

Remuneration packages include a mix of fixed and variable remuneration and short and long-term performance-based incentives.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES CONTINUED

ETHICS AND CODES OF CONDUCT

Virgin Blue has a commitment to communicating with its shareholders, employees, directors and contractors. 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 Company also restricts the times when directors, officers and employees may deal in the Company’s securities.

Virgin Blue’s commitment to communicating with its shareholders is embodied in its Market Disclosure and Communications Policy, which is available on the Investor Information section of Virgin Blue’s website.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the course of the financial period 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 period.

REVIEW AND RESULTS OF OPERATIONS

Net profit after tax for the 18 month period ended 30 September 2005 was $146.2 million which reflects a 6% increase compared with the prior 12 month period ended 31 March 2004.

In the 18 months to 30 September 2005, EBITDAR (earnings before interest, tax, depreciation, amortisation and aircraft rentals) increased by 39% to $570.1 million, when compared to the 12 month period ended 31 March 2004. EBIT (earnings before interest and tax) increased by 12% to $444.4 million during the same period.

DIVIDENDS

No dividends were paid or declared by the Company to members during the financial period. Since the end of the financial year, the directors have declared the following dividend, fully franked based on tax paid at 30%:

<table>
<thead>
<tr>
<th>CENTS PER SHARE</th>
<th>TOTAL AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>25.0</td>
<td>262,077</td>
</tr>
</tbody>
</table>

STATE OF AFFAIRS

On 28 January 2005 Patrick Corporation Limited ("Patrick"), through its subsidiary Plzen Pty Limited, announced an off-market takeover offer to purchase all shares in the Company which it did not already own. On 18 March 2004, Patrick announced that it had increased its ownership of the Company to 62.4% of the ordinary shares of the Company. On 28 January 2005 Patrick Corporation Limited (“Patrick”), through its subsidiary Plzen Pty Limited, announced an off-market takeover offer to purchase all shares in the Company which it did not already own. On 18 March 2004, Patrick announced that it had increased its ownership of the Company to 62.4% of the ordinary shares of the Company.

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 period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

LIKELY DEVELOPMENTS

The directors have no comments on the likely developments in the operation of the consolidated entity and the expected results of operations because it would be likely to result in unreasonably prejudice to the Company.
Director's Report Continued

Remuneration Report

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation fund.

Fixed remuneration is set at a level that reflects the marketplace for each position. Where the executive remuneration includes variable and equity incentives, the relevant base pay may be set at a level below marketplace rates.

Remuneration levels are reviewed annually by the Remuneration and Governance Committee through a process that considers the individual performance of each executive. In addition, external consultants provide analysis and advice to ensure the directors and senior executives’ remuneration is competitive in the marketplace.

Senior executive's remuneration is also reviewed on promotion.

Performance-Linked Remuneration

Performance-linked remuneration includes both short-term and long-term incentives and is designed to reward executive directors according to meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an “at risk” bonus provided in the form of cash and shares in Virgin Blue Holdings Limited. The long-term incentive (LTI) is provided as options over ordinary shares of Virgin Blue Holdings Limited under the rules of the various share option plans.

Short-Term Incentive

Each year the Board sets the KPIs (key performance indicators) for the CEO, and the CEO sets the KPIs for the senior executives. The KPIs generally include measures relating to the consolidated entity, the relevant department and the individual, and include financial, people, strategy, safety and strategy and risk measures.

The remuneration is chosen as it most directly aligns the individual’s reward to the KPIs of the consolidated entity and its strategy and performance.

The financial performance objectives differ among the executives, and are compared to budgeted amounts. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, safety and environmental performance, guest satisfaction and staff development.

At the end of the financial year, the Board and CEO assess the actual performance of the consolidated entity, the relevant department and the individual against the KPIs set at the beginning of the financial year.

For executive directors, up to 50% of an individual's total remuneration (base salary plus superannuation) is available to be paid as a bonus. The bonus is paid 60% in cash and 40% in performance rights, such rights being convertible into shares equally on the first and second anniversary date of grant. A percentage of the pre-determined maximum amount is awarded depending on the results of the individual’s annual assessment against the KPIs.

For the CEO, up to 75% of the CEO’s total remuneration is available to be paid as a bonus. The bonus is paid 60% in cash and 40% in performance rights in accordance with the Key Employee Performance Share Plan. If the CEO achieves 100% of the agreed targets, the CEO will be entitled to the full bonus payments. Where the CEO achieves less than 100%, the Board at its sole discretion may, having regard to those targets that are achieved in full or part, make a payment of an amount that the Board determines is reasonable.

Upon ceasing to hold the office of CEO, the Company will pay the CEO's salary for a period of 12 months, such amount to be payable in full within two weeks from the date the CEO’s contract is terminated.

The CEO recommends the STI be paid to the individuals for approval by the Board. The method of assessment was chosen as it provides the Board with an objective assessment of the individual’s performance.

Long-Term Incentive

Upon commencement of employment, senior executives may be issued options under the Senior Executive Option Plan, at the discretion of the Board. The ability to exercise the options may be conditional on the consolidated entity achieving certain performance hurdles. These performance hurdles, if applicable, relate to the share price of Virgin Blue Holdings Limited. The options may only be exercised on the first anniversary date of issue if the share price of Virgin Blue Holdings Limited is 10% or more above the Company share price on the date that the options were issued. The options may only be exercised on each subsequent anniversary date if the share price of the Company is 10% or more above the share price on the previous anniversary date.

The LTIs are focused on corporate performance and creating shareholder value over a multi-year period. However short-term incentives are also used to balance short-term performance objectives with long-term shareholder interests.

Whilst short-term incentives reward past performance it is essential that executives and senior managers, as the group which has responsibility for achievement of sustained performance and strategy, have performance-linked incentives that align to and drive performance of the consolidated entity. In addition external consultants are engaged to provide advice and opinions on executive remuneration.

Assessing whether the performance hurdles have been met will be the Board obtaining the closing Company share price as quoted on ASX on the date that options vested. The closing share price will be compared with the performance conditions required by each option issue.

In considering the consolidated entity’s performance and benefits for shareholders wealth the Remuneration and Governance Committee have regard to the indices in respect of the current financial year and the previous four financial years.

Performance-linked remuneration includes both short-term and long-term incentives and is designed to reward executive directors according to meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an “at risk” bonus provided in the form of cash and shares in Virgin Blue Holdings Limited. The long-term incentive (LTI) is provided as options over ordinary shares of Virgin Blue Holdings Limited under the rules of the various share option plans.

Performance-Linked Remuneration

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RENUMERATION REPORT CONTINUED

ANALYSIS OF BONUSES INCLUDED IN REMUNERATION

Details of the vesting profile of the short-term incentive cash bonus awarded as remuneration to each director of the Company and each of the five named Company executives and relevant group executives are detailed below:

<table>
<thead>
<tr>
<th>Directors</th>
<th>No short-term incentive bonus was paid to directors</th>
</tr>
</thead>
</table>

EXECUTIVES

The Company

Executives of the Company are employed by Virgin Blue Airlines Pty Limited.

THE MAXIMUM VALUE OF OPTIONS YET TO VEST

The maximum value of options yet to vest is calculated as the number of options remaining to vest at 30 September 2005, multiplied by their fair value at grant date, calculated using a Black-Scholes model.

SHARES GRANTED

Details of the vesting profile of the short-term incentive bonus issued as ordinary shares in Virgin Blue Holdings Limited, awarded as remuneration to each director of the Company and each of the five named Company executives and relevant group executives are detailed below.

<table>
<thead>
<tr>
<th>DIRECTORS</th>
<th>NUMBER</th>
<th>DATE</th>
<th>IN PERIOD</th>
<th>VESTED</th>
<th>PERIOD</th>
<th>PERCENT</th>
<th>IN WHICH GRANT VESTS</th>
<th>VALUE VESTED</th>
<th>VALUE YET TO VEST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Director</td>
<td>Mr B Godfrey</td>
<td>10,278,859</td>
<td>8 Dec 2003</td>
<td>0</td>
<td>30 Sept 2006</td>
<td>Nil</td>
<td>Nil</td>
<td>5,471,444</td>
<td>Nil</td>
</tr>
<tr>
<td>Consolidated Entity Executives</td>
<td>Mr R Sherrard</td>
<td>23,169,720</td>
<td>30 May 2002</td>
<td>50</td>
<td>30 Sept 2007</td>
<td>Nil</td>
<td>Nil</td>
<td>3,741,444</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td>Mr S Swift</td>
<td>2,316,960</td>
<td>30 May 2002</td>
<td>50</td>
<td>30 Sept 2007</td>
<td>Nil</td>
<td>Nil</td>
<td>1,441,444</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td>Mr B Highfield</td>
<td>538,260</td>
<td>8 Dec 2003</td>
<td>25</td>
<td>30 Sept 2007</td>
<td>Nil</td>
<td>Nil</td>
<td>1,441,444</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td>Mr K Neate</td>
<td>1,357,560</td>
<td>28 Jan 2003</td>
<td>30</td>
<td>30 Sept 2006</td>
<td>Nil</td>
<td>Nil</td>
<td>1,474,444</td>
<td>Nil</td>
</tr>
<tr>
<td></td>
<td>Mr B Pichler</td>
<td>1,000,935</td>
<td>4 Oct 2004</td>
<td>0</td>
<td>30 Sept 2007</td>
<td>Nil</td>
<td>Nil</td>
<td>346,599</td>
<td>Nil</td>
</tr>
</tbody>
</table>

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

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.

NON-AUDIT SERVICES

During the period from 1 April 2004 to 8 September 2005, the Company’s auditor was KPMG. Since 8 September 2005, the Company’s auditor has been PricewaterhouseCoopers. During the period that KPMG was the Company auditor, KPMG performed certain other services in addition to their statutory duties. The Board has considered the non-audit services provided by KPMG during the period that KPMG was the Company auditor and is satisfied that the provision of those non-audit services during the relevant period by KPMG was compatible with, and did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor.

- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional Independence, as they did not involve reviewing or auditing the auditor’s own work, acting in a management or decision making capacity for the Company, an act as an advocate for the Company or jointly sharing risks and rewards.

Since 8 September 2005, when PricewaterhouseCoopers was appointed as Company auditor, PricewaterhouseCoopers have not performed any services other than their statutory duties. A copy of the auditor’s independence declaration as required under section 307C of the Corporations Act is included in the directors’ report.

Details of amounts paid to KPMG and PricewaterhouseCoopers and their related practices for audit and non-audit services provided during the period when they were engaged as Company auditor are set out below.

LEAD AUDITOR’S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The directors have received the Lead Auditor’s Independence Declaration under section 307C of the Corporations Act 2001. The lead auditor’s independence declaration is set out on page 17.

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 16th day of November 2005.

Signed in accordance with a resolution of the directors:

Brett Godfrey

Director
## STATEMENTS OF FINANCIAL PERFORMANCE

<table>
<thead>
<tr>
<th>CONSOLIDATED COMPANY</th>
<th>18 MONTHS TO 30 SEPTEMBER 2005</th>
<th>12 MONTHS TO 31 MARCH 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Airline passenger ticket revenue</td>
<td>3,415,886</td>
<td>1,302,200</td>
</tr>
<tr>
<td>Other revenue</td>
<td>127,639</td>
<td>60,136</td>
</tr>
<tr>
<td>Total</td>
<td>3,543,525</td>
<td>1,362,316</td>
</tr>
<tr>
<td><strong>Operating expenditure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aircraft operating costs</td>
<td>247,845</td>
<td>186,186</td>
</tr>
<tr>
<td>Airport charges, navigation and station operations</td>
<td>516,052</td>
<td>242,549</td>
</tr>
<tr>
<td>Contract and other maintenance costs</td>
<td>171,182</td>
<td>116,145</td>
</tr>
<tr>
<td>Commissions and other marketing and reservations costs</td>
<td>158,764</td>
<td>97,837</td>
</tr>
<tr>
<td>Fuel and oil</td>
<td>489,661</td>
<td>177,181</td>
</tr>
<tr>
<td>Labour and staff related costs</td>
<td>530,651</td>
<td>242,359</td>
</tr>
<tr>
<td>Other expenses from ordinary activities</td>
<td>72,137</td>
<td>50,659</td>
</tr>
<tr>
<td>Total</td>
<td>2,543,025</td>
<td>1,357,620</td>
</tr>
<tr>
<td><strong>Non-current expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Depreciation and amortisation</strong></td>
<td>112,306</td>
<td>30,135</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>2,543,025</td>
<td>1,357,620</td>
</tr>
<tr>
<td><strong>Earnings before interest and tax</strong></td>
<td>2,399,998</td>
<td>1,220,990</td>
</tr>
<tr>
<td><strong>Profit from ordinary activities</strong></td>
<td>2,399,998</td>
<td>1,220,990</td>
</tr>
</tbody>
</table>

### Earnings before interest and tax

<table>
<thead>
<tr>
<th>30 SEPTEMBER</th>
<th>31 MARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td>Earnings before interest and tax</td>
<td>2,399,998</td>
</tr>
<tr>
<td>Borrowing costs</td>
<td>62,910</td>
</tr>
<tr>
<td>Interest revenue</td>
<td>56,957</td>
</tr>
<tr>
<td>Total</td>
<td>2,459,866</td>
</tr>
</tbody>
</table>

### Profit from ordinary activities

**Net profit/(loss) attributable to the members of Virgin Blue Holdings Limited**

<table>
<thead>
<tr>
<th>30 SEPTEMBER</th>
<th>31 MARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td>Profit from ordinary activities before income tax expense</td>
<td>2,388,666</td>
</tr>
<tr>
<td>Income tax expense/(benefit)</td>
<td>70,307</td>
</tr>
<tr>
<td>Net profit/(loss) attributable to the members of Virgin Blue Holdings Limited</td>
<td>2,318,359</td>
</tr>
</tbody>
</table>

### Net exchange differences on translation of financial report of foreign controlled entity

<table>
<thead>
<tr>
<th>30 SEPTEMBER</th>
<th>31 MARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td>Exchange differences on translation of financial report of foreign controlled entity</td>
<td>(39)</td>
</tr>
</tbody>
</table>

### Total revenues, expenses and valuation adjustments attributable to members of Virgin Blue Holdings Limited recognised directly in equity

<table>
<thead>
<tr>
<th>30 SEPTEMBER</th>
<th>31 MARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td>Total revenues, expenses and valuation adjustments attributable to members of Virgin Blue Holdings Limited recognised directly in equity</td>
<td>(39)</td>
</tr>
</tbody>
</table>

### Total changes in equity attributable to members of Virgin Blue Holdings Limited

<table>
<thead>
<tr>
<th>30 SEPTEMBER</th>
<th>31 MARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td>Total changes in equity attributable to members of Virgin Blue Holdings Limited</td>
<td>(39)</td>
</tr>
</tbody>
</table>

### The Statements of Financial Performance are to be read in conjunction with the accompanying notes.

## STATEMENTS OF CASH FLOWS

<table>
<thead>
<tr>
<th>CONSOLIDATED COMPANY</th>
<th>18 MONTHS TO 30 SEPTEMBER 2005</th>
<th>12 MONTHS TO 31 MARCH 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash receipts in the course of operations (inclusive of goods and services tax)</td>
<td>2,888,666</td>
<td>1,494,481</td>
</tr>
<tr>
<td>Cash payments in the course of operations (inclusive of goods and services tax)</td>
<td>(2,375,515)</td>
<td>(1,200,587)</td>
</tr>
<tr>
<td>Dividends received</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Borrowing costs paid</td>
<td>(66,537)</td>
<td>(16,210)</td>
</tr>
<tr>
<td>Income taxes paid/refund received</td>
<td>(238,474)</td>
<td>(29,698)</td>
</tr>
<tr>
<td>Total</td>
<td>238,474</td>
<td>29,698</td>
</tr>
<tr>
<td><strong>Non-current items</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net cash inflow from operating activities</strong></td>
<td>(238,474)</td>
<td>32,398</td>
</tr>
</tbody>
</table>

### Cash flows from operating activities

<table>
<thead>
<tr>
<th>30 SEPTEMBER</th>
<th>31 MARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
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</tr>
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<tr>
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</tr>
<tr>
<td>Dividends received</td>
<td>–</td>
</tr>
<tr>
<td>Income taxes paid/refund received</td>
<td>(238,474)</td>
</tr>
<tr>
<td>Total</td>
<td>(238,474)</td>
</tr>
</tbody>
</table>

### Cash flows from investing activities

<table>
<thead>
<tr>
<th>30 SEPTEMBER</th>
<th>31 MARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td>Interest received</td>
<td>55,702</td>
</tr>
<tr>
<td>Payments for term deposits</td>
<td>(193,634)</td>
</tr>
<tr>
<td>Total</td>
<td>(536,336)</td>
</tr>
</tbody>
</table>

### Net cash inflow/(outflow) from investing activities

<table>
<thead>
<tr>
<th>30 SEPTEMBER</th>
<th>31 MARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2004</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td>319,923</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents</td>
<td>319,923</td>
</tr>
<tr>
<td>Cash at the beginning of the financial period</td>
<td>147,729</td>
</tr>
<tr>
<td>Effects of exchange rate fluctuations on the balances of cash held in foreign currencies</td>
<td>(1,063)</td>
</tr>
<tr>
<td>Cash at the end of the financial period</td>
<td>146,666</td>
</tr>
</tbody>
</table>

### The Statements of Cash Flows are to be read in conjunction with the accompanying notes.
NOTES TO THE FINANCIAL STATEMENTS
For the period ended 30 September 2005

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 "Australian Accounting Standards" and "Group Concepts 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 are consistent with those of the previous year.

(B) CHANGE IN FINANCIAL YEAR END
On 28 January 2005 Patrick Corporation Limited ("Patrick"), through its subsidiary Pitzer Pty Limited, announced an off-market takeover offer to purchase all shares in the Company which it did not already own. On 18 March 2004, Patrick announced that it had increased its offer price to $0.50 per share, thereby gaining control of the Company. The offer period ended on 1 April 2005. At this date Patrick held 62.4% of the ordinary shares of the Company.

To enable Patrick to comply with the requirements of section 323D of the Corporations Act 2001 the financial year end of the consolidated entity was changed from 31 March to 30 September. This change was necessary to ensure that the financial year end of the consolidated entity is synchronised with that of Patrick. These financial statements therefore cover the 18 months period from 1 April 2004 to 30 September 2005 ("18 months"). The comparative reporting period is the 12 month period from 1 April 2003 to 31 March 2004 ("12 months").

(C) PRINCIPLES OF CONSOLIDATION

CONTROLLED ENTITIES
The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Virgin Blue Holdings Limited ("the Company") at 30 September 2005 and the results of controlled entities for the 18 months then ended.

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.

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 when they are declared by the controlled entities.

(G) GOODS AND SERVICES TAX

Reserves, 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 acquiring the asset or part of the expense. Recoverables and assets are stated with the amount of GST included.

The net amount of GST recoverable 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.

(H) 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.

Where interest rates are hedged or swapped, the borrowing costs are recognised net of any effect of the hedge or the swap.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

Borrowing costs are recognised 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 these circumstances, borrowing costs are capitalised to the cost of the assets. 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.

(I) 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 profit as 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 if relating to tax losses when realisation is virtually certain.

TAX CONSOLIDATION LEGISLATION

The Company is the head entity in a tax-consolidated group comprising the Company and all of its Australian wholly-owned subsidiaries from an implementation date of 1 April 2003. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intergroup transactions).

The tax-consolidated group has entered into a tax funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for a Payment Account, being profit adjusted for permanent and timing differences arising from external transactions during the year.

Under the tax funding agreement, the contributions are calculated so that the contributions are equivalent to the tax balances generated by external transactions entered into by wholly-owned subsidiaries. The contributions are set out in the financial statements in the current year to reduce the head entity’s obligations to make payments for tax liabilities to the relevant tax authorities.

The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential amendment to income tax expense/revenue.

(J) EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the Company 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 elements in ordinary shares issued during the period.

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the after tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(K) ACQUISITIONS OF ASSETS

All assets acquired, including property, plant and equipment, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.
1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(K) ACQUISITIONS OF ASSETS CONTINUED

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 1(H).

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.

(L) REVISIONS OF ACCOUNTING ESTIMATES

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects future periods.

(M) RECEIVABLES

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

A significant proportion of the consolidated entity’s revenue is derived from credit card payments. 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.

(N) 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 lower of cost and net realisable value.

(O) INVESTMENTS

CONTROLED ENTITIES

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

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 finance 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.

(G) GOODWILL

Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets of an entity or operation acquired. Goodwill is amortised on a straigh 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.

(RE) 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.

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.

Where a group of assets working together supports the generation of cash inflows, recoverable amounts are determined on a group basis.

In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value.

(5) DEPRECIATION AND AMORTISATION

COMPLEX ASSETS

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are separately depreciated over separate useful lives.

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 the asset is completed and held ready for use. Depreciation and amortisation rates and methods are reviewed annually for appropriateness.

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

<table>
<thead>
<tr>
<th>Asset Description</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>11 – 20 years</td>
<td>11 – 20 years</td>
</tr>
<tr>
<td>Aircraft and aeronautical related assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Modifications to leased aircraft</td>
<td>20 – 40%</td>
<td>20 – 40%</td>
</tr>
<tr>
<td>- Rotabies and maintenance parts</td>
<td>7.25%</td>
<td>7.25%</td>
</tr>
<tr>
<td>- Rotabies and maintenance parts not yet used</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>- Airframes, engines and landing gear</td>
<td>10% – 25%</td>
<td>10%</td>
</tr>
<tr>
<td>- Major cyclical maintenance</td>
<td>10% – 80%</td>
<td>10%</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>33.3%</td>
<td>33.3%</td>
</tr>
</tbody>
</table>

*(R)* Recoverable amount of non-current assets valued on cost basis

**(P)** Leased assets

**(O)** Investments

**(N)** Inventories

**(M)** Receivables

**(L)** Revisions of accounting estimates

**(K)** Acquisitions of assets continued

**(G)** Goodwill

**(E)** Recoverable amount of non-current assets valued on cost basis

**(D)** Depreciation and amortisation

**(C)** Complex assets

**(B)** Useful lives

**(A)** Provisions

**REPAIRS AND MAINTENANCE – OWNED AIRCRAFT**

Routine maintenance costs including annual airframe checks are written off to the Statements of Financial Performance as incurred.

**REPAIRS AND MAINTENANCE – LEASED AIRCRAFT**

Routine maintenance costs including annual airframe checks are written off to the Statements of Financial Performance as incurred.

**PROVISION**

Provision is made for the estimated future costs of major cyclical maintenance of leased aircraft, engines, landing gear and auxiliary power units by making charges to the Statements of Financial Performance, calculated by reference to the number of hours or cycles operated during the period. The consolidated entity is presently obligated to these aircraft rectification requirements pursuant to the operating lease agreements. The costs of major cyclical maintenance are written off against the provision when incurred.

**LEASEHOLD IMPROVEMENTS**

Leasing costs are amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over three to five years.

**PAYABLES**

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

**INTEREST-BEARING LIABILITIES**

Bank loans are recognised at their principal amount. Interest expense is accrued at the contracted rate and included in “Current liabilities – Payables”.

**EMPLOYEE ENTITLEMENTS**

**ANNUAL LEAVE**

The provision for employee entitlements to annual leave represents the amounts which the consolidated entity has a present obligation to pay resulting from employees’ services provided up to balance date. The provisions have been calculated at discounted amounts based on expected wage and salary rates and include related on-costs.

**LONG SERVICE LEAVE**

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees’ services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwind of the discount is treated as a long service leave expense.

**EMPLOYEE BONUS PLANS**

A liability for employee benefits in the form of bonus plans is recognised in provision for employee entitlements when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit;
- the amounts to be paid are determined before the time of completion of the financial report; or
- past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

**SUPERANNUATION PLAN**

The consolidated entity is required to make contributions to defined contribution superannuation funds. Such contributions are charged to the Statements of Financial Performance as they are made. The consolidated entity has no legal or constructive obligation to fund any deficit.

**EMPLOYEE SHARE AND OPTION PLANS**

The consolidated entity operates a number of employee option plans and share plans (see Note 20). When shares or options are issued under these plans, the value of the option is recognised as an employee benefit expense. On the issue of shares in the Company, or the exercise of options, the share capital of the Company is increased by the value of any cash consideration received.

**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.
1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(W) PROVISIONS CONTINUED

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability most closely matching the expected future payments. The unwinding of the discount is treated as part of the expense related to the particular provision.

(X) DIVIDENDS

Provision is made for the amount of any dividend declared, determined or publicly recommended by the directors on or before the end of the financial year but not distributed at balance date.

(Y) WEBSITE COSTS

Costs in relation to websites controlled by a controlled entity are charged as expenses in the period in which they are incurred unless they relate to the acquisition of an asset, in which case they are capitalised and amortised over their period of expected benefit. Generally, costs in relation to feasibility studies during the planning phase of a website, and ongoing costs of maintenance during the operating phase are considered to be costs. Costs incurred in building or enhancing a website, to the extent that they represent probable future economic benefits controlled by the controlled entity that can be reliably measured, are capitalised as an asset and amortised over the period of the expected benefits.

(2) ROUNDED OF AMOUNTS

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the “rounding off” of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

2 CHANGE IN ACCOUNTING ESTIMATE

On 1 April 2004, the consolidated entity revised the useful lives of a number of component parts of owned aircraft, excluding airframes and engines. The useful lives of other component parts, other than airframes and engines, have been reduced from a weighted average useful life of 10 years to 6.7 years based on additional information and experience in relation to these component parts.

On 1 April 2005, the consolidated entity revised the residual value of aircraft airframes and engines from 40% to 55%, thereby reducing the effective annual depreciation rate from 6% to 4.5%.

This revision of residual value was in response to additional information and experience in relation to these assets. The financial effect of these changes in estimates in the current financial period has been to increase depreciation expense by $7,093,000 for the 18 month period ended 30 September 2005. For each of the remaining years of these existing component parts’ useful lives, depreciation expense will be decreased by approximately $3,200,000 per year.

3 REVENUE FROM ORDINARY ACTIVITIES

Revenue from operating activities

<table>
<thead>
<tr>
<th>NOTE</th>
<th>CONSOLIDATED</th>
<th>COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 MONTHS TO 30 SEPTEMBER 2005 $’000</td>
<td>12 MONTHS TO 31 MARCH 2004 $’000</td>
<td>18 MONTHS TO 30 SEPTEMBER 2005 $’000</td>
</tr>
<tr>
<td>Scheduled revenue</td>
<td>2,415,386</td>
<td>1,302,200</td>
</tr>
<tr>
<td>Other revenue</td>
<td>127,639</td>
<td>60,116</td>
</tr>
<tr>
<td>Dividend revenue – controlled entities</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>2,543,025</td>
<td>1,362,316</td>
<td>–</td>
</tr>
</tbody>
</table>

Revenue from outside operating activities

<table>
<thead>
<tr>
<th>Interest</th>
<th>CONSOLIDATED</th>
<th>COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Related parties</td>
<td>31</td>
<td>1,846</td>
</tr>
<tr>
<td>Other parties</td>
<td>56,957</td>
<td>17,407</td>
</tr>
<tr>
<td>Total other revenues</td>
<td>56,957</td>
<td>17,407</td>
</tr>
</tbody>
</table>

Total revenue from ordinary activities | 2,599,982 | 1,381,569 | 283 | 181,546 |

4 PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

Profit from ordinary activities before income tax expense includes the following specific net gains and expenses

Borrowing costs:

– other parties | 70,080 | 19,337 | – | – |
– finance charges on capitalised leases | – | 7 | – | – |
– less: capitalised borrowing costs | (7,170) | (8,022) | – | – |

Total borrowing costs | 62,910 | 11,322 | – | – |

Borrowing costs were capitalised to aircraft and aeronautical related assets at a weighted average rate of 5.7% (12 months to 31 March 2004: 5.7%).

Depreciation/amortisation of:

– buildings | 1,495 | 865 | – | – |
– aircraft and aeronautic related assets | 86,639 | 17,240 | – | – |
– plant and equipment | 10,238 | 5,050 | – | – |
– computer equipment | 10,208 | 4,496 | – | – |

Total depreciation | 108,580 | 27,651 | – | – |

Total depreciation and amortisation | 112,306 | 30,135 | – | – |

5 TAXATION

Income tax expense

Prima facie income tax expense/(benefit) calculated at 30% (12 months to 31 March 2004: 30%) on the profit from ordinary activities 71,542 67,859 (731) 54,185

Increase in income tax expense due to:

– non-deductible expenses | 1,482 | 658 | – | – |
– amortisation of goodwill | 1,118 | 745 | – | – |
– under/(over) provision in prior year | (1,707) | 630 | (78) | – |

Income tax expense related to current and deferred tax transactions of the wholly-owned subsidiaries in the tax-consolidated group – – 72,659 69,893

Decrease in income tax expense due to:

– amortisation of equity raising costs | (2,128) | (1,440) | (2,128) | (1,440) |
– employee share gift offer | – | (775) | – | (775) |
– non-assessable dividend received from a member of the consolidated group | – | – | (54,190) |
– recovery of income tax expense under a tax funding arrangement | – | – | (52,990) | (68,571) |

Income tax expense on the profit from ordinary activities before individually significant income tax items 70,307 67,677 16,732 (898) |

Net deferred tax balances recognised by head entity in relation to wholly-owned subsidiaries within the tax-consolidated group upon implementation of Tax Consultation – – (9,419) |

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

Income tax expense attributable to profit from ordinary activities 70,307 67,677 16,732 (898) |

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

Current tax provision | 54,933 | 66,329 | 54,199 | (2,220) |
Deferred income tax provision | 23,169 | 10,277 | 23,263 | – |
Deferred tax asset | (6,088) | (8,688) | (6,033) | – |
Under/(over) provision in prior year | (1,707) | (241) | (1,707) | – |

Intercompany receivables under funding arrangements | – | – | (52,990) | 1,322 |

Tax losses
tax losses included within the deferred tax asset | 1,172 | 1,172 | – | – |

6 EARNINGS PER SHARE

Basic earnings per share 16.2 17.3 |

Diluted earnings per share 16.0 16.8 |

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

Further details of these securities are contained in Note 28.
NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

6  EARNINGS  PER  SHARE  CONTINUED

12  PROPERTY,  PLANT  AND  EQUIPMENT

Work in Progress – Buildings
12,705  59  –  –
Buildings – at cost
17,302  16,263  –  –
Accumulated depreciation
(1,767)  (1,173)  –  –
Aircraft and aeronautic related assets* 1,172,385  646,826  –  –
Accumulated depreciation
(105,501)  (19,295)  –  –
Plant and equipment – at cost
46,709  36,683  –  –
Accumulated depreciation
(19,759)  (9,137)  –  –
Accumulated depreciation
26,950  27,546  –  –
Computer equipment – at cost
27,198  17,194  –  –
Accumulated depreciation
5,947  8,753  –  –
Total property, plant and equipment
1,130,572  678,886  –  –
 net book value
1,130,572  678,886  –  –

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

VALUATIONS OF BUILDINGS

Buildings are measured on a cost basis. An independent valuation of the buildings has been obtained as at 30 September 2005. This valuation was prepared on the fair value basis, being the amount for which the assets could be exchanged between knowledgeable and willing parties in an arm's-length transaction, having regard to the highest and best use of the asset for which other parties would be willing to pay. The fair value of the buildings is $14,670,000.

RECONCILIATIONS

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

13  OTHER ASSETS

Current
Prepayments
12,909  9,311  –  –
Deferred borrowing costs
795  431  –  –
Non-current
Deferred borrowing costs
7,720  4,456  –  –

14  PAYABLES

Current
Trade creditors and accruals
143,136  101,656  –  –
Other creditors
9,697  3,603  –  –
Deferred hedge exchange gains and costs
523,956  473,432  –  –

15  INTEREST-BEARING LIABILITIES

Current
Loans (Aeronautic Finance Facilities) – secured
111,586  112,661  –  –
Non-current
Loans (Aeronautic Finance Facilities) – secured
708,894  393,653  –  –

These loans are secured over assets purchased and issued capital of VBNIC1 Pty Limited, VBNIC2 Pty Limited, VBNIC3 Pty Limited and VBNIC4 Pty Limited.
NOTES TO THE FINANCIAL STATEMENTS

15 INTEREST-BEARING LIABILITIES CONTINUED

Financing arrangements

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

<table>
<thead>
<tr>
<th>Total facilities available:</th>
<th>30 SEPTEMBER 31 MARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standby letters of credit</td>
<td>3,015</td>
</tr>
<tr>
<td>Bank guarantees</td>
<td>18,832</td>
</tr>
<tr>
<td>Aeronautical finance facilities</td>
<td>575,960</td>
</tr>
<tr>
<td>AERONAUTIC FINANCE FACILITIES</td>
<td>848,522</td>
</tr>
</tbody>
</table>

Facilities utilised at balance date:

| Standby letters of credit | 3,015 |
| Bank guarantees           | 18,832 |
| Aeronautical finance facilities | 575,960 |

AERONAUTIC FINANCE 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 VBN1 Pty Limited, VBN2 Pty Limited, VBN3 Pty Limited and VBN4 Pty Limited.

16 PROVISIONS

Current

| Employee benefits | 28 | 29,344 |
| Maintenance       | 10 | 9,081 |
| Other             | 1  | 1,299 |
| **Total**         | 40,618 |

Non-current

| Employee benefits | 28 | 7,207 |
| Maintenance       | 19 | 11,288 |
| **Total**         | 27,020 |

Reconciliations

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

<table>
<thead>
<tr>
<th>CONSOLIDATED 30 SEPTEMBER 2005</th>
<th>CARRYING AMOUNT AT BEGINNING OF PERIOD $'000</th>
<th>PROVISION MADE DURING THE PERIOD $'000</th>
<th>PAYMENTS MADE DURING THE PERIOD $'000</th>
<th>CARRYING AMOUNT AT END OF PERIOD $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintenance – current</td>
<td>9,081</td>
<td>9,049</td>
<td>(8,055)</td>
<td>10,075</td>
</tr>
<tr>
<td>Maintenance – non-current</td>
<td>11,288</td>
<td>8,525</td>
<td>–</td>
<td>19,813</td>
</tr>
<tr>
<td>Other – current</td>
<td>5,000</td>
<td>–</td>
<td>(3,701)</td>
<td>1,299</td>
</tr>
</tbody>
</table>

The Company has no provisions.

17 OTHER LIABILITIES

Current

| Unearned passenger revenue     | 235,141                                     |
| **Total**                      | 235,141                                     |

18 CONTRIBUTED EQUITY

Share capital

<table>
<thead>
<tr>
<th>1,048,309,496 (2004: 1,027,885,956)</th>
<th>ordinary shares, fully paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A)</td>
<td>393,259</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CONSOLIDATED 30 SEPTEMBER 2005</th>
<th>CARRYING AMOUNT AT BEGINNING OF PERIOD $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary shares</td>
<td>393,259</td>
</tr>
</tbody>
</table>

19 RESERVES

Foreign currency translation (89) – – –

Movements during the period:

Balance at beginning of period – – – –

Net exchange differences on translation of foreign controlled entity (89) – – –

Balance at end of period (89) – – –

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations or the translation of foreign currency monetary items forming part of the net investment in a self-sustaining operation.

20 RETAINED PROFITS

Retained profits at beginning of period 208,465 138,229 107,173 13,942

Net profit/loss attributable to members of the parent entity 168,167 158,519 (19,169) 181,514

Reduction in share buy-back costs arising from issue of self-sustaining foreign currency shares (88,283) (88,283)

Retained profits at end of period 376,632 208,465 88,004 107,173

21 DIVIDENDS

No dividends have been recognised by the consolidated entity and the Company in the 18 months to 30 September 2005 or the 12 months to 31 March 2004. The part of the share buy-back consideration charged against retained profits in the 12 months to 31 March 2004 of $88,283,000 was treated as a fully franked dividend for taxation purposes.

(A) ORDINARY SHARES

Movements in ordinary share capital:

<table>
<thead>
<tr>
<th>DATE</th>
<th>DETAILS</th>
<th>NUMBER OF SHARES $'000</th>
<th>CONSOLIDATED ENTITY $'000</th>
<th>COMPANY $'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 April 2003</td>
<td>Opening Balance</td>
<td>2,740,542</td>
<td>45,789</td>
<td>45,789</td>
</tr>
<tr>
<td>28 October 2003</td>
<td>Share split of 1:1.120</td>
<td>861,624,988</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>8 December 2003</td>
<td>Shares issued for cash pursuant to a prospectus</td>
<td>(iv) 177,777,778</td>
<td>395,944</td>
<td>395,944</td>
</tr>
<tr>
<td>8 December 2003</td>
<td>Transaction costs arising from issue for cash pursuant to a prospectus</td>
<td>(iv) – (24,280)</td>
<td>(24,280)</td>
<td></td>
</tr>
<tr>
<td>8 December 2003</td>
<td>Exercise of Executive Share Option Plan options</td>
<td>(v) 20,733,580</td>
<td>169</td>
<td>169</td>
</tr>
<tr>
<td>8 December 2003</td>
<td>Employee Share Ownership Plan issue</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>8 December 2003</td>
<td>Share buy-back (iii) (40,177,776) (2,117) (2,117)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 March 2004</td>
<td>Balance 1,027,885,916</td>
<td>415,505</td>
<td>415,505</td>
<td></td>
</tr>
<tr>
<td>31 March 2004</td>
<td>Shares held for KEPP (i) (22,500)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 March 2004</td>
<td>Balance 1,027,885,916 393,005</td>
<td>415,505</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 April 2004</td>
<td>Opening Balance 1,027,885,916</td>
<td>415,505</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 December 2003</td>
<td>Exercise of Executive Share Option Plan options (v) 19,115,100</td>
<td>159</td>
<td>159</td>
<td></td>
</tr>
<tr>
<td>8 December 2003</td>
<td>Exercise of CFO Plan options (v) 150,000</td>
<td>85</td>
<td>85</td>
<td></td>
</tr>
<tr>
<td>8 December 2004</td>
<td>Distributed to employees by the KEPP (ii) (178)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 January 2005</td>
<td>Exercise of Executive Share Option Plan options (v) 1,158,480</td>
<td>10</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>30 September 2005</td>
<td>Balance 1,048,309,496 415,581</td>
<td>415,759</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30 September 2005</td>
<td>Shares held for KEPP (i) (22,322)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30 September 2005</td>
<td>Balance 1,048,309,496 415,581 415,759</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) On consolidation, shares held for the Key Employee Performance Plan (“KEPP”) are offset against contributed equity.

(ii) The trustee for the Key Employee Performance Plan holds a number of shares in Virgin Blue Holdings Limited, which may be transferred to employees of the consolidated entity in accordance with the terms of the Plan. The trustee is not party to the Plan. The shares are transferred to employees of the consolidated entity.

(iii) On 8 December 2003, the Company completed its buy-back of 40,177,776 ordinary shares, representing 4.4% 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 $922,400,000, being an average, inclusive of incidental costs, of $2.25 per share. The consideration was allocated in the following proportions: to cash; $273,632 to self-sustaining foreign currency businesses; $208,465 to the self-sustaining Australian operations; $168,167 to the self-sustaining New Zealand operations; $15,819 to the self-sustaining United Kingdom operations; and $13,942 to the self-sustaining French operations.

Note 28 provides details of shares issued on exercise of options.

TERMS AND CONDITIONS OF ORDINARY SHARES

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.

At 30 September 2005, the trustee for the Key Employee Performance Plan holds 9,920,917 shares (31 March 2004: 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 unless and until the shares are transferred to the employee, following satisfaction of any vesting conditions – refer to Note 26.

19 RESERVES

Foreign currency translation (89) – – –

Movements during the period:

Balance at beginning of period – – – –

Net exchange differences on translation of foreign controlled entity (89) – – –

Balance at end of period (89) – – –

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations or the translation of foreign currency monetary items forming part of the net investment in a self-sustaining operation.

20 RETAINED PROFITS

Retained profits at beginning of period 208,465 138,229 107,173 13,942

Net profit/loss attributable to members of the parent entity 168,167 158,519 (19,169) 181,514

Reduction in share buy-back costs arising from issue of self-sustaining foreign currency shares (88,283) (88,283)

Retained profits at end of period 376,632 208,465 88,004 107,173

21 DIVIDENDS

No dividends have been recognised by the consolidated entity and the Company in the 18 months to 30 September 2005 or the 12 months to 31 March 2004. The part of the share buy-back consideration charged against retained profits in the 12 months to 31 March 2004 of $88,283,000 was treated as a fully franked dividend for taxation purposes.
21 DIVIDENDS CONTINUED

SUBSEQUENT EVENTS

Since the end of the financial year, the directors have declared the following dividend, fully franked based on tax paid at 30%:

CENTS PER SHARE TOTAL AMOUNT $’000

Final – ordinary 25.0 362,077

The financial effect of this dividend has not been brought to account in the financial statements for the 18 month period ended 30 September 2005 and will be recognised in subsequent financial reports.

COMPANY

30 SEPTEMBER 2005 31 MARCH 2004

$’000 $’000

Dividend franking account

30% franking credits available to shareholders of Virgin
Blue Holdings Limited for subsequent financial years: 141,083 91,116

The above available amounts are based on the balance of the dividend franking account at period-end adjusted for:

(a) franking credits that will arise from the refund of excess payment on current tax liability

(b) franking credits that will arise from the payment of dividends recognised as a liability at the period-end

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the period-end

(d) franking credits that the entity may be prevented from distributing in subsequent years. The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

CONSOLIDATED

COMPANY


$’000 $’000 $’000 $’000

CONSOLIDATED COMPANY

22 TOTAL EQUITY RECONCILIATION

Total equity at beginning of period 601,470 184,018 522,678 59,731

Total changes in parent entity

Interest in equity recognised in Statements of Financial Performance (168,078) 158,519 (19,169) 181,514

Shares issued to Key Employee Performance Plan (22,500) – – –

Transactions with owners as owners

Share buy-back 18 90,400 90,400

Share issued 254 371,833 254,666

Total equity at end of period 769,802 601,470 503,763 522,678

23 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

(A) INTEREST RATE RISK

The consolidated entity enters into interest rate swaps to manage cash flow risks associated with the floating interest rates on borrowings predominately relating to aircraft loan facilities. Interest rate swaps allow the consolidated entity to swap floating rate borrowings into fixed rates. Maturities of swap contracts are principally 11 to 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 period was $11,597,000 (31 March 2004: $8,517,000).

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:

FIXED INTEREST MATURING IN:


WEIGHTED AVERAGE INTEREST RATE % FLOATING INTEREST RATE % 1 YEAR TO 1 TO 5 YEARS 5 OR MORE YEARS % NO% INTEREST Bearing % TOTAL $’000

Financial assets

Cash assets 27 5.0 116,415 – – – – 116,415

 Receivables 8 – 52,994 – – – – 52,994

Other financial assets 10 5.6 671,666 – – – 8,514 680,170

Other assets 13 – – 21,424 21,424

Total 788,071 – – 82,932 871,003

Financial liabilities

Payables 14 – – 154,666 154,666

 Interest-bearing liabilities 15 5.7 820,480 – – – 820,480

Total 898,150 – – 165,666 973,146

Interest rate swaps* 6.1 362,279 44,527 206,541 377,321

31 MARCH 2004

Financial assets

Cash assets 27 4.6 114,495 – – – – 114,495

 Receivables 8 – – 56,405 56,405

Other financial assets 10 5.3 500,829 – – – 26,765 527,594

Other assets 13 – – 14,198 14,198

Total 615,324 – – 97,368 712,692

Financial liabilities

Payables 14 – – 131,317 131,317

 Interest-bearing liabilities 15 5.7 506,314 – – – 506,314

Total 506,314 – – 131,317 637,631

Interest rate swaps* 6.3 323,878 20,249 93,838 209,791

(B) 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 US dollars). The amount and timing of anticipated future purchases is forecast in light of the current budget commitments. The following table sets out the gross value (in Australian dollars) to be received under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of outstanding contracts for the consolidated entity.

CONSOLIDATED

30 SEPTEMBER 2005 31 MARCH 2004 30 SEPTEMBER 2005 31 MARCH 2004

$’000 $’000 $’000 $’000

Buy US dollars

Not later than one year 0.7955 0.644 298,223 349,849

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, provided the underlying transaction is still expected to occur as originally designated. The gross unrecognised gain on hedges of anticipated foreign currency purchases at the end of the financial period was $650,000 (12 months to 31 March 2004: loss of $2,968,000) including a gain of $658,000 for the fair value of the options contracts. Amounts receivable and payable on open contracts are included in other debtors and other creditors. The weighted average rate for the year ended 31 March 2004 includes the options at the strike rate (i.e. the lowest possible rate outcome). There were no foreign exchange options in place to hedge anticipated operating expenditure purchase commitments as at 30 September 2005.

(C) 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 debt. 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 23(B).

(D) COMMODITY 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


$’000 $’000 $’000 $’000

Hedging purchases

Not later than one year – – 30,429

The deferred gains on hedges of anticipated future commodity purchases

Not later than one year – – 7,993

(E) NET FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

VALUATION APPROACH

Net fair values of financial assets and liabilities are determined by the consolidated entity on the basis of the following:

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 hedges) detailed in Note 23(B) and Note 23(D) reflects the estimated amounts which the consolidated entity expects to pay or receive should it choose to terminate the contracts at their current market rates, provided the underlying transaction is still expected to occur as originally designated. The gross unrecognised gain on hedges of anticipated foreign currency purchases at the end of the financial period was $27,654,000 (31 March 2004: $8,609,000). The fair value of unrecognised financial instruments (foreign exchange contracts and commodity hedges) at the end of the financial period was $650,000 (31 March 2004: loss of $2,968,000) including a gain of $658,000 for the fair value of the options contracts. Amounts receivable and payable on open contracts are included in other debtors and other creditors. The weighted average rate for the year ended 31 March 2004 includes the options at the strike rate (i.e. the lowest possible rate outcome). There were no foreign exchange options in place to hedge anticipated operating expenditure purchase commitments as at 30 September 2005.

CONSOLIDATED


$’000 $’000 $’000 $’000

Hedging purchases

Not later than one year – – 30,429

The deferred gains on hedges of anticipated future commodity purchases

Not later than one year – – 7,993

24 COMMITMENTS

Aircraft and aeronautic related capital expenditure commitments

Commitments for the acquisition of aircraft and aeronautic assets contracted for at the reporting date but not provided for, payable:

Within one year 167,312 323,375 – –

One year or later and no more than five years – – – –

Total 167,312 323,375 – –
NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 COMMITMENTS CONTINUED
Non-cancellable operating lease expense commitments
Future operating lease commitments not provided for in the financial statements and payable:
Within one year
One year or later and no later than five years
Later than five years

25 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.
The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.
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 as at the end of the financial period was $28,042,000 (31 March 2004: $21,847,000).
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 from 30 September 2005. The directors are of the opinion that no amounts will be refundable.
CONTINGENT ASSETS NOT CONSIDERED REMOTE
The consolidated entity is a party to various agreements under which it may receive grants or subsidies.

26 CONTROLLED ENTITIES
Particulars in relation to controlled entities

27 NOTES TO THE STATEMENTS OF CASH FLOWS
(A) RECONCILIATION OF CASH
For the purposes of the Statements of Cash Flow, 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 period as shown in the Statements of Cash Flows is reconciled to the related items in the Statements of Financial Position as follows:

(B) RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES
Profit/(loss) from ordinary activities after income tax
Add/(less) items classified as investing/financing activities:
Interest received
Add/(less) non-cash items:
Depreciation/amortisation
Unrealised foreign exchange (gain)/loss
Increase in assets and liabilities during the financial period:
Decrease in inventories
Increase in employee entitlements
Increase in maintenance provisions
Increase/(decrease) in other provisions
Increase/(decrease) in operating financial assets
Increase/(decrease) in tax liabilities
Decrease in unpaid passenger revenue
Net cash provided by operating activities

28 EMPLOYEE BENEFITS
Aggregate liability for employee benefits, including on-costs
Current
Non-current

Number of employees at period end

Employee Option Plans(1)(2)
Executive
Plan
Option
Exercise
Price
Exercise
Date

Share Option
30 May
Plan 2002 20,273,580 – – 20,273,580(2) (4) – $0.008 –

CFO 28 Jan
Plan 2003 1,357,560 – – 150,000(5) 1,207,560(6) $0.57 2007

SEOP 8 Dec
Issue 1(3) 2003 5,598,444 – 2,853,319 – 2,745,125(7) $2.25 2008

Issue 2(3) 2004 – 1,000,935 – – 1,000,935(7) $2.47 2008

SEOP 4 Oct
Issue 3(3) 2004 – 1,000,935 – – 1,000,935(7) $2.79 2008

SEOP 31 Jan

Note to Employee Option Plans
(1) All options are convertible into one ordinary share.
(2) These options are either fully vested or are subject to vesting conditions made up of service requirements and performance targets.
(3) Proceeds received on options exercised on 8 December 2004 was $195,020. The fair value of shares issued on exercise of the options was $1.88 per share. The aggregate fair value was $38,421,000.
(4) Proceeds received on options exercised on 5 January 2005 were $85,000. The fair value of shares issued on exercise of the options was $2.01 per share. The aggregate fair value was $1,778,000.
(5) Proceeds received on options exercised on 8 December 2004 were $85,000. The fair value of shares issued on exercise of the options was $2.01 per share. The aggregate fair value was $1,778,000.
(6) These options have an expiry date of 30 September 2010.
(7) None of these options have an expiry date of 30 September 2005.

The fair value of shares issued during the reporting period is the market price of shares of the Company on the Australian Stock Exchange as at close of trading on each of the issue dates.
### 29 EMPLOYEE BENEFITS CONTINUED

**VESTING PERIODS AND CONDITIONS**

All options were granted for no consideration.

<table>
<thead>
<tr>
<th>PLAN</th>
<th>VESTING PERIODS AND CONDITIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Option Plan</td>
<td>50% of the options granted on 30 May 2002 became exercisable on 8 December 2003. The remaining 50% of the options became exercisable on 8 December 2004.</td>
</tr>
<tr>
<td>CFO Plan</td>
<td>Vest in equal proportions over a three-year period with a first anniversary date of 8 December 2003.</td>
</tr>
<tr>
<td>Senior Executive Option Plan – Issue 1</td>
<td>Vest in equal proportions over a four-year period with a first anniversary date of 8 December 2004. The options will vest on the first anniversary if the Company share price is 10% or more above $2.25 and on each anniversary after that if the share price of the Company is 10% or more above the targeted share price for the previous year. The options will lapse on each anniversary date if they do not vest.</td>
</tr>
<tr>
<td>Senior Executive Option Plan – Issue 2</td>
<td>Vest in equal proportions over a three-year period with a first anniversary date of 8 December 2004. The options will vest on the first anniversary if the Company share price is 10% or more above $2.25, on the second anniversary if the share price is 21% or more above $2.25 and on the third anniversary if the share price is 33% or more $2.25. If individual tranches of options have not vested on the first or second anniversary of grant, but the performance condition is satisfied on the third anniversary, all options will vest at that time.</td>
</tr>
<tr>
<td>Senior Executive Option Plan – Issue 3</td>
<td>Vest in equal proportions over a four-year period with a first anniversary date of 8 December 2004. The options will vest on the first anniversary if the Company share price is 10% or more above $1.78 and on each anniversary after that if the share price of the Company is 10% or more above the targeted share price for the previous year.</td>
</tr>
<tr>
<td>Senior Executive Option Plan – Issue 4</td>
<td>Vest in equal proportions over a three-year period with a first anniversary date of 31 January 2006. The options will vest on the first anniversary if the Company share price is 10% or more above $1.963 and on each anniversary after that if the share price of the Company is 10% or more above the targeted share price for the previous year.</td>
</tr>
</tbody>
</table>

### SUMMARY OF OPTIONS OVER UNISSUED ORDINARY SHARES

Details of options over unissued ordinary shares under all Option Plans as at the beginning and ending of the financial period and movements during the period are set out previously in Note 28.

**SHARE PLAN**

<table>
<thead>
<tr>
<th>DATE ESTABLISHED</th>
<th>DETAILS</th>
<th>RESTRICTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>8 December 2003</td>
<td>$1,000 worth of shares for $1/share consideration. Number of shares issued and vested during the period was $1,147,296 at a fair value of $2.25 per share.</td>
<td>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 the 3 years from the date of acquisition of the shares or the time at which the person ceases to be an employee of the Virgin Blue Group.</td>
</tr>
</tbody>
</table>

| 8 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 CPD 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. | 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. |

### EMPLOYEE SHARE PLANS

<table>
<thead>
<tr>
<th>SHARE PLAN</th>
<th>NOTE</th>
<th>COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Employee Share Plan (GESP)</td>
<td>30 SEPTEMBER 2005 $’000</td>
<td>31 MARCH 2005 $’000</td>
</tr>
<tr>
<td>Issued ordinary share capital</td>
<td>18</td>
<td>254</td>
</tr>
<tr>
<td>$’000</td>
<td></td>
<td>254</td>
</tr>
</tbody>
</table>

### PERFORMANCE RIGHTS

**PERFORMANCE RIGHTS**

Details of movements in ordinary shares under all employee share plans are set out previously in Note 28.

The fair value of shares issued during the reporting period is the market price of shares of the Company on the Australian Stock Exchange as at close of trading on each of the issue dates.

No amounts were recognised in the financial statements of the Company and consolidated entity in relation to employee share plans during the financial period.

### SUPERANNUATION PLANS

The consolidated entity contributes to several defined contribution superannuation plans.

### 29 DIRECTOR AND EXECUTIVE DISCLOSURES

**DIRECTORS**

The following persons were directors of Virgin Blue Holdings Limited during the financial period:

- Chairman – non-executive
  - Mr C Corrigan
  - Executive director
  - Mr B Godfrey
  - Non-executive directors
  - Mr W Hara
  - Mr D Knight
  - Mr P McColl
  - Mr D Mortimer AO
  - Mr D Basky
  - Mr S Murphy (from 1 April 2004 to 30 September 2004)
  - Mr D Ryan AO (from 1 April 2004 to 4 April 2005)
  - Mr R Dunn (from 6 April 2005 to 30 September 2005)

**EXECUTIVES (OTHER THAN DIRECTORS) WITH THE GREATEST AUTHORITY FOR STRATEGIC DIRECTION AND MANAGEMENT**

The following persons were the executives with the greatest authority for the strategic direction and management of the consolidated entity (“specified executives”) during the financial period.

**NAME**

Mr R Sheard

Mr B Hightop

Mr N Neale

Mr D Hutter

Mr S Pichler

Mr A Davud

Mr S Swift

Mr B Godfrey

Mr R Sheard

Mr B Hightop

Mr N Neale

Mr D Hutter

Mr S Pichler

Mr A Davud

Mr S Swift

**POSITION**

Dispute CEO

General Manager of People

Chief Financial Officer

Head of Commercial

Chief Commercial Officer

Chief Operating Officer

General Manager of Corporate Affairs and Company Secretary

**PERIOD**

1 April 2004 to 10 March 2005

1 April 2004 to 30 September 2005

1 April 2004 to 30 September 2006

1 April 2004 to 16 December 2004

1 October 2004 to 30 September 2005

1 February 2005 to 30 September 2005

1 April 2004 to 30 September 2005

### REMUNERATION OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES

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 and consolidated entity (“the directors and senior executives”). The broad remuneration policy is to ensure the remuneration package properly reflects the person’s duties and responsibilities and level of performance; and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the directors and senior executives
- the directors and senior executives ability to control the relevant segment’s performance
- the consolidated entity’s performance including:
  - the consolidated entity’s earnings
  - the growth in share price and returns on shareholder wealth
  - the amount of incentives within each director’s and senior executive’s remuneration.

Remuneration packages include a mix of fixed and variable remuneration and short- and long-term performance-based incentives.
29 DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

FIXED REMUNERATION

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Pension contributions are set at a level that reflects the marketplace for each position. Where the executive remuneration includes variable and equity incentives, the relevant base pay may be set at a level below marketplace rates.

Remuneration levels are reviewed annually by the Remuneration and Governance Committee through a performance assessment that considers individual performance. In addition, independent consultants provide analysis and advice to ensure the directors’ and senior executives’ remuneration is competitive in the market place. A senior executive’s remuneration is also reviewed on promotion.

PERFORMANCE-LINKED REMUNERATION

Performance-linked remuneration includes both short-term and long-term incentives and is designed to reward executive decisions that contribute to the financial and personal targets. The short-term incentive (STI) is at an “at risk” bonus provided in the form of cash and shares in Virgin Blue Holdings Limited. The long-term incentive (LTI) is provided as options over ordinary shares of Virgin Blue Holdings Limited under the rules of the various share option plans.

SHORT-TERM INCENTIVE

Each year the Board sets the KPIs (key performance indicators) for the CEO, and the CEO sets the KPIs for the senior executives. The KPIs generally include measures relating to the consolidated entity, the relevant department and the individual, and include financial, people, guest, safety and strategy and risk measures. These measures are chosen so as to align the individual’s reward to the KPIs of the consolidated entity and its strategy and performance.

The financial performance objectives differ among the executives, and are compared to budgeted amounts. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, safety and environmental performance, guest satisfaction and staff development.

At the end of the financial year the Board and CEO assess the actual performance of the consolidated entity, the relevant department and the individual against the KPIs set at the beginning of the financial year. For senior executives, up to 50% of an individual’s total remuneration (base salary plus superannuation) is available to be paid as a bonus. The bonus is paid 60% in cash and 40% in performance rights, such rights being convertible into shares equally on the first and second anniversary dates. A percentage of the pre-determined maximum amount is awarded depending on the results of the individual’s annual assessment against the KPIs.

For the CEO, up to 75% of the CEO’s total remuneration is available to be paid as a bonus. The bonus is paid 60% in cash and 40% in performance rights in accordance with the Key Employee Performance Share Plan. If the CEO achieves 100% of the agreed targets, the CEO will be entitled to the full bonus payments. When the CEO achieves less than 100%, the Board at its sole discretion may, having regard to those targets that are achieved in full or part, make a payment of an amount that the Board determines is reasonable.

Upon ceasing to hold the office of CEO, the Company will pay the CEO’s salary for a period of 12 months; such amount to be payable in full within two weeks from the date the CEO’s contract is terminated. The CEO recommends the STI be paid to the individuals for approval by the Board. The method of assessment was chosen as it provides the Board with an objective assessment of the individual’s performance.

LONG-TERM INCENTIVE

Upon commencement of employment, senior executives may be issued options under the Senior Executive Option Plan, at the discretion of the Board. The ability to exercise the options may be conditional on the executive achieving certain performance hurdles. These performance hurdles, if applicable, relate to the share price of Virgin Blue Holdings Limited. The options may only be exercised on the first anniversary date of issue if the share price of Virgin Blue Holdings Limited is 10% or above the above share price on the previous anniversary date. The LTIs are focused on corporate performance and creating shareholder value over a multi-year period.

However, long-term incentives are also used to balance short-term performance objectives with long term shareholder value.

Whilst short-term incentives reward past performance it is essential that executives and senior management, as the group has responsibility for achievement of sustainable performance and strategy, are rewarded for contributions to longer term Company performance and its capacity to create value for shareholders. This is why Company share price was chosen as the performance condition.

In assessing whether the performance hurdles have been met the Board obtains the closing Company share price as quoted on the ASX on the date that options vest. The closing share price is compared with the performance conditions required by each option issue.

In considering the consolidated entity’s performance and benefits for shareholders the Remuneration and Governance Committee have regard to the following indices in the respective financial year and the price movements over the last five years:

16 MONTHS TO 30 SEPTEMBER 2004 12 MONTHS TO 31 MARCH 2005 12 MONTHS TO 31 MARCH 2004 12 MONTHS TO 28 MARCH 2003 8 MONTHS TO 28 MARCH 2003

Net profit/(loss) $168,167,000 $158,519,000 $107,799,000 $34,764,000 $(802,000)
Dividends paid – – – – –
Change in share price (10.68) – – – –
Return on capital – – – – –

(1) Represents the indices for Virgin Australia Holdings Pty Ltd, which was the parent entity of the group during that period.

(2) Virgin Australia Holdings Pty Ltd was incorporated on 27 July 2000. Commercial operations of the group commenced on 31 August 2000.

(3) Virgin Blue Holdings Limited was floated on 15 December 2003 at an offer price of $2.15.

Changes in share price are integral to the ability for executives to exercise options issued under the LTI. Similarly, profit is a key driver in the Company’s share price, and therefore impacts executive’s ability to exercise options under the LTI. Given the Company’s dividend and return of capital policies since listing on the Australian Stock Exchange, these two factors are not directly assessed when determining executive remuneration.

The Remuneration and Governance Committee considers that the above performance-linked remuneration structure is integral to the desired outcome. The evidence for this is firstly the very strong growth in profits since start-up, and secondly, the performance-linked element of the structure appears to be appropriate because most, if not all of the executive directors and senior executives achieve a level of bonus which qualifies them for the maximum bonus.

SERVICE AGREEMENTS

It is the consolidated entity’s policy that service contracts for senior executives, excluding the CEO, be unlimited in term but capable of termination on three months’ notice and that the consolidated entity retains the right to terminate the contract immediately, by making payment equal to three months’ pay in lieu of notice.

Mr Brett Godfrey, Chief Executive Officer, has a contract of employment that specifies the duties and obligations that will be fulfilled by the CEO and provides that the Board and CEO will each in early financial year, consult and agree objectives for achievement during that year.

The service contract with the CEO is unlimited in term, but is capable of termination on six months’ notice. The consolidated entity retains the right to terminate the contract immediately, by making payment equal to six months’ pay in lieu of notice. Upon termination of the service contract, Mr Godfrey will receive payment equal to 12 months of his then current base salary.

Where the service contract is terminated by Virgin Blue, and the CEO continues to perform the role of CEO during his notice period, Virgin Blue shall also provide the CEO the equivalent amount of options equal to six months’ service period worked. Where the CEO gives notice, no entitlement to options will accrue during the notice period.

The CEO has no entitlement to termination payment in the event of removal for misconduct.

The consolidated entity has entered into service contracts with each executive director and senior executive that enables for meeting or exceeding their financial and personal objectives. In exchange for these contributions to the consolidated entity, the directors and senior executives have agreed to the following terms and conditions.

NON EXECUTIVE DIRECTORS

Non-executive directors fees are set based on advice from external advisors with reference to fees paid to other non-executive directors of comparable companies. Directors’ base fees are presently $75,000 per annum, with the Chairman receiving $125,000 per annum. Directors who are members of the Remuneration and Governance Committee receive an additional $5,000 per annum. Directors who are members of the Audit Committee receive an additional $12,000 per annum, while the Chairman of the Audit Committee receives an additional $15,000 per annum. Non-executive directors do not receive performance related remuneration.

Details of the nature and amount of each major element of remuneration of each director of the Company (“specified directors”), and each of the five or more executives of the consolidated entity with the greatest authority (“specified executives”) for the 18 month period ended 30 September 2005 are:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Total</th>
<th>Salary &amp; Bonus</th>
<th>STI Cash Bonus</th>
<th>STI Shares</th>
<th>LTI Shares</th>
<th>Options</th>
<th>Long Term Incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr R Sherrard</td>
<td>Executive</td>
<td>$2,346,180</td>
<td>$2,071,904</td>
<td>$56,250</td>
<td>$34,278</td>
<td>$16,750</td>
<td>$125,982</td>
<td>$228,852</td>
</tr>
<tr>
<td>Mr A David</td>
<td>Executive</td>
<td>$512,311</td>
<td>$512,311</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mr D Ryan AO</td>
<td>Executive</td>
<td>$95,000</td>
<td>$95,000</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mr S Swift</td>
<td>Executive</td>
<td>$570,072</td>
<td>$570,072</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mr P Crook</td>
<td>Executive</td>
<td>$768,575</td>
<td>$768,575</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mr D Knight</td>
<td>Executive</td>
<td>$1,130,950</td>
<td>$1,130,950</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mr S Murphy</td>
<td>Executive</td>
<td>$40,000</td>
<td>$40,000</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mr A Ryan AO</td>
<td>Executive</td>
<td>$90,532</td>
<td>$90,532</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mr S Pichler</td>
<td>Executive</td>
<td>$679,555</td>
<td>$679,555</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Mr A David</td>
<td>Executive</td>
<td>$512,311</td>
<td>$512,311</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

In determining the directors’ fees, the Audit Committee receives an additional $15,000 per annum. Non-executive directors do not receive performance related remuneration.

Remuneration levels are reviewed each year to take into account cost-of-living changes and any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the remuneration policy.

CONTINUED

CONTINUED

Page 26

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29 DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

EQUITY INSTRUMENTS

All options refer to options over ordinary share of Virgin Blue Holdings Limited, which are exercisable on a one-for-one basis.

OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS REMUNERATION

The movement during the reporting period in the number of options over ordinary share in Virgin Blue Holdings Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities, is as follows:

<table>
<thead>
<tr>
<th>Specified directors</th>
<th>HELD AT 1 APRIL 2004</th>
<th>GRANTED AS RESPONSE TO 2004 REMUNERATION</th>
<th>EXERCISED</th>
<th>OTHER CHANGES</th>
<th>HELD AT 30 SEPTEMBER 2004</th>
<th>VESTED DURING THE PERIOD</th>
<th>VESTED AND EXERCISABLE AT 30 SEP 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr B Godfrey</td>
<td>10,278,859</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>10,278,859</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

Specified executives

- No options were exercised by specified directors.

<table>
<thead>
<tr>
<th>Specified executives</th>
<th>HELD AT 1 APRIL 2004</th>
<th>GRANTED AS RESPONSE TO 2004 REMUNERATION</th>
<th>EXERCISED</th>
<th>OTHER CHANGES</th>
<th>HELD AT 30 SEPTEMBER 2004</th>
<th>VESTED DURING THE PERIOD</th>
<th>VESTED AND EXERCISABLE AT 30 SEP 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr R Sherrard</td>
<td>12,392,251</td>
<td>– (11,584,860)</td>
<td>(707,391)</td>
<td>–</td>
<td>11,584,860</td>
<td>403,695</td>
<td>1,158,480</td>
</tr>
<tr>
<td>Mr S Swift</td>
<td>1,696,740</td>
<td>– (1,158,480)</td>
<td>(338,260)</td>
<td>–</td>
<td>1,158,480</td>
<td>403,695</td>
<td>1,158,480</td>
</tr>
<tr>
<td>Mr B Highfold</td>
<td>1,696,740</td>
<td>– (1,158,480)</td>
<td>(338,260)</td>
<td>–</td>
<td>1,158,480</td>
<td>403,695</td>
<td>1,158,480</td>
</tr>
<tr>
<td>Mr K Neate</td>
<td>1,949,664</td>
<td>– (150,000)</td>
<td>(148,022)</td>
<td>1,651,624</td>
<td>452,520</td>
<td>755,040</td>
<td></td>
</tr>
<tr>
<td>Mr D Huttner</td>
<td>1,696,740</td>
<td>– (1,158,480)</td>
<td>(338,260)</td>
<td>–</td>
<td>1,158,480</td>
<td>403,695</td>
<td>1,158,480</td>
</tr>
<tr>
<td>Mr S Pickler</td>
<td>– 1,000,935</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,000,935</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Mr A David</td>
<td>– 756,353</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>756,353</td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

1 Other changes represent options that lapsed during the period.

Options to Mr P Sherrard on 4 October 2004, have an expiration date of 4 October 2009, an exercise price of $1.78 per share and a fair value of $0.38 per share at grant date. Options to Mr A David were granted on 31 January 2005, have an expiration date of 21 January 2010, an exercise price of $1.963 per share and fair value of $0.63 per share at grant date.

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

30 AUDITORS’ REMUNERATION

During the period from 1 April 2004 to 8 September 2005, the Company’s auditor was KPMG. Since 8 September 2005, the Company’s auditor has been PricewaterhouseCoopers. Details of amounts paid to KPMG and PricewaterhouseCoopers and their related practices for audit and non-audit services provided during the period when they were engaged as Company auditor are set out below.

<table>
<thead>
<tr>
<th>CONSOLIDATED COMPANY</th>
<th>18 MONTHS TO 30 SEPTEMBER 2005 $</th>
<th>12 MONTHS TO 31 MARCH 2004 $</th>
<th>18 MONTHS TO 30 SEPTEMBER 2004 $</th>
<th>12 MONTHS TO 31 MARCH 2003 $</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPMG</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>(1 April 2004 to 8 September 2005)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Statutory Audit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Audit and review of financial reports</td>
<td>100,000</td>
<td>5,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– IFRS accounting services</td>
<td>27,200</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>– Taxation services</td>
<td>71,670</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>– Recruitment services</td>
<td>96,480</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>– Initial Public Offering services</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>– Preparing the Financial Report</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>– Other assurance and accounting services</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>– Other assurance and accounting services</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td><strong>Total KPMG</strong></td>
<td>748,691</td>
<td>1,455,584</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Total Audit Fees</strong></td>
<td>848,691</td>
<td>1,455,584</td>
<td>5,000</td>
<td>5,000</td>
</tr>
</tbody>
</table>

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

31 NON-DIRECTOR RELATED PARTIES

WHOLLY-OWNED GROUP

The wholly-owned group consists of Virgin Blue Holdings Limited and its wholly-owned controlled entities as disclosed in Note 26.

Transactions between Virgin Blue Holdings Limited and other entities in the wholly-owned group during the 18 month period ended 30 September 2005 and the 12 month period ended 31 March 2004 consisted of:

(a) loans advanced by Virgin Blue Holdings Limited
(b) loans repaid by Virgin Blue Holdings Limited
(c) the payment of dividends to Virgin Blue Holdings Limited
(d) transactions between Virgin Blue Holdings Limited and its wholly-owned Australian controlled entities under the accounting tax sharing agreement described in Note 5.

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>18 MONTHS TO 30 SEPTEMBER 2005 $</th>
<th>12 MONTHS TO 31 MARCH 2004 $</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with entities in the wholly-owned group:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend revenue</td>
<td>– 180,634</td>
<td>– 180,634</td>
</tr>
<tr>
<td><strong>Aggregate amounts receivable from entities in the wholly-owned group at balance date:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current receivables (loans)</td>
<td>523,956</td>
<td>473,432</td>
</tr>
</tbody>
</table>

OTHER RELATED PARTIES

The consolidated entity is party to an agreement with a related entity to use the “Virgin” and “Virgin Blue” brand names. During the financial period $9,727,000 (12 months to 31 March 2004: $6,301,000) 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 period was $1,419,000 (31 March 2004: $1,596,000).

During the financial period, Jetcare Pty Limited, a related entity, provided maintenance services to the consolidated entity on normal terms and conditions. An amount of $34,938,000 (12 months to 31 March 2004: $16,033,000) was paid during the financial period. The amount payable by the consolidated entity at the end of the financial period was $296,000 (31 March 2004: $729,000).

During the financial period, Patrick Air Services Pty Limited, a related entity, provided water, sewage and freight handling services to the consolidated entity on normal terms and conditions. An amount of $3,747,000 (12 months to 31 March 2004: $1,268,000) was paid during the financial period. The amount payable by the consolidated entity at the end of the financial period was $256,000 (31 March 2004: $24,000).

During the financial period, Patrick Logistics Pty Ltd, a related entity, provided freight services to the consolidated entity on normal terms and conditions. An amount of $123,000 (12 months to 31 March 2004: $nil) was paid during the financial period. The amount payable by the consolidated entity at the end of the financial period was $7,000 (31 March 2004: $nil).

During the financial period, Liberty Air Services Pty Limited, a related entity, provided freight handling services to the consolidated entity on normal terms and conditions. An amount of $339,000 (12 months to 31 March 2004: $28,000) was paid during the financial period. The amount payable by the consolidated entity at the end of the financial period was $nil (31 March 2004: $27,000).

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 period. The amount payable by the consolidated entity at 31 March 2004 in respect of the lease agreements was $189,000. This amount was paid in full during the 18 months to 30 September 2005.
The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the consolidated entity’s financial statements for the half-year ending 31 March 2006 and the year ending 30 September 2006. Entities complying with AIFRS for the first time will be required to state their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required upon transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 April 2004.

The Board has established a formal implementation project, monitored by the Audit Committee, to assess the transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 October 2004. The project is achieving its scheduled milestones and the consolidated entity is expected to be in a position to fully comply with the requirement of AIFRS for the 30 September 2006 financial year.

The consolidated entity’s implementation project consists of three phases as described below:

ASSESSMENT AND PLANNING PHASE

The assessment and planning phase generated a high level overview of the impacts of conversion to AIFRS on existing accounting and reporting policies and procedures, systems and processes, business structures and staff. This phase included:

- High level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting AIFRS.
- Assessment of new information requirements affecting management information systems, as well as on the impact on the business and its key processes.
- Evaluation of the implications for staff, for example training requirements, and preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The assessment and planning phase is completed as at 30 September 2005.

DESIGN PHASE

The design phase formulated the changes required to existing accounting policies and procedures and systems in order to transition to AIFRS. The design phase included various project teams working on areas such as treasury operations, application of impairment requirements and transitional elections.

The design phase incorporated:

- Formulation of revised accounting policies and procedures for compliance with AIFRS requirements.
- Identification of potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of AIFRS.
- Formulation of accounting and business processes to support AIFRS reporting obligations.
- Identification of required changes to financial reporting and business source systems, and development of training programs for staff.

The design phase is completed as at 30 September 2005.

IMPLEMENTATION PHASE

The implementation phase includes implementation of identified changes to accounting and business processes, procedures and systems and any operational training for staff and enables the consolidated entity to generate the required reconciliations and disclosures of AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards. This phase is substantially complete as at 30 September 2005.

IMPACT OF TRANSITION TO AIFRS

The impact of transition to AIFRS, including the transitional adjustments disclosed in the reconciliations from current Australian GAAP to AIFRS, and the selection and application of AIFRS accounting policies, are based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report (being the half-year ended 31 March 2006). Only a complete set of financial statements and notes is expected to provide a true and fair presentation of the current entity’s financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary, therefore, further discussion and explanation will be required in the first complete AIFRS financial report for a true and fair view to be presented under IFRS.

There is a significant amount of judgement involved in the preparation of the reconciliations from current Australian GAAP to AIFRS, consequently the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary significantly from the reconciliations provided in this Note.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- Changes in financial reporting requirements that are relevant to the Company’s and consolidated entity’s operations.
- The complete AIFRS financial report arising from new or revised accounting standards and interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 September 2005 financial report.
- Additional guidance on the application of AIFRS in particular industry or to a particular transaction.
- Changes to the Company’s and consolidated entity’s operations.

When the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management’s current assessment of the likely outcome of those deliberations.

The rules for first time adoption of AIFRS are set out in AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 April 2004. The Standard allows a number of exemptions to this general principle to assist in the transition to AFRS reporting under Australian equivalents. These accounting policies note includes details of the AASB 1 elections currently anticipated to be adopted.

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections expected to be made under AASB 1 are set out below. No material impacts are expected in relation to the Statements of Cash Flows.

(I) BUSINESS COMBINATIONS

As permitted by the election available under AASB 1, the classification and accounting treatment of business combinations that occurred prior to transition date have not been restated in preparing the opening AIFRS balance sheet to comply with the requirements of AASB 3 Business Combinations. An increase in retained earnings of $1,902,000 is expected to be made for the Company and the consolidated entity at 1 April 2004 or 30 September 2005.

(ii) INTANGIBLE ASSETS

Under AASB 3 Business Combinations goodwill will not be subject to amortisation but instead will be tested annually for impairment, focusing on cash flows of the relevant cash generating unit. This will result in a change to the consolidated entity’s operations. Under AASB 1, goodwill is amortised on a straight-line basis over the period during which the benefits are expected to arise and not exceeding 20 years. If the policy required by AASB 3 had been applied during the 18 months ended 30 September 2005, consolidated goodwill at 30 September 2005 would have been $3,726,000 higher and consolidated amortisation expense for the 18 months ended 30 September 2005 would have been $3,726,000 lower. There would have been no impact on the Company.

(iii) TAXATION

TAX EFFECT ACCOUNTING

Under AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity’s assets and liabilities at the Statement of Financial Position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

The expected impact of the change in basis on the tax expense for the financial period ended 30 September 2005 is an increase in tax expense by $3,017,000 for the consolidated entity and $2,128,000 for the Company. Deferred tax assets and deferred tax liabilities of the consolidated entity are expected to increase by $4,765,000 and increase by $541,000 respectively as at 30 September 2005. For the Company the expected impact at 30 September 2005 is an increase in deferred tax assets of $3,546,000.

ACCOUNTING FOR TAX CONSOLIDATION

As set out at Note 1(i), the Company is the head entity in a tax-consolidated group. Under current Australian GAAP, the head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intragroup transactions). Assets and liabilities arising under tax funding arrangements are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/benefits.

Under AIFRS, accounting for the impact of the tax consolidation system in the separate financial statements of the members of a tax-consolidated group is addressed by IUG 1052 Tax Consolidation Accounting. Wholly-owned subsidiaries in a tax-consolidated group must recognise their own tax assets and liabilities in the Statement of Financial Position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

The expected impact on the consolidated entity at 1 April 2004, of the change in the tax adjustment on the deferred tax balances and the previously reported tax expense is an increase in deferred tax assets of $5,673,000, a decrease in deferred tax liabilities of $1,567,000, an increase in retained earnings of $148,000 and an increase in contributed equity of $7,092,000.

The expected impact of the change in basis on the tax expense for the financial period ended 30 September 2005 is an increase in tax expense by $3,017,000 for the consolidated entity and $2,128,000 for the Company. Deferred tax assets and deferred tax liabilities of the consolidated entity are expected to increase by $4,765,000 and increase by $541,000 respectively as at 30 September 2005. For the Company the expected impact at 30 September 2005 is an increase in deferred tax assets of $3,546,000.
32 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONTINUED

IV IMPAIRMENT OF ASSETS

Under current Australian GAAP the carrying amount of non-current assets valued on a cost basis are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount the asset is written down to the lower amount, with the write-down recognised in the income statement in the period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to the group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

Under AASB 136 Impairment of Assets, if there is any indication that an asset is impaired (or for those tested annually), the recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs will be determined. Goodwill must be tested for impairment annually.

A cash generating unit will be the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets.

Under Australian GAAP, the recoverable amount of non-current assets was assessed at an entity level using undiscounted cash flows. The recoverable amount of property, plant and equipment will be the greater of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows will be discounted to their present value using a pre-tax discount rate that reflects current market assessments of the risks specific to the asset or cash generating unit. Cash flows will be estimated for the asset or cash generating unit in its current condition and therefore will not include cash inflows and outflows improving or enhancing the asset’s performance or expected to arise from a future restructuring not yet committed to at testing date.

No adjustment is expected for the Company or the consolidated entity.

V EQUITY-BASED COMPENSATION BENEFITS

Under current Australian GAAP no expense is recognised for options issued to employees.

Under AASB 2 Share-Based Payment, the fair value of options granted must be recognised as an employee benefit expense. The fair value will be measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the options. The fair value of options granted will be measured using the Black-Scholes method, taking into account the terms and conditions attached to the options. The amount recognised as an expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

No adjustment will be made for options granted before 7 November 2002, or which vested by 1 January 2005. If the policy required by AASB 2 had been applied during the 18-month period ended 30 September 2005, retained earnings at 1 April 2004 of the consolidated entity would have decreased by $1,147,000 with a corresponding increase in the options reserve. An increase of $1,147,000 to both investments in subsidiaries and options reserve is expected for the Company at transition date.

For the financial period ended 30 September 2005, employee benefits expense and the options reserve are expected to be increased by $4,666,000 in the consolidated entity representing options expense for the period. Investments in subsidiaries and the options reserve are expected to increase by $4,666,000 in the Company.

VI GOVERNMENT GRANTS

Under current Australian GAAP, all government grants are recognised as revenue in the period in which the grant becomes receivable.

Under AASB 120 Accounting for Government Grants and Disclosure of Government Assistance, grants for the acquisition or construction of an asset must initially be deferred on the balance sheet, and recognised as revenue over the useful life of the asset.

The change in accounting policy is expected to increase deferred income and reduce retained profits of the consolidated entity by $5,000,000 at 1 April 2004 and $4,063,000 at 30 September 2005. Additionally, the government grant income recognised in revenue for the financial period ended 30 September 2005 is expected to increase by $588,000. No adjustments are expected for the Company.

VII BORROWING COSTS

Current Australian GAAP requires borrowing costs relating to qualifying assets to be capitalised as part of the cost of the asset. AASB 123 Borrowing Costs allows an entity to either recognise borrowing costs as an expense in the period in which they are incurred, or where they are directly attributable to the acquisition, construction or production of a qualifying asset, capitalise these borrowing costs as part of the cost of the asset.

Virgin Blue Holdings Limited expects to continue to capitalise borrowing costs where they are directly attributable to the acquisition, construction or production of a qualifying asset.

There is no expected impact on either the Company or the consolidated entity in relation to this change to AIFRS accounting policy as there is no change from the current policy under Australian GAAP.

VIII FINANCIAL INSTRUMENTS

Virgin Blue Holdings Limited expects to take advantage of the election in AASB 1 to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement only from 1 October 2005. This allows the group to apply previous Australian GAAP to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 September 2006 financial report.

SUMMARY OF TRANSITIONAL ADJUSTMENTS

The following table sets out the expected adjustments to the Statements of Financial Position of the Company and the consolidated group of entities for transitioning to AIFRS as at 1 April 2004 and for the AIFRS comparative balance sheet as at 30 September 2005.

<table>
<thead>
<tr>
<th>Category</th>
<th>1 APRIL 2004</th>
<th>CONSOLIDATED</th>
<th>30 SEPTEMBER 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AGAAP $’000</td>
<td>TRANSITION IMPACT $’000</td>
<td>AIFRS $’000</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash assets</td>
<td>114,495</td>
<td>–</td>
<td>116,415</td>
</tr>
<tr>
<td>Receivables</td>
<td>56,405</td>
<td>–</td>
<td>52,994</td>
</tr>
<tr>
<td>Inventories</td>
<td>1,688</td>
<td>–</td>
<td>298</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>519,918</td>
<td>–</td>
<td>672,306</td>
</tr>
<tr>
<td>Current tax assets</td>
<td>–</td>
<td>–</td>
<td>17,193</td>
</tr>
<tr>
<td>Other assets</td>
<td>9,342</td>
<td>–</td>
<td>13,704</td>
</tr>
<tr>
<td>Total current assets</td>
<td>702,248</td>
<td>–</td>
<td>872,910</td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>7,676</td>
<td>–</td>
<td>7,864</td>
</tr>
<tr>
<td>Other assets</td>
<td>4,456</td>
<td>–</td>
<td>7,720</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>678,886</td>
<td>–</td>
<td>1,130,572</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>19,839</td>
<td>5,673</td>
<td>25,270</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>43,810</td>
<td>–</td>
<td>43,810</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>754,667</td>
<td>5,673</td>
<td>760,340</td>
</tr>
<tr>
<td>Total assets</td>
<td>1,456,915</td>
<td>5,673</td>
<td>1,462,588</td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>111,098</td>
<td>–</td>
<td>153,483</td>
</tr>
<tr>
<td>Interest-bearing liabilities</td>
<td>112,661</td>
<td>–</td>
<td>111,586</td>
</tr>
<tr>
<td>Provisions</td>
<td>37,409</td>
<td>–</td>
<td>40,618</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td>11,225</td>
<td>–</td>
<td>11,225</td>
</tr>
<tr>
<td>Other</td>
<td>161,709</td>
<td>625</td>
<td>162,334</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>434,102</td>
<td>625</td>
<td>543,727</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>2,219</td>
<td>–</td>
<td>2,118</td>
</tr>
<tr>
<td>Interest-bearing liabilities</td>
<td>393,653</td>
<td>–</td>
<td>708,894</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>12,009</td>
<td>(1,567)</td>
<td>36,693</td>
</tr>
<tr>
<td>Other</td>
<td>–</td>
<td>4,375</td>
<td>–</td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>421,343</td>
<td>2,808</td>
<td>424,151</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>855,446</td>
<td>3,433</td>
<td>858,879</td>
</tr>
<tr>
<td>Net assets</td>
<td>601,470</td>
<td>2,240</td>
<td>603,710</td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributed equity</td>
<td>393,005</td>
<td>7,092</td>
<td>399,097</td>
</tr>
<tr>
<td>Reserves</td>
<td>–</td>
<td>1,146</td>
<td>1,146</td>
</tr>
<tr>
<td>Retained profits</td>
<td>208,466</td>
<td>(9,098)</td>
<td>209,564</td>
</tr>
<tr>
<td>Total equity</td>
<td>601,470</td>
<td>2,240</td>
<td>603,710</td>
</tr>
</tbody>
</table>
### STATEMENTS OF FINANCIAL PERFORMANCE

The following table sets out the expected adjustments to the Statements of Financial Performance of the Company and the consolidated entity for the 18 month period ended 30 September 2005.

<table>
<thead>
<tr>
<th></th>
<th>AGAAP $’000</th>
<th>TRANSITION $’000</th>
<th>AIFRS $’000</th>
<th>AGAAP $’000</th>
<th>TRANSITION $’000</th>
<th>AIFRS $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Airline passenger ticket</td>
<td>2,415,386</td>
<td>–</td>
<td>2,415,386</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other revenue</td>
<td>127,639</td>
<td>938</td>
<td>128,577</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>2,543,025</td>
<td>938</td>
<td>2,543,963</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Operating expenditure:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aircraft operating costs</td>
<td>247,845</td>
<td>–</td>
<td>247,845</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Airport charges, navigation</td>
<td>516,052</td>
<td>–</td>
<td>516,052</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>and station operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract and other</td>
<td>171,182</td>
<td>–</td>
<td>171,182</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>maintenance costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commissions and other</td>
<td>158,764</td>
<td>–</td>
<td>158,764</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>marketing and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>reservations costs</td>
<td>489,661</td>
<td>–</td>
<td>489,661</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Fuel and oil</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour and staff</td>
<td>530,651</td>
<td>4,666</td>
<td>535,317</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>related costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other expenses from</td>
<td>72,137</td>
<td>–</td>
<td>72,137</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>ordinary activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and</td>
<td>112,306</td>
<td>(3,726)</td>
<td>108,580</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>amortisation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings before</td>
<td>2,298,598</td>
<td>940</td>
<td>2,300,538</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>interest and tax</td>
<td>244,427</td>
<td>(2)</td>
<td>244,425</td>
<td>(2,720)</td>
<td>–</td>
<td>(2,720)</td>
</tr>
<tr>
<td>Borrowing costs</td>
<td>62,910</td>
<td>–</td>
<td>62,910</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Interest revenue</td>
<td>56,957</td>
<td>–</td>
<td>56,957</td>
<td>–</td>
<td>283</td>
<td>283</td>
</tr>
<tr>
<td>Profit/(loss) from</td>
<td>238,474</td>
<td>(2)</td>
<td>238,472</td>
<td>(2,437)</td>
<td>–</td>
<td>(2,437)</td>
</tr>
<tr>
<td>ordinary activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>before income tax expense</td>
<td>70,307</td>
<td>3,017</td>
<td>73,324</td>
<td>16,732</td>
<td>(17,542)</td>
<td>(810)</td>
</tr>
<tr>
<td>Income tax expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit/(loss) attributable to the members of Virgin Blue Holdings Limited</td>
<td>168,167</td>
<td>(3,019)</td>
<td>165,148</td>
<td>(19,169)</td>
<td>(17,542)</td>
<td>(1,627)</td>
</tr>
</tbody>
</table>

### SUMMARY OF IMPACT OF TRANSITION TO AIFRS ON RETAINED EARNINGS

The impact of the transition to AIFRS on retained earnings as at 1 April 2004 is summarised below:

<table>
<thead>
<tr>
<th></th>
<th>CONSOLIDATED $’000</th>
<th>COMPANY $’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retained earnings as at 1 April 2004 under AGAAP</td>
<td>208,465</td>
<td>107,173</td>
</tr>
<tr>
<td>AIFRS reconciliation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– government grants for capital equipment</td>
<td>5,000</td>
<td>–</td>
</tr>
<tr>
<td>– share-based payments</td>
<td>(1,147)</td>
<td>–</td>
</tr>
<tr>
<td>– impact of taxation</td>
<td>149</td>
<td>(9,248)</td>
</tr>
<tr>
<td>Retained earnings as at 1 April 2004 under AIFRS</td>
<td>202,467</td>
<td>97,925</td>
</tr>
</tbody>
</table>

### 33 EVENTS SUBSEQUENT TO REPORTING DATE

For dividends declared after 30 September 2005 see Note 21.

Other than the matter noted above, there has not arisen in the interval between the end of the financial period 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.
DIRECTORS’ DECLARATION
In the directors’ opinion:
(a) the financial statements and notes set out on pages 17 to 30 are in accordance with the Corporations Act 2001, including:
(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
(ii) giving a true and fair view of the Company’s and consolidated entity’s financial position as at 30 September 2005 and of their performance, as represented by the results of their operations and their cash flows, for the 18 month financial period ended on that date; 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.
The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.
This declaration is made in accordance with a resolution of the directors.

Brett Godfrey
Director
16 November 2005

INDEPENDENT AUDIT REPORT TO MEMBERS OF VIRGIN BLUE HOLDINGS LIMITED

AUDIT OPINION
In our opinion:
1. the financial report of Virgin Blue Holdings Limited:
   • gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Virgin Blue Holdings Limited and the Virgin Blue Holdings Group (defined below) as at 30 September 2005, and of their performance for the 18 month period ended on that date, and
   • is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001; and
2. the remuneration disclosures that are contained in pages 14 to 16 of the directors’ report comply with Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities (AASB 1046) and the Corporations Regulations 2001.
This opinion must be read in conjunction with the rest of our audit report.

SCOPE
THE FINANCIAL REPORT, REMUNERATION DISCLOSURES AND DIRECTORS’ RESPONSIBILITY
The financial report comprises the Statements of Financial Position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors’ declaration for both Virgin Blue Holdings Limited (the company) and the Virgin Blue Holdings Group (the consolidated entity), for the 18 month period ended 30 September 2005. The consolidated entity comprises both the company and the entities it controlled during that 18 month period.
The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 1046, under the heading “remuneration report” on pages 14 to 16 of the directors’ report, as permitted by the Corporations Regulations 2001.
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 and the remuneration disclosures comply with AASB 1046 and the Corporations Regulations 2001. The nature of an audit is influenced by factors such as the use of professional judgement, selective 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. For further explanation of an audit, visit our website: http://www.pwc.com/au/financialstatementaudit.
We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, 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 also performed procedures to assess whether the remuneration disclosures comply with AASB 1046 and the Corporations Regulations 2001.
We formed our audit opinion on the basis of these procedures, which included:
• examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures, and
• assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.
Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.
While we considered the effectiveness of management’s internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.
Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

R Hubbard
Partner
Brisbane
16 November 2005
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 16 NOVEMBER 2005)

SUBSTANTIAL SHAREHOLDERS

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

<table>
<thead>
<tr>
<th>SHAREHOLDER</th>
<th>NUMBER OF ORDINARY SHARES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plzen Pty Limited</td>
<td>654,267,003</td>
</tr>
<tr>
<td>Virgin Group</td>
<td>268,099,365</td>
</tr>
</tbody>
</table>

VOTING RIGHTS

ORDINARY SHARES

Refer to Note 28.

OPTIONS

Refer to Note 28.

DISTRIBUTION OF EQUITY SECURITY HOLDERS

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>NUMBER OF EQUITY SECURITY HOLDERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>T – 1,000</td>
<td>3,886</td>
</tr>
<tr>
<td>1,001 – 5,000</td>
<td>8,383</td>
</tr>
<tr>
<td>5,001 – 10,000</td>
<td>588</td>
</tr>
<tr>
<td>10,001 – 100,000</td>
<td>392</td>
</tr>
<tr>
<td>100,001 and over</td>
<td>34</td>
</tr>
<tr>
<td>Total</td>
<td>13,269</td>
</tr>
</tbody>
</table>

The number of shareholders holding less than a marketable parcel of ordinary shares is 373.

ON-MARKET BUY-BACK

There is no current on-market buy-back.

TWENTY LARGEST SHAREHOLDERS

<table>
<thead>
<tr>
<th>NAME</th>
<th>NUMBER OF ORDINARY SHARES HELD</th>
<th>PERCENTAGE OF CAPITAL HELD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plzen Pty Limited</td>
<td>654,267,003</td>
<td>62.41</td>
</tr>
<tr>
<td>Cricket SA C/- Lenz of Stachelin</td>
<td>236,174,620</td>
<td>22.53</td>
</tr>
<tr>
<td>RBC Global Services Australia Nominees Pty Limited</td>
<td>37,506,912</td>
<td>3.58</td>
</tr>
<tr>
<td>CU Nominees Pty Limited</td>
<td>28,147,413</td>
<td>2.69</td>
</tr>
<tr>
<td>Virgin Holdings SA</td>
<td>21,824,745</td>
<td>2.08</td>
</tr>
<tr>
<td>CPU Share Plans Pty Limited (Virgin Blue KEPP A/C)</td>
<td>9,920,917</td>
<td>0.95</td>
</tr>
<tr>
<td>Cricket SA C/- Virgin Investments SA</td>
<td>5,100,000</td>
<td>0.49</td>
</tr>
<tr>
<td>Barfair Limited</td>
<td>5,000,000</td>
<td>0.48</td>
</tr>
<tr>
<td>UBS Nominees Pty Ltd</td>
<td>3,872,388</td>
<td>0.37</td>
</tr>
<tr>
<td>J P Morgan Nominees Australia Limited</td>
<td>2,726,408</td>
<td>0.26</td>
</tr>
<tr>
<td>ANZ Nominees Limited</td>
<td>1,599,213</td>
<td>0.15</td>
</tr>
<tr>
<td>Westpac Custodian Nominees Limited</td>
<td>1,456,147</td>
<td>0.14</td>
</tr>
<tr>
<td>Mr Ross Francis Baildon</td>
<td>500,555</td>
<td>0.05</td>
</tr>
<tr>
<td>Fortis Clearing Nominees P/L</td>
<td>449,096</td>
<td>0.04</td>
</tr>
<tr>
<td>HSBC Custody Nominees (Australia) Limited</td>
<td>341,000</td>
<td>0.03</td>
</tr>
<tr>
<td>Mr Stephenson Wong</td>
<td>260,000</td>
<td>0.02</td>
</tr>
<tr>
<td>Pan Australian Nominees Pty Limited</td>
<td>212,003</td>
<td>0.02</td>
</tr>
<tr>
<td>Invia Custodian Pty Limited (P Wade Inv Trust ND A/C)</td>
<td>180,000</td>
<td>0.02</td>
</tr>
<tr>
<td>Jaykeen Limited</td>
<td>180,000</td>
<td>0.02</td>
</tr>
<tr>
<td>Feta Nominees Pty Limited</td>
<td>178,269</td>
<td>0.02</td>
</tr>
<tr>
<td>Total</td>
<td>1,009,855,689</td>
<td>96.35</td>
</tr>
</tbody>
</table>
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.
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