You’ll love our company.
IMPORTANT NOTICE

Prospectus
The Offer contained in this Prospectus is an invitation to apply for Shares in Virgin Blue Holdings Limited (ACN 100 686 226) (the “Company” or “Virgin Blue”).

This Prospectus is dated 10 November 2003 and a copy of this Prospectus was lodged with the Australian Securities and Investments Commission (“ASIC”) on that date. This Prospectus expires on 10 December 2004 (“Expiry Date”). ASIC takes no responsibility for the content of this Prospectus or the merits of the investment to which this Prospectus relates nor does Australian Stock Exchange Limited (“ASX”). No Shares will be issued or sold on the basis of this Prospectus after the Expiry Date.

No person is authorised to provide any information or to make any representation in connection with the Offer described in this Prospectus which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by Virgin Blue, the Selling Shareholder, the Joint Global Coordinators or any other person in connection with the Offer.

The Offer is available to Australian residents in each State or Territory of Australia. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and therefore persons who obtain this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of applicable securities laws. This Prospectus does not constitute an offer or an invitation in any jurisdiction where, or to any person to whom, it would be unlawful to make such an offer or invitation.

The Shares have not been and will not be registered under the US Securities Act and may not be offered or sold in the United States or to US Persons except to Qualified Institutional Buyers (“QIBs”) in transactions exempt from the registration requirements of the US Securities Act in accordance with Rule 144A thereunder and applicable US state securities laws.

The Offer does not take into account the investment objectives, financial situation and particular needs of investors. It is important that investors read this Prospectus in its entirety before deciding to invest in the Company and, in particular, in considering the prospects for the Company, that they consider the risk factors that could affect the performance of the Company. Investors should carefully consider these factors in the light of their personal circumstances (including financial and taxation issues) and seek professional guidance from their stockbroker, solicitor, accountant or other professional advisor before deciding whether to invest. Some risk factors that investors should consider are outlined in Section 8.

Exposure Period
The Corporations Act prohibits the acceptance of Applications during the period of seven days after lodgement of this Prospectus (which may be extended by ASIC to a period of 14 days). This period is referred to as the Exposure Period. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the opening of the Offer. Applications received during the Exposure Period will not be accepted until after the expiry of that period. No preference will be conferred on Applications received during the Exposure Period that will not be accepted until after the expiry of that period. Applications received during the Exposure Period will not be accepted until after the expiry of that period.

Electronic Prospectus
From the time the Retail Offer opens, this Prospectus (including the Application Forms) may be viewed online at www.virginblue.com.au. Persons who access the electronic version of this Prospectus should ensure that they download and read the entire Prospectus. This Prospectus is only available online to residents in Australia. A paper copy of this Prospectus will be provided free of charge to any person in Australia who requests a copy by contacting the Virgin Blue Share Offer Hotline (1800 007 948) during the period of the Offer.

Definitions, Industry Terms and Interpretation
Defined terms and abbreviations used in this Prospectus are explained in Section 11. Section 11 also contains the meaning of a number of expressions commonly used in the airline industry.

In this Prospectus, unless the context requires otherwise, references to Virgin Blue or the Company include Virgin Blue and its subsidiaries and controlled entities.

Any discrepancies between totals and sums of components within tables contained in this Prospectus are due to rounding.

The financial amounts in this Prospectus are expressed in Australian currency unless otherwise stated.

All references to times in this Prospectus are to Sydney time.

Privacy
When making an Application, Applicants will be required to provide personal information to the Company, the Selling Shareholder and the Registrar. The Company, the Selling Shareholder and the Registrar will collect, hold and use an Applicant’s personal information in order to assess the Application, service the Applicant’s needs as an investor, provide facilities and services that an Applicant requests and carry out appropriate administration.

Company and tax law requires some of the information to be collected. If an Applicant does not provide the information requested, the Application may not be able to be processed efficiently, or at all.

The Company, the Selling Shareholder and the Registrar may disclose an Applicant’s personal information for purposes related to the Applicant’s investment to their agents and service providers including those listed below or as otherwise authorised under the Privacy Act 1988 (Cth).

• the Joint Global Coordinators in order to assess the Application;
• the Registrar for ongoing administration of the register;
• the printers and the mailing house for the purpose of preparation and distribution of statements and for handling of mail; and
• if applicable, the Company in order to verify that an investor qualifies as an Eligible Employee, Gift Offer Employee or Existing Option Holder.

If an Applicant becomes a shareholder, the Applicant’s information may also be used or disclosed from time to time to inform the Applicant about the Company’s products or services that the Company thinks may be of interest to the Applicant. If an Applicant does not want personal information to be used for this purpose, the Applicant should contact the Company by telephoning 13 6789.

The information may also be disclosed to companies within the Virgin Blue Group and to their agents and service providers on the basis that they deal with such information in accordance with Virgin Blue’s privacy policy.

Under the Privacy Act 1988 (Cth), an Applicant may request access to personal information held by (or on behalf of) the Company, the Selling Shareholder or the Registrar. An Applicant can request access to personal information by telephoning or writing to the Company or the Selling Shareholder through the Registrar as follows:
Computershare Investor Services Pty Limited
GPO Box 523
Brisbane QLD 4001
Telephone: 1300 552 270

An Applicant can obtain a copy of the Company’s privacy policy online at www.virginblue.com.au.

Enquiries
For further information in relation to the Offer, please call the Virgin Blue Share Offer Hotline on 1800 007 948 in Australia. The Virgin Blue Share Offer Hotline will be open from 8:30am until 6:00pm (Sydney time) Monday to Friday until 20 December 2003.
Contents
Letter from the Chairman 3
Key Investment Highlights 4
Section 1. Summary of Key Information 21
Section 2. Details of the Offer 27
Section 3. Industry Overview 39
Section 4. Business Overview 51
Section 5. Ownership, Management and Corporate Governance 71
Section 6. Historical Financial Information 83
Section 7. Forecast Financial Information 101
Section 8. Risk Factors 106
Section 9. Experts’ Reports 116
Section 10. Additional Information 123
Section 11. Definitions and Glossary 155
Appendix A Detailed Financial Information 161
Application Form 179
Directory inside back cover

Important Dates(1)
Prospectus Date 10 November 2003
Retail Offer and Patrick Offer open 17 November 2003
Retail Closing Date 28 November 2003
Institutional Offer opens 3 December 2003
Institutional Closing Date 5 December 2003
Final Price and allocation announced 8 December 2003
Shares expected to begin trading on ASX on a conditional and deferred settlement basis 8 December 2003
Patrick Offer closes 8 December 2003
Issue and transfer of Shares 12 December 2003
Expected despatch of shareholder statements 15 December 2003
Shares expected to begin trading on a normal basis 16 December 2003
Settlement of all conditional and deferred trades 19 December 2003

Note:
(1) This timetable is indicative only. Virgin Blue, the Selling Shareholder and the Joint Global Coordinators reserve the right to vary any of the above dates without notice and to close the Offer early or extend it. Applicants are encouraged to submit their Applications as early as possible as the Offer may close at any time without notice.

How to Apply for Shares
An Application under the Retail Offer can be made by completing and lodging the Application Form attached to or accompanying this Prospectus or a paper copy of the Application Form from the online version of this Prospectus. Applications under the General Public Offer can also be made by submitting an online Application Form via Virgin Blue’s website, www.virginblue.com.au. The Application Form must be completed in accordance with the instructions set out in the Application Form. Further details of how to apply are included in Section 2.6.

Eligible Employees and Gift Offer Employees will receive personalised Application Forms.

The Institutional Offer will be conducted as a bookbuild. Full details of how to participate, including bidding conditions, will be provided to participants by the Joint Global Coordinators. For additional details on the Institutional Offer see Section 2.7.
IMPORT ANT INFORMATION

Virgin Blue Holdings Limited Share Offer

IMPORTANT INFORMATION

Key Offer Statistics

The Offer will consist of the issue of New Shares, being $400 million worth of New Shares to be issued to investors, the Patrick Shareholder and the KEPP Trustee, and other New Shares to be issued under the Employee Gift Offer and the Executive Offer and the sale by the Selling Shareholder of between $123 million and $184 million worth of Existing Shares, based on the Indicative Price Range of $1.80 to $2.25 per Share. The proceeds receivable by the Company and the Selling Shareholder from these amounts are explained in more detail in Section 2.3.

All Shares under the Retail Offer and the Institutional Offer will be issued or sold, as applicable, at the same price, which is called the Final Price. The Final Price will be determined by the Selling Shareholder and the Joint Global Coordinators after the close of the Institutional Offer, as described in Section 2.7. The Final Price may be higher than the top of the Indicative Price Range. The price to be paid under the Patrick Offer and the price to be paid under the Executive Offer are described in Sections 2.5 and 10.12, respectively. Part of the $400 million will be paid by the KEPP Trustee from monies provided by the Company, being an amount of up to 10 million Shares multiplied by the Final Price.

The following table sets out certain Offer statistics and forecast financial information.

<table>
<thead>
<tr>
<th>Offer Statistic</th>
<th>Range/Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicative Price Range</td>
<td>$1.80 – $2.25</td>
</tr>
<tr>
<td>Shares Being Offered under this Prospectus</td>
<td>281 – 312 million</td>
</tr>
<tr>
<td>Shares on Issue following the Offer</td>
<td>1,023 – 1,068 million</td>
</tr>
<tr>
<td>Market Capitalisation</td>
<td>$1,923 – $2,303 million</td>
</tr>
<tr>
<td>Adjusted Net Debt</td>
<td>$1,020 million</td>
</tr>
<tr>
<td>Adjusted Enterprise Value</td>
<td>$2,943 – $3,323 million</td>
</tr>
<tr>
<td>Aggregated Forecast EBITDAR</td>
<td>$402.1 million</td>
</tr>
<tr>
<td>Aggregated Forecast Profit from Ordinary Activities after Income Tax Expense</td>
<td>$150.0 million</td>
</tr>
<tr>
<td>Forecast EBITDAR Multiple</td>
<td>7.3x – 8.3x</td>
</tr>
<tr>
<td>Forecast PE Multiple</td>
<td>12.8x – 15.4x</td>
</tr>
</tbody>
</table>

Notes:

(1) This range is based on the Indicative Price Range of $1.80 to $2.25 per Share and includes Shares offered under the Retail Offer, the Institutional Offer, the Patrick Offer, the Executive Offer and the Employee Gift Offer. The Final Price may be set above, below or within the Indicative Price Range. This range assumes the Share Buy-back is conducted at the mid-point of the Indicative Price Range.

(2) Adjusted net debt is the sum of pro forma net debt as at 30 September 2003 and capitalised aircraft rentals for the 12 months ending 31 March 2004. Pro forma net debt has been adjusted to reflect the proceeds of the issue of New Shares and the Share Buy-back. The Share Buy-back is assumed to be conducted at the mid-point of the Indicative Price Range. The Company reserves the right to conduct the Share Buy-back at a price per Share greater than the mid-point of the Indicative Price Range but no higher than the Final Price. See Section 6.8 for more information on the capitalisation of Virgin Blue following the Offer, the Share Buy-back and the repayment of outstanding loans by the Patrick Shareholder and a Virgin Group entity. Capitalised aircraft rentals represents the estimated present value of the Company’s aircraft rental and is calculated as 7.0 times estimated total aircraft rentals for the year ending 31 March 2004.

(3) Adjusted enterprise value is not an independent or expert valuation. It is defined as the market capitalisation (based on the Indicative Price Range of $1.80 to $2.25 per Share) plus pro forma net debt plus the estimated present value of the Company’s aircraft rentals.

(4) In accordance with customary practice in offerings in Australia, this Prospectus includes forecast financial information. The forecast financial information has been prepared by the Directors and comprises a forecast statement of financial performance for the six month period ending 31 March 2004 (the “Directors’ Forecast”) and an aggregated forecast statement of financial performance for the year ending 31 March 2004 (the “Aggregated Forecast”). The Aggregated Forecast represents the addition of the statement of financial performance for the six month period ended 30 September 2003 and the forecast statement of financial performance for the six month period ending 31 March 2004. The forecast financial information is necessarily based upon a number of estimates and assumptions that, while presented with numerical specificity and considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies many of which are beyond the control of the Company, and upon estimates and assumptions with respect to future business decisions which are subject to change. These estimates and assumptions are discussed in greater detail in Section 7. The inclusion of forecast financial information in this Prospectus should not be regarded as a representation or warranty with respect to its accuracy or the accuracy of the underlying estimates or assumptions or that the Company will achieve or is likely to achieve any particular results. The forecast financial information presented in this Prospectus may vary from actual results, and these variations may be material.

(5) EBITDAR is defined as earnings before interest, tax, depreciation, amortisation and aircraft rentals. Virgin Blue believes that EBITDAR provides useful information but should not be considered as an indication of, or alternative to, profit from ordinary activities after income tax expense as an indicator of financial performance or as an alternative to cash flow as a measure of liquidity. Other companies may calculate EBITDAR in a different manner than Virgin Blue.

(6) Forecast EBITDAR multiple is defined as adjusted enterprise value (based on the Indicative Price Range of $1.80 to $2.25 per Share) divided by the Aggregated Forecast EBITDAR.

(7) Forecast PE multiple is defined as the market capitalisation (based on the Indicative Price Range of $1.80 to $2.25 per Share) divided by the Aggregated Forecast profit from ordinary activities after income tax expense.
10 November 2003

Dear Investor,

On behalf of the Directors, it is my pleasure to invite you to become a shareholder of Virgin Blue Holdings Limited.

Virgin Blue is an Australian airline which commenced operations in August 2000 with equity funding from the Virgin Group. Its combination of low fares and excellent service represent good value for money for guests. In just three years of operations, Virgin Blue has captured a Total Domestic Market share of more than 28%.

The key competitive strengths of Virgin Blue are its low cost structure as a result of its young and modern aircraft fleet, its low fare offering and strong profitability, its management team, which has significant experience in the airline industry, its strong brand, its unique culture and the enthusiasm, commitment and productivity of its workforce.

Virgin Blue intends to continue to grow its business by increasing frequencies on the routes it already services, launching services on secondary business routes, adding regional leisure routes to its network and commencing international operations within the Pacific Region. Virgin Blue has proven its ability to operate successfully in a competitive market and the Directors are confident that this will continue in the future.

The Directors believe that Virgin Blue’s growth outlook, strong profitability combined with low fares, and returns well in excess of its cost of capital represent an attractive investment proposition.

Detailed information about the Offer and Virgin Blue’s business, as well as the risks of investing in Virgin Blue, are set out in this Prospectus, which I encourage you to read carefully.

Together with my fellow Directors, I commend the Offer to you and look forward to welcoming you as a shareholder of Virgin Blue.

Yours sincerely,

Chris Corrigan  
Chairman
Australia’s low fare, low cost airline

Virgin Blue’s cost structure enables it to offer air fares that are on average lower than its competitors, while maintaining high profit margins.
Virgin Blue has:

✈ Captured more than 28% of the Total Domestic Market in just 3 years.

✈ Grown from operating two leased aircraft between Brisbane and Sydney, to operating 40 aircraft, servicing 37 domestic routes.

✈ A highly competitive cost structure:
   • Modern and efficient aircraft fleet
   • Highly productive and flexible workplace arrangements
   • Efficient sales distribution and ticketing systems
The internet is the cheapest distribution channel for airlines. Currently more than 85% of all Virgin Blue bookings are made over the internet, one of the highest levels of airline internet sales penetration in the world.

Friendly service on the ground and a modern fleet. Virgin Blue’s fleet of aircraft is the most modern in Australia and one of the youngest in the world.

HIGH QUALITY CUSTOMER SERVICE

... FOCUSED ON THOSE AREAS WHICH ARE MOST VALUED BY VIRGIN BLUE CUSTOMERS: SAFETY, ON-TIME PERFORMANCE, FLIGHT FREQUENCY, TERMINAL FACILITIES, BOOKING SYSTEMS, AND CHECK-IN AND IN-FLIGHT SERVICES.
Virgin Blue focuses on those areas which are most valued by its guests such as safety, on-time performance, frequent flights, terminal facilities, booking systems and check-in and in-flight services.

Virgin Blue is committed to delivering low fares together with high quality, friendly customer service.


Blue Room airport lounges are now open in Sydney and Brisbane and will soon open in Melbourne.

On 17 September 2003, Virgin Blue announced the commencement of services between Brisbane and Christchurch. This service is expected to commence in January 2004. An additional service between Melbourne and Christchurch is expected to begin in March 2004.

ATTRACTION GROWTH OPPORTUNITIES

✈ Increase frequencies on existing routes
✈ Launch new services on secondary routes
✈ Launch new services on regional leisure routes
✈ Commence international services
✈ Introduce new user-pays service enhancements
STRONG BRAND

CUSTOMERS ASSOCIATE VIRGIN BLUE WITH:
VALUE FOR MONEY, QUALITY, INNOVATION,
COMPETITIVE SPIRIT AND FUN.
STRONG BRAND AND UNIQUE CULTURE

Value for money  High quality service  Reliability  Innovation  Competitive spirit  Fun  Enthusiastic workforce  Safety

Life President Sir Richard Branson, the founder of the Virgin Group which provided the start up capital for Virgin Blue, has been appointed Life President of Virgin Blue.

Management believes that the entrepreneurial spirit of the Company and the enthusiasm, commitment and productivity of its workforce gives the Company an important advantage over competitors.
Virgin Blue’s senior management team:

- has extensive experience in the Australian and international airline industry
- has continuity since the start of operations
- is incentivised by the ownership of shares and options
A UNIQUE CULTURE

VIRGIN BLUE’S ENTREPRENEURIAL SPIRIT AND ITS WORKFORCE’S ENTHUSIASM, COMMITMENT AND PRODUCTIVITY PROVIDE AN IMPORTANT ADVANTAGE OVER ITS COMPETITORS.
PRE LAUNCH DAY 9TH JULY 2000
210 START UP STAFF, TWO RED JETS, ONE ENTREPRENEUR AND ONE EXCITING MOMENT IN AUSTRALIAN AVIATION HISTORY...
A GREAT BEGINNING!
SECTION 1:

SUMMARY OF KEY INFORMATION
1. SUMMARY OF KEY INFORMATION

1.1 Business Overview
Virgin Blue is Australia’s low cost, low fare domestic airline, offering frequent passenger services on routes between all of Australia’s major cities. Virgin Blue’s aim is to offer fares that are on average substantially lower than those of its competitors and to provide guests with a differentiated, value for money service. Virgin Blue believes that its highly competitive cost structure will allow it to continue to offer low fares while maintaining returns well in excess of its cost of capital.

In just over three years, Virgin Blue has captured a market share of more than 28% of the Total Domestic Market and has grown from a company operating two leased aircraft between Brisbane and Sydney, to operating 40 aircraft servicing 37 domestic routes. Furthermore, Virgin Blue has been able to maintain an operating cost structure that is highly competitive.

In addition to the low fares, guests travelling on Virgin Blue benefit from a service that is differentiated by Virgin Blue’s unique culture and high quality customer service.

For the year ended 31 March 2003, Virgin Blue carried 6.6 million guests and generated total revenue of $915 million, an increase of 136% over the previous year. For the six months ended 30 September 2003, 4.5 million guests were carried resulting in total revenue of $617 million, an increase of 55% from the previous corresponding period.

Virgin Blue has also achieved strong growth in profits since commencing operations in August 2000. For the year ended 31 March 2003, Virgin Blue generated profit from ordinary activities after income tax expense of $108 million, an increase of 210% over the previous year. For the six months to 30 September 2003, Virgin Blue achieved $64 million in profit from ordinary activities after income tax expense, representing a 30% increase from the previous corresponding period.

Virgin Blue’s success has come during a period of extremely difficult conditions in the global airline industry with events such as the 11 September 2001 terrorist attacks in the United States, the war in Iraq and the outbreak of SARS significantly impacting demand for worldwide air travel services.

Selected Operating Statistics

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Passengers</td>
<td>637,337</td>
<td>3,178,423</td>
<td>6,591,120</td>
<td>2,804,543</td>
<td>4,483,032</td>
</tr>
<tr>
<td>RPK (millions)</td>
<td>664</td>
<td>3,169</td>
<td>7,194</td>
<td>2,976</td>
<td>5,115</td>
</tr>
<tr>
<td>ASK (millions)</td>
<td>891</td>
<td>3,898</td>
<td>9,078</td>
<td>3,870</td>
<td>6,084</td>
</tr>
<tr>
<td>Passenger load factor</td>
<td>73.9%</td>
<td>82.2%</td>
<td>79.4%</td>
<td>77.5%</td>
<td>83.8%</td>
</tr>
<tr>
<td>Average number of aircraft</td>
<td>4.4</td>
<td>11.0</td>
<td>24.1</td>
<td>20.1</td>
<td>30.3</td>
</tr>
</tbody>
</table>

1.2 Competitive Strengths
Virgin Blue’s competitive strengths include:

Low Cost Operations
Virgin Blue’s low cost structure is underpinned by:

- its modern, single type fleet of Boeing 737 Next Generation aircraft with a high density, single class seating configuration. Operating a single type of aircraft allows Virgin Blue to minimise the complexity of its operations, take advantage of economies of scale and achieve high aircraft utilisation rates. Virgin Blue’s fleet is the youngest in Australia (with an average age of 1.6 years), providing high fuel efficiency and low maintenance costs and down-time;

- its December 2002 agreement with Boeing under which Virgin Blue has agreed to purchase ten aircraft and has been provided with purchase rights to acquire, at highly competitive prices, up to an additional 50 Boeing 737 Next Generation aircraft by 31 December 2013;
its efficient sales distribution and booking systems. The Company believes the internet is the cheapest distribution channel for airlines. As at 1 November 2003, more than 85% of all Virgin Blue bookings were made over the internet, one of the highest penetration rates of airline internet sales in the world. In addition, Virgin Blue operates a ticketless booking system that allows it to minimise distribution and booking costs;

the low cost operating environment in Brisbane, where Virgin Blue is based, combined with Brisbane airport’s substantial available capacity;

its competitive, highly productive and flexible workplace agreements; and

the elimination of expensive, non-essential service add-ons such as “free” meals and traditional frequent flyer programmes.

Low Fares and High Profitability
Virgin Blue is committed to offering guests affordable air travel and its fares are on average lower than those of its competitors. The Company believes that its low fares stimulate demand when starting services on new routes and when increasing frequencies on existing routes. Virgin Blue’s low cost structure enables it to offer low air fares while maintaining returns well in excess of its cost of capital.

Experienced and Proven Management Team
Virgin Blue’s senior management team, led by Brett Godfrey (the Chief Executive Officer) and Rob Sherrard (the Chief Operating Officer and Deputy Chief Executive Officer), has extensive airline industry expertise both within Australia and internationally. Brett and Rob have held the same positions with Virgin Blue since they co-founded the airline.

Brett and Rob conceived and developed the business model for Virgin Blue and selected the core senior management team to launch the business. The core of the senior management team they selected for start up has remained with Virgin Blue since the commencement of operations in August 2000, ensuring consistency and commitment to the development and growth of the Company.

Strong Brand
Virgin Blue believes that its competitive position has been assisted by public awareness of the Virgin brand. In the period since the Company’s inception, the “Virgin Blue” brand has itself become a well recognised brand in Australia. The Company has differentiated itself from its competitors and believes that its guests associate Virgin Blue with the airline’s core brand ideals of quality, value, reliability, innovation, competitive spirit and fun.

Unique Culture
Virgin Blue believes that the entrepreneurial spirit of the Company and the enthusiasm, commitment and productivity of its workforce give the Company an important advantage over its competitors. A contributing factor to this culture is Virgin Blue’s tailored recruiting procedures, continuing training programmes, performance based remuneration policies and a belief by the staff in the values of the Company.

High Quality Customer Service
Virgin Blue is committed to delivering low fares together with high quality, friendly customer service. Virgin Blue focuses on those areas most valued by its guests such as safety, on-time performance, frequent flights, terminal facilities, booking systems and check-in and in-flight services.

Strong Capital Structure
Virgin Blue believes that, following the Offer, its capital structure will enable it to continue to take advantage of growth opportunities and that it has sufficient resources to effectively compete and provide some financial protection against any temporary deterioration in business conditions.
1.3 Strategy
Virgin Blue's strategy is to continue to leverage its existing business model to provide high quality, low fare, low cost airline services and to take advantage of growth opportunities. Virgin Blue’s aim is to offer fares that are on average substantially lower than those of its competitors, and to provide guests with a differentiated, value for money service. Key elements of Virgin Blue’s strategy include:

- increasing frequencies on existing routes, including the key business routes between Sydney, Brisbane and Melbourne;
- launching new services on secondary business routes;
- launching new services on regional leisure routes;
- commencing international operations in the Pacific Region within the flying range of its current fleet under the name Pacific Blue; and
- introducing new value-added, user pays service enhancements, which at a minimum are cost neutral to the Company.

1.4 Key Investment Considerations
Key investment features of Virgin Blue include:

- Australia’s Low Fare, Low Cost Domestic Airline
  In just three years, Virgin Blue has captured a market share of more than 28% of the Total Domestic Market.

- Solid Track Record of Growth and Profitability
  Virgin Blue has achieved significant growth in profits since the commencement of operations in August 2000. Its EBITDAR margin is among the highest in the airline industry.

- Attractive Growth Opportunities
  Significant growth opportunities exist through an increased competitive focus, demand stimulation on new domestic routes and on existing domestic routes through increased flight frequencies, introduction of international services, add-on user-pays service initiatives and holiday packages.

- High Returns on Capital Invested
  High levels of aircraft utilisation, high profit margins, and optimal aircraft financing allow Virgin Blue to achieve comparatively high returns on invested capital. The Company believes its business model will continue to deliver comparatively high returns on capital as it continues to grow.

- Strong Competitive Position
  Virgin Blue is the lowest cost national airline operator in Australia. Virgin Blue’s business model is focused on maintaining a low cost base to be able to offer lower air fares to passengers, while retaining attractive profit margins.

- Experienced and Proven Management Team
  Virgin Blue’s senior management team has extensive experience in the airline industry, both within Australia and internationally.

1.5 Summary of Financial Information
The summary historical financial information below should be read in conjunction with, and is qualified by reference to, the information contained elsewhere in this Prospectus and the historical financial information contained in Appendix A. The historical financial information included in Appendix A has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and other mandatory professional reporting requirements in Australia.

Virgin Blue’s corporate structure has changed since the commencement of the airline’s operations in Australia. Certain adjustments and reclassifications have been made to present the historical financial information included in this Prospectus on a basis that is consistent with Virgin Blue’s current structure and operations. Information regarding these adjustments and reclassifications is provided in Sections 6.1 and 6.3 and Notes 1(a) and 1(b) to the historical financial information contained in Appendix A.

The forecast financial information comprises the Aggregated Forecast statement of financial performance for the year ending 31 March 2004. This information should be read in conjunction with, and is qualified by reference to, the information contained elsewhere in this Prospectus and the forecast financial information contained in Section 7.
Summary of Financial Information

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$ Thousand</td>
<td>Pro Forma</td>
<td>Pro Forma</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>74,775</td>
<td>388,297</td>
<td>914,567</td>
<td>398,291</td>
<td>616,669</td>
<td>1,386,306</td>
</tr>
<tr>
<td>EBITDAR(2)</td>
<td>13,170</td>
<td>107,625</td>
<td>285,924</td>
<td>124,837</td>
<td>173,606</td>
<td>402,086</td>
</tr>
<tr>
<td>EBITDAR Margin</td>
<td>17.6%</td>
<td>27.7%</td>
<td>31.3%</td>
<td>31.3%</td>
<td>28.2%</td>
<td>29.0%</td>
</tr>
<tr>
<td>EBIT(3)</td>
<td>(236)</td>
<td>44,479</td>
<td>146,839</td>
<td>67,590</td>
<td>85,997</td>
<td>212,215</td>
</tr>
<tr>
<td>Profit from Ordinary Activities after Income Tax Expense(4)</td>
<td>(10,802)</td>
<td>34,764</td>
<td>107,799</td>
<td>49,544</td>
<td>64,175</td>
<td>150,000</td>
</tr>
</tbody>
</table>

Notes:

(1) In accordance with customary practice in offerings in Australia, this Prospectus includes forecast financial information. The forecast financial information has been prepared by the Directors and comprises a forecast statement of financial performance for the six month period ending 31 March 2004 (the “Directors’ Forecast”) and an aggregated forecast statement of financial performance for the year ending 31 March 2004 (the “Aggregated Forecast”). The Aggregated Forecast represents the addition of the statement of financial performance for the six month period ended 30 September 2003 and the forecast statement of financial performance for the six month period ending 31 March 2004. The forecast financial information is necessarily based upon a number of estimates and assumptions that, while presented with numerical specificity and considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies many of which are beyond the control of the Company, and upon estimates and assumptions with respect to future business decisions which are subject to change. These estimates and assumptions are discussed in greater detail in Section 7. The inclusion of forecast financial information in this Prospectus should not be regarded as a representation or warranty with respect to its accuracy or the accuracy of the underlying estimates or assumptions or that the Company will achieve or is likely to achieve any particular results. The forecast financial information presented in this Prospectus may vary from actual results, and these variations may be material.

(2) EBITDAR is defined as earnings before interest, income tax, depreciation, amortisation and aircraft rentals. Virgin Blue believes that EBITDAR provides useful information but should not be considered as an indication of, or alternative to, profit from ordinary activities after income tax expense as an indicator of financial performance or as an alternative to cash flow as a measure of liquidity. Other companies may calculate EBITDAR in a different manner than Virgin Blue.

(3) EBIT is defined as earnings before interest and income tax.

(4) Profit from ordinary activities after income tax expense for the seven months ended 31 March 2001 includes start up costs of $10,590,000.

1.6 Dividend Policy

Virgin Blue will not pay any dividends from the time of listing on ASX in relation to the year ending 31 March 2004. The Company’s dividend policy in future years will be at the sole discretion of the Directors and dependent upon the Company’s earnings, financial condition, financial arrangements, financing requirements for future growth, the competitive environment and any other factors the Directors may deem relevant in the circumstances.

1.7 Structure of the Offer

The Offer is structured as follows:

- the Retail Offer, which consists of:
  - the General Public Offer, open to Australian resident retail investors and the trustee of the Key Employee Performance Plan (the “KEPP Trustee”);
  - the Employee Offer, open to certain employees as described in Section 2.6; and
  - the Broker Firm Offer, open to Australian resident retail investors who have received a firm allocation from their broker;
- the Institutional Offer, which consists of an invitation to bid for Shares made to certain Institutional Investors in Australia, New Zealand and certain other overseas jurisdictions;
- the Patrick Offer, which consists of an offer to the Patrick Shareholder to subscribe for a number of New Shares in the Offer such that, on completion of the Offer, its shareholding in Virgin Blue will be 45% of the issued share capital of Virgin Blue on a fully diluted basis. See Section 2.5 for additional information;
- the Executive Offer, which consists of an invitation to Existing Option Holders to receive Shares in consideration for the cancellation of Existing Options granted pursuant to the Existing Option Plan; and
- the Employee Gift Offer, which consists of an offer of $1,000 worth of New Shares to Gift Offer Employees based on the Final Price.
1.8 Purpose of the Offer
The purpose of the Offer is to:

- establish a financial platform and capital structure to allow Virgin Blue to continue to take advantage of growth opportunities;
- enhance Virgin Blue's capital position to ensure it has sufficient resources to effectively compete and provide some financial protection from a temporary deterioration in business conditions;
- facilitate ongoing employee incentive programmes through share ownership in Virgin Blue; and
- enable Virgin Group to realise a portion of its investment in Virgin Blue.

1.9 Offer Proceeds
The gross proceeds will be between $501 million and $558 million, based on the Indicative Price Range. Of this amount, Virgin Blue will receive between $374 million and $378 million and the Selling Shareholder will receive between $123 million and $184 million, based on the Indicative Price Range. Virgin Blue will not receive any of the proceeds from the sale of Existing Shares offered by the Selling Shareholder. The gross proceeds are comprised of the number of Shares issued and sold under the Offer multiplied by the Final Price except in the case of (i) the Patrick Offer where Shares are issued at the Patrick Price (as described in Section 2.5), (ii) the Executive Offer which raises total proceeds of $0.2 million, and (iii) the Employee Gift Offer under which Shares are issued for nil consideration. In addition, the Shares issued to the KEPP Trustee are funded by the Company.

Virgin Blue will pay the expenses of the Offer out of the proceeds of the Offer. Further details about the expenses of the Offer are provided in Section 10.23.

1.10 Risk Factors
Virgin Blue's business is subject to risks, which may impact its future performance. Many of these risks are outside the control of Virgin Blue and the Directors and cannot be mitigated. Some are general risk factors and there are also a number of risk factors that are specific to an investment in Virgin Blue. Some of these risks are summarised in Section 8. Investors are urged to consider these risk factors carefully before deciding whether to invest in the Company.

1.11 How to Apply for Shares
Details of how to apply for Shares are set out in Section 2.

1.12 Enquiries
All questions relating to this Prospectus should be directed to the Virgin Blue Share Offer Hotline on 1800 007 848. The Virgin Blue Share Offer Hotline will be open from 8:30am until 6:00pm (Sydney time), Monday to Friday until 20 December 2003. Investors will be able to call the Virgin Blue Share Offer Hotline to establish details of their allocations from 8:30am on the date Shares commence trading on ASX, expected to be 8 December 2003. Notices informing Applicants of the outcome of their Applications are expected to be despatched by standard post on or about 15 December 2003.
SECTION 2:

DETAILS OF THE OFFER
2. DETAILS OF THE OFFER

2.1 The Offer
The Offer will consist of the issue of New Shares, being $400 million worth of New Shares to be issued to investors, the Patrick Shareholder and the KEPP Trustee, and other New Shares to be issued under the Employee Gift Offer and the Executive Offer, and the sale by the Selling Shareholder of between $123 million and $184 million worth of Existing Shares, based on the Indicative Price Range of $1.80 to $2.25 per Share. The proceeds receivable by the Company and the Selling Shareholder from these amounts are described in Section 2.3 below. All Shares under the Retail Offer and the Institutional Offer will be issued or sold, as applicable, at the same price, which is called the Final Price. The Final Price will be determined by the Selling Shareholder and the Joint Global Coordinators after the close of the Institutional Offer, as described in Section 2.7. The Final Price may be higher than the top of the Indicative Price Range. The price to be paid under the Patrick Offer and the price to be paid under the Executive Offer are described in Sections 2.5 and 10.12, respectively. Part of the $400 million will be paid by the KEPP Trustee from monies provided by the Company, being an amount of up to 10 million Shares multiplied by the Final Price.

Following the Offer and after completion of other transactions described in this Prospectus, there will be between 1,023 million and 1,068 million Shares outstanding, based on the Indicative Price Range, and assuming the Share Buy-back is conducted at the mid-point of the Indicative Price Range.

2.2 Purpose of the Offer
The purpose of the Offer is to:

- establish a financial platform and capital structure to allow Virgin Blue to continue to take advantage of growth opportunities;
- enhance Virgin Blue’s capital position to ensure it has sufficient resources to effectively compete and provide some financial protection from a temporary deterioration in business conditions;
- facilitate ongoing employee incentive programmes through share ownership in Virgin Blue; and
- enable Virgin Group to realise a portion of its investment in Virgin Blue.

2.3 Offer Proceeds
The gross proceeds of the Offer will be between $501 million and $558 million, based on the Indicative Price Range. Of this amount, Virgin Blue will receive between $374 million and $378 million and the Selling Shareholder will receive between $123 million and $184 million, based on the Indicative Price Range. Virgin Blue will not receive any of the proceeds from the sale of Existing Shares offered by the Selling Shareholder. The gross proceeds are comprised of the number of Shares issued and sold under the Offer multiplied by the Final Price except in the case of (i) the Patrick Offer where Shares are issued at the Patrick Price (as described in Section 2.5), (ii) the Executive Offer which raises total proceeds of $0.2 million, and (iii) the Employee Gift Offer under which Shares are issued for nil consideration. In addition, the Shares issued to the KEPP Trustee are funded by the Company.

Virgin Blue will pay all the expenses of the Offer out of the proceeds of the Offer. Further details about the expenses of the Offer are provided in Section 10.23.

2.4 Important Dates

<table>
<thead>
<tr>
<th>Date and Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prospectus Date</td>
<td>10 November 2003</td>
</tr>
<tr>
<td>Retail Offer and Patrick Offer open</td>
<td>17 November 2003</td>
</tr>
<tr>
<td>Retail Closing Date</td>
<td>28 November 2003</td>
</tr>
<tr>
<td>Institutional Offer opens</td>
<td>3 December 2003</td>
</tr>
<tr>
<td>Institutional Closing Date</td>
<td>5 December 2003</td>
</tr>
<tr>
<td>Final Price and allocation announced</td>
<td>8 December 2003</td>
</tr>
<tr>
<td>Shares expected to begin trading on ASX on a conditional and deferred settlement basis</td>
<td>8 December 2003</td>
</tr>
<tr>
<td>Patrick Offer closes</td>
<td>8 December 2003</td>
</tr>
<tr>
<td>Issue and transfer of Shares</td>
<td>12 December 2003</td>
</tr>
<tr>
<td>Expected despatch of shareholder statements</td>
<td>15 December 2003</td>
</tr>
<tr>
<td>Shares expected to begin trading on a normal basis</td>
<td>16 December 2003</td>
</tr>
<tr>
<td>Settlement of all conditional and deferred trades</td>
<td>19 December 2003</td>
</tr>
</tbody>
</table>

The above dates are indicative only. Virgin Blue, the Selling Shareholder and Joint Global Coordinators reserve the right to vary any of the above dates without notice and to close the Offer early or extend it. Applicants are encouraged to submit their Applications as early as possible as the Offer may close at any time without notice.
2.5 Structure of the Offer

The Offer is structured as follows:

- the Retail Offer, which consists of:
  - the General Public Offer, open to Australian resident retail investors and the KEPP Trustee (see Section 2.6 for details of the KEPP Trustee’s allocation);
  - the Employee Offer, open to certain employees as described in Section 2.6; and
  - the Broker Firm Offer, open to Australian resident retail investors who have received a firm allocation from their broker;
- the Institutional Offer, which consists of an invitation to certain Institutional Investors in Australia, New Zealand and certain other overseas jurisdictions to bid for Shares;
- the Patrick Offer, which consists of an offer to the Patrick Shareholder to subscribe for a number of New Shares in the Offer such that, on completion of the Offer, its shareholding in Virgin Blue will be 49% of the issued share capital of Virgin Blue on a fully diluted basis.

For the purposes of calculating the size of the Patrick Offer, the fully diluted capital of the Company includes:

- Shares issued under the Employee Gift Offer; and
- Shares or options issued, or to be issued, under the Employee Plans for which all performance tests or conditions have been met or satisfied at the time of settlement of the Offer, or at the date of such issue.

The Patrick Shareholder has agreed with Virgin Blue to accept the Patrick Offer. For each Share acquired under the Patrick Offer, the Patrick Shareholder will pay an amount equal to the Final Price less the result of all the costs, expenses and fees payable to the Joint Global Coordinators in relation to the Offer divided by the number of Shares issued or sold under the Offer, other than under the Patrick Offer, the Executive Offer, the Employee Gift Offer or applied for by the KEPP Trustee (the “Patrick Price”). Further details of the Patrick Offer are provided in Section 10.13;

- the Executive Offer, which consists of an invitation to Existing Option Holders to receive Shares in consideration for the cancellation of certain of their Existing Options granted pursuant to the Existing Option Plan. Further details of the Existing Option Plan and the Executive Offer are provided in Sections 10.10 and 10.12, respectively; and
- the Employee Gift Offer, which consists of an offer of $1,000 worth of New Shares to Gift Offer Employees based on the Final Price. Further details of the Employee Gift Offer are provided in Section 10.11.

Virgin Blue, the Selling Shareholder and the Joint Global Coordinators will determine the allocation of Shares between the Retail Offer and the Institutional Offer and between employees and other participants in the Retail Offer in their absolute discretion, having regard to the allocation policy described below.

The Retail Offer, the Institutional Offer and the Patrick Offer under this Prospectus are inter-conditional. If one offer does not proceed, for whatever reason, each other offer may also not proceed.

All Shares being offered under this Prospectus rank equally with each other.
2. DETAILS OF THE OFFER (CONTINUED)

The table below summarises the number of Shares that will be issued or offered for sale under this Prospectus.

<table>
<thead>
<tr>
<th>Offer Summary</th>
<th>Amount ($ millions)(^{(1)})</th>
<th>Number of Shares (millions)(^{(1)})</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue of New Shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Shares offered under the Retail Offer(^{(2)}) and the Institutional Offer</td>
<td>269.1 – 259.0</td>
<td>119.6 – 143.9</td>
</tr>
<tr>
<td>New Shares subscribed for under the Patrick Offer</td>
<td>130.9 – 141.0</td>
<td>58.2 – 78.3</td>
</tr>
<tr>
<td>New Shares offered under the Executive Offer</td>
<td>45.6 – 36.5</td>
<td>20.3</td>
</tr>
<tr>
<td>New Shares offered under the Employee Gift Offer</td>
<td>2.7</td>
<td>1.2 – 1.5</td>
</tr>
<tr>
<td>Sale of Existing Shares by the Selling Shareholder under the Retail Offer and the Institutional Offer</td>
<td>184.1 – 123.1</td>
<td>81.8 – 68.4</td>
</tr>
</tbody>
</table>

Notes:
\(^{(1)}\) Based on the Indicative Price Range of $1.80 to $2.25 per Share. Amounts represent the value of Shares issued and sold, but not necessarily proceeds received by Virgin Blue or the Selling Shareholder. The Share Buy-back is assumed to be conducted at the mid-point of the Indicative Price Range. The Company reserves the right to conduct the Share Buy-back at a price per Share greater or less than the mid-point of the Indicative Price Range, but no higher than the Final Price.

\(^{(2)}\) Retail Offer includes up to ten million Shares for which the KEPP Trustee has a guaranteed allocation. The requisite Application Monies will be provided by the Company to the KEPP Trustee. See Section 2.6 for details.

2.6 The Retail Offer

General

The Retail Offer is open only to Australian resident retail investors (who are able to represent, warrant and agree on the terms required for Applicants in the Retail Offer which are set out in Section 2.15). An Application in the Retail Offer is an offer by the Applicant to buy or subscribe for Shares and, to the extent permitted by law, is irrevocable.

Virgin Blue and the Selling Shareholder reserve the right to treat any Applications in the Retail Offer which are for more than $250,000 worth of Shares, or which are from persons whom they believe may be Institutional Investors, as bids at the Final Price in the Institutional Offer, or to reject them. Virgin Blue, the Selling Shareholder and the Joint Global Coordinators also reserve the right to aggregate any Applications which they believe may be multiple Applications from the same person.

General Public Offer

The General Public Offer will be open to Australian resident retail investors and the KEPP Trustee.

The KEPP Trustee is entitled to certain guaranteed allocations as described below.

Employee Offer

The Employee Offer is open to Eligible Employees, being all employees of Virgin Blue who are Australian residents, were employed by Virgin Blue on or before 31 August 2003 and remain employed by Virgin Blue on the Retail Closing Date.

Eligible Employees are entitled to certain guaranteed minimum allocations of Shares as described below. Certain Eligible Employees may also become entitled to receive additional Shares for the Shares they are allocated under the Employee Offer in certain circumstances pursuant to the Key Employee Performance Plan. See Section 10.10 for further information.

The Employee Offer described in this paragraph is separate to the Employee Gift Offer of $1,000 worth of Shares at the Final Price which Virgin Blue is also extending to Gift Offer Employees under this Prospectus. For further details of the Employee Gift Offer, see Section 10.11.

Broker Firm Offer

The Broker Firm Offer is open to Australian resident retail investors who have received a firm allocation from their broker. Such investors will be treated as Broker Firm Applicants under the Retail Offer.

How to Apply for Shares under the Retail Offer

How to complete the Application Form

Applications under the Retail Offer (except in the case of Eligible Employees) must be for a minimum of $5,000 worth of Shares and in multiples of $500 worth of Shares thereafter. There is no maximum number of Shares for which an applicant may apply. However, Virgin Blue, the Selling Shareholder and the Joint Global Coordinators reserve the right to treat Applications under the Retail Offer in excess of $250,000 as bids at the Final Price under the Institutional Offer.
Applications under the Employee Offer must be for a minimum of $500 worth of Shares and in multiples of $500 worth of Shares thereafter. Eligible Employees will receive a personalised Application Form and must apply for Shares by submitting this personalised Application Form. The form will need to be completed and returned to Computershare Investor Services Pty Limited at the address shown below. Other Applications under the Retail Offer can be made either by completing and lodging (i) the Application Form attached to or accompanying this Prospectus or (ii) a paper copy of the Application Form from the online version of this Prospectus. Applications under the General Public Offer can also be made by submitting an online Application Form via Virgin Blue’s website, www.virginblue.com.au. The Application Form must be completed in accordance with the instructions set out in the Application Form.

Broker Firm Applicants should complete their Application Forms in accordance with instructions from their broker. Brokers will act as agents for Broker Firm Applicants in submitting Application Forms and Application Monies to the Registrar (which receives them on behalf of Virgin Blue and the Selling Shareholder). Brokers will be responsible for ensuring that Applications are submitted to the Registrar by 5:00pm (Sydney time) on the Retail Closing Date. Virgin Blue, the Selling Shareholder and the Joint Global Coordinators accept no responsibility for any acts or omissions by brokers in connection with the Applications, Application Forms or Application Monies of Broker Firm Applicants.

**Application Monies**

Application Forms (other than in the case of Broker Firm Applicants) must be accompanied by a cheque or cheques in Australian dollars drawn on an Australian branch of an Australian bank. Cheques should be made payable to “Virgin Blue Share Offer” and crossed “not negotiable”. Alternatively, Applicants who apply online must submit their Application Monies using BPAY®. The Application Monies must be provided before 5:00pm (Sydney time) on the Retail Closing Date.

Broker Firm Applicants should make their cheque or cheques payable to the broker from which a firm allocation of Shares was received. An Applicant should ensure that sufficient funds are held in the relevant account or accounts to cover the cheque or cheques. If the amount of an Applicant’s cheque or cheques which clears in time for allocation is less than the amount specified in the Application Form (or the BPAY® payment is for any reason not received or not received in full, an Applicant may be taken to have applied for such lower dollar value of Shares as the cleared Application Monies will pay for (and to have specified that amount in the Application Form) or the Application may be rejected.

Application Monies received under the Retail Offer will be held in a special purpose account until Shares are issued or transferred to successful Applicants. Investors under the Retail Offer whose Applications are not accepted, or who are allocated a lesser dollar amount of Shares than the amount applied for, will receive a refund (without interest) of all or part of their Application Monies, as applicable. Applicants are taken to agree that the interest earned on all Application Monies in the special purpose account (whether accepted or refunded) will belong to Virgin Blue and Virgin Blue will donate an amount equal to such interest to a registered charity of Virgin Blue's choice.

If the dollar value of an Applicant’s refund is less than the Final Price of one Share, then Applicants are taken to agree that the refund amount will belong to Virgin Blue (unless the Applicant specifies to the contrary) provided that Virgin Blue donates an amount equal to such refund to a registered charity of Virgin Blue’s choice.

**Where and when to lodge completed Application Forms and Application Monies**

Completed paper Application Forms and Application Monies (other than in the case of Broker Firm Applicants) under the Retail Offer, must be mailed to the Registrar at the following address:

Computershare Investor Services Pty Limited
GPO Box 1486
Sydney NSW 2001;

or hand delivered to:

Computershare Investor Services Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000.
Applications and Application Monies must be received by the Registrar, or submitted online via the website, no later than 5:00pm (Sydney time) on the Retail Closing Date (28 November 2003) unless Virgin Blue, the Selling Shareholder and the Joint Global Coordinators elect to close the Offer early, or extend the Offer, or accept late Applications either generally or in particular cases. The Offer may be closed at any earlier date and time, without further notice. Applicants are therefore encouraged to submit their Applications as early as possible.

Applicants under the Employee Gift Offer must sign their personalised Application Form to receive their $1,000 worth of Shares. All other Applicants are not required to sign the Application Form. Gift Offer Employees who wish to receive $1,000 worth of Shares, will need to complete and sign a personalised Application Form and return it to Computershare Investor Services Pty Limited at the address shown above. Virgin Blue, the Selling Shareholder and the Joint Global Coordinators reserve the right to reject any Application Form which is not correctly completed or which is submitted by a person who they believe may be an ineligible Applicant, or to waive or correct any errors made by an Applicant in completing any Application Form.

Broker Firm Applicants must mail or deliver their Application Forms and cheques to the offices of their brokers in accordance with their broker’s instructions. Application Forms from Broker Firm Applicants should not be sent to the Registrar.

Final Price
Shares allocated under the Retail Offer will be issued or sold at the Final Price. Details of the determination of the Final Price are provided in Section 2.7.

Allocation Policy under the Retail Offer
If the number of Shares applied for in the Retail Offer is greater than the number of Shares available, Applications will be scaled back. Subject to the principles described below, allocation of Shares among Applicants under the Retail Offer will be at the absolute discretion of Virgin Blue, the Selling Shareholder and the Joint Global Coordinators.

Certain employees of Virgin Blue and the KEPP Trustee will receive guaranteed minimum allocations as follows:

**Eligible Employees**
Eligible Employees who correctly submit their Application will receive a guaranteed minimum allocation of $2,500 worth of Shares (rounded down to the nearest Share), or any lesser amount properly applied for, at the Final Price. Applications which are for Shares worth in excess of $2,500 will be treated, to the extent of the excess, as applications in the General Public Offer and are liable to be scaled back accordingly.

**Founding Employees**
Eligible Employees, other than captains and first officers, who were employed by Virgin Blue on or before 31 August 2001 (“Founding Employees”) and who correctly submit their Application, will receive a guaranteed minimum allocation of $5,000 worth of Shares, or any lesser amount applied for, at the Final Price. Applications by Founding Employees which are for Shares worth in excess of $5,000 will be treated, to the extent of the excess, as applications in the General Public Offer and are liable to be scaled back accordingly.

**Captains**
Eligible Employees who are captains (“Captains”), who apply for between $30,000 and $50,000 worth of Shares and who correctly submit their Application, will receive a guaranteed minimum allocation of the amount for which they applied. Applications which are for Shares worth in excess of $50,000 will be treated, to the extent of the excess, as applications in the General Public Offer and are liable to be scaled back accordingly. Applications for less than $30,000 will receive a guaranteed minimum allocation of up to $2,500 worth of Shares.

**First Officers**
Eligible Employees who are first officers (“First Officers”), who apply for between $20,000 and $30,000 worth of Shares and who correctly submit their Application, will receive a guaranteed minimum allocation of the amount for which they applied. Applications which are for Shares worth in excess of $30,000 will be treated, to the extent of the excess, as applications in the General Public Offer and are liable to be scaled back accordingly. Applications for less than $20,000 will receive a guaranteed minimum allocation of up to $2,500 worth of Shares.
**The KEPP Trustee**

The KEPP Trustee will receive a guaranteed allocation of up to ten million Shares.

The KEPP Trustee’s role is to acquire and hold on trust Shares which are to be subsequently transferred to employees participating in the Key Employee Performance Plan (“KEPP”) when the vesting conditions in relation to performance rights granted to those employees have been satisfied. An initial grant of performance rights under the KEPP will be made at or around the completion of the Offer to certain Eligible Employees who subscribe for Shares in the Offer, as described below under the heading “Additional Employee Entitlements.”

The KEPP Trustee will apply for a number of Shares in the Offer (up to ten million Shares) sufficient to allow it to satisfy its obligation to transfer the number of Shares the subject of those initial grants as well as to provide it with a pool of additional Shares to satisfy in part future grants of performance rights to other employees under the KEPP. The KEPP Trustee will pay the Final Price for Shares acquired by it. This purchase will be funded by Virgin Blue.

**Allocation Generally**

Online Applicants who are also registered V-Mail subscribers on or before 15 November 2003, may be given preferential treatment in the event that allocations under the Retail Offer are scaled back.

Allocation policy is a complex matter and will be determined having regard to achieving a balance of a number of factors, including but not limited to the number of Shares applied for and the overall level of demand under the Retail Offer and the Institutional Offer.

No Applicant under the Retail Offer has any assurance of being allocated all or any of the Shares applied for (other than any firm allocation of Shares offered to a Broker Firm Applicant by their broker or as described above). Virgin Blue, the Selling Shareholder and the Joint Global Coordinators reserve the right to allocate no Shares to members of the general public if Applications are scaled back.

It will be a matter for brokers (and not Virgin Blue, the Selling Shareholder or the Joint Global Coordinators) as to how they allocate Shares among their retail clients in the Broker Firm Offer. It is the sole responsibility of the broker to ensure that their retail clients with a firm allocation receive their relevant Shares.

Virgin Blue expects to announce the Final Price and the basis of allocation on or about 8 December 2003. This information will be advertised in national and major metropolitan newspapers. Applicants under the Retail Offer will be able to call the Virgin Blue Share Offer Hotline on 1800 007 848 after that date to confirm their allocation.

**Additional Employee Entitlements**

Founding Employees who apply for at least $5,000 worth of Shares under the Employee Offer will also be entitled to a grant of performance rights under the KEPP. This grant will be made at or around completion of the Offer. If the conditions attached to these performance rights are satisfied, Founding Employees will receive one Share for every Share they acquired for their first $5,000 invested under the Employee Offer. Performance conditions will require Founding Employees to hold and not sell any of the $5,000 worth of Shares they receive under the Offer for three years from Listing and to remain a Virgin Blue employee throughout that period.

Captains who apply for at least $30,000 worth of Shares under the Employee Offer will also be entitled to a grant of performance rights under the KEPP. If the conditions attached to these performance rights are satisfied, Captains will receive one Share for every two Shares they acquired under the Employee Offer between $30,000 and $50,000. Performance conditions will require Captains to hold and not sell any of the $30,000 to $50,000 worth of Shares they receive under the Offer from the date of Listing until the seventh anniversary of the commencement of their employment and to remain a Virgin Blue employee throughout that period.

First Officers who apply for at least $20,000 worth of Shares will also be entitled to a grant of performance rights under the KEPP. If the conditions attached to these performance rights are satisfied, First Officers will receive one Share for every two Shares they acquired under the Employee Offer between $20,000 and $30,000. Performance conditions will require First Officers to hold and not sell any of the $20,000 to $30,000 worth of Shares they receive under the Offer from the date of Listing until the seventh anniversary of the commencement of their employment and to remain a Virgin Blue employee throughout that period.

See Section 10.10 for further details.
2.7 The Institutional Offer

General
Certain Institutional Investors will be invited to bid for Shares in the Institutional Offer. The Institutional Offer is structured as follows:

- an invitation to Institutional Investors resident in Australia and New Zealand made under this Prospectus;
- an invitation to Qualified Institutional Buyers (as defined in Rule 144A of the US Securities Act) ("QIBs") in the United States to bid for Shares in transactions exempt from the registration requirements of the US Securities Act pursuant to Rule 144A, made under the International Offering Circular; and
- an invitation to Institutional Investors resident in certain jurisdictions outside Australia, New Zealand and the United States to bid for Shares in transactions exempt from the registration requirements of the US Securities Act in reliance on Regulation S under the US Securities Act and in compliance with all applicable laws in the jurisdictions in which such Shares are offered or sold, made under the International Offering Circular.

The Bookbuild Process and Indicative Price Range
The Institutional Offer will be conducted using a bookbuild process managed by the Joint Global Coordinators. Full details of how to participate, including bidding instructions, will be provided to participants by the Joint Global Coordinators. Bids in the Institutional Offer may only be submitted through the Joint Global Coordinators.

Participants may bid for Shares at a specific price, specific prices or at the Final Price. Participants may bid above, within or below the Indicative Price Range, which is $1.80 to $2.25 per Share. The Indicative Price Range may be varied at any time by the Selling Shareholder and the Joint Global Coordinators.

The minimum bid size in the Institutional Offer is $250,000 worth of Shares. However, Virgin Blue, the Selling Shareholder and the Joint Global Coordinators reserve the right to accept smaller bids (including any Applications in the Retail Offer which they elect to treat as bids at the Final Price in the Institutional Offer).

Bids must be made between 3 December 2003 and 5 December 2003, unless these times and dates are varied by Virgin Blue, the Selling Shareholder and the Joint Global Coordinators.

Bids may be amended or withdrawn at any time up to the Institutional Closing Date, which is 5:00pm (Sydney time) on 5 December 2003, unless varied. Any bid not withdrawn by that time will be treated as an irrevocable offer by the relevant bidder to procure purchasers or subscribers for the Shares bid for (or such lesser number as may be allocated) at or below the price per Share bid, on the terms and conditions of the International Offering Circular (including any supplementary or replacement document) as applicable (and in any bidding instructions provided by the Joint Global Coordinators to participants). Bids can be accepted or rejected by Virgin Blue, the Selling Shareholder and the Joint Global Coordinators in whole or in part, without further notice to the bidder. Details of the arrangements for notification and settlement of allocations applying to participants in the Institutional Offer will be provided to participants prior to the opening of the Institutional Bookbuild.

Determination of the Final Price
The Final Price will be determined by the Selling Shareholder and the Joint Global Coordinators after the close of the Institutional Offer.

The Final Price will be determined based upon various factors, including:

- the level of demand at different prices at which institutions bid for Shares under the Institutional Offer;
- the level of demand for Shares under the Retail Offer; and
- the balancing of the objective of achieving an orderly secondary market for Shares against the objective of achieving the best price for Shares reasonably obtainable for the benefit of Virgin Blue and the Selling Shareholder.

The Final Price will not necessarily be the highest price at which Shares could be sold under the Offer and may be set above, within or below the Indicative Price Range. In particular, investors should note that the Final Price may be higher than the top of the Indicative Price Range.

All successful bidders will pay the Final Price.
Allocation Policy under the Institutional Offer

Virgin Blue, the Selling Shareholder and the Joint Global Coordinators will determine the allocation of Shares among bidders under the Institutional Offer. There is no assurance that any bidder in the Institutional Offer will be allocated all or any of the Shares for which it has bid.

The following factors will be taken into account in the allocation of Shares in the Institutional Offer:

- the price and number of Shares bid for by particular bidders;
- Virgin Blue's desire for an informed and active trading market in Shares following the Offer;
- Virgin Blue's desire to establish a wide spread of institutional shareholders;
- the type and size of funds under the management of particular bidders;
- the likelihood that particular bidders will be long term shareholders;
- ensuring that, on completion of the Offer, Australian Persons own a majority of the Shares; and
- any other factors that Virgin Blue, the Selling Shareholder and the Joint Global Coordinators consider appropriate, in their absolute discretion.

2.8 Pre-completion Share Buy-back

Subject to and conditional upon the Offer proceeding, it is intended that prior to 12 December 2003, Virgin Blue will undertake an equal access share buy-back from the Existing Shareholders. Virgin Blue intends to return aggregate proceeds of $90.4 million to the Existing Shareholders. If the Share Buy-back were conducted at the mid-point of the Indicative Price Range, being $2.025, this would result in the buy-back of 44.6 million Shares. The Company reserves the right to conduct the Share Buy-back at a price per Share greater or less than the mid-point of the Indicative Price Range but no higher than the Final Price. This return of capital will be effected through the cancellation of existing loans from Virgin Blue to the Patrick Shareholder and a Virgin Group entity totalling $40.1 million and a cash payment of $50.3 million to the Existing Shareholders.

2.9 Intentions of Current Shareholders and Ownership Profile

Virgin Group has agreed to sell such number of Shares into the Offer as will result in persons other than the Patrick Shareholder, the Virgin Group Shareholders and their respective Associates having a relevant interest in at least 25% of the issued share capital of the Company on completion of the Offer (having regard to the agreement by the Patrick Shareholder to subscribe for Shares pursuant to the Patrick Offer).

Virgin Group reserves the right to increase the number of Shares it sells into the Offer. If Virgin Group sells the minimum number of Shares, on completion of the Offer it will hold 29.1% of the issued share capital of the Company, based on the mid-point of the Indicative Price Range.

The Patrick Shareholder will subscribe for additional Shares pursuant to the Patrick Offer, such that, on completion of the Offer, it will hold 45% of the issued share capital of Virgin Blue on a fully diluted basis. For the purposes of calculating the size of the Patrick Offer, the fully diluted capital of the Company includes any Shares issued under the Employee Gift Offer, as well as Shares or options issued, or to be issued, under the Employee Plans for which all performance tests or conditions have been met or satisfied at the time of completion of the Offer, or at the date of such issue.

CU Nominees, which holds Shares as bare nominee for Brett Godfrey, will not be selling Shares through the Offer.

The Patrick Shareholder and the Virgin Group Shareholders have entered into the Ongoing Shareholders' Agreement, pursuant to which they have agreed with each other that, for a period of 12 months following the completion of the Offer, they will not, and will procure that their Associates do not, increase their respective shareholdings or voting powers from the level of their shareholdings as at the completion of the Offer, except:

- they each may acquire further Shares by purchasing Shares on market, if the price per Share for any Share so acquired is less than the Final Price; and
- they each may acquire further Shares at any time if the Shares are acquired under a takeover bid made by either of them.

The above restriction does not prevent acquisitions of Shares in the Offer by directors appointed by the Patrick Shareholders or the Virgin Group for personal investment purposes.
The Ongoing Shareholders’ Agreement further provides that if either of the Patrick Shareholder or the Virgin Group Shareholders or their respective Associates acquires additional Shares under Item 9 of section 611 of the Corporations Act (which permits purchases of shares that do not exceed 3% of the issued share capital in any six month period) and the number acquired is more than its proportion of that 3% entitlement (having regard to the Patrick Shareholder’s and the Virgin Group Shareholders’ relative shareholdings immediately prior to the acquisition) the party so acquiring shall offer to sell to the other that number of those Shares which is in excess of its proportionate entitlement, at the same price per Share as that paid by the party so acquiring those Shares. The effect of the arrangements between them in the Ongoing Shareholders’ Agreement is that acquisitions of Shares by either of the Patrick Shareholder and the Virgin Group Shareholders will count against the number of Shares which the other is permitted to acquire under Item 9 of section 611, while those arrangements continue in place. See Section 10.3 for further information.

The Patrick Shareholder has also agreed with the Virgin Group Shareholders that it will not support any increase in the capital of Virgin Blue during the 12 month period following the completion of the Offer, without the agreement of the Virgin Group Shareholders.

The Ongoing Shareholders’ Agreement has change of control (and other) implications for Virgin Blue and its shareholders. While this agreement continues, each of the Patrick Corporation Shareholder and the Virgin Group Shareholders or their respective Associates will be able to acquire any of the other’s Shares without being required to make a takeover bid for all of the shares in the Company or seeking the approval of the other shareholders. See Section 10.3 for further information.

Each of the Existing Shareholders has agreed with the Joint Global Coordinators that, for a six month period following the Offer, they will not sell any equity securities, or securities that are convertible into equity, or securities that are transferable into equity, of Virgin Blue or enter into any swap or other arrangements that transfers to any other party, in whole or in part, any of the economic consequences of ownership of securities of that type.

Details of the ownership profile of Virgin Blue after the Offer are set out in the table below.

**Indicative Shareholdings Following the Offer**

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>% Shareholding at Mid-point of Indicative Price Range*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patrick Shareholder**</td>
<td>45.9%</td>
</tr>
<tr>
<td>Virgin Group Shareholders**</td>
<td>29.1%</td>
</tr>
<tr>
<td>CU Nominees</td>
<td>3.2%</td>
</tr>
<tr>
<td>New investors**</td>
<td>21.8%</td>
</tr>
</tbody>
</table>

**Notes:**

1. The shareholdings in this table do not include options. These options consist of approximately 20.3 million Existing Options under the Existing Option Plan, 1.4 million options under the CFO Plan and based on the mid-point of the Indicative Price Range, approximately 16.0 million new options to be issued on or about Listing under the SEOP. See Section 10.10 for further information regarding options granted or to be granted by the Company.
2. On a fully diluted basis the Patrick Shareholder will hold 45%.
3. Virgin Group has reserved the right to sell more Shares under the Offer.
4. New investors’ percentage shareholding is comprised of 18.8% held by retail investors and Institutional Investors, up to 1.0% held by the KEPP Trustee, approximately 1.9% held by Existing Option Holders following the Executive Offer and 0.1% held by Gift Offer Employees following the Employee Gift Offer. This total may increase if the Virgin Group exercises its right to sell more Shares under the Offer.

2.10 Brokerage, Commission and Stamp Duty

No brokerage, commission or stamp duty is payable by Applicants for Shares under the Offer.

2.11 ASX Listing

Virgin Blue will apply for admission to the Official List and for official quotation of the Shares on the ASX within seven days after the date of this Prospectus. Virgin Blue’s ASX code will be “VBA”.

If the application is not made within seven days or Virgin Blue is not admitted to the Official List within three months after the date of this Prospectus (or any longer period permitted by law), the Offer will be cancelled and all Application Monies will be refunded in full without interest.
2.12 Conditional and Deferred Trading on ASX
Subject to satisfying the relevant requirements of ASX, it is expected that Shares will commence trading on a conditional and deferred settlement basis on ASX on or about 8 December 2003. The Final Price and final allocation policy will be advertised in newspapers as required by ASX on that date. Deferred settlement trading will continue until Virgin Blue has advised ASX that initial statements of holding have been despatched to shareholders (which is expected to occur on 15 December 2003). Thereafter normal delivery trading is expected to commence on or about 16 December 2003.

All contracts formed on acceptance of Applications and institutional bids under the Offer will be conditional on ASX admitting the Shares to official quotation and also on settlement occurring. Conditional trading will continue until Virgin Blue advises ASX that settlement has occurred. There is no guarantee that purchases and sales on ASX made during the conditional period will be settled. If settlement does not occur, by the date two weeks after conditional trading commences on ASX, the Offer will be cancelled and of no effect. In these circumstances, all purchases and sales made through ASX participating organisations during the conditional period will be cancelled and of no effect.

It is the responsibility of each Applicant or bidder to confirm their holding before trading in Shares. Applicants or bidders who sell Shares before they receive an initial statement of holding do so at their own risk. Virgin Blue, the Selling Shareholder and the Joint Global Coordinators disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their initial statement of holding.

2.13 CHESS
Virgin Blue will apply to participate in ASX’s Clearing House Electronic Subregister System (“CHESS”) in accordance with the ASX Listing Rules and the SCH Business Rules. In accordance with the ASX Listing Rules and the SCH Business Rules, the Company will maintain an electronic CHESS subregister (for shareholders who are participants in CHESS or sponsored by such a participant) and an electronic issuer-sponsored register (for all other shareholders).

Following the allocation of Shares to successful Applicants, shareholders will be sent an initial statement of holding that sets out the number of Shares that have been allocated and the shareholder’s Holder Identification Number (“HIN”), or in the case of issuer sponsored holders, the Shareholder Reference Number (“SRN”).

The Company will not issue certificates to shareholders.

2.14 Discretion regarding the Offer
Virgin Blue, the Selling Shareholder and the Joint Global Coordinators reserve the right:
- not to proceed with the Offer at any time before the allocation of Shares to Applicants or bidders under the Institutional Offer. If the Offer does not proceed, Application Monies will be refunded in full without interest;
- to close the Offer or any part of it early, or extend the Offer or any part of it, or accept late Applications or bids either generally or in particular cases, or to reject any Application or bid, or to allocate to any Applicant or bidder fewer Shares than applied or bid for; and
- agree to a Final Price which is above or below the Indicative Price Range.

2.15 Foreign Selling Restrictions
No action has been taken to register or qualify the Shares that are the subject of the Offer, or otherwise to permit a public offering of the Shares, in any jurisdiction outside Australia. The Shares have not been, and will not be, registered under the US Securities Act and may not be offered or sold in the United States or to United States persons except in accordance with an applicable exemption from the registration requirements of the US Securities Act pursuant to Rule 144A thereunder.

This Prospectus may not be distributed in the United States or elsewhere outside Australia unless it is attached to, or constitutes part of, the International Offering Circular that describes selling restrictions applicable in the United States and other jurisdictions outside Australia. This Prospectus does not constitute an offer or invitation in any jurisdiction where, or to any person to whom, such an offer or invitation would be unlawful.
2. DETAILS OF THE OFFER (CONTINUED)

Each Applicant in the Retail Offer, each Gift Offer Employee in the Employee Gift Offer, each Existing Option Holder in the Executive Offer and the Patrick Shareholder in the Patrick Offer will be taken to have represented, warranted and agreed that such person:

• is an Australian citizen or resident in Australia, is located in Australia at the time of such Application and is not acting for the account or benefit of any person in the United States, a United States person or any other foreign person; and

• will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia or to a United States person, except in transactions exempt from registration under the US Securities Act and in compliance with all applicable laws in the jurisdiction in which such Shares are offered and sold.

Each person in Australia or New Zealand to whom the Institutional Offer is made under this Prospectus will be required to represent, warrant and agree as follows (and will be taken to have done so if it bids in the Institutional Offer):

• it understands that the Shares have not been and will not be registered under the US Securities Act and may not be offered, sold or resold in the United States or to a United States person, except in transactions exempt from registration under the US Securities Act;

• it is not in the United States nor a United States person and is not acting for the account or benefit of a United States person;

• it is not engaged in the business of distributing securities or, if it is, it agrees that it will not offer or resell in the United States or to a US Person (a) any Shares it acquires in the Offer at any time or (b) any Shares it acquires other than in the Offer until 40 days after the date on which the Final Price is determined and the shares are allocated in the Offer, in either case other than in a transaction meeting the requirements of Rule 144A under the Securities Act; and

• whether or not that person is an Australian Person, as defined in the Air Navigation Act.

No person is authorised to provide any information or make any representations other than those contained in this Prospectus and, if given or made, such information or representations will not be relied upon as having been authorised by Virgin Blue, the Selling Shareholder, the Joint Global Coordinators or any other person, nor will any such persons have any liability or responsibility therefor.

2.16 Ownership Restrictions

For reasons described in more detail in Section 3.4, those companies in the Virgin Blue Group which operate internationally or within New Zealand, will need to be able to demonstrate at all times that they are “substantially owned and effectively controlled” by Australian Persons.

Virgin Blue intends to manage the Applications to ensure that, on completion of the Offer, Australian Persons own a majority of the Shares. Accordingly, Virgin Blue will be requiring Applicants to confirm whether they are Australian citizens or residents in Australia at the time of application in their Application Forms.

Neither Virgin Blue nor its subsidiaries has foreign ownership limitations or restrictions in their Constitutions. However, under the terms of the Ongoing Shareholders’ Agreement, the Patrick Shareholder and the Virgin Group Shareholders have agreed that, in certain circumstances, if a proposal is made by the Board to include in the Constitution foreign ownership restrictions of the type required by Australian legislation or by the New Zealand Ministry of Transport, they will each vote in favour of the proposal.

In the future, if Virgin Blue or a relevant subsidiary in the Virgin Blue Group cannot demonstrate that it is effectively controlled or substantially owned by Australian Persons, Virgin Blue may be required to amend its Constitution to include restrictions on foreign ownership, pursuant to the operation of the Air Navigation Act, and then enforce those restrictions, or alternatively may have its rights to operate on international routes and within New Zealand withdrawn or be refused the right to fly under the New Zealand Bilateral. Under the Air Navigation Act, enforcement rights may include the right to force certain foreign persons to divest their Shares.

For more information about ownership restrictions see Sections 3.4 and 8.2.
SECTION 3:

INDUSTRY OVERVIEW
3. INDUSTRY OVERVIEW

3.1 Australian Aviation Market Overview

The Australian aviation market is divided into the following four main categories:

- **domestic airlines**, which provide scheduled regular public transport services within Australia and primarily operate high-capacity aircraft (more than 38 seats) between the principal cities;
- **regional airlines**, which provide scheduled regular public transport services within Australia, generally linking smaller rural centres with the principal cities. Typically, they operate aircraft with 38 seats or less, but a number of airlines, which operate aircraft in the 50 to 90 seat range, are still regarded as regional airlines;
- **the general aviation sector**, which is made up of all non-scheduled flying activity in Australian-registered aircraft, other than that performed by the major domestic, regional and international airlines. This includes private, business, training, aerial agriculture, charter and aerial work; and
- **international airlines**, which operate scheduled international air services to and from Australia.

The most recent annual traffic statistics for domestic, regional and international airlines for Australia are summarised in the table below.

<table>
<thead>
<tr>
<th>Traffic Statistics</th>
<th>Domestic Airlines(^1)</th>
<th>Regional Airlines(^2)</th>
<th>International Airlines(^3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passengers carried</td>
<td>25,808</td>
<td>4,561</td>
<td>16,668</td>
</tr>
<tr>
<td>Freight (tonnes)</td>
<td>147.2</td>
<td>1.5</td>
<td>645.9</td>
</tr>
<tr>
<td>Mail (tonnes)</td>
<td>35.0</td>
<td>28.7</td>
<td>28.7</td>
</tr>
<tr>
<td>Aircraft movements</td>
<td>221.8</td>
<td>270.1</td>
<td>105.3</td>
</tr>
</tbody>
</table>

Source: AVSTATS, Commonwealth Department of Transport and Regional Services

Notes:

The scheduled passenger aviation market in Australia consists of two principal groups of travellers: leisure and business. Leisure passengers typically place a higher emphasis on low fares. Business passengers typically place a higher emphasis on frequency of flights, on-time performance, breadth of network and service enhancements, including loyalty schemes and airport lounges.

The Australian domestic aviation market is currently serviced by two airlines:

- **Virgin Blue** – a low cost, single class scheduled carrier, which on average offers lower fares and mainly operates point-to-point services; and
- **Qantas** – a national full service carrier which offers multi-class scheduled services on both domestic and international routes. Qantas intends to launch a new low cost domestic airline in May 2004. For further information, see Section 4.4.

In the year ended 30 June 2003, flights between Sydney, Melbourne and Brisbane accounted for 39% of all domestic airline passengers carried. The 10 busiest domestic city pair routes, which accounted for 86% of all domestic passengers carried, are shown below.
Qantas and Rex Aviation are the two major providers of regional air services in Australia. Qantas provides regional airline services throughout Australia, while Rex Aviation provides regional airline services in New South Wales, the Australian Capital Territory, Victoria, South Australia and Tasmania. Other regional air service providers include Airnorth Airlines and Skywest.

Nearly all international passenger traffic to and from Australia arrives and departs by air. In the year ended 31 December 2002, flights from New Zealand, Singapore, Japan, the United States and Hong Kong accounted for 64% of all international airline passengers in and out of Australia. Qantas, Singapore Airlines and Air New Zealand carried 55% of all international airline passengers travelling in and out of Australia.

Jet aircraft air freight capacity within Australia is offered by Virgin Blue, Qantas and Australian Air Express (a joint venture between Australia Post and Qantas). A number of other providers offer air freight capacity in non-jet aircraft. In the year ended 31 December 2002, total domestic air freight carried in Australia was 147 kilotonnes. Australian Air Express operates a dedicated fleet of five jet freighter aircraft. Virgin Blue and Qantas do not operate a dedicated fleet of freight aircraft. Virgin Blue only offers air freight services on scheduled passenger flights.
3.2 Trends in the Australian Domestic Aviation Market

Annual growth in domestic passenger traffic and available capacity for the period between 1980 and 2003 is shown in the chart below. Over the last five years, the compound annual growth rate in passenger traffic, in terms of revenue passenger kilometres ("RPK") was 4.9%, compared with 5.9% over the last 10 years.

Source: AVSTATS, Commonwealth Department of Transport and Regional Services

"ASK" stands for Available Seat Kilometre and is a measure of kilometres flown by available passenger seat capacity.

"RPK" stands for Revenue Passenger Kilometre and represents kilometres flown by revenue paying passengers.

Important developments in the Australian domestic aviation market over the last 15 years have included:

- the domestic airline pilots' dispute in 1989-1990;
- deregulation of the industry in 1990;
- the entry and subsequent collapse of Compass Airlines 1 (1990-1991) and Compass Airlines 2 (1992-1993);
- the merger of Qantas and Australian Airlines in 1993;
- the entry of Impulse Airlines in 2000 and its subsequent acquisition by Qantas in 2001;
- the entry of Virgin Blue in 2000; and
- the collapse of Ansett between September 2001 and March 2002.

Prior to deregulation of the Australian domestic aviation market in 1990, fare setting, aircraft imports, capacity on routes and route entry were regulated. Deregulation was an opportunity for domestic airlines to restructure their organisations and rationalise their services. Domestic airline pilots opposed deregulation and, as a result, frequent strikes occurred in 1989 and into the early part of 1990. This explains the sharp decline in traffic in 1990 and subsequent sharp growth in traffic in 1991.

Deregulation opened the domestic market to new operators. Until then, the domestic market had been served by only two airlines, Australian Airlines and Ansett. The first new entrant to the domestic aviation market was Compass Airlines, which began operations in December 1990 and operated five single class aircraft. Within 10 months, Compass Airlines had captured 10% of the total domestic market and 21% of the markets in which it operated. However, by December 1991, Compass Airlines had terminated operations and the company was subsequently placed in liquidation. Southern Cross Airlines, also trading as Compass Airlines, operated between August 1992 and March 1993. The failure of Compass Airlines 1 and 2 has been attributed to shortcomings in their entry strategy, which misjudged the operational, economic and regulatory obstacles to large scale entry into the domestic market.
In September 1993, Qantas and Australian Airlines merged. Prior to that, Qantas and Australian Airlines were both owned by the Australian government, with Qantas providing international airline services and Australian Airlines providing domestic airline services. The merger precipitated a surge in available capacity in the domestic market, as Qantas’ international fleet became available for domestic services.

In 2000, Impulse Airlines and Virgin Blue each launched domestic airline services on main interstate routes between Sydney, Melbourne and Brisbane. In contrast to Ansett and Qantas, both companies adopted a low cost airline business model, similar to that of low cost airlines operating in North America and Europe. The entry of Impulse Airlines and Virgin Blue resulted in strong traffic growth and heavy fare discounting in 2001. Impulse Airlines, which operated a fleet of eight Boeing 717 aircraft and 13 Beech 1300D aircraft, began facing financial difficulties and was subsequently acquired by Qantas in May 2001.

Domestic air travel declined 6% for the year ended 30 June 2002. The collapse of Ansett in 2001-2002 had a significant impact on Australia’s domestic airline market. Ansett was declared insolvent and placed in voluntary administration by its parent, Air New Zealand, in September 2001 and ceased providing passenger airline services in March 2002. Prior to being placed in administration, Ansett operated a fleet of 82 aircraft on mainline domestic routes and 44 aircraft on regional routes. It also operated three aircraft on international routes and four aircraft dedicated to air freight. In the year ended 30 June 2001, Ansett carried 12.4 million domestic passengers and had a 46% share of the domestic market. In addition to the collapse of Ansett, domestic air travel was also affected by the terrorist attacks in the United States on 11 September 2001, which contributed to a 4% reduction in international passenger arrivals in the year ended 30 June 2002. Further contributing to the decline in domestic air travel in that year was the lack of accelerated growth that had been experienced by the domestic market during the previous four years due to the lead up to and hosting of the Sydney Olympic Games in September 2000.

In 2003, passenger traffic and capacity grew strongly as Qantas and Virgin Blue filled the gap in the market left by Ansett’s demise.

The chart below shows the flight frequency index and passenger load factors on major domestic routes for the period between September 1994 and December 2002. Flight frequencies on major domestic routes increased 35% in the year ended 31 March 2001, as a result of the market entry of Virgin Blue and Impulse Airlines. In the nine months following the collapse of Ansett in September 2001, flight frequencies decreased 30% and passenger load factors increased approximately 2%, as Qantas and Virgin Blue moved to fill the capacity gap left by Ansett.

The chart below also shows that passenger load factors have gradually increased from 75% in September 1994 to 79% in December 2002. The average passenger load factor in the year ended 30 June 2003 was 78%.

**Flight Frequency Index and Passenger Load Factor on Major Domestic Routes**

Source: Bureau of Transport and Regional Economics aviation statistics
Annual changes in real domestic fares for the period between 1995 and 2002 are shown in the chart below. Between September 1994 and December 2002, the real compound annual growth of economy fares and business fares on domestic routes was 0.8% and 2.5%, respectively. During the same period, best discount fares decreased at a real compound annual rate of 2.6%.

The sharp decline in best discount fares of 23% in the year ended 30 June 2001 was due to the market entry of Impulse Airlines and Virgin Blue with their low cost, low fare strategies. In the year ended 30 June 2002, best discount fares increased 7.2% primarily as a result of the collapse of Ansett and consequent reduction in capacity. In the 12 months ended 30 June 2003, economy fares declined 2.9% in real terms, business fares increased 3.0%, and best discount fares decreased 12.9%.

Source: Bureau of Transport and Regional Economics fare survey
Changes in fares are adjusted for CPI.
3.3 Trends in the Australian International Aviation Market

Annual growth in international passenger traffic and available capacity to and from Australia for the period between 1981 and 2002 is shown in the chart below. Over the last five years, the compound annual growth rate in such international passenger traffic, in terms of passenger movements, was 3.7%, compared with 6.2% over the last ten years.

Source: AVSTATS, Commonwealth Department of Transport and Regional Services

Growth in international passenger traffic to and from Australia was substantially lower in 1998 and 1999 due to the Asian economic downturn, which commenced around September 1997. In the 12 months ended 30 June 2002, international passenger movements declined 4% compared to the previous 12 months. International passenger traffic was significantly affected by the terrorist attacks in the United States in September 2001 and the flow-on effects such as the war on terrorism, heightened tensions and security concerns the world over. The collapse of Ansett’s international operations also affected traffic levels. In the year ended August 2001, Ansett International’s last full year of operation, Ansett International carried 3.2% of total international passengers in and out of Australia.

International passenger traffic for the three months to May 2003 was 12% lower than during the same period in the previous year. This was contributed to by the effect on international traffic of the outbreak of SARS in Asia and the war in Iraq.

International passengers by origin/destination for the three years ended 30 December 2002 are shown in the table below. New Zealand is the most important country of origin/destination for international passenger traffic to and from Australia.
3. INDUSTRY OVERVIEW (CONTINUED)

International Passengers by Origin/Destination
Thousands. Years ended 31 December

<table>
<thead>
<tr>
<th>Country</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>3,282.1</td>
<td>3,591.8</td>
<td>3,548.8</td>
<td>21.3%</td>
</tr>
<tr>
<td>Singapore</td>
<td>2,672.3</td>
<td>2,866.5</td>
<td>2,908.3</td>
<td>17.4%</td>
</tr>
<tr>
<td>Japan</td>
<td>1,607.9</td>
<td>1,573.5</td>
<td>1,644.6</td>
<td>9.9%</td>
</tr>
<tr>
<td>United States</td>
<td>1,563.9</td>
<td>1,442.6</td>
<td>1,359.6</td>
<td>8.2%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1,193.5</td>
<td>1,147.8</td>
<td>1,186.4</td>
<td>7.1%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1,004.6</td>
<td>936.5</td>
<td>904.1</td>
<td>5.4%</td>
</tr>
<tr>
<td>Thailand</td>
<td>745.5</td>
<td>834.8</td>
<td>816.9</td>
<td>4.9%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>809.8</td>
<td>806.7</td>
<td>651.0</td>
<td>3.9%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>667.6</td>
<td>636.4</td>
<td>615.2</td>
<td>3.7%</td>
</tr>
<tr>
<td>Korea</td>
<td>318.3</td>
<td>339.4</td>
<td>387.2</td>
<td>2.3%</td>
</tr>
<tr>
<td><strong>Top 10 countries</strong></td>
<td><strong>13,865.5</strong></td>
<td><strong>14,176.0</strong></td>
<td><strong>14,022.2</strong></td>
<td><strong>84.1%</strong></td>
</tr>
<tr>
<td><strong>Other countries</strong></td>
<td><strong>2,622.2</strong></td>
<td><strong>2,623.7</strong></td>
<td><strong>2,645.4</strong></td>
<td><strong>15.9%</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16,487.7</strong></td>
<td><strong>16,799.7</strong></td>
<td><strong>16,667.5</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: AVSTATS, Commonwealth Department of Transport and Regional Services

3.4 Regulation

The airline industry in Australia and internationally is subject to extensive regulation. In addition, a wide range of regulations relating to safety, noise, labour, competition and the environment apply to participants in the aviation industry.

Regulation of the Domestic Aviation Market

In order to operate as an airline in the scheduled domestic passenger services market in Australia, a carrier is required to hold an Air Operator’s Certificate, or AOC, under section 27 of the Civil Aviation Act. The Civil Aviation Act and the AOC issued under it are administered by CASA, an Australian statutory body.

CASA is responsible for certification of aircraft, licensing of operators, approval of support activities, conduct of safety surveillance and enforcement of applicable safety standards and rules. CASA has the power to revoke Virgin Blue’s AOC or order the grounding of any or all of its aircraft.

The regulation of the Australian domestic airline industry was significantly reduced in 1990 with the removal of many constraints on the entry of new domestic operators, the setting of airfares, the determination of routes, the frequency of operation and the level of capacity.

There are no longer any regulations imposing industry specific ownership restrictions on domestic air transport operations except with regard to Qantas, which is separately regulated by the Qantas Act. The foreign ownership limitations applicable to Qantas do not apply to Virgin Blue. Virgin Blue is subject to the general regime as set out in the Foreign Acquisitions and Takeovers Act.

The situation in relation to the international air services market is different and ownership limits continue to apply. This is discussed further below.

Regulation of the International Aviation Market

Designation

In order to be able to operate as a scheduled international carrier between Australia and another country, an Australian airline needs to be designated as an Australian International Airline by the Australian government under the Air Navigation Act. The rights of an Australian International Airline to operate scheduled services between Australia and a foreign country derive principally from bilateral air services agreements (“Bilateral ASA”) negotiated by the Australian government with the authorities of the foreign country. Under these Bilateral ASAs (which are generally of treaty status and enforceable under international law), each country grants to the other the right to designate one or more airlines to operate scheduled passenger or freight services on international routes between the two countries.

A Bilateral ASA typically contains provisions for determining which airlines may be designated under it. Once designated as an Australian International Airline, an airline can then apply to be allocated capacity under a Bilateral ASA.
Certain Bilateral ASAs provide for Australia to have only one designated airline, while others provide for multiple designated airlines.

It is the policy of the Australian government to promote international competition between Australian carriers by allowing multiple designations – that is, more than one Australian International Airline – to operate international air services on any particular route.

To be designated an Australian International Airline, carriers must typically demonstrate that they comply with a number of criteria established by the Department of Transport and Regional Services ("DOTARS"). These criteria have been established in order to assist DOTARS in determining if the carrier complies with a requirement that is common to most Bilateral ASAs, namely that an Australian designated carrier must be "substantially owned and effectively controlled" by Australian nationals. The other country that is a party to the Bilateral ASA is also entitled to form its own view as to whether the Australian airline is "substantially owned or effectively controlled" by Australian nationals before granting (or renewing) a licence authorising it to operate internationally.

Typically, a Bilateral ASA will enable Australia or the other country to withhold operating rights from a designated airline if that airline cannot demonstrate that it is substantially owned and effectively controlled by nationals of the relevant country.

There is no precise definition of "substantial ownership" for these purposes. In Australia, the Air Navigation Act gives effect to the concept by requiring at least 50% ownership by Australian Persons.

Provisions in the Air Navigation Act support the Australian government’s ability to regulate the ownership and control of Australian International Airlines so as to ensure compliance with the relevant Bilateral ASA. For example:

- under section 11A of the Air Navigation Act, the Minister for Transport may require an Australian International Airline to provide information regarding the extent (if any) to which foreign persons have "relevant interests" in shares of that Australian International Airline; and
- if foreign persons have "relevant interests" in the Australian International Airline that represent in aggregate more than 49% of the total value of the issued share capital of the Australian International Airline, the Minister may order that airline to take all necessary action to ensure that its constitution imposes restrictions on foreign persons owning in excess of 49% of its issued share capital. The Air Navigation Act confers certain powers on the directors of the Australian International Airline to enable them to enforce this restriction.

A "relevant interest" in a share means the power to vote or dispose of the share, whether or not the person is the registered holder. A person will also have a relevant interest in a share if, broadly:

- the person controls, formally or informally, the directors of, or has a controlling interest in, a body corporate, which has the power to vote in respect of, or dispose of, the share; or
- the person has a right to obtain a relevant interest in the share.

Control of a holding company will also often constitute a relevant interest. However, under the Air Navigation Act, a foreign person is not deemed to have a relevant interest in the shares of a company simply because it holds more than 20% of the shares in the holding company of that company.

Virgin Blue has been designated as an Australian International Airline by DOTARS and intends, either directly or through an Australian based subsidiary, to utilise that designation to fly to international destinations from Australia, trading as Pacific Blue. In order for Virgin Blue to be able to conduct international operations, it will therefore be important that at least 50% of its shareholders remain Australian Persons.

**Capacity and Negotiation**

It is the role of the Australian government to negotiate the level of capacity for international services between two countries as part of the Bilateral ASAs. Once that capacity has been negotiated, the allocation of rights to an individual Australian International Airline on a particular international route is made by the International Air Services Commission ("IASC").

As at 1 November 2003, Virgin Blue had sought and obtained from the IASC allocation of rights between Australia and Fiji, New Zealand and Vanuatu.
3. INDUSTRY OVERVIEW (CONTINUED)

Where additional capacity and route entitlements are negotiated for Australia, a broadly reciprocal allocation is usually granted to the bilateral partner for its carriers. Depending on the Australian government’s assessment of Australian capacity requirements, the Australian government may seek capacity sufficient for more than one Australian International Airline.

Not all of the international routes on which Virgin Blue may wish to provide services may be open to capacity expansion and the governments of some countries may not be prepared to allocate additional capacity to Australia to allow Virgin Blue to commence international operations to that country. Any such restrictions or political limitations may have an adverse impact on Virgin Blue’s international growth potential.

The IASC is required to apply special criteria to encourage new Australian entrants on international services, as well as take into account the objective of providing reasonable growth in entitlements to all Australian carriers operating on a specific route. The IASC is required to foster competition among Australian International Airlines on a specific route by allocating to the new entrant a commercially sustainable level of capacity. This obligation is subject to ensuring that the incumbent (usually Qantas) also retains a commercially sustainable level of capacity. The IASC has the right to impose conditions on the allocated capacity. International route capacity rights are usually granted for five years from the date of allocation. The IASC must also consider the objectives of competition when reviewing renewal applications by incumbents. Virgin Blue’s allocations for Fiji, New Zealand and Vanuatu will expire in 2008.

When considering applications for renewal of capacity, the IASC is required to apply a presumption in favour of the incumbent that the capacity be renewed unless the IASC is satisfied that to do so would no longer be of benefit to the public.

Aviation Relations with New Zealand

The Bilateral ASA between Australia and New Zealand (the “New Zealand Bilateral”) is an “open skies agreement”.

An Australian airline may avail itself of the rights and freedoms set out in the New Zealand Bilateral by either being designated as an Australian International Airline or by being licensed as a SAM Airline.

To be an airline designated as an Australian International Airline for purposes of the New Zealand Bilateral, an airline needs, among other things, to be incorporated and have its principal place of business in Australia and to be “effectively controlled” by Australian nationals.

There is no express requirement that Australian nationals own a specific percentage of the airline. Consistent with the usual rules of designation, an Australian International Airline, which is designated for these purposes, will be entitled to fly between Australia and New Zealand.

In addition, the New Zealand Bilateral provides for an airline to be licensed as a SAM Airline. Under the terms of the New Zealand Bilateral, a SAM Airline will be permitted to operate domestic services in Australia and New Zealand. SAM Airlines are required to ensure that all operational and safety approvals required for the operation of commercial passenger and/or freight aircraft are obtained prior to commencing services. As a result of the New Zealand Bilateral, a SAM Airline can operate in both Australia and New Zealand, but is required to meet the full certification requirements of both national safety authorities.

In order to be a SAM Airline, a carrier must meet the following criteria:

- at least 50% ownership and effective control by Australian and/or New Zealand nationals;
- at least two thirds of the board members must be Australian and/or New Zealand nationals;
- the chairperson of the board must be an Australian and/or New Zealand national;
- the airline’s head office must be in Australia or New Zealand; and
- the airline’s operational base must be in Australia or New Zealand.

The criteria to be licensed as a SAM Airline are more prescriptive than those applicable to be designated as an Australian International Airline under the New Zealand Bilateral, particularly those relating to ownership and board composition. In addition, the New Zealand Ministry of Transport may seek some assurance that ownership remains with Australian or New Zealand nationals. See Section 2.16.

However, a SAM Airline is granted certain rights that a designated airline is not. For example, a SAM Airline has the right to provide domestic services within Australia and New Zealand whereas a designated airline only has rights to operate between the two countries.
Virgin Blue’s indirect wholly owned New Zealand subsidiary, Pacific Blue Airlines (NZ) Limited, is seeking to be licensed as a SAM Airline under the New Zealand Bilateral. Pacific Blue Airlines (NZ) Limited will be based in Christchurch. Once licensed as a SAM Airline, Pacific Blue Airlines (NZ) Limited will be entitled to operate domestically within Australia and New Zealand, as well as operate internationally between Australia and New Zealand.

In addition, Virgin Blue Airlines Pty Limited (“VBA”), the Company’s Australian operating subsidiary, has been designated as an Australian International Airline under the New Zealand Bilateral. Accordingly, VBA or one of its Australian based subsidiaries may fly internationally between Australia and New Zealand, but not domestically within New Zealand.

**Mutual Recognition**

The Australian government has recently introduced the Civil Aviation Legislation Amendment (Mutual Recognition with New Zealand) Bill 2003, which, if enacted, would permit airlines with New Zealand AOCs to fly domestically within Australia and airlines with Australian AOCs to fly domestically within New Zealand under a principle of mutual recognition. There would be no requirement, as there currently is under the New Zealand Bilateral, to satisfy the full certification requirements of both the Australian and New Zealand safety authorities.

If the Mutual Recognition Bill is enacted, Virgin Blue or Pacific Blue would be able to offer services between Australia and New Zealand and domestically within New Zealand under its current AOC, without the need for any further approvals. Similarly, airlines already certified in New Zealand (including domestic New Zealand low cost operators) could immediately commence domestic Australian operations in competition with Virgin Blue.

New Zealand airlines could potentially operate on a lower cost base than Virgin Blue because airline staff are on average paid less in New Zealand, and New Zealand law allows flights to operate with fewer cabin crew. In addition, certification in New Zealand can generally be achieved more quickly than in Australia, allowing potential competitors more rapid access to the Australian domestic market than through the Australian certification process.

**Foreign Ownership Limits**

**Domestic Activities**

There are no foreign ownership limits or restrictions applicable to Virgin Blue in relation to its operations as a domestic scheduled passenger airline in the Australian domestic market, other than the application of the general regime under the Foreign Acquisitions and Takeovers Act. For more information about the application of that Act, see Section 10.18.

**International Activities**

As described above, many Bilateral ASAs would prohibit Virgin Blue being designated by the Australian government as an Australian International Airline unless both Australia and the foreign country are satisfied that Virgin Blue is “substantially owned and effectively controlled” by Australian nationals.

The New Zealand Bilateral does not require Virgin Blue to demonstrate that it is “substantially owned and effectively controlled” by Australian nationals, but only that it is “effectively controlled” by Australian nationals in order to receive designation.

As a result of these rules:

- if Virgin Blue were to become “effectively controlled” by foreign persons, either the Australian government or a bilateral partner could withhold operating rights between Australia and all international destinations, including New Zealand;
- if Virgin Blue were to become “substantially owned” by foreign persons (irrespective of whether it is “effectively controlled” by Australian nationals at that time), either the Australian government or a bilateral partner could withhold operating rights from Virgin Blue between Australia and international destinations; and
- if Virgin Blue were to become “substantially owned” by foreign nationals but nonetheless still “effectively controlled” by Australian nationals, the New Zealand Bilateral may allow Virgin Blue to continue to offer services between Australian and New Zealand as a designated airline. This is because the designation provisions of the New Zealand Bilateral contain a control but not an ownership requirement.
3. INDUSTRY OVERVIEW (CONTINUED)

**SAM Activities**
Under the New Zealand Bilateral, a SAM Airline must be at least 50% owned by Australian or New Zealand nationals. Pacific Blue Airlines (NZ) Limited will be wholly owned by VBA, an Australian company.

The term “50% ownership” is not defined. In particular, there is no reference to “relevant interest” as found in both the Corporations Act and in the Air Navigation Act.

Accordingly, Virgin Blue cannot be certain as to how the applicable regulations will be enforced by either the Australian or New Zealand governments. There is a risk that if 50% or more of the shares in Virgin Blue were acquired by foreign persons, Pacific Blue Airlines (NZ) Limited would lose its rights to be licensed as a SAM Airline.

**No Constitutional Limitations**
Virgin Blue has decided not to include in its Constitution any foreign ownership limitation or other procedures requiring compulsory notification of nationality by shareholders. However, under section 11A of the Air Navigation Act, the Minister for Transport has the right to require Virgin Blue to adopt certain mandatory provisions to be included in its Constitution or the constitution of one or more of its subsidiaries. The Minister also has the right, in certain circumstances, to require certain foreign shareholders to divest their holding in Virgin Blue, to ensure that it remains at least 50% owned by Australian Persons. Failure by Virgin Blue’s shareholders to adopt the required amendments to Virgin Blue’s Constitution could result in Virgin Blue having its operating rights to certain international routes withdrawn.

In addition, in the case of a SAM airline, the New Zealand Ministry of Transport may require such constitutional amendments prior to granting a SAM airline licence.

Under the terms of the Ongoing Shareholders’ Agreement, the Patrick Shareholder and the Virgin Group Shareholders have agreed that, in certain circumstances, if a proposal is put to shareholders to include in the Constitution foreign ownership restrictions of the type required by the Air Navigation Act, they will each vote in favour of the proposal.

**Competition Regulation**
The Trade Practices Act prohibits corporations from engaging in misleading or deceptive conduct or from behaving in a manner that is anti-competitive. Actions can be taken for a breach of the Trade Practices Act by corporations that allege that they have been affected by such conduct or by the ACCC. The ACCC is responsible for administering and enforcing the Trade Practices Act and it may investigate complaints that allege a breach of the Trade Practices Act. The ACCC closely monitors the participants in the Australian airline industry. Virgin Blue cooperates with requests from the ACCC to provide assistance and information.

**Noise and Environmental Regulation**
Australia has adopted internationally agreed International Civil Aviation Organisation standards for aircraft noise and engine emissions. Virgin Blue’s fleet meets the existing standards. Proposals for new restrictions on aircraft noise are currently being considered by the International Civil Aviation Organisation. If adopted, these restrictions could be implemented in the next decade. The proposals are not expected to have a significant impact on Virgin Blue’s operations. In addition, several Australian airports, including Sydney Airport, have restrictions on night time operations.

Virgin Blue’s operations are also subject to a variety of other environmental regulations at local, national and international levels. These regulations cover, among other things, disposal of hazardous substances, oils and waste materials and other activities incidental to Virgin Blue’s business.
4.1 Overview
Virgin Blue was established in November 1999, the culmination of a business plan developed over five years by Brett Godfrey and Rob Sherrard. After securing approximately US$10 million of equity funding from the Virgin Group, Brett and Rob recruited a senior team of experienced airline executives to launch the airline. The objective was to develop a Virgin branded, low cost, low fare carrier operating in the Australian domestic aviation market. The business model adopted was similar to that of successful low cost carriers in Europe and North America.

The Company selected Brisbane as its base due to the availability of substantial airport capacity and the low cost operating environment. Virgin Blue began operations as the fourth domestic passenger airline on 31 August 2000, operating two leased Boeing 737 Classic aircraft to offer services between Brisbane and Sydney.

Virgin Blue believes that the commencement of its operations changed the dynamics of the Australian domestic airline market. The then incumbent domestic airlines, Qantas and Ansett, reacted to Virgin Blue’s announcement of its intention to enter the domestic market by lowering their prices, prompting a fare war. As a consequence, Impulse Airlines, a low cost airline which had entered the domestic aviation market at around the same time as Virgin Blue, suffered financial difficulties. Impulse Airlines was subsequently acquired by Qantas in May 2001. In addition, Ansett was placed in voluntary administration in September 2001 and ceased operations in March 2002. At the time Ansett ceased operations, Virgin Blue’s market share had grown to 17%.

In March 2002, Patrick Corporation, a listed Australian transport company with operations encompassing stevedoring, rail freight transport, and logistics services, through the Patrick Shareholder, acquired a 50% stake in Virgin Blue from the Virgin Group and CU Nominees. The consideration for this stake consisted of an upfront cash payment of $260 million in March 2002 and a further $240 million in September 2003.

As of 10 November 2003, Virgin Blue operated a fleet of 40 Boeing 737 Next Generation aircraft on 37 domestic routes, including all of the top 20 routes (measured by passengers). As at 31 August 2003, Virgin Blue held a market share of more than 28% of the Total Domestic Market, and more than 32% on the routes which it serviced. The Company expects to take delivery of an additional four aircraft by 31 March 2004, resulting in a total fleet of 44 Boeing 737 Next Generation aircraft. In addition, Virgin Blue has committed to take delivery of a further seven aircraft by November 2004.

On 17 September 2003, Virgin Blue announced the commencement of international operations with the launch of Pacific Blue. The inaugural service between Brisbane and Christchurch, New Zealand, is expected to commence in January 2004. Services between Melbourne and Christchurch are expected to commence in March 2004. The Company expects to announce additional services in the Pacific Region in the near future.

4.2 Competitive Strengths
Virgin Blue’s key competitive strengths include:

Low Cost Operations
Virgin Blue believes that its cost structure is lower than that of its competitors in the Australian domestic market and that it has one of the lowest airline cost structures in the world. Virgin Blue’s low cost structure is underpinned by:

• its modern single type fleet of Boeing 737 Next Generation aircraft with a high density single class seating configuration. Operating a single type of aircraft allows Virgin Blue to minimise the complexity of its operations, take advantage of economies of scale and achieve high utilisation rates. In addition, Virgin Blue’s fleet had an average age of 1.6 years as at 10 November 2003, making it the youngest fleet in Australia and one of the youngest in the world, providing increased fuel efficiency and reduced maintenance costs and down time;

• its December 2002 agreement with Boeing under which Virgin Blue has agreed to purchase ten Firm Aircraft and has been provided with purchase rights to acquire, at highly competitive prices, up to an additional 50 Boeing 737 Next Generation aircraft by 31 December 2013. The Company has already exercised purchase rights over five such aircraft, which are expected to be delivered by November 2004;

• efficient sales distribution and booking systems. The Company believes that the internet is the cheapest distribution channel for airlines. Currently more than 85% of all Virgin Blue bookings are made over the internet, one of the highest levels of airline internet sales penetration in the world. In addition, Virgin Blue operates a ticketless booking system, which allows it to further minimise distribution and booking costs;
the low cost operating environment in Brisbane, combined with Brisbane Airport's substantial available capacity and access to a
skilled workforce;

• competitive and flexible workplace agreements. Virgin Blue has signed competitive and flexible workplace agreements with each of its
unions. The ground crew and cabin crew agreements allow the Company to manage its business more efficiently; and

• the elimination of expensive, non-essential service add-ons such as "free" meals and traditional frequent flyer programmes. Virgin Blue
believes that these services are expensive to maintain and are not highly valued by its guests.

Virgin Blue's low cost structure has enabled the Company to achieve higher profit margins than its competitors, despite offering significantly
lower average fares. This places Virgin Blue in a stronger position to endure a decrease in fares as a result of a deterioration in market
conditions, the entry of a new airline into the Australian domestic market or aggressive activity by competitors.

Low Fares and High Profitability
Virgin Blue is committed to offering its guests affordable air travel. Virgin Blue's fares are on average lower than those of its competitors.
The Company believes that its low fares stimulate market demand when starting services on new routes and when increasing frequencies
on existing routes. For example, passenger traffic increased 36% when Virgin Blue began flying on the Brisbane to Sydney route and 33%
on the Melbourne to Brisbane route.

The Company's low cost structure enables it to offer lower air fares while maintaining returns well in excess of its cost of capital. Virgin Blue
believes its ability to offer low fares will continue to stimulate demand on new routes, as well as existing routes when increasing
frequencies.

Experienced and Proven Management Team
Virgin Blue's senior management team, led by Brett Godfrey and Rob Sherrard, has extensive airline industry expertise both within Australia
and internationally. Brett and Rob have held the same positions with Virgin Blue since they co-founded the airline. Brett has over 14 years’
experience in the airline industry with National Jet Systems, Virgin Atlantic Airways, Virgin Express and Virgin Blue. Rob has over 25 years’
experience in commercial aviation. He was a co-founder of National Jet Systems and a managing director of National Airlines in Australia.

Brett and Rob conceived and developed the business model for Virgin Blue and selected the core senior management team to launch the
business. The senior management team they selected has remained with Virgin Blue since the commencement of operations in August 2000,
ensuring consistency and commitment to the development and growth of the Company.

Strong Brand
When Virgin Blue was launched in August 2000, the Company had the benefit of the "Virgin" brand to help establish its market position.
The Company believes that its competitive position has been assisted by customer awareness of the Virgin brand. Since the Company's
inception, the "Virgin Blue" brand has itself become a well recognised brand in Australia. The Company has differentiated itself from its
competitors, and believes that its guests associate Virgin Blue with the airline's core brand ideals of quality, value, reliability, innovation,
competitive spirit and fun.

Unique Culture
Management believes that the entrepreneurial spirit of the Company and the enthusiasm, commitment and productivity of its workforce
gives the Company an important advantage over its competitors. A contributing factor to this culture is Virgin Blue's tailored recruitment
procedures, continuing training programmes, performance based remuneration policies, and a belief by the staff in the values of the
Company.

High Quality Customer Service
Virgin Blue is committed to delivering low fares together with high quality, friendly customer service. Virgin Blue focuses on those areas most
valued by its guests such as safety, on-time performance, frequent flights, terminal facilities, booking systems and check-in and in-flight
services. The Company has already received many industry awards for its performance and service, including "World's Best Low Cost Carrier" in
4 BUSINESS OVERVIEW (CONTINUED)

Strong Capital Structure
Virgin Blue believes that, following the Offer, its capital structure will ensure that it can continue to take advantage of growth opportunities and that it has sufficient resources to effectively compete and provide some financial protection against any temporary deterioration in business conditions.

4.3 Strategy
Virgin Blue operates Australia's low cost, low fare airline, offering frequent passenger services on routes between all of Australia's major cities. Virgin Blue's aim is to offer fares that are on average substantially lower than those of its competitor and to provide guests with a differentiated, value for money service. Key elements of Virgin Blue's strategy include:

- increasing frequencies on existing routes, including the key business routes between Sydney, Brisbane, and Melbourne;
- launching new services on secondary business routes;
- launching new services on regional leisure routes;
- commencing international operations in the Pacific Region within the flying range of its current fleet under the name Pacific Blue; and
- introducing new value-added user pays service enhancements, which at a minimum are cost neutral to the Company.

Virgin Blue believes its business model is scaleable so as to accommodate the Company's planned growth, while retaining the qualities and culture that have contributed to the Company's support by the Australian public to date. In pursuing growth, the Company intends to continue to adhere to its business model by maintaining a low cost base and offering low fares and high quality customer service.

Virgin Blue believes its strategy of increasing frequencies on existing routes, together with the continued expansion of its network and new service enhancement initiatives, will result in the Company's product being increasingly attractive to a broader market, including business guests.

In order to support its planned growth, Virgin Blue has taken delivery of 12 Boeing 737 Next Generation aircraft (but returned one Boeing 737 Classic) since 31 March 2003 and is scheduled to take delivery of an additional four Boeing 737 Next Generation aircraft by March 2004. Further, Virgin Blue has committed to take delivery of seven additional Boeing 737 Next Generation aircraft by November 2004.

4.4 Virgin Blue's Market
Virgin Blue provides scheduled passenger services on all of the main domestic routes in Australia and, to the extent it has available capacity and on-time performance is not impacted, provides air freight services on its scheduled passenger flights. The Company's current route network is set out in Section 4.5.

Domestic Passenger Services
As at 31 August 2003, Virgin Blue's overall passenger share of the Total Domestic Market was more than 28% and available capacity share was 27%. As at that time, Virgin Blue had a market share of more than 32% on the routes which it serviced.

Since the collapse of Ansett in September 2001, Virgin Blue's share of the Australian domestic market has increased significantly as demonstrated in the chart below. See Section 3 for additional information regarding the Australian domestic aviation market.
Virgin Blue has announced that it intends to establish international operations under the name Pacific Blue. Virgin Blue intends to operate internationally as Pacific Blue, due to the restriction of the Company’s right to use the “Virgin” brand to certain specified aviation operations within Australia. (For additional information on Virgin Blue’s right to use the Virgin brand, see Section 10.8).

Pacific Blue will initially offer passenger services between Brisbane and Christchurch, New Zealand commencing in January 2004 and between Melbourne and Christchurch commencing in March 2004. These services are subject to the receipt of required regulatory approvals. The Company has secured terminal access and landing slots for this service. Pacific Blue has begun recruiting employees to service its operations in New Zealand.

The Company anticipates that Virgin Blue’s New Zealand operations will be operated through Pacific Blue Airlines (NZ) Limited, a subsidiary of Virgin Blue. Pacific Blue Airlines (NZ) Limited has applied for a New Zealand AOC which will allow Pacific Blue to offer air services between New Zealand and Australia, as well as domestically within New Zealand.

Virgin Blue is considering servicing additional international destinations that are within the flying range of its existing fleet of Boeing 737 Next Generation aircraft and that it believes offer profitable opportunities. Virgin Blue has been designated an Australian International Airline under the Air Navigation Act and has applied for an International AOC, which would allow it to offer air passenger services between Australia and other countries. Virgin Blue has been granted capacity allocations from the IASC to operate international services between Australia and Fiji, New Zealand and Vanuatu. Any services operating under the International AOC will be undertaken using the name Pacific Blue. See Section 3.4 for further information on the international regulatory environment.

Competition
Virgin Blue faces strong competition from other scheduled airlines that service its routes. On some routes, there is also competition from other transport modes, such as rail and road. The intensity of this competition varies from route to route and depends on a number of factors, including the strength and strategies of competing airlines.

In Australia, Virgin Blue’s principal competitor is Qantas, which has an estimated Total Domestic Market share of approximately 70%. Qantas is a full service carrier, offering multi-class scheduled services on a broad network of domestic and international routes, and add-on services including complementary in-flight meals and a frequent flyer programme. Virgin Blue competes with Qantas on all of its key domestic routes.

On 16 October 2003, media reports indicated that Qantas intends to launch a new domestic low cost airline in May 2004 which will operate as a separate business with its own brand. Those reports indicated that Qantas was negotiating with Boeing, Airbus and aircraft lessors for the acquisition or lease of Boeing 737-800 or Airbus A320 aircraft and that the new low cost carrier is expected to have a minimum of 23 aircraft by mid-2005.
Including Pacific Blue, there will be at least ten operators offering services between Australia and New Zealand. Qantas and Air New Zealand (and its low cost subsidiary, Freedom Air) dominate these routes and Emirates Airlines has recently launched passenger services between Australia and New Zealand.

In November 2002, Qantas and Air New Zealand agreed, subject to regulatory and other approvals, that Qantas would acquire up to a 22.5% voting equity interest in Air New Zealand and that Qantas and Air New Zealand would enter into a strategic alliance that involves several collaborative arrangements. On 9 September 2003 and 23 October 2003, the ACCC and the NZCC issued final decisions which rejected the applications for authorisation of the proposed alliance. Qantas and Air New Zealand have applied to the Australian Competition Tribunal for a review of the ACCC decision. To date, Virgin Blue is unaware if either Qantas or Air New Zealand will appeal the NZCC decision. It is therefore unclear if the proposed alliance will ultimately succeed, be terminated or be approved in a modified form. See Section 8.2 for risk factors associated with the outcome of the proposed Qantas-Air New Zealand alliance.

4.5 Route Network
As at 1 November 2003, Virgin Blue operated on 37 domestic routes serving 20 airports in Australia. Virgin Blue provides services on all of the top 20 city pair routes (as measured by passengers). Pacific Blue’s services between Brisbane and Christchurch, New Zealand, and between Melbourne and Christchurch are expected to commence in January and March 2004, respectively.

A route map showing Virgin Blue’s and Pacific Blue’s existing and proposed direct and connecting flights as at 1 November 2003 is shown below:
Virgin Blue focuses on providing point-to-point services where possible, rather than operating a hub and spoke system, so as to maximise convenience for guests, as well as reduce the incremental handling costs associated with connections. As at 1 November 2003, connections represented approximately 10% of Virgin Blue’s total revenue. The relevance of connections varies for particular destinations.

The table below sets out Virgin Blue’s direct route network of flights flown Monday to Friday of each week, as at 1 November 2003. Virgin Blue also offers extensive weekend services on these routes.

**Virgin Blue’s Direct Route System – Monday to Friday Service**

<table>
<thead>
<tr>
<th>Route</th>
<th>Date Service Commenced/Expected to Commence</th>
<th>Scheduled Number of Monday to Friday Daily Round Trips</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Between Brisbane and:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sydney</td>
<td>31 August 2000</td>
<td>18</td>
</tr>
<tr>
<td>Melbourne</td>
<td>7 September 2000</td>
<td>10</td>
</tr>
<tr>
<td>Adelaide</td>
<td>7 December 2000</td>
<td>2</td>
</tr>
<tr>
<td>Townsville</td>
<td>15 March 2001</td>
<td>2</td>
</tr>
<tr>
<td>Canberra</td>
<td>12 July 2001</td>
<td>2</td>
</tr>
<tr>
<td>Mackay</td>
<td>31 October 2001</td>
<td>2</td>
</tr>
<tr>
<td>Cairns</td>
<td>29 November 2001</td>
<td>3</td>
</tr>
<tr>
<td>Darwin</td>
<td>20 December 2001</td>
<td>1</td>
</tr>
<tr>
<td>Rockhampton</td>
<td>11 December 2002</td>
<td>1</td>
</tr>
<tr>
<td>Perth</td>
<td>12 December 2002</td>
<td>1</td>
</tr>
<tr>
<td>Whitsunday Coast</td>
<td>5 September 2003</td>
<td>1</td>
</tr>
<tr>
<td>Hobart</td>
<td>7 October 2003</td>
<td>1</td>
</tr>
<tr>
<td><strong>Between Melbourne and:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adelaide</td>
<td>17 May 2001</td>
<td>7</td>
</tr>
<tr>
<td>Sydney</td>
<td>15 July 2001</td>
<td>22</td>
</tr>
<tr>
<td>Launceston</td>
<td>8 November 2001</td>
<td>3</td>
</tr>
<tr>
<td>Canberra</td>
<td>30 November 2001</td>
<td>2</td>
</tr>
<tr>
<td>Perth</td>
<td>9 December 2001</td>
<td>4</td>
</tr>
<tr>
<td>Gold Coast</td>
<td>13 December 2001</td>
<td>5</td>
</tr>
<tr>
<td>Cairns</td>
<td>3 May 2002</td>
<td>1</td>
</tr>
<tr>
<td>Hobart</td>
<td>29 August 2002</td>
<td>4</td>
</tr>
<tr>
<td>Sunshine Coast</td>
<td>1 May 2003</td>
<td>1</td>
</tr>
<tr>
<td>Newcastle</td>
<td>1 November 2003</td>
<td>1</td>
</tr>
<tr>
<td><strong>Between Sydney and:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adelaide</td>
<td>1 March 2001</td>
<td>5</td>
</tr>
<tr>
<td>Gold Coast</td>
<td>17 June 2001</td>
<td>5</td>
</tr>
<tr>
<td>Perth</td>
<td>18 June 2002</td>
<td>4</td>
</tr>
<tr>
<td>Cairns</td>
<td>1 July 2002</td>
<td>2</td>
</tr>
<tr>
<td>Coffs Harbour</td>
<td>31 July 2002</td>
<td>1</td>
</tr>
<tr>
<td>Sunshine Coast</td>
<td>17 October 2002</td>
<td>1</td>
</tr>
<tr>
<td>Alice Springs</td>
<td>5 June 2003</td>
<td>1</td>
</tr>
<tr>
<td>Canberra</td>
<td>6 June 2003</td>
<td>2</td>
</tr>
<tr>
<td><strong>Between Adelaide and:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Perth</td>
<td>9 December 2001</td>
<td>2</td>
</tr>
<tr>
<td>Gold Coast</td>
<td>1 July 2002</td>
<td>1</td>
</tr>
</tbody>
</table>
The table below sets out Virgin Blue’s route network of flights flown on a weekly basis, as at 1 November 2003.

**Virgin Blue’s Direct Route System – Weekly Services**

<table>
<thead>
<tr>
<th>Route</th>
<th>Date Service Commenced</th>
<th>Scheduled Number of Weekly Round Trips</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney – Whitsunday Coast</td>
<td>12 April 2003</td>
<td>1</td>
</tr>
<tr>
<td>Adelaide – Broome</td>
<td>12 April 2003</td>
<td>1</td>
</tr>
<tr>
<td>Sydney – Darwin</td>
<td>14 June 2003</td>
<td>5</td>
</tr>
<tr>
<td>Adelaide – Canberra</td>
<td>5 September 2003</td>
<td>6</td>
</tr>
<tr>
<td>Canberra – Gold Coast</td>
<td>6 September 2003</td>
<td>1</td>
</tr>
</tbody>
</table>

### 4.6 Pricing and Revenue Management

Virgin Blue uses software to match capacity with demand by offering a number of fare classes with different prices and conditions, helping to maximise revenue on each flight. This process of maximising revenue is known as revenue management.

Virgin Blue uses a third party software product provided by Open Skies as its primary revenue management system. Fare classes offered on each flight range from a “Fully Flexible Fare” which offers the maximum flexibility, to a variety of lower priced “Fair Fares” and “Mid-Week Mini-Fares”, which have conditions attached. Fares are influenced by the length of time until a flight departs and conditions attached to the fare. Generally, as the time to departure reduces, the fare increases reflecting the guest’s increased certainty of travel and the reduced number of seats available for sale.

While Virgin Blue’s revenue management system generates recommended prices for each sale, members of the revenue management team are able to over-ride the system’s forecasts, as required, to take account of factors such as specific events, group bookings and competitor behaviour. Virgin Blue’s revenue management system is integrated with a number of other software modules used by Virgin Blue including reservations and airport check-in. Virgin Blue believes the software it uses increases efficiency and enables the Company to monitor route profitability on a timely basis.

While Virgin Blue seeks to maximise revenue, its low cost structure enables it to offer fares that are on average lower than its competitors’ equivalent fares. To support recognition of its low fares, Virgin Blue periodically offers promotional fares which are highly discounted. Promotional fares are also used for other reasons such as increasing demand on specific routes and increasing brand awareness. Promotional fares are typically sold well in advance of departure and are offered during periods of lower demand.

Virgin Blue’s growth has resulted in its service appealing to a broader section of the business market, as well as the leisure market.

### 4.7 Distribution and Sales

Virgin Blue sells its flights via the internet, telephone and travel agents. Virgin Blue operates a ticketless booking system which allows it to minimise distribution and booking costs. Instead of issuing traditional tickets, a booking number is issued. When guests check-in at the airport, they are only required to provide their booking numbers and confirm their identities.

**Distribution**

**Internet**

As at 1 November 2003, Virgin Blue’s online internet bookings represented more than 85% of total bookings, which is one of the highest penetration rates of airline internet sales anywhere in the world. Virgin Blue has encouraged the use of the internet to make bookings by establishing a fare structure across its distribution channels that reflects the respective costs to complete a booking. The internet is the cheapest distribution channel for Virgin Blue to sell flights, resulting in lower fares for guests.

In the event that details of an internet booking need to be changed, most guests or their travel agents are able to easily change their bookings on the internet. Virgin Blue’s website, www.virginblue.com.au, is known due to its recurring appearance in advertising and promotional materials and on the side of Virgin Blue aircraft.
Guest Contact Centre

Virgin Blue’s guest contact centre operates 24 hours a day, seven days a week. Fares for flights booked through the guest contact centre are higher than for flights booked over the internet, due to the higher cost of processing bookings through the guest contact centre. Virgin Blue’s guest contact centre has already received several industry awards for service quality. This can be attributed to a combination of the particular attention paid to the selection of employees and their working environment.

Virgin Blue’s guest contact centre is located in Brisbane. Virgin Blue also has an agreement with a third party call centre provider to handle a proportion of its calls. Virgin Blue’s guest contact centre number – 13 6789 – is widely known due to its ease of recall, appearance in advertising and promotional materials and presence on all Virgin Blue aircraft.

Travel Agents

The booking of flights by travel agents on behalf of their guests represents a significant proportion of Virgin Blue’s revenue. Virgin Blue offers travel agents the option of booking flights through either its guest contact centre or its website; however, the majority of travel agents use the internet due to the higher commission they receive. Virgin Blue uses third party software, which provides travel agents with services comparable to Global Distribution Systems at a fraction of the cost. The proportion of bookings made via travel agents has increased over the last two years primarily as a result of travel agents’ increased propensity to book flights on the Company’s website and Virgin Blue’s more extensive route network and increased frequencies.

Global Distribution Systems

Virgin Blue has entered into an agreement for its flight schedule to be available to international travel agents and wholesalers and selected domestic corporate travel agents through the Global Distribution System operated by Sabre and expects it to be available on the Global Distribution System operated by Galileo by the end of 2003. While Global Distribution Systems require Virgin Blue to pay higher transaction costs, they facilitate bookings by international travel agents who would not otherwise book flights with Virgin Blue. The fares for flights sold via Global Distribution Systems fully cover the additional cost to Virgin Blue of selling a flight through this distribution channel and are set at the same levels as flights offered via the guest contact centres.

Sales Team

Virgin Blue’s sales team services both travel agents and corporate accounts.

Virgin Blue provides revenue incentives to travel agents based on the level of revenue generated by each agent. The commission levels paid by Virgin Blue vary depending on the distribution channels. Virgin Blue’s largest travel agent account is Flight Centre.

Virgin Blue is seeking to increase its share of the business market and believes that it can do so by expanding its network, increasing frequencies and maintaining on-time performance. In addition, the introduction of its Blue Room guest lounges in Brisbane and Sydney, the pending opening of its lounge in Melbourne, valet parking and “Blue Zone” seating (exit row seating with extended leg room) are expected to further increase its appeal to corporate travellers.

Virgin Blue is increasing the size of its corporate sales team to further service the business market segment. As at 1 November 2003, Virgin Blue had more than 800 corporate accounts. Over 32% of ASX 100 companies had corporate accounts with Virgin Blue.

4.8 Advertising and Promotions

Virgin Blue’s advertising and promotion activities focus on the Company’s core brand values of quality, value for money, reliability, innovation, competitive spirit and fun. Virgin Blue believes that the use of the “Virgin” trademark has assisted the speed and level of Virgin Blue’s brand recognition within Australia. In addition, the Company regards the immediate recognition and credibility attached to the “Virgin” trademark as valuable in attracting first time users of its services. Since the Company’s inception, the “Virgin Blue” brand has itself become a well recognised brand in Australia.

Virgin Blue’s advertising campaigns are focused around the Company’s key slogan of “Keeping the Air Fair” and highlight Virgin Blue’s low fares and high quality customer service. In keeping with the Company’s image, the campaigns are often upbeat and humorous.

The Company’s key advertising media are print, outdoor and radio, with television used periodically to complement the various marketing campaigns. Virgin Blue also conducts market research to gain further insights into its guests.
Virgin Blue pursues sponsorships that are consistent with its brand and strategic image as a low fare, high quality customer service airline. Sponsorships include community and charity events, as well as various industry events.

4.9 Blue Holidays
In May 2003, Virgin Blue launched Blue Holidays, which offers guests holiday packages, that include air travel, accommodation and car hire, to a range of Australian destinations. The Company estimates that the domestic holiday package market generates revenue of $800 million per year, of which approximately 50% is earned by the airline industry. Virgin Blue earns revenue through both seats sold on its aircraft and commission on the land/hotel portion of the package. A benefit of Blue Holidays’ packages to Virgin Blue is that the product creates demand for seats during off-peak periods.

4.10 Service
The provision of consistent, high quality service is a core priority for Virgin Blue and its staff. Key features of Virgin Blue’s service offering include high quality customer service, reliability, consistent on-time performance, and a variety of value-added service enhancements based on a user pays service proposition, which ensures that the services are at a minimum, cost neutral to the Company after start up costs.

High Quality Customer Service
Virgin Blue is committed to providing the highest quality customer service and believes in many instances this can be provided without a corresponding increase in costs. The Company believes that its staff are a key source of differentiation from its competitors. Virgin Blue seeks to employ staff who are friendly, professional and willing to make the travelling experience an enjoyable one for all Virgin Blue guests. Staff are selected through an intensive recruitment process, which is followed by extensive initial and ongoing training and performance management to ensure high quality service is a consistent focus for all guest interfacing staff. To achieve this, Virgin Blue’s management is structured such that a single department is responsible for designing and overseeing service standards throughout all guest interfacing aspects of the Company including booking, check-in, boarding and in-flight service. Virgin Blue also plans to establish a Guest Service Management Group consisting of a number of the Company’s senior managers and chaired by the Chief Executive Officer. The role of the group will be to review and act upon feedback received regarding the Company’s service levels to enhance the delivery of its guest services.

Virgin Blue’s high quality customer service has already been recognised through the receipt of several industry awards including:

- World’s Best Low Cost Carrier (travelquality.com Aviation Awards 2003);
- Best Low Cost Airline – Australasia (SkyTrax Regional Best Airline Awards 2003); and

Consistent On-Time Performance
Guests, in particular business guests, regard on-time performance as a key factor in selecting which airline to fly. Virgin Blue’s estimated average on-time performance (flights departing within 15 minutes of the scheduled departure time) for the 12 months ended 31 August 2003 was 89%. The Company expects that demand from the business market segment will increase, in recognition of its on-time performance.

Value-Added Service Enhancements
Virgin Blue is focused on providing a high quality, value for money, reliable product to its guests. In order to maintain its low cost base, and therefore keep fares low, Virgin Blue has eliminated non-essential services that it believes are not highly valued by guests, including “free” meals and frequent flyer programmes. However, Virgin Blue supplements its standard product offering by providing a number of value-added service enhancements on a user pays basis. Guests can choose whether or not to purchase various service enhancements such as in-flight food, drinks and merchandise, access to Blue Room airport lounges, valet parking at Sydney Airport and Blue Zone seating.

Each of Virgin Blue’s service enhancements is intended to be, at a minimum, cost neutral and is expected to enhance the Company’s product offering to its guests and be consistent with the values associated with the “Virgin Blue” brand. For example, Virgin Blue’s Blue Rooms provide guests with an innovative airport lounge experience including cinema theatrette, Playstation consoles, personal services, work stations and food and beverage outlets. Blue Room lounges are open at Brisbane and Sydney Airports, while the Melbourne Airport lounge is expected to open in December 2003.

Virgin Blue will continue to evaluate new service enhancement initiatives.
4.11 Scheduling and Slot Management

Scheduling

Virgin Blue's services are scheduled to maximise their appeal to guests by balancing the provision of a sufficiently broad network, frequency of services on each route, services provided by competitors and operational considerations.

Virgin Blue principally operates a point-to-point network. A point-to-point network maximises guest convenience while avoiding incremental handling costs and potential delays to flights if connecting guests are delayed.

The Company's scheduling activities have resulted in high aircraft utilisation performance against international benchmarks. In the year ended 31 March 2003, Virgin Blue's aircraft utilisation increased to the highest levels since operations began. High aircraft utilisation enables Virgin Blue to lower its unit costs.

Aircraft Utilisation

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Aircraft utilisation (block hours per day)</td>
<td>10.1</td>
<td>10.4</td>
<td>10.9</td>
<td>11.1</td>
<td>11.6</td>
</tr>
</tbody>
</table>

Virgin Blue’s high aircraft utilisation has been achieved through a variety of initiatives including:

- increasing the speed of turning around aircraft between flights by loading and unloading guests through both front and rear aircraft doors, minimising catering requirements and having cabin crew assist with cleaning aircraft;
- providing overnight flights on longer routes; and
- operating a young fleet of modern “Next Generation” aircraft which requires less maintenance (both scheduled and unscheduled).

The recent introduction of the Sabre flight operations and crew scheduling systems have enabled Virgin Blue to improve efficiencies in crew and aircraft scheduling. In addition, the Company expects that the establishment of international services will provide further opportunities to achieve a higher rate of aircraft utilisation due to the longer sector lengths and time zone differences with Australia.

Slot Management

Slots are the rights that allow aircraft to land and take off at an airport. Sydney Airport is the only airport at which Virgin Blue operates where slot controls apply as a result of air traffic congestion. At Sydney Airport, takeoffs and landings are regulated through the allocation of slots by an independent slot coordinator (via a mechanism approved by the Minister for Transport). Virgin Blue currently has adequate slot capacity at Sydney Airport to meet its medium term growth plans.

Virgin Blue has secured the slots necessary to facilitate Pacific Blue’s operations at Christchurch, New Zealand.

4.12 Fleet

As at 10 November 2003, Virgin Blue operated 40 Boeing 737 Next Generation aircraft – 33 under operating lease and seven owned. Virgin Blue’s fleet of Boeing 737 Next Generation aircraft comprises a combination of 737-700 and 737-800 aircraft. With an average age of 1.6 years, Virgin Blue’s fleet of aircraft is the most modern in Australia and one of the youngest in the world. Maintaining a young fleet provides high reliability, enables high aircraft utilisation and reduces maintenance costs.

Similar to many of the successful low cost airlines overseas, Virgin Blue operates one type of aircraft in order to increase scheduling flexibility, reduce operational complexity and minimise costs of training, spare parts and maintenance.

Key benefits of the Boeing 737 Next Generation aircraft include increased fuel efficiency and reduced maintenance costs. Boeing 737 Next Generation aircraft provide the operational flexibility needed to offer air services within Australia, as well as to potential international destinations within New Zealand and the Pacific Region.
Virgin Blue Fleet
As at 31 March

<table>
<thead>
<tr>
<th>Aircraft Type</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>737-300</td>
<td>–</td>
<td>1</td>
<td>1</td>
<td>–</td>
</tr>
<tr>
<td>737-400</td>
<td>6</td>
<td>5</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>737-700NG</td>
<td>0</td>
<td>6</td>
<td>18</td>
<td>22</td>
</tr>
<tr>
<td>737-800NG</td>
<td>0</td>
<td>5</td>
<td>10</td>
<td>22</td>
</tr>
<tr>
<td><strong>Total number of aircraft</strong></td>
<td><strong>6</strong></td>
<td><strong>17</strong></td>
<td><strong>29</strong></td>
<td><strong>44</strong></td>
</tr>
<tr>
<td><strong>Average number of aircraft</strong></td>
<td><strong>4.4</strong></td>
<td><strong>11.0</strong></td>
<td><strong>24.1</strong></td>
<td><strong>34.3</strong></td>
</tr>
</tbody>
</table>

Note:
(1) For the seven month period ended 31 March 2001, the 12 month periods ended 28 March 2002 and 31 March 2003 and the 12 month period ending 31 March 2004.

Virgin Blue has allocated two aircraft for use as spares, one as a maintenance spare and one as an operational spare.

In respect of Virgin Blue’s leased aircraft, the Company has entered into operating leases for aircraft from Babcock & Brown, Boullion Aviation, CIT, GECAS, ILFC and Tombo Aviation. The leases typically have terms of between four and ten years, with an option to renew or extend the leases. In the year to 31 March 2004, Virgin Blue expects to take delivery of a further three leased aircraft.

On 20 December 2002, Virgin Blue signed an agreement with Boeing to acquire 10 Boeing 737 Next Generation aircraft and purchase rights to acquire up to a further 50 such aircraft by 31 December 2013. More specifically, the agreement includes:
(a) a firm order for 10 Boeing 737-800 aircraft (the “Firm Aircraft”);
(b) purchase rights, exercisable at Virgin Blue’s discretion, to acquire 40 more Boeing 737 Next Generation aircraft on substantially the same terms and conditions, subject to a price escalation mechanism and agreed concessions; and
(c) additional purchase rights, exercisable at Virgin Blue’s discretion, to acquire up to a maximum of 10 Boeing 737 Next Generation aircraft on substantially the same terms and conditions as any of the purchase rights aircraft (referred to in paragraph (b) above) on a one-for-one basis.

As at 10 November 2003, seven of the Firm Aircraft had been delivered to Virgin Blue resulting in a total fleet of 40 aircraft. One additional Firm Aircraft, as well as three leased aircraft, are expected to be delivered prior to 31 March 2004 resulting in a total fleet of 44 aircraft. The remaining two Firm Aircraft are expected to be delivered by the end of May 2004. In addition, Virgin Blue has committed to purchase five of the additional 50 aircraft under purchase rights, with expected delivery dates between August and November 2004.

Virgin Blue decided to acquire these aircraft (as opposed to leasing them) principally due to:
- the risks involved in relying solely on operating lessors to provide the aircraft needed for future growth (i.e. aircraft may not be available or lease terms may be unfavourable when the operating leases come up for renewal);
- the highly competitive prices at which the aircraft were able to be acquired and financed; and
- the taxation timing benefits on cash flows resulting from high up front depreciation deductions in respect of the aircraft.

To operate more efficient flight paths, Virgin Blue has been granted extended twin engine operations (“ETOPS”) approval by CASA, which allows Virgin Blue to schedule flight paths on which its aircraft, at any point of the flight, can be up to 90 minutes away from an airport. Without ETOPS certification, regulations require twin engine aircraft to fly routes that are within 60 minutes of an airport at all times.

### 4.13 Maintenance and Spare Parts

Virgin Blue’s strategy to operate only Boeing 737 aircraft results in maintenance efficiencies. Key benefits include specialisation as a result of homogenous aircraft and equipment, reduced training requirements and reduced stock holdings of spare parts. In addition, by operating a young fleet, Virgin Blue’s aircraft have lower maintenance requirements.
Virgin Blue’s AOC holder and the engineering division are responsible for managing all maintenance completed on Virgin Blue’s aircraft. The engineering division’s responsibilities include exercising overall control over maintenance activities and establishing the maintenance programme, controlling aircraft configuration, maintaining maintenance records, planning maintenance schedules and overseeing aircraft inductions/returns.

**Maintenance**

Maintenance consists of line maintenance and heavy maintenance. Virgin Blue’s maintenance programme is based on Boeing’s recommended schedule and has been approved by CASA.

Line maintenance is undertaken by Virgin Tech (an indirect wholly owned subsidiary of Virgin Blue) and Jet Care (an indirect wholly owned subsidiary of Patrick Corporation), under the direction and oversight of Virgin Blue’s engineering division.

Virgin Tech was established by Virgin Blue in August 2002 to ensure that Virgin Blue was not completely reliant on third parties to satisfy its maintenance requirements. Virgin Tech commenced providing line maintenance to Virgin Blue aircraft in Melbourne in April 2003 and now performs line maintenance in certain airports such as Melbourne, Hobart, Launceston, Adelaide and Perth. Virgin Tech’s Melbourne facilities include two hangars, each capable of accommodating two Boeing 737 Next Generation aircraft. One of these hangars is currently in use and the other is expected to be available for use in January 2004.

Jet Care provides line maintenance for Virgin Blue in certain airports such as Brisbane, Sydney, Coolangatta, Cairns, Darwin and Canberra. Prior to the establishment of Virgin Tech, Jet Care provided all line maintenance services to Virgin Blue. Jet Care was acquired by Patrick Corporation in November 2002. A description of Virgin Blue’s agreement with Jet Care is summarised in Section 10.9.

While it is intended both Virgin Tech and Jet Care will be the primary line maintenance providers, Virgin Blue will consider contracting with other parties in order to provide flexibility in scheduling and promote efficiency.

Virgin Blue’s heavy maintenance is currently undertaken by Air New Zealand Engineering Services. Virgin Blue is currently reviewing its heavy maintenance arrangements and has received tenders from a number of parties to provide such services. Until a party is selected to provide these services, Virgin Blue expects that Air New Zealand Engineering Services will continue to undertake the Company’s heavy maintenance services.

Virgin Blue is considering building a two bay line maintenance facility in Brisbane costing approximately $12 million. Virgin Blue has entered into an arrangement with the owners of Brisbane Airport to lease sufficient land and a Major Development Plan for the construction which has been lodged for public consultation.

**Spare Parts**

As at 30 September 2003, Virgin Blue had $51.0 million invested in aircraft spares. Virgin Blue is negotiating a spares exchange programme to increase its access to the range and number of spares available. Virgin Tech is responsible for the management of Virgin Blue’s main spare parts stores in Melbourne. From time to time, Virgin Blue also purchases or hires spare parts from Qantas and the administrators of Ansett. Virgin Blue owns two spare engines and an auxiliary power unit, and has a third engine available from a leasing company for short term requirements.
4.14 Safety and Security

Virgin Blue’s commitment to safety is its foremost priority and accordingly it has sought to develop a maintenance safety system and corporate culture that reflects this priority. To ensure the highest safety standards are maintained, the Company provides its staff with extensive training, has policies and procedures covering all areas of the business that have contact with the aircraft and ensures its operations are regularly reviewed by internal and external safety experts. Complementing Virgin Blue’s commitment to safety is its security team, which continually monitors all of the Company’s operations, as well as provides staff training and security reviews.

Safety

Virgin Blue believes it has developed a strong safety culture. This culture is supported by Virgin Blue’s practice of providing extensive training to ensure its staff have appropriate skills for their respective jobs and the establishment of systems to assist the identification of potential safety issues. Virgin Blue’s safety procedures support the reporting and retention (in an electronic database) of a wide range of potential issues, such as occupational health and safety matters, engineering issues and aircraft equipment malfunctions. Virgin Blue monitors the database to identify potential risks and prepares reports for senior management with recommendations for any required action. Virgin Blue’s quality assurance department is responsible for ensuring compliance with approved published procedures, as well as assessing the quality of existing procedures.

To further ensure Virgin Blue’s safety standards retain their targeted industry best practice status, Virgin Blue has established a Safety Management Group consisting of a number of senior managers and chaired by the Chief Executive Officer. The role of this group, which reports fully to the Board on a quarterly basis and can raise issues at any time, is to ensure the prompt communication of potential safety issues across all departments with a clear objective of identifying and addressing any safety issues.

Virgin Blue regularly undergoes scheduled safety audits by CASA. If an issue is identified in a CASA audit, a Request for Corrective Action (“RCA”) is issued which stipulates the matter that is required to be fixed and the date by which the matter must be corrected. Virgin Blue currently has three outstanding RCAs, which Virgin Blue is in various stages of addressing. Virgin Blue does not believe that any of these RCAs will have any material impact on its operations. In Virgin Blue’s most recent audit, no RCAs were issued. The Company was upgraded by CASA at its first renewal from an annual to a three year licence.

In addition to CASA’s audits, Virgin Blue recognises the need to be self auditing and has developed procedures that it believes are effective in reducing potential safety issues.

Security

Virgin Blue is responsible for security screening of guests and bags on Virgin Blue flights at Brisbane Airport, while at other airports third parties provide security screening. Virgin Blue continually monitors security at all of its existing locations and performs security checks of all new locations. Virgin Blue’s security team completes a police check of all new operational employees and provides training to various parts of the Company to help foster a culture of security vigilance. Security training varies depending on an employee’s function, but generally includes self defence, identification of suspicious activity and maintenance of specified secure areas.

Virgin Blue undertakes regular audits of its operations and maintains regular dialogue with various government departments regarding security issues. Following recent terrorist incidents such as the 11 September 2001 terrorist attacks and the October 2002 Bali bombing, the level of required security screening at airports, and consequently the cost to airline operators (including Virgin Blue), has increased significantly. The Australian government has implemented a number of measures to increase air security such as the introduction of reinforced cockpit doors (which Virgin Blue expects to have installed on all of its aircraft by mid-2004), random screening of guests and their carry-on bags for explosives and air marshals. In addition, a number of further measures such as checked baggage screening are being implemented.

4.15 Fuel

Virgin Blue contracts with third parties to provide its fuel, fuel handling and other fuel management services. Shell supplies approximately 90% of the Company’s fuel requirements at the major airports that Virgin Blue frequents (i.e. Brisbane, Sydney, Melbourne, Adelaide and Perth). Other suppliers to Virgin Blue include Air BP, ExxonMobil and Caltex. The Company assesses its fuel requirements and suppliers on an ongoing basis.
Fuel costs (including handling costs) represented 15% of Virgin Blue’s total operating costs in each of the year ended 31 March 2003 and the six months ended 30 September 2003, making fuel the Company’s second largest operating cost. Fuel costs are extremely volatile, as they are subject to global economic and geopolitical factors that Virgin Blue is unable to control or accurately predict. In addition, as international fuel prices are denominated in US dollars, Virgin Blue’s fuel costs are also subject to exchange rate fluctuations. Virgin Blue has taken out fuel and foreign exchange hedging contracts to partially protect against significant increases in fuel prices or foreign exchange rates.

Virgin Blue has hedged 70% of its anticipated fuel requirements for the six month period ending 31 March 2004. In addition, Virgin Blue has hedged 71% of its foreign exchange exposure for the six months ending 31 March 2004. Virgin Blue and the Directors cannot provide any assurance that the Company’s hedging programme is sufficient to protect against significant increases in the price of fuel or changes in applicable exchange rates. Significant increases in fuel costs and changes in the AUD/USD exchange rate could have a material adverse effect on Virgin Blue’s operating results.

For additional information on Virgin Blue’s hedging activities and associated risks see Sections 6, 7 and 8 and Notes 18 and 19 to the historical financial information contained in Appendix A.

4.16 Information Technology

Virgin Blue’s key operating software systems include Open Skies for reservation bookings, TRAX for aircraft maintenance and Sabre for route planning and scheduling of aircraft and crew.

Virgin Blue uses Open Skies software as its core reservation booking system, which provides real time access to revenue information. This software, which operates through a single database and fully integrates bookings received through the internet, call centre and Global Distribution Systems, is most effective for use in connection with a point-to-point network. A separate online payment system allows Virgin Blue to complete each booking transaction at the time of booking confirmation, enabling Virgin Blue to process the transaction almost immediately.

The Open Skies software suite used by Virgin Blue also includes “Web Agent”, which allows travel agents to book flights through the web at lower cost than many comparable systems, while ensuring travel agents’ commissions are retained.

Virgin Blue uses TRAX software for its aircraft maintenance system which stores and records all maintenance carried out on Virgin Blue’s aircraft. The efficient management of these records is important for scheduling maintenance, satisfying regulatory obligations and the sale/return of aircraft in the future.

The Sabre suite of products provides systems for route planning and scheduling, operations disruption management and crew schedules.

The Company also uses a number of other third party software packages to assist with functions such as finance, human resources, payroll and communications.

Virgin Blue’s information technology infrastructure consists of two separate front end systems for online infrastructure which are periodically alternated. In addition, a number of Virgin Blue’s critical back end systems, including Open Skies software, are planned to be replicated in different geographic locations to provide a back-up in the event of a disruption.

Virgin Blue monitors the availability and performance of its information technology systems on a regular basis through a number of performance indicators. The Company constantly monitors the security of its internet systems and technology platforms and addresses any issues as a matter of urgency. Virgin Blue believes its information technology systems are adequate to accommodate the Company’s planned growth. However, the Company can not provide any assurance that there will not be disruptions in the future or that the systems will be able to support the Company’s growth. See Section 8.2 for additional information.
4 BUSINESS OVERVIEW (CONTINUED)

4.17 Airport Operations and Facilities

Domestic Operations
As of 1 November 2003, Virgin Blue provided services to 20 airports throughout Australia. Virgin Blue has moved into the terminal space previously occupied by Ansett at all major ports in Australia including Brisbane, Sydney, Melbourne, Adelaide, Canberra and Perth. Virgin Blue has arrangements with each airport regarding access to terminal space and various airport charges including landing fees and security charges.

At each airport, Virgin Blue provides, directly or through third party contractors, a range of guest services and ground handling services. Guest services include check-in, service desk, boarding and lounge services. Ground handling services include baggage and freight handling, and aircraft push-backs. Virgin Blue provides both guest services and ground handling services at Brisbane, Sydney, Melbourne and Adelaide domestic airports. At all other airports used by Virgin Blue, the Company uses third party contractors for guest services and ground handling services. At Canberra, Cairns, Coolangatta and Perth airports, Virgin Blue has management oversight of these functions. The warehousing and distribution function of catering is provided by a third party at all airports.

Virgin Blue’s home airport is Brisbane, which was chosen due to the availability of suitable facilities and access to a high quality workforce. Virgin Blue has entered into a five year lease with Brisbane Airport Corporation effective 2002, with two options to extend for an aggregate of 11 years. The lease provides domestic terminal access for guest check-in, access to aircraft gates and rights to concessionary services including car rental, retail, food and beverages. Virgin Blue has decided to redevelop the concessionary services at Brisbane Airport. The redevelopment is expected to be completed in 2004. The cost of the redevelopment is expected to be less than $4 million, which will be shared by Virgin Blue and the successful lessee.

Virgin Blue’s decision to move into the domestic terminal space previously occupied by Ansett at Sydney and Melbourne Airports in 2002, from the smaller premises previously occupied, represented one of the more significant developments for the Company since it began operations. The change of premises has significantly improved Virgin Blue’s guest amenities at two of the country’s busiest airports. Improvements in check-in facilities, gate lounges and waiting areas, baggage handling, ease of boarding and a significant reduction in terminal congestion have all considerably improved the travelling experience for Virgin Blue’s guests.

In August 2002, Virgin Blue entered into a 10 year agreement with Melbourne Airport providing access to its domestic terminal. Virgin Blue has been provided with access to up to 10 gates, 18 check-in counters and two service desks. The Company has recently requested that the owners of Melbourne Airport build additional guest processing facilities to accommodate its growth. Virgin Blue pays a per passenger charge, calculated on a sliding scale, for the use of the terminal. In addition, it pays a per passenger landing charge.

In November 2002, Virgin Blue entered into a 17 year anchor tenancy agreement with Sydney Airport providing Virgin Blue’s domestic operations priority access to six gates, 19 check-in counters and access to an additional five common user gates to accommodate growth. This agreement provides Virgin Blue with sufficient gates at Sydney’s domestic terminal to accommodate its current schedule. Virgin Blue pays a per passenger charge, calculated on a sliding scale, for the use of the terminal.

In July 2003, Sydney Airport introduced a per passenger landing charge. Prior to this date, landing charges were levied on a Maximum Takeoff Weight (“MTOW”) basis. As a result of Virgin Blue’s high seat density configuration on its aircraft and high load factors, the Company will be required to pay higher landing fees under a per passenger charge methodology. Virgin Blue is currently paying the increased charges so as not to be in breach of its tenancy agreement. However, the Company believes that landing charges, unlike terminal charges, should be levied on a MTOW basis to more accurately reflect the usage of runways and taxiways. The Company has applied to the National Competition Council for airside services (runways, taxiways and aprons) at Sydney Airport to be declared under the Trade Practices Act. Once a service has been declared, disputes between the service provider and the user are subject to arbitration by the ACCC. If the Company is successful in its application, it intends to apply to the ACCC to have the change in charging methodology reversed.

In October 2003, Virgin Blue signed an agreement with Adelaide Airport for access to 10 check-in counters and up to five gates in the new multi-user domestic/international airport terminal in Adelaide. Adelaide Airport has advised, construction is expected to commence in November 2003 and to be completed by late 2005.
At other major domestic airports including Cairns, Coolangatta, Hobart and Perth, the Company has entered into agreements ranging from two to ten years, covering a range of airport charges including landing charges, terminal access fees and security fees. At the smaller domestic airports to which the Company flies, Virgin Blue has various arrangements in place covering fees and charges.

In addition, Virgin Blue pays Air Services Australia fees for the provision of terminal navigation services, en-route air route services and other airway services, fire fighting and rescue services and safety regulatory services at all airports.

**International Operations**

Virgin Blue’s proposed international operations, which will be undertaken under the name Pacific Blue, will operate from international terminals, which are separate from domestic terminals. Virgin Blue intends to establish agreements to access the international terminal of airports it intends to frequent. To date, Virgin Blue has agreements with both Brisbane International and Christchurch International Airports. Check-in services for Pacific Blue will be provided by both Virgin Blue and third party contractors depending on the airport and its frequency of services.

Ground handling services for Pacific Blue in Brisbane will be provided by Liberty. Liberty is a joint venture between Virgin Blue and Patrick Air Services, a subsidiary of Patrick Corporation. Liberty has also been awarded a contract to undertake ground handling services for an international carrier at Brisbane and is seeking to service other third party customers. Liberty will employ all guest services staff, while Patrick Air Services will provide ramp services and all ground service equipment.

**Head Office and Other Operations**

Virgin Blue’s corporate headquarters are in Brisbane. These premises are used by the Company’s various executive, finance and operations departments. The Virgin Blue guest contact centre is also located in Brisbane. The Company’s contracted overflow call centre is located in Melbourne.

Virgin Tech’s head office is located at Melbourne Jet Base, where its facilities include two hangars that are currently used to undertake overnight and line maintenance. These hangars are also capable of undertaking heavy maintenance.

In December 2002, Virgin Blue announced the construction of a training centre facility to be built at Brisbane Airport. The facility has a capacity to house four state-of-the-art flight simulators. Virgin Blue will own one Boeing 737 Next Generation simulator and Boeing’s wholly owned subsidiary will own the other three simulators. The centre is expected to be completed in December 2003 and will allow continuous pilot training with an emphasis on all aspects of flight operations. The centre will also provide training facilities for cabin crew and aircraft maintenance personnel. Boeing will manage and operate the centre. The training centre will remove the Company’s current dependence on purchasing time on alternative flight simulators in cities such as Seattle and Hong Kong, as well as reduce pilot travel time and associated expenses to attend these facilities.

**4.18 Freight**

Virgin Blue currently offers freight services on its scheduled flights. However, in accordance with its business model, Virgin Blue gives priority to passenger services to ensure on-time performance, and generally will not disrupt or delay its flights in order to carry freight.

Virgin Blue’s freight business is conducted by Express Blue Air Freight Pty Ltd (“Express Blue”), an independent third party not owned by Virgin Blue. A profit sharing arrangement exists between Virgin Blue and Express Blue, resulting in the majority of profits arising from the freight business being paid to Virgin Blue.

Express Blue currently services more than 250 customers, some of whom are overnight express freight forwarders. In the 2003 financial year, freight contributed $5.3 million of earnings to Virgin Blue.

Virgin Blue has an option to acquire all of the issued shares in Express Blue for a nominal sum plus the elimination of a loan previously made by Virgin Blue to Express Blue.
4 BUSINESS OVERVIEW (CONTINUED)

4.19 Intellectual Property
Virgin Enterprises, a wholly owned subsidiary of Virgin Group, owns the “Virgin” mark and the “Virgin Blue” marks. Virgin Blue has entered into a licence agreement with Virgin Enterprises, pursuant to which it has the right to use the “Virgin Blue” trade mark in Australia in connection with domestic Australian passenger air services, in-flight sales of certain products, air freight, aircraft engineering and maintenance and valet parking at airports (the “Licensed Activities”).

Virgin Enterprises has given a limited acknowledgement of Virgin Blue’s ownership of rights in certain “Blue Brands”. The acknowledgement is restricted to the Licensed Activities and tourism and transport services, all in the Pacific Region. Virgin Enterprises’ acknowledgements regarding the name “Blue” when not used in combination with “Virgin” do not extend beyond the Pacific Region in respect of the Licensed Activities and tourism and transport services. The position outside this field has not been agreed with Virgin Enterprises.

Virgin Blue has an exclusive licence to use certain Virgin Blue marks (the “Virgin Blue Marks”) in connection with the Licensed Activities and a non-exclusive licence to use specified “Virgin” marks in the form of certain “Virgin Blue” names. The licence agreement is for a period expiring on 31 December 2015.

Under the licence, Virgin Blue agrees that it shall (i) continue to use the “Virgin Blue” mark in Australia for the duration of the term of the licence (with limited exceptions for operational necessity) and (ii) market and/or promote domestic flights (i.e. flights where all points of embarkation and disembarkation are within Australia) and conduct all in-flight sales activities exclusively under or by reference to the Virgin Blue Marks whether operated using Virgin Blue’s own aircraft, on a third party code-share basis or otherwise.

Virgin Blue has also entered into a restraint and release deed with Virgin Enterprises, which restrains Virgin Enterprises, while the licence agreement is in force, from using or licensing the name “Virgin” in relation to the Licensed Activities in the Pacific Region and from using or licensing the name “Virgin Blue” in relation to (a) Licensed Activities anywhere in the world, and (b) tourism and transport services in the Pacific Region.

The agreement requires Virgin Blue Holdings Limited to pay Virgin Enterprises a royalty fee of 0.5% of gross sales (subject to a minimum payment of A$100,000 per annum). From 1 January 2011, the royalty is capped at 1.5 times the amount paid in the year ended 31 March 2004 as adjusted for changes in inflation. The key terms of the licence are summarised in Section 10.8.

4.20 Insurance
Virgin Blue has aviation and non-aviation insurance cover in respect of its operations. The Company believes its overall insurance coverage is consistent with industry practice and is maintained at levels that Virgin Blue considers adequate.

Virgin Blue’s aviation insurance covers both passenger and other third party liability insurance and its aircraft. Aircraft are insured for loss and damage on a broad basis, including as a result of war, terrorism and third party damage. Virgin Blue’s non-aviation insurance covers its buildings, assets, public liability, product liability, employer liability, Directors and officers, corporate travel and business interruptions.

Most of Virgin Blue’s insurance policies are arranged by Virgin Blue’s insurance brokers, with the exception of its public and product liability insurance which is arranged through the Virgin Group to take advantage of group discounts.

4.21 Employees
As at 30 September 2003, Virgin Blue employed over 2,780 staff. The Company also employs a number of external contractors. The Company currently maintains internet based databases to assist its recruitment process. Virgin Blue’s employees are represented by three unions and Virgin Blue has enterprise bargaining agreements in place with each union until approximately mid-2005. Virgin Blue believes it has established a strong corporate culture which supports the Company’s strategic image as a low cost airline offering high customer service.
Employees and Contractors

<table>
<thead>
<tr>
<th>Employee Numbers</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>30 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flight crew</td>
<td>62</td>
<td>194</td>
<td>358</td>
<td>428</td>
</tr>
<tr>
<td>Cabin crew</td>
<td>178</td>
<td>456</td>
<td>817</td>
<td>961</td>
</tr>
<tr>
<td>Ground crew</td>
<td>161</td>
<td>388</td>
<td>750</td>
<td>816</td>
</tr>
<tr>
<td>Reservations and sales</td>
<td>139</td>
<td>220</td>
<td>217</td>
<td>233</td>
</tr>
<tr>
<td>Other</td>
<td>69</td>
<td>163</td>
<td>272</td>
<td>346</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>609</td>
<td>1,421</td>
<td>2,414</td>
<td>2,784</td>
</tr>
</tbody>
</table>

Virgin Blue intends to hire approximately 500 additional staff by 31 March 2004 to accommodate its planned growth.

Virgin Blue staff undertake ground handling operations at Brisbane, Sydney, Melbourne and Adelaide airports. At other airports, including Perth, Canberra, Townsville and Darwin, ground handling is provided by various external contractors under the management of Virgin Blue. Other functions outsourced by Virgin Blue include catering services, certain aircraft and engine maintenance services (under the management of the Company’s engineering division), and overflow call centre services.

Virgin Blue has established a large workforce in a relatively short period of time. Job applications for pilots, cabin crew and ground crew are registered on the internet and stored in databases, which categorises applicants according to skills and experience. Based on current application levels within the database, the Company believes it will be able to hire sufficient staff to support its planned growth.

**Employee Location**

Approximately 74% of Virgin Blue staff are located in Brisbane, which is the location of the Company’s head office and corporate facilities. Initially, all cabin crew and flight crew were based in Brisbane. However, in February 2003, a Melbourne base was established to reduce the requirement for staff to be rostered away from their home base.

Staff at Virgin Blue’s proposed New Zealand operations will be located in Christchurch, New Zealand.

**Industrial Relations**

Virgin Blue’s employees are represented by three unions: the Australian Federation of Air Pilots represents pilots, the Flight Attendants Association of Australia (domestic division) represents cabin crew and the Transport Workers Union (“TWU”) represents ground crew, guest call centre and Virgin Tech employees. This is significantly fewer unions than are traditionally involved in airline operations in Australia.

In the first half of 2003, Virgin Blue renegotiated its certified agreements (“CA”) with its pilots and cabin crew which are in force until July 2005 and September 2005 respectively. Both of these CAs will enable Virgin Blue to offer international services within a three hour time zone difference from the eastern seaboard of Australia.

Virgin Blue has also negotiated with the TWU for both ground services and guest call centre employees to be covered by one agreement. This new CA is valid until October 2005. A CA covering all Virgin Tech employees is in force until October 2005.

Each of these new CAs provides for a pay increase of 4% in each of the first two years and 6% in the third year. The agreements reflect changes required as Virgin Blue moved from a start up operation to a major domestic carrier. In addition, the CAs provide for a further 2% profit bonus in the first and second years subject to the Company attaining certain profit targets and no third carrier commencing domestic operations in Australia. The Company believes that these increases will be cost neutral over the term of the agreements due to the resulting improvements in its ability to roster flights and cabin crew together and to respond to flight schedule disruptions.

Virgin Blue believes its flexible work practices and removal of traditional demarcations, as embodied in each of the CAs, enable significant productivity benefits, are key to the Company’s ability to keep costs low and provide staff with career opportunities.
Unique Corporate Culture
Virgin Blue believes a key advantage it has over its competitors is the enthusiasm, commitment and productivity of its workforce. This culture has been established through a combination of intensive recruiting procedures and a belief by the staff in the values of the Company. This has been achieved in part through the Company investing a significant amount of time and money to ensure it is recruiting people with specific behavioural characteristics consistent with the Company's culture. Virgin Blue's culture is further reinforced through extensive training and performance management.

The Company strives to maintain strong relations between management and staff, with open communication being a key goal. Characteristics of Virgin Blue's culture include focus on leadership, teamwork, proactivity and high levels of customer service and safety orientation. Virgin Blue has received recognition for its unique culture with a number of awards.
SECTION 5:

OWNERSHIP, MANAGEMENT AND CORPORATE GOVERNANCE
5. OWNERSHIP, MANAGEMENT AND CORPORATE GOVERNANCE

5.1 Shareholders of Virgin Blue
Virgin Blue is currently owned by the Patrick Shareholder (50.0%), Cricket S.A. (28.5%), the Selling Shareholder (17.5%) and CU Nominees Pty Ltd (4.0%). The Patrick Shareholder is a wholly owned subsidiary of Patrick Corporation. The Virgin Group Shareholders are both Swiss corporations and wholly owned indirect subsidiaries of Virgin Group Investments Limited, a company incorporated in the British Virgin Islands. The principal shareholders of Virgin Group Investments Limited are certain trusts, the principal beneficiaries of which are Sir Richard Branson and his immediate family. CU Nominees holds shares in the capital of Virgin Blue as bare nominee for Brett Godfrey.

Following the Offer, the Patrick Shareholder will own 45.9% of the Company's issued share capital (45.0% on a fully diluted basis). Virgin Group has agreed to sell such number of Shares into the Offer as will result in persons other than the Patrick Shareholder, the Virgin Group Shareholders and their respective Associates having a relevant interest in at least 25.0% of the issued share capital of the Company on completion of the Offer (having regard to the Patrick Shareholder’s agreement to subscribe for Shares pursuant to the Patrick Offer). Virgin Group reserves the right to increase the number of Shares it sells into the Offer. If Virgin Group sells the minimum number of Shares, on completion of the Offer it will hold 29.1% of the issued share capital of the Company, based on the mid-point of the Indicative Price Range. CU Nominees will not be selling Shares through the Offer. Based on the mid-point of the Indicative Price Range, CU Nominees will own 3.2% of the Company's issued share capital on completion of the Offer.

Under the terms of the Existing Option Plan, 46 senior employees and executives have been granted Existing Options over a total of 40,547,160 New Shares. Half of the Existing Options held by each Existing Option Holder will become exercisable upon Listing. As an alternative to exercising these Existing Options, Existing Option Holders will be offered the opportunity to acquire Shares in the Executive Offer in consideration of the cancellation of that half of their Existing Options. Those Existing Option Holders will be required to pay an amount equal to the exercise price per Share of their Existing Options under the Executive Offer. The remaining half of the Existing Options will become exercisable by Existing Option Holders on the first anniversary of Listing. For further details of the Executive Offer, see Section 10.12 and for further details of the Executive Offer see Section 10.10.

Sir Richard Branson, the founder of the Virgin Group which provided the start up capital for Virgin Blue, has been appointed Life President of Virgin Blue. Sir Richard Branson’s involvement in the Company will continue to be in a similar strategic, mentoring, advisory and promotional role to that which he has undertaken for Virgin Blue to date.

5.2 Board of Directors
The Board currently comprises five non executive Directors, two non executive independent Directors, and Virgin Blue’s Managing Director and Chief Executive Officer.

Chris Corrigan – Non Executive Chairman (Age 56)
Chris was appointed to the Board of Virgin Blue in May 2002. Chris had a career with Bankers Trust spanning 20 years, including periods as Managing Director of Bankers Trust in Australia and for the Asia-Pacific region.

Chris sponsored the formation of a $220 million development capital business known as Jamison Equity Limited in 1990 which became a wholly owned subsidiary, in December 1996, of the publicly listed company, Patrick Corporation.

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 in Virgin Blue.

David Ryan, AO – Non Executive Director (Age 51)
David was appointed to the Board of Virgin Blue in November 2003. David is Chairman of Tooth & Co. as well as other Residual Assco Group Limited companies. He is a Director of Transurban Holdings Limited and other Transurban Group entities. He is a Director of ABC Learning Centres Limited and is a member of the Caliburn Partnership Advisory Board. David was previously the Managing Director of Adsteam Marine Limited and a Director of Bankers Trust Australia Limited. David has had over 20 years of experience in investment banking.
David Mortimer, FCPA – Non Executive Director (Age 58)
David was appointed to the Board of Virgin Blue in November 2003. From 1992 to 1996, David was the Managing Director and Chief Executive Officer of the TNT Limited worldwide group. He was Deputy Chairman of Ansett Australia Holdings Limited from 1992 to 1996 and Chairman of GD Express Worldwide from 1992 to 1996. From July 1998 until its sale in July 2002, David was Chairman of Sydney Airports Corporation Limited.

William Hara – Non Executive Director (Age 37)
William was appointed a Director of Virgin Blue in May 2002. William is a senior executive of Patrick Corporation and holds a number of directorships within the Patrick group of companies including its aviation support companies, Jet Care, Patrick Cargo, Liberty Air and Esco.
William is a commercial lawyer and has been Patrick Corporation’s General Counsel since July 1997.

David Knight – Non Executive Director (Age 45)
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, DHL and was a shareholder and Director of Liberty Cargo System, before it was acquired by Patrick in 1999. Liberty was a wharf transport, 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, the ESCO Joint Venture with Qantas and the Liberty Air Services Joint Venture with Virgin Blue.

Patrick McCall – Non Executive Director (Age 38)
Patrick was appointed to the Board of Virgin Blue in May 2002. From May 1997 to April 1999, he was Virgin Rail Group Planning Director. During 1999 and 2000, Patrick worked as the Deputy Chief Executive Officer of Vine Telecom, before re-joining the Virgin Group in February 2001. Patrick is currently Group Commercial Director. Patrick is also a director of Cricket S.A. and the Selling Shareholder and holds a number of other directorships in the Virgin Group.
He was previously an investment banker at SBC Warburg/SGWarburg.

Stephen Murphy – Non Executive Director (Age 47)
Stephen was appointed to the Board of Virgin Blue in December 2001. From April 1994 to May 2000, he was Virgin Group Finance Director. He was Chairman and Chief Executive Officer of IP Powerhouse, an internet data services provider from June 2000 until October 2001 and he joined the Virgin Group again in November 2001 as Executive Director – Transportation. Stephen is also a director of Virgin Atlantic Limited and Virgin Express Plc and is Co-chairman of Virgin Rail Group Holdings Limited and holds a number of other directorships in the Virgin Group.
Stephen previously held senior finance positions in Mars, Unilever and The Quaker Oats Company.
5. OWNERSHIP MANAGEMENT AND CORPORATE GOVERNANCE (CONTINUED)

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

Brett is co-founder of Virgin Blue and has been Chief Executive Officer of Virgin Blue since the Company’s inception. Brett has over 14 years of experience in the airline industry, most of which was gained with low cost carriers. He first entered the industry in 1989 with his employment at National Jet Systems in Melbourne in the capacity of Group Financial Controller.

Brett joined the Virgin Group in the United Kingdom in 1993, where he initially worked as Finance Manager for three years at Virgin Atlantic Airways. Brett was then seconded to Virgin Express, Virgin’s European low cost carrier, as the sole Virgin Group representative and was part of the team that helped take the company public in 1997. Following the successful float, Brett was appointed Chief Financial Officer of Virgin Express and temporarily appointed acting Chief Executive Officer of Virgin Express in 1999. Brett moved to Australia in February 2000 taking up the role of Chief Executive Officer of Virgin Blue.

Brett was educated at Victoria University in Melbourne. He was awarded best final year student, graduating with a Bachelor of Business degree before qualifying as a Chartered Accountant with Touche Ross and working both in Australia and Canada.

David Mortimer and David Ryan are independent Directors. The Board has classified these directors as independent in accordance with its Board Charter. The Board noted that David Ryan had provided consultancy services to the Company in his role as Chairman of the due diligence committee in connection with Listing and the preparation of this Prospectus and concluded that these services did not prevent David Ryan from being classified as independent.

Chris Corrigan, William Hara and David Knight are non executive Directors but because of their connection with Patrick Corporation do not qualify as independent directors. Stephen Murphy and Patrick McCall are also non executive directors but because of their connection with the Virgin Group do not qualify as independent directors.

5.3 Management

Virgin Blue’s senior management team has extensive airline industry expertise both in Australia and internationally. Brett Godfrey, the Chief Executive Officer, and Rob Sherrard, the Deputy Chief Executive Officer and Chief Operating Officer, conceived and developed the business model for Virgin Blue and selected the core senior management team to launch the business. The senior management team assembled by Brett Godfrey and Rob Sherrard has been involved with Virgin Blue since it commenced operations in August 2000, ensuring consistency and commitment to the development and growth of the Company. Other senior management positions have been created to meet the increased demands of the business as it expands.

Biographies of senior management are provided below.

Senior Management Organisation Chart

Notes:

(1) Rob Sherrard is also the Deputy Chief Executive Officer.
(2) Bruce Byron was recently appointed Chief Executive Officer of CASA. John Bartlett has agreed to act as new Head of Safety Systems and will join Virgin Blue in February 2004.
Brett Godfrey – Founding Chief Executive Officer (Age 40)
See Section 5.2 for a biography of Brett Godfrey.

Rob Sherrard – Founding Chief Operating Officer and Deputy Chief Executive Officer (Age 51)
Rob is a co-founder of Virgin Blue. He was educated in Ireland before relocating to Australia in the early 1970s to take up his first position in the aviation industry with Arthur Schutt of Schutt Aviation. He has over 25 years of commercial aviation experience from small aircraft through to Boeing jet operations. From 1979 to 1984, Rob worked as a business development manager with Trans-Executive Airlines. In 1984, Rob established Sherrard Airlines, a small aircraft charter and wet lease operation, which expanded and began operating under the National Jet name in mid 1980s. In 1989, Rob jointly formed National Jet Systems, a company providing specialised aviation services for major corporate and government organisations, where he worked as Joint Managing Director until 1993. From 1991 to 1995, Rob was also Managing Director of National Airlines Limited in Australia, the first provider of time sensitive overnight freight services between Australia and New Zealand. This service now operates under the DHL banner. From 1995, Rob worked in a number of consulting roles within the aviation industry until he co-founded Virgin Blue in 1999.

Keith Neate – Chief Financial Officer (Age 42)
Keith joined Virgin Blue in 2003. Keith worked for KPMG for 14 years in both London and Melbourne, in audit and corporate finance roles, becoming a director of KPMG’s Transaction Services Group in 1998. During that time, he has advised various listed and private clients on major transactions, including public offerings in the United Kingdom and United States. Keith was seconded to the BBC in the role of Deputy Finance Director (Production) during 1998, and has been involved in providing audit and advisory services to the Virgin Group since 1995.

Keith graduated with a Bachelor of Arts degree in Accounting before qualifying as a Chartered Accountant in the United Kingdom.

Nick Brant – Head of Information Technology (Age 41)
Nick joined Virgin Blue in June 2001. He is a graduate of the Royal Military College, Duntroon, and served in the Australian Army for 13 years in a number of communications and technology related positions. Since leaving the Army in 1993, Nick worked at a senior level in several information technology and services organisations, including Oracle, Mincom and Indus International, working with organisations throughout Asia Pacific. Nick also worked at Interactive Gold, the online gaming and e-commerce subsidiary of the Golden Casket Lottery Corporation, and co-founded NewEcon, an e-commerce solutions consultancy based in Brisbane.

Nick holds a Bachelor of Science degree from the University of New South Wales and a Graduate Diploma in Information Systems from what is now the University of Canberra.

Martin Daley – Head of Guest Service Systems (Age 47)
Martin has been with Virgin Blue since the Company’s inception. He has 24 years of in-flight and ground operations experience having worked for various international airlines, including Laker Airways, British Caledonian and British Airways. In the 11 years prior to joining Virgin Blue, Martin worked with Virgin Atlantic Airways in a number of different roles including Cabin Crew Manager, Human Resources Manager and Head of Recruitment Services.

Manny Gill – Head of Finance (Age 43)
Manny has been with Virgin Blue since the Company’s inception. Before joining Virgin Blue, he worked in the audit and corporate finance divisions of Grant Thornton between 1986 and 1992. In 1993, Manny joined Virgin Atlantic Airways as Company Financial Accountant and was promoted to Financial Manager in 1996. In 1998, he joined Virgin Express as Group Financial Controller.

Manny holds a Mechanical Engineering honours degree and a Masters degree in Operational Research from the University of Sussex. He is also qualified as a Chartered Accountant in the United Kingdom.

Bruce Highfield – Head of Human Resources (Age 38)
Bruce has been with Virgin Blue since the Company’s inception. He has 18 years of experience in human resources management and industrial relations in Australia and New Zealand, having worked in chemicals, plastics, pharmaceuticals, private hospitals, fast-moving consumer goods industries. Prior to joining Virgin Blue, he was Development and Recruitment Manager at Orica Australia.

Bruce has a Bachelor of Business (Human Resources) degree.
5. OWNERSHIP, MANAGEMENT AND CORPORATE GOVERNANCE (CONTINUED)

Mike Hockin – Head of Engineering Operations (Age 44)
Mike joined Virgin Blue in August 2003 and has over 19 years of experience in the aviation industry. Mike joined Australian Airlines in September 1986 as Structures Engineer, later becoming a Senior Aircraft Support Engineer. Mike worked with Australian Airlines until its merger with Qantas, at which time he continued his career with Qantas. While at Qantas, Mike worked in a variety of roles, including Principal Structures Engineer, Manager Maintenance Standards and Systems, and Technical Manager Regional Airlines. In February 2000, Mike was appointed the Airbus 330 Engineering and Maintenance Readiness Project Manager at Qantas and was responsible for all engineering and maintenance aspects for entry into service of Qantas’ Airbus 330 fleet.

Mike has a Bachelor of Mechanical Engineering (Honours) degree from the University of Western Australia.

David Huttner – Head of Communications and Strategy (Age 37)
David has been with Virgin Blue since the Company’s inception. He has experience as an analyst in the shipping industry with Maersk Line/A.P. Moeller Group, as well as a trader and business development executive in the petroleum industry. He joined Virgin Express in 1996. David was the Deputy Director of Sales and Marketing at Virgin Express before joining Virgin Blue.

David graduated from Brown University (United States) with a Bachelor of Arts degree in International Relations and holds an MBA from INSEAD (France).

Tim Jordan – Head of Commercial (Age 35)
Tim joined Virgin Blue in January 2002. He has over 14 years of experience in the airline industry in Europe, the United States, Asia and Australia. Tim joined United Airlines in London in 1989 where he spent six years in a range of finance, sales and marketing roles. He moved to Chicago in 1995 where he was responsible for United Airlines’ route development in the Asia Pacific region and was also involved in the continued development and growth of the Star Alliance. In 1998, Tim returned to London and worked with PricewaterhouseCoopers as part of their aviation consulting team where he undertook various commercial and distribution related projects for KLM, Alitalia, British Airways, Aer Lingus and Garuda Indonesia.

Tim qualified as a Chartered Management Accountant in the United Kingdom in 1989.

Diederik Pen – Head of Ground Services (Age 35)
Diederik joined Virgin Blue in 2002. He has over nine years of airport experience within Europe and Australia. Diederik joined Schiphol Airport Group in Amsterdam in 1994 where he spent three years in a range of commercial and operational roles. He moved to Sydney in 1996 where he worked as Head of Commercial on Schiphol’s successful bid for Brisbane Airport in Phase One of the Australian government’s airport privatisation process. When Schiphol was awarded the contract to manage Brisbane Airport in 1997, Diederik moved to Brisbane to take up the role of General Manager – Commercial Services, where he worked until joining Virgin Blue.

Diederik holds an MBA from Amsterdam University and was an officer in the Dutch Army in 1993.

John Raby – Head of Flight Operations (Age 59)
John has been with Virgin Blue since the Company’s inception. He has over 30 years of airline experience as a pilot and flight operations manager. After qualifying as a commercial pilot, he joined Ansett ANA in 1965. John was an active member of Ansett flight operations management team from the mid-1970s to the late 1980s. In the role of flight training manager, he was responsible for developing a number of innovative pilot training programmes. He also represented pilots as an elected union official in the late 1980s. John also has extensive experience in international aviation, having worked in both long haul and domestic short haul European operations. In the two years prior to joining Virgin Blue, he was Fleet Manager of the United Kingdom based low cost carrier, easyJet.

Scott Swift – Head of Corporate Affairs (Age 34)
Scott has been with Virgin Blue since the Company's inception. He has 12 years of experience in businesses both within and outside the accounting profession in Australia and the United Kingdom. Scott joined the Virgin Group in 1997 in the United Kingdom and has occupied a variety of corporate and executive positions with several Virgin Group companies.

Scott graduated from the Queensland University of Technology with a Bachelor of Business degree and a Bachelor of Law (Honours) degree before qualifying as a Chartered Accountant with Coopers and Lybrand.
5.4 Corporate Governance

The Directors and management of Virgin Blue have established a series of corporate governance policies and practices designed to ensure that Virgin Blue meets market expectations for a listed company and to protect and enhance the interests of shareholders. Virgin Blue’s corporate governance policies also recognise and reflect the current shareholding of Virgin Blue.

As a private company, Virgin Blue was managed with an emphasis on transparency, sustained accountability and the maintenance of high standards of integrity and ethical behaviour. Virgin Blue will continue to be managed in a similar fashion following its Listing.

In preparation for Listing, Virgin Blue undertook a comprehensive review of its corporate governance systems and procedures. It also examined a number of policies and guidelines adopted by other listed companies, reviewed ASX guidelines on corporate governance and took into account the specific requirements of Virgin Blue and its shareholders. As a result of that review, Virgin Blue has taken a number of initiatives to further strengthen its governance and disclosure procedures. Most of the ASX corporate governance recommendations have been incorporated in Virgin Blue’s policies. The corporate governance arrangements maintain the Company’s focus on ethics and integrity, while seeking to allow the Board and staff of Virgin Blue to continue to be innovative and entrepreneurial so that they can create wealth for shareholders, value for guests and rewarding careers for employees.

The Board

The Board of Virgin Blue is made up of five non executive Directors, two independent non executive Directors and the Managing Director. Details of the Directors and their qualifications are set out in Section 5.2.

Each member of the Board must bring an independent view and judgement to the Board and must declare actual and potential conflicts of interest.

Virgin Blue also recognises the difference between non executive Directors who are formally independent and those who are not. Virgin Blue has developed an approach to independence of directors which addresses the critical issue, namely whether the Director is independent of management and is free of extraneous influences which could, theoretically or actually, materially interfere with an unfettered and independent judgement. The criteria for assessing independence are set out in Virgin Blue’s Board Charter, a copy of which may be found on the Company’s website, www.virginblue.com.au, or may otherwise be obtained from the Company without charge.

Virgin Blue recognises that it is a widely held view that a listed company should have a majority of Directors who are independent. Following the Listing, the Patrick Shareholder and the Virgin Group Shareholders will hold substantially more than a majority of the Shares. Those shareholders have participated in the growth and development of Virgin Blue and have significant interest in the Company’s continued success. Given their history, skills and the size of their investment in the Company, it is appropriate for each of those shareholders to continue to be well represented on the Board and, accordingly, five non executive Directors are persons connected with Patrick Corporation or Virgin Group.

The composition of the Board is and will continue to be heavily influenced by the operation of the Ongoing Shareholders’ Agreement. Under this agreement, the Patrick Shareholder and the Virgin Group Shareholders will hold substantially more than a majority of the Shares. Those shareholders have participated in the growth and development of Virgin Blue and have significant interest in the Company’s continued success. Given their history, skills and the size of their investment in the Company, it is appropriate for each of those shareholders to continue to be well represented on the Board and, accordingly, five non executive Directors are persons connected with Patrick Corporation or Virgin Group.

The composition of the Board is and will continue to be heavily influenced by the operation of the Ongoing Shareholders’ Agreement. Under this agreement, the Patrick Shareholder and the Virgin Group Shareholders have agreed that until such time as one of them ceases to have (either alone or together with its Associates) a relevant interest in 5% or more of the issued share capital, they will each support the election and re-election of:

- two of the other’s nominees for Director, for so long as the nominator and/or its Associates have relevant interests in 15% or more of the issued share capital in the Company, or
- one of the other’s nominees for Director, for so long as the nominator and/or its Associates have relevant interests greater than 5% but less than 15% of the issued share capital in the Company.

For more information regarding the Ongoing Shareholders’ Agreement, see Section 10.3.

The Board has carefully considered the appropriate size of the board for Virgin Blue and believes that, for a company of the size and nature of Virgin Blue, it should be small enough to be coherent but large enough to bring a depth of experience and a diversity of talents. 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 together 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.
Virgin Blue believes that the Board, as currently composed, has the necessary skills and motivation to ensure that the Company continues to perform strongly, notwithstanding that its overall composition does not meet ASX guidelines on independence.

The composition of the Board has also been settled to comply with the various statutes and Bilateral ASAs that require Virgin Blue’s international operations to be effectively controlled by Australian Persons. Six of the eight Directors, including the Chairman, are Australian Persons. See Section 3.4 for a discussion of the regulatory requirements applicable to Virgin Blue.

Role of the Board
The role of the Board is to provide strategic guidance for Virgin Blue and effective oversight of its management. The Board always retains ultimate authority over management. However, as is customary, the Board has delegated authority over the day to day management of the Company to the Chief Executive Officer. 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. Those delegations of authority have been carefully tailored to Virgin Blue’s particular circumstances. A copy of Virgin Blue’s Board Charter and Statement of Delegated Authority is available on the Company’s website, www.virginblue.com.au, or may otherwise be obtained from the Company without charge.

Board Committees
While the Board does not delegate its decision making to any committee, it has established two committees of Directors, the Audit Committee and the Remuneration and Governance Committee, to carry out certain tasks. These committees are responsible for considering specific issues and making recommendations to the Board.

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 on Virgin Blue’s Risk Management Policy is set out below.

Audit Committee
The role of the Audit Committee is to provide advice and assistance to the Board to allow the Board to:

- fulfil its audit, accounting and reporting obligations;
- monitor internal and external auditors’ performance (including the independence of external auditors, discussed in “Auditing Policies” below);
- comply with legal and regulatory requirements;
- comply with Virgin Blue’s Risk Management Policy;
- monitor compliance with applicable accounting standards and other requirements relating to the preparation and presentation of financial results; and
- fulfil its responsibilities relating to financial statements, internal accounting and financial control systems.

The Audit Committee is currently comprised of David Ryan (Chairman), Chris Corrigan and David Mortimer, all of whom are non executive Directors and two of whom are independent Directors. A quorum for the transaction of business at the Audit Committee is two Directors. Each of these members has the financial and business expertise to act effectively as members of the Audit Committee.

The Audit Committee will meet at least three times a year or more frequently if requested by any member. The Audit Committee reports regularly to the Board 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 Audit Committee has been established under an Audit Committee Charter, a copy of which is available on the Virgin Blue website, www.virginblue.com.au, or may otherwise be obtained from the Company without charge.
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 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 Remuneration and Governance Committee is currently comprised of four members, David Ryan (Chairman), David Mortimer, Stephen Murphy and Chris Corrigan. Two of these members are the independent Directors. A quorum for the transaction of business is three Directors. The Remuneration and Governance Committee will meet at least once a year and at such other times as the chairman of that committee considers necessary.

The Remuneration and Governance Committee has been established under a Remuneration and Governance Charter, a copy of which is available on the Virgin Blue website, www.virginblue.com.au, or may otherwise be obtained from the Company without charge.

Subsidiary Boards

The Board of Virgin Blue will determine the composition, powers and authorities of the board of each Virgin Blue subsidiary. Where appropriate, the Board may appoint an independent person to the board of a subsidiary. The Board may also decide to have a Director represent it on the board of significant operating subsidiaries. At present, the directors of all the subsidiaries are Brett Godfrey (the Chief Executive Officer), Keith Neate (the Chief Financial Officer) and William Hara (a representative of the Board). An independent person, Peter Dowling, has been appointed to the board of the subsidiaries associated with the Ex-Im Bank financing.

Board Meetings

The Board plans to have at least 10 scheduled meetings a year, but will meet more frequently if requested or necessary. It intends to routinely include in its scheduled meetings working sessions with senior management. However, on a number of occasions in each year, the non executive Directors will meet separately without the presence of the Chief Executive Officer or any senior executive.

Board Appointments

Each non executive Director has signed, and all future non executive Directors will sign, a letter of appointment setting out the terms of his or her appointment as a non executive Director. Those letters contain certain disclosures by the Director and confirmations as to the nationality of the Director and his or her independence (or otherwise).

Each current non executive Director has also confirmed, and all future non executive Directors will confirm, that he or she is able to devote a sufficient amount of time to prepare for, and effectively participate in, Board meetings and satisfy all the other duties and obligations as a Director of the Company.

The Chairman

The Patrick Shareholder and the Virgin Group Shareholders have agreed, as part of the Ongoing Shareholders’ Agreement, that the Virgin Group Shareholders will support the election and re-election of a Director nominated by the Patrick Shareholder as the Chairman of Virgin Blue, for so long as the Patrick Shareholder holds 40% or more of the issued share capital of the Company and the Virgin Group Shareholders holds 5% or more of the issued share capital of the Company. In other circumstances, the Chairman will be an independent, non executive Director.

The Chairman is to have a casting vote at Board meetings.
5. OWNERSHIP, MANAGEMENT AND CORPORATE GOVERNANCE (CONTINUED)

Information for New Directors
On joining Virgin Blue, new Directors will undergo an induction to familiarise themselves with the Company’s business and its systems. The systems established will enable new Directors to review the financial position, strategy, operating performance and risk management systems of the business, as well as understand their particular responsibilities, rights and duties.

Risk Management
The Board believes that it has ultimate responsibility to ensure that the Company’s risk management systems are both in place and effective. To discharge that responsibility, the Board has issued a Risk Management Policy, a copy of which is available on Virgin Blue’s website, www.virginblue.com.au, or may otherwise be obtained from the Company without charge. The purpose of this Risk Management Policy is to establish a formalised system which facilitates:

(a) identification and analysis of key strategic, operational and compliance risks; and

(b) implementation of the necessary controls and policies to manage these risks.

In addition, the Board and management have designed a detailed risk management framework, which integrates risk management into all of the activities undertaken within the business.

Virgin Blue is consistently identifying ways to improve information gathering and ensure that it is conducted in a coordinated and effective manner so that risk controls can be successfully implemented and managed. As a result, risk management forms an integral part of all decision making and is an essential part of every employee’s training to provide accountability for actions, including compliance with policies and procedures.

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

Certification of Financial Reports
In order to encourage increased management accountability and confidence in the Company’s financial reports, Virgin Blue requires its Chief Executive Officer and Chief Financial Officer to certify to the Board the accuracy of the financial reports and the cogency and integrity of the systems behind those reports.

The certificate will be required by the Board:

• prior to the release of Virgin Blue’s half year and yearly results;
• for internal and external auditing purposes as and when the need arises;
• for the preparation of any product or security disclosure documents that may be required from time to time; and
• at any other time the Board may request.

Communication with Shareholders and the Market
Virgin Blue is committed to:

• ensuring that shareholders and the financial market are provided with full and timely information about its activities;
• fully complying with continuous disclosure obligations contained in applicable ASX Listing Rules and the Corporations Act; and
• ensuring that all investors have equal opportunities to receive externally available information issued by the Company.

Information is communicated to shareholders through the distribution of the Annual Report and whenever there are other significant developments to report. In addition, all information released to ASX pursuant to Virgin Blue’s continuous disclosure obligations will be posted on the Virgin Blue website, www.virginblue.com.au, as soon as possible following disclosure to the financial market.
Virgin Blue's commitment to communicating with its shareholders is embodied in its Market Disclosure and Communications Policy, which contains policies and procedures designed to ensure accountability at senior management level for compliance with disclosure obligations. Importantly, the policy addresses Virgin Blue's responsibility to ensure its market announcements are made in a timely manner, are factual, do not omit material information and are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

The policy also sets out the actions Virgin Blue intends to take in holding meetings with interested parties, keeping analysts informed and dealing with speculation about the Company in the press.

A copy of Virgin Blue’s Market Disclosure and Communications Policy is available on the Company's website www.virginblue.com.au, or may otherwise be obtained from the Company without charge.

**Auditing Policies**

The Board has adopted a policy regarding the services that Virgin Blue may obtain from its auditor. It is the policy of Virgin Blue that:

- its external auditing firm must be independent of Virgin Blue and the Directors and senior executives. To ensure this, the Company will require a formal confirmation of independence from its external auditor on an annual basis; and
- its external auditor may not provide services to Virgin Blue that are perceived to be materially in conflict with the role of the external auditor. Services which involve the external auditor acting in a managerial or decision making capacity, or processing or originating transactions, are not appropriate. However, the external auditor may be permitted to provide additional services which are not perceived to be materially in conflict with the role of the auditor if those additional services have been approved by the Board. Such additional services may include financial audits, audits or reviews undertaken for regulatory purposes, completion audits, tax compliance, advice on accounting standards and due diligence in certain acquisition or sale transactions.

Exceptions from Virgin Blue's policy in this regard must be approved by the Board.

**Ethics and Codes of Conduct**

Virgin Blue believes its reputation and integrity are essential to its continuing success and will result in benefits to its employees, returns to its shareholders and investors and in the willingness of its guests and others to continue to do business with Virgin Blue.

To protect and preserve its reputation and integrity, Virgin Blue has adopted two policies, a Guide to Business Conduct which applies to all Directors, staff and contractors working for Virgin Blue and a Code of Conduct which applies to Directors and senior executives.

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

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

- conflicts of interest;
- confidentiality;
- fair dealing;
- compliance;
- use of information or position; and
- lawful and ethical behaviour.

Copies of both the Guide to Business Conduct and the Code of Conduct are available on the Company's website, www.virginblue.com.au, or may otherwise be obtained from the Company without charge.
5. OWNERSHIP, MANAGEMENT AND CORPORATE GOVERNANCE (CONTINUED)

Securities Trading
Virgin Blue has a two part policy on securities trading.

Firstly, all Virgin Blue officers, employees and Directors are prohibited from dealing in any Virgin Blue securities, except:

(a) while not in the possession of unpublished price sensitive information; and
(b) then only during the following periods:
   • for a period of up to six weeks after the release of Virgin Blue’s half yearly and final results to ASX;
   • for a period of up to six weeks after Virgin Blue’s annual general meeting;
   • at any time a prospectus or similar disclosure document has been lodged with ASIC and is open for acceptances; or
   • at any other time the Board declares trading permissible in a written note to staff and ASX. The Board has declared that dealing in Shares will be permitted for Directors and employees from the date trading commences on ASX until 6 January 2004.

Secondly, all Virgin Blue officers, employees and Directors are prohibited from dealing in the securities of any company or entity while in the possession of unpublished price sensitive information about that company or entity.

These policies have limited exceptions for acquisitions pursuant to employee share or option plans. The policies extend to financial products or similar securities issued or created over Shares or associated products which are designed to limit the economic risk of security holdings in Virgin Blue.
SECTION 6:

HISTORICAL FINANCIAL INFORMATION

6.1 Basis of Preparation and Presentation
The selected historical financial information below should be read in conjunction with, and is qualified by reference to, the information contained elsewhere in this Section and the historical financial information contained in Appendix A.

The historical financial information included in Appendix A has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and consists of:

- reviewed pro forma historical statements of financial performance and cash flows for Virgin Blue for the seven month period ended 31 March 2001 and the year ended 28 March 2002;
- audited historical statements of financial performance and cash flows for Virgin Blue for the year ended 31 March 2003 and the six month periods ended 30 September 2002 and 30 September 2003 and historical statements of financial position for Virgin Blue as at 31 March 2003 and 30 September 2003;
- reviewed pro forma historical statement of financial position for Virgin Blue as at 30 September 2003; and
- accompanying notes thereto.

KPMG Transaction Services has prepared an Investigating Accountant’s Report in respect of the historical financial information contained in Appendix A. A copy of the report is included in Section 9.1.

The historical financial information included in this Prospectus, including the historical financial statements contained in Appendix A, is presented on a basis that is consistent with Virgin Blue’s current corporate structure and operations. Virgin Blue’s corporate structure has changed since the commencement of the airline’s operations in Australia. Prior to the 2003 financial year, Virgin Blue was domiciled in the British Virgin Islands and owned 92% of Virgin Australia Holdings Pty Limited ("VAH") which, in turn, owned 100% of the equity in the airline’s operating company, Virgin Blue Airlines Pty Limited ("VBA"). Virgin Blue had a 31 January financial year end and reported in a functional currency of Great British Pounds. On 12 March 2002, Virgin Blue entered into an agreement to acquire the remaining 8% of the shares in VAH, increasing its equity ownership of VAH to 100%. Virgin Blue was subsequently re-domiciled to Australia for accounting purposes, effective 1 April 2002.

Accordingly, the historical financial statements for 2001 and 2002 included in Appendix A have been derived from the audited financial statements of VAH for the seven months ended 31 March 2001 and the year ended 28 March 2002.

Further, the historical financial information included in this Prospectus for all periods is presented as if:

- Virgin Blue owned 100% of the equity of VAH;
- Virgin Blue was an Australian domiciled holding company; and
- Virgin Blue had a functional reporting currency in Australian dollars.

The historical financial information included in this Prospectus is presented as if Virgin Blue had financial year ends of 31 March for 2001 and 28 March for 2002. Details of the adjustments and reclassifications that have been made to the audited financial statements for VAH and Virgin Blue are provided in Section 6.3.
For the 2002 financial year, Virgin Blue adopted a year end of 28 March, rather than 31 March, to avoid the inclusion of two Easter holiday trading periods in the same financial year. As a result, the financial year for the period ended 28 March 2002 includes 362 trading days and the financial year for the period ended 31 March 2003 includes 368 trading days.

### 6.2 Selected Financial Information

#### Statements of Financial Performance

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$ Thousand</strong></td>
<td><strong>Pro Forma</strong></td>
<td><strong>Pro Forma</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scheduled revenue</td>
<td>70,354</td>
<td>376,921</td>
<td>886,903</td>
<td>385,833</td>
<td>592,540</td>
</tr>
<tr>
<td>Other revenue</td>
<td>4,421</td>
<td>11,376</td>
<td>27,664</td>
<td>12,458</td>
<td>24,129</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>74,775</td>
<td>388,297</td>
<td>914,567</td>
<td>398,291</td>
<td>616,669</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aircraft fuel</td>
<td>(13,958)</td>
<td>(59,557)</td>
<td>(109,740)</td>
<td>(45,461)</td>
<td>(78,152)</td>
</tr>
<tr>
<td>Maintenance and repairs</td>
<td>(12,021)</td>
<td>(47,418)</td>
<td>(102,986)</td>
<td>(47,594)</td>
<td>(67,623)</td>
</tr>
<tr>
<td>Airport charges</td>
<td>(4,209)</td>
<td>(26,077)</td>
<td>(87,617)</td>
<td>(32,724)</td>
<td>(72,904)</td>
</tr>
<tr>
<td>Navigation fees</td>
<td>(2,023)</td>
<td>(8,097)</td>
<td>(19,282)</td>
<td>(8,087)</td>
<td>(13,236)</td>
</tr>
<tr>
<td>Flight operations and cabin crew</td>
<td>(8,497)</td>
<td>(44,356)</td>
<td>(95,213)</td>
<td>(41,999)</td>
<td>(65,729)</td>
</tr>
<tr>
<td>Station operations</td>
<td>(5,600)</td>
<td>(23,290)</td>
<td>(58,834)</td>
<td>(27,049)</td>
<td>(51,494)</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>(8,789)</td>
<td>(41,851)</td>
<td>(81,804)</td>
<td>(33,828)</td>
<td>(56,194)</td>
</tr>
<tr>
<td>General and administrative</td>
<td>(5,927)</td>
<td>(20,692)</td>
<td>(41,469)</td>
<td>(14,499)</td>
<td>(20,846)</td>
</tr>
<tr>
<td>Other aircraft ownership</td>
<td>(581)</td>
<td>(9,334)</td>
<td>(31,698)</td>
<td>(21,413)</td>
<td>(16,886)</td>
</tr>
<tr>
<td><strong>EBITDAR</strong></td>
<td>13,170</td>
<td>107,625</td>
<td>285,924</td>
<td>124,837</td>
<td>173,606</td>
</tr>
<tr>
<td>Aircraft rentals</td>
<td>(12,547)</td>
<td>(60,408)</td>
<td>(128,726)</td>
<td>(54,958)</td>
<td>(77,367)</td>
</tr>
<tr>
<td>Depreciation and amortisation (excluding goodwill)</td>
<td>(509)</td>
<td>(2,213)</td>
<td>(7,776)</td>
<td>(2,026)</td>
<td>(9,000)</td>
</tr>
<tr>
<td>Goodwill amortisation</td>
<td>(350)</td>
<td>(525)</td>
<td>(2,483)</td>
<td>(263)</td>
<td>(1,242)</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>(236)</td>
<td>44,479</td>
<td>146,539</td>
<td>67,590</td>
<td>85,997</td>
</tr>
<tr>
<td>Net interest income</td>
<td>24</td>
<td>2,464</td>
<td>8,647</td>
<td>3,446</td>
<td>5,997</td>
</tr>
<tr>
<td>Start up costs</td>
<td>(10,590)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Profit/(loss) from ordinary activities before income tax expense</strong></td>
<td>(10,802)</td>
<td>46,943</td>
<td>155,586</td>
<td>71,036</td>
<td>91,994</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>–</td>
<td>(12,179)</td>
<td>(47,787)</td>
<td>(21,492)</td>
<td>(27,819)</td>
</tr>
<tr>
<td><strong>Profit/(loss) from ordinary activities after income tax expense</strong></td>
<td>(10,802)</td>
<td>34,764</td>
<td>107,799</td>
<td>49,544</td>
<td>64,175</td>
</tr>
</tbody>
</table>

**Notes:**

1. Details of adjustments required to compile the historical financial information are provided in Sections 6.1 and 6.3 and Notes 1(a) and 1(b) of Appendix A.
2. EBITDAR is defined as earnings before interest, income tax, depreciation, amortisation and aircraft rentals. Virgin Blue believes that EBITDAR provides useful information but should not be considered as an indication of, or alternative to, profit from ordinary activities after income tax expense as an indicator of financial performance or as an alternative to cash flow as a measure of liquidity. Other companies may calculate EBITDAR in a different manner than Virgin Blue.
### Statements of Financial Position

<table>
<thead>
<tr>
<th>$ Thousand</th>
<th>As at 31 March 2003</th>
<th>As at 30 September 2003</th>
<th>As at 30 September 2003 Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>126,878</td>
<td>118,708</td>
<td>426,326</td>
</tr>
<tr>
<td>Receivables</td>
<td>72,547</td>
<td>78,431</td>
<td>38,823</td>
</tr>
<tr>
<td>Inventories</td>
<td>2,041</td>
<td>1,582</td>
<td>1,582</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>212,391</td>
<td>182,195</td>
<td>182,195</td>
</tr>
<tr>
<td>Prepayments and other assets</td>
<td>14,620</td>
<td>10,142</td>
<td>8,774</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>428,477</strong></td>
<td><strong>391,058</strong></td>
<td><strong>657,700</strong></td>
</tr>
</tbody>
</table>

| **Non current assets** |                     |                        |                                   |
| Other financial assets | 65,104              | 9,215                  | 9,215                             |
| Property, plant and equipment | 58,683            | 456,708                | 456,708                           |
| Deferred tax assets | 11,151              | 15,547                 | 15,547                            |
| Intangible assets | 46,293              | 45,051                 | 45,051                            |
| Other assets | –                   | 3,316                  | 3,316                             |
| **Total non current assets** | **181,231** | **529,837**            | **529,837**                       |
| **Total assets** | **609,708**        | **920,895**            | **1,187,537**                     |

| **Current liabilities** |                     |                        |                                   |
| Payables | 115,277             | 122,867                | 122,867                           |
| Interest bearing liabilities | 110,888            | 80,298                 | 80,298                            |
| Provisions | 21,849             | 28,629                 | 28,629                            |
| Current tax liabilities | 41,675              | 14,999                 | 14,999                            |
| Unearned scheduled revenue | 102,523            | 154,935                | 154,935                           |
| **Total current liabilities** | **392,212** | **401,728**            | **401,728**                       |

| **Non current liabilities** |                     |                        |                                   |
| Payables | –                   | 2,666                  | 2,666                             |
| Interest bearing liabilities | 28,777             | 253,302                | 253,302                           |
| Deferred tax liabilities | 1,732               | 3,632                  | 3,632                             |
| Provisions | 2,969              | 11,374                 | 11,374                            |
| **Total non current liabilities** | **33,478** | **270,974**            | **270,974**                       |
| **Total liabilities** | **425,690**        | **672,702**            | **672,702**                       |
| **Net assets** | **184,018**        | **248,193**            | **514,835**                       |

| **Equity** |                     |                        |                                   |
| Contributed equity | 45,789             | 45,789                 | 399,957                           |
| Retained profits | 138,229            | 202,404                | 114,878                           |
| **Total equity** | **184,018**        | **248,193**            | **514,835**                       |

**Notes:**

1. Details of adjustments required to compile the historical financial information are provided in Sections 6.1 and 6.3 and Notes 1(a) and 1(b) of Appendix A.

2. Adjustments reflect the impact of the equity raising and associated costs, the Share Buy-back, the funding by the Company of the KEPP Trustee and the repayment by the Patrick Shareholder and a Virgin Group entity of loans totalling approximately $40.1 million. See Section 2.8 for further details regarding the Share Buy-back. The Share Buy-back is assumed to be conducted at the mid-point of the Indicative Price Range. The Company reserves the right to conduct the Share Buy-back at a price per Share greater or less than the mid-point of the Indicative Price Range but no higher than the Final Price.
6. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

Statements of Cash Flows

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pro Forma</td>
<td>Pro Forma</td>
<td>Pro Forma</td>
<td>Pro Forma</td>
<td>Pro Forma</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>623</td>
<td>47,217</td>
<td>157,198</td>
<td>69,879</td>
<td>96,239</td>
</tr>
<tr>
<td>Decrease/(increase) in working capital</td>
<td>9,471</td>
<td>93,504</td>
<td>62,394</td>
<td>37,125</td>
<td>54,025</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(482)</td>
<td>(146)</td>
<td>(518)</td>
<td>(407)</td>
<td>(6,689)</td>
</tr>
<tr>
<td>Tax paid</td>
<td></td>
<td></td>
<td>(27,711)</td>
<td></td>
<td>(70,392)</td>
</tr>
<tr>
<td>Net operating cash flow</td>
<td>9,612</td>
<td>140,575</td>
<td>191,363</td>
<td>106,597</td>
<td>73,183</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td>506</td>
<td>2,596</td>
<td>9,729</td>
<td>3,590</td>
<td>6,547</td>
</tr>
<tr>
<td>Payments for term deposits</td>
<td>8,429</td>
<td>(9,650)</td>
<td>(71,572)</td>
<td>(74,516)</td>
<td>(26,185)</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>(6,291)</td>
<td>(21,564)</td>
<td>(41,923)</td>
<td>(18,069)</td>
<td>(266,077)</td>
</tr>
<tr>
<td>Payments for leased aircraft security and other deposits</td>
<td>6,607</td>
<td>(5,967)</td>
<td>(150,880)</td>
<td>1,698</td>
<td></td>
</tr>
<tr>
<td>Net investing cash flows</td>
<td>(20,821)</td>
<td>(34,585)</td>
<td>(254,646)</td>
<td>(87,297)</td>
<td>(285,715)</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from borrowing – related party</td>
<td>1,995</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from borrowings</td>
<td></td>
<td>139,155</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share buy-back</td>
<td></td>
<td>14,368</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans to related parties</td>
<td></td>
<td>(23,400)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment of borrowings – related party</td>
<td>13,827</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance lease payments</td>
<td>19,022</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from the issue of shares</td>
<td>13,827</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends paid</td>
<td></td>
<td>13,827</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash flows from financing activities</td>
<td>19,627</td>
<td>(17,112)</td>
<td>99,923</td>
<td>(38,592)</td>
<td>206,375</td>
</tr>
<tr>
<td>Net increase/(decrease) in cash</td>
<td>8,418</td>
<td>88,878</td>
<td>36,640</td>
<td>(19,292)</td>
<td>(6,157)</td>
</tr>
<tr>
<td>Cash at the beginning of the financial year</td>
<td>8,418</td>
<td>97,005</td>
<td>126,878</td>
<td>77,719</td>
<td>118,708</td>
</tr>
<tr>
<td>Effect of exchange rate fluctuations on the balances of cash held in foreign currencies</td>
<td>8,418</td>
<td>97,005</td>
<td>126,878</td>
<td>77,719</td>
<td>118,708</td>
</tr>
</tbody>
</table>

Note:
[1] Details of adjustments required to compile the historical financial information are provided in Sections 6.1 and 6.3 and Notes 1(a) and 1(b) of Appendix A.

6.3 Adjustments to Historical Statements of Financial Performance

In presenting the historical financial information included in this Prospectus, including the financial statements contained in Appendix A, certain adjustments and reclassifications have been made to the audited financial statements for VAH and Virgin Blue. KPMG Transaction Services has reviewed the historical financial statements contained in Appendix A, including the adjustments and reclassifications described below. A copy of their Investigating Accountant’s Report is included in Section 9.1.

Adjustments

The following adjustments have been made to the historical statements of financial performance and historical statements of cash flows of VAH for the period ended 31 March 2001 to derive the pro forma statement of financial performance and pro forma statement of cash flows of Virgin Blue for the same period:

Virgin Blue Start Up Costs

In the period prior to the first commercial airline flight, costs were incurred by VBA in establishing the airline, including:

- lease payments for aircraft delivered to Virgin Blue but prior to operation;
- corporate office set up costs;
- preparation for CASA requirements; and
- recruitment of employees.

---

Note: The page number is 86.
These costs amounted to $10.590 million of which $10.119 million was expensed prior to the acquisition of VBA by VAH and $0.471 million was expensed after the acquisition. As a consequence, the audited financial statements of VAH for the year ended 31 March 2001 do not include the pre-acquisition expense of approximately $10.119 million. Therefore, a pro forma adjustment has been made to recognise the full value of the start up costs in 2001.

**Pre-Acquisition New Aircraft Fleet Costs**

Expenditure relating to the introduction of the Boeing 737-700 series of aircraft into Virgin Blue’s fleet was incurred by VBA prior to the acquisition by VAH. As a consequence, the audited financial statements of VAH for the year ended 31 March 2001 do not include the pre-acquisition expense of approximately $0.381 million and therefore a pro forma adjustment has been made.

### Adjustments to Profit from Ordinary Activities after Income Tax Expense

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit from ordinary activities after income tax expense per audited financial statements(1)</td>
<td>(302)</td>
<td>34,764</td>
<td>107,799</td>
</tr>
<tr>
<td>Adjustments(2):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Start up costs(3)</td>
<td>(10,119)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Pre acquisition new aircraft fleet costs</td>
<td>(381)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Adjusted pro forma net profit from ordinary activities after income tax expense</strong></td>
<td><strong>(10,802)</strong></td>
<td><strong>34,764</strong></td>
<td><strong>107,799</strong></td>
</tr>
</tbody>
</table>

**Notes:**  
(1) 2001 and 2002 audited financial statements for VAH; 2003 audited financial statements for Virgin Blue.  
(2) These adjustments do not include related tax benefits recognised in the 12 months ended 28 March 2002.  
(3) Total Virgin Blue start up costs are $10.590 million as per “Virgin Blue Start Up Costs” above.

**Reclassifications**

In addition to the pro forma adjustments, Virgin Blue has reclassified certain revenue and expense items from those presented in the audited financial statements of VAH and Virgin Blue for the periods up to and including 31 March 2003. These reclassifications have been undertaken to provide more detailed financial information and are consistent with the presentation of the audited financial statements for the six month period ended 30 September 2003. The reclassifications have not had any impact on Virgin Blue’s profit from ordinary activities after income tax expense.

The table below reconciles the profit from ordinary activities after income tax expense in the pro forma historical financial statements of Virgin Blue to the audited financial statements of VAH and Virgin Blue.

### 6.4 Critical Accounting Policies

The preparation of the historical financial statements contained in Appendix A requires estimates and judgements that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are those which reflect significant judgements and uncertainties, the application of which can potentially result in materially different results. Note 1 to the historical financial statements in Appendix A provides a detailed discussion of these and other accounting policies.

**Revenue Recognition**

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 statement of financial position as an unearned scheduled revenue liability.

Revenue includes only the gross inflows of economic benefits received and receivable by Virgin Blue on its own account. Amounts collected on behalf of governments and regulatory bodies, such as the “Ansett levy” and direct per-passenger charges, are excluded from revenue. These amounts are not economic benefits which flow to Virgin Blue and do not result in an increase in equity. The Company’s terms and
conditions of sale provide that tickets sold but unused within 12 months of purchase are void. Revenue relating to tickets unused after 12 months is recognised as revenue at that time. Commission expense is recognised at the same time as the associated revenue is recognised.

Maintenance
Routine maintenance costs are expensed as incurred. This applies to both owned and leased aircraft and is distinct from major cyclical maintenance.

Provision is made for the estimated future costs of major cyclical maintenance of lease airframes, engines 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, as a consequence of aircraft rectification obligations placed on Virgin Blue by the operating lease agreements. The costs of major cyclical maintenance are written off against the provision when incurred.

Cyclical maintenance on owned aircraft is capitalised to the carrying value of the aircraft as incurred and amortised over the period to the next scheduled heavy maintenance.

Derivatives
Virgin Blue uses derivative financial instruments to hedge exposure to changes in foreign exchange rates and jet fuel prices. Where the hedge transaction is designated as the hedge of the anticipated purchase or sale of goods or services, or the purchase of qualifying assets, gains and losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

Where the anticipated transaction is no longer expected to occur as designated, any deferred gains and losses relating to the hedged transaction are immediately recognised in the statement of financial performance.

Leased Assets
Leases under which Virgin Blue assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Virgin Blue’s existing aircraft leases are classified as operating leases. Operating lease payments are expensed as incurred. In addition to the base monthly payment, which is subject to an inflation based escalator, an amount is also paid to the lessor in respect of future heavy maintenance costs. Virgin Blue also makes provisions over the life of the lease to cover any estimated shortfall in heavy maintenance costs at the time aircraft are returned to the lessor. As a result, operating lease costs remain relatively constant over the term of the lease, subject to inflation based escalation.

Property, Plant and Equipment
Items of property, plant and equipment are depreciated/amortised using the straight line method over their estimated useful lives. Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Rotables and maintenance parts are depreciated from the date of installation.

Borrowing costs associated with the acquisition of qualifying assets, such as aircraft, and the acquisition, construction or production of significant items of other property, plant and equipment are classified as part of the cost of the asset to which they relate.
The depreciation and amortisation periods/rates used for each class of asset are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Depreciation/amortisation rate (%)</th>
<th>Estimated residual (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>11 years</td>
<td></td>
</tr>
<tr>
<td>Aircraft and aeronautic related assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Modifications to leased aircraft</td>
<td>20.0-40.0</td>
<td></td>
</tr>
<tr>
<td>- Rotables and maintenance parts(1)</td>
<td>7.25</td>
<td>27.5</td>
</tr>
<tr>
<td>- Rotables and maintenance parts not yet used(1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Airframe, engines and landing gear(2)</td>
<td>10.0</td>
<td>40.0</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>20.0</td>
<td></td>
</tr>
<tr>
<td>Leased plant and equipment</td>
<td>20.0</td>
<td></td>
</tr>
<tr>
<td>Computer equipment</td>
<td>33.3</td>
<td></td>
</tr>
<tr>
<td>Leased computer equipment</td>
<td>33.3</td>
<td></td>
</tr>
</tbody>
</table>

Notes:
(1) Rotables and maintenance parts are depreciated from the date of installation.
(2) The useful life to Virgin Blue of owned aircraft is estimated to be 10 years.

6.5 General Factors affecting the Operating Results of Virgin Blue

Key operating statistics for Virgin Blue for the seven month period ended 31 March 2001, the years ended 28 March 2002 and 31 March 2003, and the six month periods ended 30 September 2002 and 2003, are set out in the table below:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Passengers carried</td>
<td>637,337</td>
<td>3,178,423</td>
<td>6,591,120</td>
<td>2,804,543</td>
<td>4,483,032</td>
</tr>
<tr>
<td>Passengers carried annualised</td>
<td>1,092,578(1)</td>
<td>3,178,423</td>
<td>6,591,120</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>RPK (millions)</td>
<td>664</td>
<td>3,169</td>
<td>7,194</td>
<td>2,976</td>
<td>5,115</td>
</tr>
<tr>
<td>ASK (millions)</td>
<td>891</td>
<td>3,898</td>
<td>9,078</td>
<td>3,870</td>
<td>6,084</td>
</tr>
<tr>
<td>Passenger load factor</td>
<td>73.9%</td>
<td>82.2%</td>
<td>79.4%</td>
<td>77.5%</td>
<td>83.8%</td>
</tr>
<tr>
<td>Number of aircraft (year end)</td>
<td>6</td>
<td>17</td>
<td>29</td>
<td>27</td>
<td>38</td>
</tr>
<tr>
<td>Number of aircraft (average)</td>
<td>4.4</td>
<td>11.0</td>
<td>24.1</td>
<td>20.1</td>
<td>30.3</td>
</tr>
<tr>
<td>Sectors flown</td>
<td>5,324</td>
<td>24,635</td>
<td>53,051</td>
<td>22,924</td>
<td>34,483</td>
</tr>
<tr>
<td>Sectors flown annualised</td>
<td>9,127(1)</td>
<td>24,635</td>
<td>53,051</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Aircraft utilisation (block hours per day)</td>
<td>10.1</td>
<td>10.4</td>
<td>10.9</td>
<td>11.1</td>
<td>11.6</td>
</tr>
</tbody>
</table>

Notes:
(1) Annualised numbers for 2001 are calculated by multiplying the value for the seven month period by 12 and dividing by seven.

Between the 2001 and 2003 financial years, annualised passenger volumes increased by a compound annual growth rate (“CAGR”) of 146% to 6.6 million passengers. For the six months ended 30 September 2003, Virgin Blue carried 4.5 million passengers, an increase of 60% over the previous corresponding period. Between the 2001 and 2003 financial years, Virgin Blue increased its average number of aircraft in use by a CAGR of 134% from 4.4 to 24.1 aircraft and its annualised sectors flown increased by a CAGR of 141% from 9,127 to 53,051 sectors. For the six months ended 30 September 2003, Virgin Blue increased its average number of aircraft in use to 30.3 aircraft, an increase of 51% over the previous corresponding period. The sectors flown for the six months ended 30 September 2003 increased to 34,483, representing an increase of 50% over the previous corresponding period.

Early demand for Virgin Blue’s increasing capacity reflected the strong support for Virgin Blue's low fare business model from Australian domestic travellers. Growth in demand was subsequently further increased by the collapse of Ansett between September 2001 and March 2002 and, to a lesser extent, the acquisition of Impulse Airlines by Qantas in May 2001. In less than 18 months following Virgin Blue’s commencement of operations, the domestic market had consolidated from four national participants to two. (See Section 3 for additional information regarding industry consolidation.) Virgin Blue also benefited from an increase in total market demand attributable to the stimulation caused by the introduction of its low fares on both new and existing routes. Despite Virgin Blue’s rapid growth in capacity, its passenger load factor increased from 73.9% in 2001 to 79.4% in 2003, and was 83.8% for the six months ended 30 September 2003.
6. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

Since establishing operations, Virgin Blue has increased the average number of hours that its aircraft are in service (block hours) from 10.1 hours per day in 2001 to 10.9 hours per day in 2003. The increase in aircraft utilisation was predominantly achieved through an expansion of the Virgin Blue network (allowing greater scheduling flexibility and longer stage lengths), additional back-of-the-clock flying and lower unscheduled maintenance costs on newly introduced Boeing 737 Next Generation aircraft. In the six months to 30 September 2003, average block hours per day increased to 11.6 due to continued network expansion.

Key revenue and cost statistics for Virgin Blue are set out in the table below:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average net fare ($)</td>
<td>110.4</td>
<td>118.5</td>
<td>134.6</td>
<td>137.6</td>
<td>132.2</td>
</tr>
<tr>
<td>Yield (cents)²</td>
<td>11.26</td>
<td>12.25</td>
<td>12.71</td>
<td>13.38</td>
<td>12.06</td>
</tr>
<tr>
<td>Cost per ASK (cents)²</td>
<td>8.42</td>
<td>8.82</td>
<td>8.46</td>
<td>8.54</td>
<td>8.72</td>
</tr>
</tbody>
</table>

Notes:
(1) Yield is calculated as total revenue divided by RPK.
(2) Costs per ASK is calculated as total cost (to EBIT) divided by ASK.

Average fares and yields increased by a CAGR of 10.4% and 6.2%, respectively, between the 2001 and 2003 financial years. In the six months ended 30 September 2003, average fares and yields decreased by 3.9% and 9.9%, respectively, over the previous corresponding period.

Impulse Airlines began offering low fare domestic trunk route services in June 2000. Impulse Airlines offered fares significantly lower than previously existing passenger fares, prompting a domestic fare war with Qantas and Ansett. Virgin Blue commenced operations in late August 2000, which led to a further reduction in average prices as it sought to establish its customer base and build brand recognition for its low fare service offering. As Virgin Blue became more established, and the market consolidated from four national participants to two, the amount of promotional fare discounting reduced with fares reverting from unsustainable to economically viable levels. Virgin Blue’s average ticket prices also improved through increased exposure to higher yielding passengers and longer stage lengths as new routes were added to its network.

The increase in unit operating costs in 2002 was due to a combination of factors including higher airport charges in the form of landing and passenger facility fees, increased other aircraft ownership costs (predominantly insurance premia post 11 September 2001 terrorist attacks), increased aircraft leasing costs for new aircraft and a normalisation of flight operation costs relative to Virgin Blue’s start up period. The increased aircraft leasing unit cost reflects higher rentals attributable to the introduction of new Boeing 737 Next Generation aircraft. However, this was offset by greater aircraft efficiency and reliability which resulted in lower fuel burn rates and maintenance costs and improved aircraft utilisation. Reductions in unit fuel costs due to lower fuel prices and favourable exchange rate movements, as well as reduced sales and marketing expenses, maintenance costs and aircraft rentals contributed to the decline in total unit operating costs in 2003.

The composition of Virgin Blue’s fleet of aircraft as at 31 March 2001, 2002 and 2003 is shown in the table below. Initially, Virgin Blue’s fleet consisted entirely of operating leased aircraft allowing it to establish operations with lower amounts of upfront invested capital. In December 2002, Virgin Blue entered into an agreement with Boeing to purchase aircraft. The purchase agreement allows Virgin Blue to take advantage of favourable movements in the price of aircraft to maximise its returns on capital, as well as to realise certain cash tax advantages. Virgin Blue intends to have a mix of owned and leased aircraft to provide operating flexibility.
Operating Fleet

<table>
<thead>
<tr>
<th></th>
<th>As at 31 March 2001</th>
<th>As at 31 March 2002</th>
<th>As at 31 March 2003</th>
<th>As at 30 September 2002</th>
<th>As at 30 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boeing 737-300</td>
<td>–</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Boeing 737-400</td>
<td>6</td>
<td>5</td>
<td>–</td>
<td>2</td>
<td>–</td>
</tr>
<tr>
<td>Boeing 737-700</td>
<td>–</td>
<td>6</td>
<td>18</td>
<td>15</td>
<td>21</td>
</tr>
<tr>
<td>Boeing 737-800</td>
<td>–</td>
<td>5</td>
<td>10</td>
<td>9</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6</strong></td>
<td><strong>17</strong></td>
<td><strong>29</strong></td>
<td><strong>27</strong></td>
<td><strong>38</strong></td>
</tr>
<tr>
<td><strong>Total leased</strong></td>
<td>6</td>
<td>17</td>
<td>29</td>
<td>27</td>
<td>38</td>
</tr>
<tr>
<td><strong>Total owned</strong></td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>5</td>
</tr>
<tr>
<td>Average Number of Aircraft(1)</td>
<td>4.4</td>
<td>11.0</td>
<td>24.1</td>
<td>20.1</td>
<td>30.3</td>
</tr>
</tbody>
</table>

Notes:


On 20 December 2002, Virgin Blue signed an agreement with Boeing details of which included:

(a) a firm order for 10 Boeing 737-800 aircraft (the “Firm Aircraft”);

(b) purchase rights, exercisable at Virgin Blue’s discretion, to acquire 40 additional Boeing 737 Next Generation aircraft on substantially the same terms and conditions, subject to a price escalation mechanism and agreed concessions; and

(c) additional purchase rights, exercisable at Virgin Blue’s discretion, to acquire up to a maximum of 10 Boeing 737 Next Generation aircraft on substantially the same terms and conditions as any of the purchase rights aircraft (referred to in paragraph (b) above) on a one-for-one basis – that is, one additional purchase right for each purchase right exercised, up to a maximum of 10 Boeing 737 Next Generation aircraft.

As at 10 November 2003, seven of the Firm Aircraft had been delivered to Virgin Blue resulting in a total fleet of 40 aircraft. One additional Firm Aircraft, as well as three leased aircraft are expected to be delivered prior to 31 March 2004, resulting in a total fleet of 44 aircraft. The remaining two Firm Aircraft are expected to be delivered by the end of May 2004. In addition, Virgin Blue has committed to purchase five of the additional 50 aircraft under purchase rights, with expected delivery dates between August and November 2004.

Virgin Blue has significant exposure to fuel and foreign exchange rate movements. Virgin Blue’s use of derivatives is limited to non-speculative operational hedging activities which are intended to provide increased certainty around planning decisions, as well as broader risk management. Virgin Blue’s hedging activities result in the realisation of prices that may vary from market prices resulting in gains and losses. The table below shows the pre-hedging, average exchange rate of the Australian dollar against the US dollar, and the average price of jet fuel.
Virgin Blue has exposure to foreign currency movements as a result of a number of operating expenses including jet fuel and aircraft leases and capital commitments, such as aircraft purchases and aircraft spare parts, all being denominated in US dollars. Virgin Blue enters into forward exchange swap and option contracts to hedge certain anticipated purchase commitments denominated in US dollars. Average AUD/USD exchange rates pre-hedging declined 4.7% in 2002 and increased by 8.7% in financial year 2003. Hedging activities realised a net gain of $1.3 million in 2002 and a net loss of $4.8 million in 2003. In the six months ended 30 September 2003, Virgin Blue’s AUD/USD exchange rates pre-hedging increased by 17.3% over the previous corresponding period resulting in a net loss of $3.3 million.

Jet fuel represented approximately 14.5% of Virgin Blue’s operating costs in the ended 31 March 2003. Virgin Blue enters into jet fuel swap and option contracts to hedge anticipated purchase commitments of aircraft fuel. Average jet fuel prices pre-hedging declined 23.9% in 2002 and increased by 16.4% in 2003. Fuel hedging activities resulted in a net loss of $2.7 million in 2002 and net gain of $4.9 million in 2003. In the six months ended 30 September 2003, Virgin Blue’s jet fuel prices pre-hedging increased by 12.1% over the previous corresponding period resulting in a net gain of $1.8 million.

### 6.6 Management Discussion and Analysis of Results of Operations

Virgin Blue’s rapid growth over the period of the historical financial statements makes it difficult to meaningfully compare individual expense items on an absolute dollar basis. Accordingly, the analysis below frequently makes reference to unit costs which are defined as the absolute dollar expense divided by the ASKs for the relevant period.

Virgin Blue’s financial statements are reported on a functional basis. An explanation of the composition of individual functional items is provided in Note 1 of the historical financial statements contained in Appendix A.

#### Six Months Ended 30 September 2003 Compared to Six Months Ended 30 September 2002

Total revenue (excluding interest income) for the six months ended 30 September 2003 increased $218 million, or 55%, to $617 million, over the six months ended 30 September 2002.

Scheduled Revenue increased $207 million, or 54%, to $593 million. The increase was attributable to significantly higher passenger volumes due to a 57% increase in capacity (ASK) and an increase in the passenger load factor from 77.5% to 83.8%. This was in part offset by a 9.9% decline in yields. Expansion of the Virgin Blue network and lower average fares contributed to higher demand in the period. Virgin Blue increased its fleet from 27 aircraft as at 30 September 2002 to 38 as at 30 September 2003.

Other revenue increased $12 million, or 94%, to $24 million. Key contributors were on-board sales and freight revenue, which were driven by the increase in capacity, as well as the increase in additional revenue sources such as the hire of aircraft parts.

EBITDAR increased $49 million, or 39%, to $174 million, representing an EBITDAR margin of 28.2% for the six months ended 30 September 2003 compared to 31.3% for the previous corresponding period. Unit operating costs to EBITDAR (that is, excluding aircraft rental expenses, depreciation and amortisation, interest and income tax expense) increased 3% for the six months ended 30 September 2003 compared to the previous corresponding period. Factors influencing this result included:

- airport charges unit costs increased 41%. This reflected a full period impact of Virgin Blue’s decision, following the collapse of Ansett, to selectively move into more costly dedicated terminals, particularly at Sydney, Melbourne and Brisbane airports as well as a full period effect of significant increases in unit landing fees, caused by changes imposed on pricing and other contract terms at certain airports including Sydney (particularly due to the introduction of a per passenger charge), Brisbane, Melbourne, Adelaide and Coolangatta. In addition, Virgin Blue expanded its network to include a greater proportion of smaller airports which generally have higher landing fees;
• station operations unit costs increased 18%. The increase was attributable to an increase in security fees and other costs associated with moving into more costly but higher quality dedicated terminals;

• fuel unit costs increased 9%. Important factors were a 12% increase in pre-hedging fuel prices (excluding handling costs), a 17.3% increase in AUD/USD exchange rates (pre-hedging) and unfavourable foreign exchange hedging movements. There was also a significant increase in unit fuel handling fees;

• other aircraft ownership unit costs declined 50%. This decline was principally attributable to lower unit insurance costs caused by the global aviation insurance premia returning to a lower level, than that which followed the September 11 terrorist attacks. Virgin Blue was also able to renegotiate more favourable insurance rates as a result of its claims history performance and increased operational history; and

• maintenance unit costs declined 10%. This decline was due to a 17.3% increase in AUD/USD exchange rates, which reduced the US dollar denominated costs included in maintenance including maintenance reserves and spare parts. In addition, maintenance payments were reduced as a result of the phasing out of older Boeing 737 Classic aircraft.

Aircraft operating lease rentals increased $22 million (41%) to $77 million in the six months ended 30 September 2003 relative to the previous corresponding period. The increase primarily reflected an increase in the average number of leased aircraft from 20.1 aircraft to 30.3.

Net interest income increased from $3.4 million to $6.0 million due to an increase in average cash deposits during the six months ended 30 September 2003 which, in turn, were attributable to strong cash flow generation. Income tax increased from $21 million for the six months ended 30 September 2002 (30% of profit before tax) to $28 million for the six months ended 30 September 2003 (30% of profit before tax).

Profit from ordinary activities after income tax expense for the six months ended 30 September 2003, increased $15 million, or 30%, to $64 million, representing a profit from ordinary activities after income tax expense margin of 10.4% compared to 12.4% in the previous corresponding period.

Year Ended 31 March 2003 Compared to the Year Ended 28 March 2002

Total revenue (excluding interest income) for the year ended 31 March 2003 increased $526 million, or 136%, to $915 million.

Scheduled Revenue increased $510 million, or 135%, to $887 million. The increase was attributable to significantly higher passenger volumes due to a 133% increase in capacity (ASK), marginally offset by a small decline in load factor, and a 3.8% increase in yields. An important driver of the increased demand was the full year effect in 2003 of the consolidation of the domestic industry from four national participants to two. (See Section 3 for additional information regarding the industry consolidation.) During the year, Virgin Blue increased its fleet from 17 aircraft to 29. Virgin Blue also increased its exposure to higher yielding passengers through increased capacity on routes with a higher proportion of business travellers (e.g. Melbourne – Sydney, Brisbane – Sydney and Brisbane – Melbourne).

Other revenue increased $16 million, or 143%, to $28 million consistent with overall business growth. Key contributors were on-board sales and freight revenue.

EBITDAR increased $178 million, or 166%, to $286 million, representing an EBITDAR margin of 31.3% in 2003 compared to 27.7% in 2002. Unit operating costs to EBITDAR (that is, excluding aircraft rental expenses, depreciation and amortisation, interest and income tax expense) decreased 3.8% for the year. Factors influencing this result included:

• Fuel unit costs declined 21%. While pre-hedging fuel prices (excluding handling costs) increased 16.4%, Virgin Blue’s fuel hedging combined with an 8.7% increase in AUD/USD exchange rates (pre-hedging) were the key contributors to the decline in fuel unit costs. Other factors included a further benefit from AUD/USD exchange rate movements post-hedging, an increase in unit fuel handling fees and an improvement in fuel burn rates due to a greater proportion of Boeing 737 Next Generation aircraft in the Virgin Blue fleet.

• Sales and marketing unit costs declined 16%. This was primarily due to a significant increase in average internet sales penetration from approximately 62% to 83%. The internet is Virgin Blue’s cheapest distribution channel. In August 2002, Virgin Blue changed its commission structure to incentivise internet bookings by travel agents with the effect of lowering overall sales and marketing costs.
6. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

- Airport charges unit costs increased 44%. An important reason for the increase was Virgin Blue’s decision, following the collapse of Ansett, to selectively move into more costly dedicated terminals, particularly at Sydney, Melbourne and Brisbane airports. This enabled Virgin Blue to operate from passenger terminal facilities better equipped to accommodate its increased size of operations, and to enhance the level of quality of its customer service. A significant increase in unit landing fees, caused by changes imposed on pricing and other contract terms at certain airports including Sydney, Brisbane, Adelaide and Coolangatta, also had a significant impact on airport charges. Further contributing to the increase was the expansion of Virgin Blue’s network to include a greater proportion of smaller airports which generally have higher landing fees, and the full year effect of Ansett’s collapse which resulted in lower overall aircraft activity at airports and a number of airports subsequently increasing their charges. The full year effect of higher security related charges at airports following the 11 September 2001 terrorist attacks also impacted airport charges.

- Other aircraft ownership unit costs increased 46%. This increase reflected a full year effect of the significant increase in insurance costs following the 11 September 2001 terrorist attacks.

Unit aircraft operating lease rentals decreased 9% in 2003. An 8.7% increase in Virgin Blue’s foreign exchange rate (pre-hedging) reduced US dollar rental costs. This was offset by the leasing of an additional 12 Boeing 737 Next Generation aircraft.

Net interest income increased from $2.5 million to $8.6 million due to an increase in cash deposits which, in turn, were attributable to strong cash flow generation. Income tax increased from $12 million in 2002 (26% of profit before tax) to $48 million in 2003 (31% of profit before tax). The effective tax rate in 2002 was lower due to the utilisation of tax losses generated in 2001 attributable to the start up of the business.

Profit from ordinary activities after income tax expense increased $73 million, or 210%, to $108 million, representing a profit from ordinary activities after income tax expense margin of 11.8%.

Year Ended 28 March 2002 Compared to the Seven Month Period Ended 31 March 2001

Virgin Blue commenced operations on 30 August 2000. Accordingly, the results of operations for the fiscal period ended 31 March 2001 include only seven months of operations. The results of operations for the year ended 28 March 2002, in contrast, include a full 12 months of operations. For the purposes of comparing Virgin Blue’s results for these periods, the discussion below compares seven months of operations with 12 months of operations.

Total revenue (excluding interest income) for the year ended 28 March 2002 increased $314 million, or 419%, to $388 million in the 12 months ended 28 March 2002 compared to the seven month period ended 31 March 2001.

Scheduled Revenue increased $307 million, or 436%, to $377 million. The majority of the increase was attributable to increased passenger volumes due to a 337% increase in capacity (ASK), supported by an increase in passenger load factor from 73.9% to 82.2%, and a 8.8% increase in yield. A key driver of the increased demand was the part year effect of consolidation of the domestic industry from four national participants to two. See Section 3 for additional information regarding the industry consolidation. Virgin Blue increased its fleet from six aircraft to 17. Yields increased to more sustainable levels in 2002 following the part year effect of industry consolidation and the consequential reduction in uneconomical promotional discounting.

Other revenue increased $7 million, or 157%, to $11 million driven by the growth in passenger numbers which resulted in higher on-board sales and network growth, which increased freight revenue.

EBITDAR increased $94 million, or 717%, to $108 million, representing an EBITDAR margin of 27.7%. Unit operating costs to EBITDAR (that is, excluding aircraft rental expenses, depreciation and amortisation, interest and income tax expense) increased 4.1% for the year. Factors influencing this result included:

- Airport charges unit costs increased 42%. The major driver was the part year effect of an increase in unit landing charges at a number of airports including Sydney, Brisbane, Adelaide and Coolangatta. The part year effect of an increase in airport charges at a number of airports following Ansett’s collapse, and an increase in security related charges following the 11 September 2001 terrorist attacks, also contributed to the increase.
• Flight operation and cabin crew unit costs increased 19%. The increase was largely attributable to Virgin Blue’s decision to reduce pilot hours consistent with its long term network and productivity plans. Offsetting this effect was the introduction of new Boeing 737 Next Generation aircraft which allow a more efficient ratio of cabin crew to seat capacity compared to the previously utilised Boeing 737-400 aircraft.

• Maintenance unit costs declined 10%. Maintenance expenses were reduced as Virgin Blue replaced its fleet of older Boeing 737 Classic aircraft with new Boeing 737 Next Generation aircraft requiring less maintenance.

• General and administrative unit costs declined 20%. This was predominantly due to economies of scale associated with head office costs.

Unit aircraft operating lease rentals increased 10% in 2002. This reflected the leasing of an additional 11 new aircraft (increasing the total fleet to 17) at higher rental prices. A 4.7% reduction in Virgin Blue’s exchange rate pre-hedging also increased the Company’s lease expenses, which are denominated in US dollars.

Net interest income increased from $0.02 million to $2.5 million due to an increase in cash deposits attributable to strong cash flow generation. Virgin Blue incurred income tax for the first time in 2002 of $12.2 million (26% of profit before tax).

Profit from ordinary activities after income tax expense increased from a loss of $0.2 million in 2001 (excluding fully written off start up costs of $10.6 million) to a profit from ordinary activities after income tax expense of $34.8 million in 2002, or a profit from ordinary activities after income tax expense margin of 9.0%.

6.7 Liquidity and Capital Resources

Liquidity

Six Months Ended 30 September 2003
Cash declined by $8 million in the six months ended 30 September 2003 resulting in a cash balance at year-end of $119 million, or 6% lower than at the start of the period.

Operating cash flow declined $33 million, or 31%, relative to the previous corresponding period to $73 million. The decline in operating cash flow was due to Virgin Blue remitting corporate income tax of $70 million (comprising income tax on profits for fiscal year 2003 and prepaid income tax instalments on profits for fiscal year 2004) compared to no payment in the previous corresponding period due to the utilisation of tax losses incurred in fiscal year 2001, and the resulting assessed instalment rate being zero. Borrowing costs increased $6 million. Partly offsetting these effects was EBITDA increasing $26 million and a $17 million favourable movement in working capital relative to the previous corresponding period.

Cash outflow from investing activities increased $198 million to $286 million compared to an outflow of $87 million in the previous corresponding period. Contributing factors primarily included payments for the Firm Aircraft delivered, deposits for leased aircraft, pre-delivery payments for the Firm Aircraft, and part payment for a new flight simulator and maintenance hangars at Melbourne Airport. In addition, $26 million was invested in term deposits during the year.

Cash inflows from financing activities increased $245 million to $206 million relative to the previous corresponding period. Cash inflows came from drawing a loan to pay for the delivery of the new Firm Aircraft as well as part of the advance payments for the Firm Aircraft yet to be delivered.

Year Ended 31 March 2003
Cash increased by $30 million in 2003 representing an increase of 31%, and resulting in a cash balance at year end of $127 million.

Operating cash flow in 2003 increased $51 million, or 36%, to $191 million reflecting EBITDA of $157 million and a reduction in working capital of $62 million. Virgin Blue also remitted corporate income tax for the first time in 2003 of $28 million.

Cash outflow from investing activities in 2003 increased $220 million to $255 million. Contributing factors primarily included deposits for leased aircraft and pre-delivery payments for the Firm Aircraft, capital expenditure associated with part payment for a new flight simulator and maintenance hangars at Melbourne Airport. In addition, $72 million was invested in term deposits during the year.
Cash inflows from financing activities in 2003 increased $117 million to $100 million. Cash inflows came from drawing a loan of $139 million to pay for the part of the advance payments related to the acquisition of 10 new Boeing 737-800 aircraft. See Section 10.5 for additional information. Cash outflows from financing activities included a $14 million return of capital to shareholders and loans to the Patrick Shareholder and a Virgin Group entity totalling $23 million.

**Year Ended 28 March 2002**

Cash increased by $89 million in 2002 from 2001 resulting in a cash balance at year end of $97 million.

Operating cash flow in 2002 increased $131 million, to $141 million reflecting EBITDA of $47 million and a reduction in working capital of $94 million.

Cash outflow from investing activities in 2002 increased $14 million to $35 million. Virgin Blue incurred capital expenditure for the period to accommodate its growth, such as rotables and information technology systems. In addition, $10 million was invested in term deposits during the year.

Cash outflows from financing activities in 2002 were $17 million compared with a cash inflow of $20 million in 2001. Cash outflows included the granting of a loan to a Virgin Group entity of $15 million.

**Capital Resources**

Virgin Blue has historically financed its capital requirements through a combination of finance and operating leases, debt financing and cash generation from operations.

Virgin Blue typically maintains a negative working capital balance. This is largely attributable to passengers booking sales in advance of travel which are recognised as a current liability up until the time of travel. Virgin Blue had an unearned passenger revenue liability of $103 million as at 31 March 2003, and of $155 million as at 30 September 2003.

Virgin Blue had receivables of $73 million as at 31 March 2003, and $78 million as at 30 September 2003. Historically, Virgin Blue has experienced little credit risk associated with receivables as these are almost entirely composed of bank issued credit card and travel agent receivables. Virgin Blue has established arrangements with many of the larger travel agents to reduce payment terms.

As at 30 September 2003, Virgin Blue had a cash balance of $119 million and following the Offer, the adjusted cash balance is expected to be $426 million. Virgin Blue also has a large amount of both current and non-current financial assets. As at 30 September 2003, Virgin Blue’s current other financial assets totalled $182 million, consisting primarily of aircraft deposits, retention of a proportion of forward passenger sales made using credit cards, security deposits for hedging and letters of credit. As at 30 September 2003, Virgin Blue also had $9 million of non current other financial assets which consisted primarily of aircraft deposits. Virgin Blue believes its cash resources and available funding are adequate to meet its working capital requirements for the 12 months following Listing. Virgin Blue also believes it has access to adequate funding or internal resources to satisfy its existing capital expenditure commitments as and when they fall due.

Airframe represent Virgin Blue’s largest capital commitment item. The initial fleet development was funded exclusively through operating leases due to the availability of attractive rates relative to other forms of financing. See Section 4.12 for further information on operating lease financing.

In December 2002, Virgin Blue signed an agreement with Boeing to acquire 10 Boeing 737 Next Generation aircraft and purchase rights to acquire up to a further 50 such aircraft. See Section 10.4 for further information about this agreement. Virgin Blue decided to acquire these aircraft as opposed to lease them principally due to:

- the risks involved in relying solely on operating lessors to provide the aircraft needed for future growth (i.e. aircraft may not be available or lease terms may be unfavourable when the operating leases come up for renewal);
• the highly competitive prices at which the aircraft were able to be acquired and financed; and
• the taxation timing benefit on cash flows resulting from high upfront depreciation deductions in respect of the planes.

Since 30 September 2003, Virgin Blue has committed to purchase five of the additional 50 aircraft under purchase rights, with expected delivery dates between August and November 2004. Virgin Blue expects to have sufficient funding and internal resources available to finance the acquisition of these aircraft.

Pre-delivery Payment Financing for 10 Boeing 737 Next Generation Aircraft (Firm Aircraft)
The pre-delivery payment for the acquisition of the 10 Boeing 737 Next Generation aircraft (Firm Aircraft) was partly financed with a secured US$85 million facility provided predominantly by WestLB and Hamburgische Landesbank Girozentrale ("HLG"). The balance of the pre-delivery payment was funded through Virgin Blue's own cash balances. Under the terms of the facility agreement with WestLB and HLG, Virgin Blue is obligated to repay approximately US$8 million under the facility on the delivery of each aircraft by Boeing.

The balance on the pre-delivery payment facility was $139 million as at 31 March 2003 and $60 million as at 30 September 2003.

Long Term Financing for 10 Boeing 737 Next Generation Aircraft
In August 2003, The Royal Bank of Scotland ("RBS") provided finance facilities to fund the long term financing for the purchase of the Firm Aircraft. The Export-Import Bank of the United States ("Ex-Im Bank") has agreed to guarantee a 12 year finance facility for the Australian dollar equivalent of approximately 85% of the net purchase price for the first seven Firm Aircraft and subject to final Ex-Im Bank board approval, the last three Firm Aircraft. RBS has also agreed to provide a second priority finance facility to finance most of the remaining amounts to purchase the Firm Aircraft. A portion of each facility is available on a delivered aircraft basis, and is conditional on the pre-delivery payment financing for the corresponding aircraft being repaid, and the associated security being discharged.

RBS has provided two facilities – the first is guaranteed by Ex-Im Bank, and the second is a commercial bank facility. The RBS facilities are denominated in Australian dollars and have floating interest rates. The Ex-Im Bank guaranteed facility is repayable by quarterly instalments over 12 years. The RBS commercial bank facility is repayable by quarterly instalments over five years. The facilities are secured by the new aircraft among other things.

The balance of the Ex-Im Bank guaranteed facility provided by RBS following delivery of five of the Firm Aircraft covered by these facilities is included under interest bearing liabilities in the balance sheet as at 30 September 2003.

Financing for Spare Engines
In September 2003, RBS provided a $15 million financing facility for two spare engines acquired by Virgin Blue. The facility is denominated in Australian dollars, has a floating interest rate and is secured against the engines. As at 30 September 2003, the RBS engine facility was available but had not been utilised. In early October 2003, Virgin Blue drew down the entire facility in the financing of the two spare engines.

Related Party Loans
In August 2002, Virgin Blue entered into an agreement to make funds totalling $40 million available to the Patrick Shareholder, a Virgin Group entity and CU Nominees. As of 30 September 2003, the Virgin Group entity's outstanding loan including accrued interest was $18.6 million, the Patrick Shareholder's outstanding loan was $21.0 million and CU Nominees did not have an outstanding loan. The facilities are on commercial arms-length terms and conditions and are repayable on demand. The facilities will be fully repaid as part of the Share Buy-back. See Section 10.15 for additional information.

As at 30 September 2003, Virgin Blue had a shareholder loan liability (including guarantee fee) of $0.3 million to Barfair Limited, a related party of Virgin Group. The loan and guarantee was provided to Virgin Blue to assist Virgin Blue reach an agreement with Boeing for its first order of 10 Boeing 737-700 aircraft.
6. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

Operating Lease Commitments
Virgin Blue leases property and equipment, principally aircraft, under operating leases expiring from three to ten years. Aircraft lease payments are payable in US dollars. Leases of property and equipment generally provide Virgin Blue with a right of renewal at which time the terms are renegotiated or the asset is returned to the lessor. Virgin Blue’s operating lease commitments are presented in the table below.

<table>
<thead>
<tr>
<th></th>
<th>As at 31 March 2003</th>
<th>As at 30 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Future operating lease rentals not provided for in the financial statements and payable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not later than one year</td>
<td>181,213</td>
<td>184,829</td>
</tr>
<tr>
<td>Later than one year but not later than five years</td>
<td>656,724</td>
<td>628,693</td>
</tr>
<tr>
<td>Later than five years</td>
<td>355,990</td>
<td>314,544</td>
</tr>
<tr>
<td>Total</td>
<td>1,193,927</td>
<td>1,128,066</td>
</tr>
</tbody>
</table>

See Note 16(b) in the financial statements appearing in Appendix A for additional information.

Finance Lease Commitments
Virgin Blue leases computer equipment, office equipment and ground support equipment under finance lease arrangements. Virgin Blue’s finance lease commitments are presented in the table below.

<table>
<thead>
<tr>
<th></th>
<th>As at 31 March 2003</th>
<th>As at 30 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance lease rentals are payable as follows:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not later than one year</td>
<td>533</td>
<td>–</td>
</tr>
<tr>
<td>Later than one year but not later than five years</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Less future lease finance charges</td>
<td>22</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>511</td>
<td>–</td>
</tr>
</tbody>
</table>

Capital Expenditure Commitments
Virgin Blue’s capital expenditure commitments as set out in the table below relate primarily to aircraft and aeronautical related equipment such as hangars, rotables and maintenance parts and a flight simulator.

<table>
<thead>
<tr>
<th></th>
<th>As at 31 March 2003</th>
<th>As at 30 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracted but not provided for and payable:</td>
<td>626,743</td>
<td>219,779</td>
</tr>
</tbody>
</table>

See Note 16(d) in the financial statements appearing in Appendix A for additional information.

Contingent Liabilities
Virgin Blue has provided bank guarantees and standby letters of credit to third parties as guarantees of payment for fuel, hedging of foreign currency transactions and fulfilment of obligations under government assistance agreements.

The value of bank guarantees and standby letters of credit issued and other finance facilities as at 30 September 2003 was $27 million.

Some government assistance received by the Company may be refundable if agreed performance criteria are not achieved each year until the financial year ending 31 March 2006. The Company believes that no amounts will be refundable.
6.8 Capitalisation

The following table presents the cash and cash equivalents, short term debt and capitalisation of Virgin Blue as at 30 September 2003 and as adjusted to reflect the Equity raising and associated costs, the Share Buy-back and the repayment of existing loans from Virgin Blue to the Patrick Shareholder and a Virgin Group entity totalling approximately $40.1 million.

<table>
<thead>
<tr>
<th>As at 30 September 2003</th>
<th>As at 30 September 2003 Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ Thousand Actual</td>
<td>Adjusted (4)</td>
</tr>
<tr>
<td>Cash and cash equivalents(1)</td>
<td>118,708  426,326</td>
</tr>
<tr>
<td>Cash assets(1)</td>
<td>151,565  151,565</td>
</tr>
<tr>
<td>Term and other cash deposits</td>
<td>151,565  151,565</td>
</tr>
<tr>
<td>Total</td>
<td>270,273  577,891</td>
</tr>
<tr>
<td>Short term debt secured(2)</td>
<td>80,298  80,298</td>
</tr>
<tr>
<td>Loans – secured</td>
<td>80,298  80,298</td>
</tr>
<tr>
<td>Long term debt secured(3)</td>
<td>253,302  253,302</td>
</tr>
<tr>
<td>Loans – secured</td>
<td>253,302  253,302</td>
</tr>
<tr>
<td>Shareholders equity</td>
<td></td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>45,789  399,957</td>
</tr>
<tr>
<td>Retained profits</td>
<td>202,404  114,878</td>
</tr>
<tr>
<td>Total shareholders equity</td>
<td>248,193  514,835</td>
</tr>
<tr>
<td>Total capitalisation(5)</td>
<td>501,495  768,137</td>
</tr>
</tbody>
</table>

Notes:
(1) Consists of cash on hand, short term money market deposits, other cash term deposits and leased aircraft security deposits.
(2) Consists of amounts repayable within 12 months from 30 September 2003.
(3) Consists of amounts repayable after 12 months.
(4) Adjustments reflect the impact of the Equity raising and associated cost, the Employee Gift Offer, the Executive Offer, the Share Buy-back, the repayment by the Patrick Shareholder and a Virgin Group entity of loans totalling $40.1 million and expenses associated with the Offer. The Share Buy-back is assumed to be conducted at the mid-point of the Indicative Price Range. The Company reserves the right to conduct the Share Buy-back at a price per Share greater or less than the mid-point of the Indicative Price Range but no higher than the Final Price.
(5) Consists of long term debt and total shareholders equity.

6.9 Market Risk Sensitive Instruments

Virgin Blue is exposed to various market price risks, which include exposure to fuel prices, foreign currency exchange rates and interest rates. Virgin Blue manages its exposure to these risks by entering into hedging contracts with counterparties. Virgin Blue only hedges its exposure to these risks and does not take positions for speculative trading purposes. See Section 6.5 for further details.

Foreign Currency Exchange Risk

Approximately one third of Virgin Blue’s operating expenses (excluding interest and tax), principally jet fuel, operating lease rentals and aircraft maintenance expenses, are denominated in US dollars. Virgin Blue hedges this foreign currency exchange risk by entering into forward exchange swap and option contracts. Virgin Blue’s foreign exchange hedging tends to be for its anticipated requirements on a rolling 12 to 15 month basis.

Virgin Blue has hedged 71% of its “operating” foreign exchange exposure for the six months ending 31 March 2004. Virgin Blue’s revenue is denominated in Australian dollars and as a result the Company has no revenue exposure to foreign currency exchange risk. Pacific Blue’s operations will create exposures to other foreign currencies at which time the Company will review its risk management policies and procedures with respect to these exposures.

The gross unrecognised loss on hedges of anticipated foreign currency purchases was $7.5 million as at 31 March 2003, and $26 million as at 30 September 2003.
6. HISTORICAL FINANCIAL INFORMATION (CONTINUED)

Interest Rates
As at 30 September 2003, Virgin Blue had $333.6 million of floating interest rate loan liabilities and no debt commitments with fixed interest
rates. Virgin Blue has not entered into any interest rate risk management contracts due to the facilities only recently being established.
With Virgin Blue’s exposure to interest rate movements increasing, the Company is reviewing its risk management policies and procedures.

Fuel Prices
Virgin Blue hedges its fuel costs for its anticipated requirements on a rolling 12 to 15 month basis. Fuel expenses account for approximately
18% of Virgin Blue’s operating expenses in the year ended 31 March 2003. Virgin Blue hedges this fuel price risk by entering into forward
exchange swap and option contracts. To date, Virgin Blue’s fuel hedging has been completed in Singapore Jet Fuel prices. The price of jet fuel
to Virgin Blue is based on the quoted Singapore Jet Fuel price.

Virgin Blue has hedged approximately 70% of its anticipated fuel requirements for the year ending 31 March 2004. The net fair value of
Virgin Blue’s outstanding fuel hedge contracts was a gain of $1.8 million as at 31 March 2003 and a gain of $3.3 million as at 30 September
2003.

6.10 International Financial Reporting Standards
For reporting periods beginning on or after 1 January 2005, Virgin Blue must comply with International Financial Reporting Standards (“IFRS”)
as issued by the Australian Accounting Standards Board.

All financial information disclosed in this Prospectus has been prepared in accordance with generally accepted accounting principles in
Australia (“Australian GAAP”). The differences between Australian GAAP and IFRS identified by management to date as potentially having a
significant effect on the financial position and financial performance of Virgin Blue are summarised below. The summary should not be taken
as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure,
presentation or classification differences that would affect the manner in which transactions or events are presented.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between
Australian GAAP and IFRS described below and the impact of these differences relative to Virgin Blue’s financial statements in the future.
Accordingly, management has not quantified the effects of the differences discussed below. You should consult your own professional
advisors for an understanding of the differences between Australian GAAP and IFRS.

The key potential implications of the conversion to IFRS for Virgin Blue include:

Financial Instruments
All financial instruments must be recognised on the Statement of Financial Position and all derivatives and most financial assets must be
carried at fair value. In addition, the criteria for the use of hedge accounting will be more restrictive.

Income Tax
The conversion to IFRS will require the adoption of the balance sheet approach, which will result in more deferred tax assets and liabilities,
and as tax effects follow the underlying transaction, they can be recognised in equity, as well as income tax expense.
FORECAST FINANCIAL INFORMATION

7.1 Basis of Preparation
In accordance with customary practice for offerings in Australia, the Prospectus includes forecast financial information. The accounting policies disclosed in Note 1 of Appendix A have been consistently applied in the forecast financial information. For comparative purposes, certain historical financial information is disclosed in this Section. The historical financial information has also been disclosed in Section 6 and in Appendix A and includes:

- audited historical Statement of Financial Performance for the year ended 31 March 2003; and

The forecast financial information has been prepared by the Directors and comprises the following:

- forecast Statement of Financial Performance for the six months ending 31 March 2004 (the “Directors’ Forecast”), which has been reviewed by Ernst & Young Transaction Advisory Services Limited. See Section 9.2 for the Independent Review of Directors’ Forecast Report; and

The Directors’ Forecast is based upon a number of estimates and assumptions that are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Virgin Blue and the Directors, and upon assumptions with respect to future business decisions, which are subject to change.

The inclusion of this forecast financial information in the Prospectus should not be regarded as a representation or warranty with respect to its accuracy or the accuracy of the underlying best estimate assumptions or that the Company will achieve, or is likely to achieve, any particular results. This information also assumes the success of the Company’s business strategies. The success of these strategies is subject to uncertainties and contingencies beyond the Company’s control, and no assurance can be given that the strategies will be effective or that the anticipated benefits from the strategies will be realised in the period for which the Directors’ Forecast has been prepared or otherwise.

Events and circumstances often do not occur as anticipated and therefore actual results are likely to differ from the Directors’ Forecast. These differences may be material. The aviation industry is subject to many external factors which can materially impact its financial performance.

The Directors’ Forecast includes best estimate assumptions as to yields, passenger traffic, passenger load factors, expenses and exchange rates for the six months ending 31 March 2004. As shown in the sensitivity analysis in Section 7.4, relatively small changes in passenger load factors and average fares, have a significant impact on operating results. Accordingly, the Directors cannot and do not guarantee the achievement of the Directors’ Forecast.

The Directors believe that due care and attention has been used in the preparation of the Directors’ Forecast and consider the assumptions to be reasonable when viewed as a whole. This information is not fact and prospective investors are cautioned not to place undue reliance on the Directors’ Forecast.

There is no present intention to update this forecast financial information or to publish forecast financial information in the future.
7.2 Forecast Financial Information

The table below sets out certain historical financial information, the Directors’ Forecast and the Aggregated Forecast. The information in the table should be read together with the key best estimate assumptions underlying the Directors’ Forecast described in Section 7.3, the sensitivity analysis set out in Section 7.4, the risk factors set out in Section 8 and other information contained in this Prospectus. The Directors’ Forecast has been prepared in accordance with the accounting policies as set out in Note 1 to the financial statements contained in Appendix A.

### Historical and Forecast Financial Information

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scheduled</td>
<td>886,903</td>
<td>592,540</td>
<td>741,800</td>
<td>1,334,340</td>
</tr>
<tr>
<td>Other</td>
<td>27,664</td>
<td>24,129</td>
<td>27,837</td>
<td>51,966</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>914,567</td>
<td>616,669</td>
<td>769,637</td>
<td>1,386,306</td>
</tr>
<tr>
<td><strong>EBITDAR</strong></td>
<td>285,924</td>
<td>173,606</td>
<td>228,480</td>
<td>402,086</td>
</tr>
<tr>
<td>Aircraft rentals</td>
<td>(128,726)</td>
<td>(77,367)</td>
<td>(81,634)</td>
<td>(159,001)</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(7,776)</td>
<td>(9,000)</td>
<td>(19,386)</td>
<td>(28,386)</td>
</tr>
<tr>
<td>Goodwill amortisation</td>
<td>(2,483)</td>
<td>(1,242)</td>
<td>(1,242)</td>
<td>(2,484)</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>146,939</td>
<td>85,997</td>
<td>126,218</td>
<td>212,215</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(1,082)</td>
<td>(550)</td>
<td>(10,728)</td>
<td>(11,278)</td>
</tr>
<tr>
<td>Interest income</td>
<td>9,729</td>
<td>6,547</td>
<td>7,892</td>
<td>14,439</td>
</tr>
<tr>
<td><strong>Profit/(loss) from ordinary activities before income tax expense</strong></td>
<td>155,586</td>
<td>91,994</td>
<td>123,382</td>
<td>215,376</td>
</tr>
<tr>
<td><strong>Income tax expense</strong></td>
<td>(47,787)</td>
<td>(27,819)</td>
<td>(37,557)</td>
<td>(65,376)</td>
</tr>
<tr>
<td><strong>Profit/(loss) from ordinary activities after income tax expense</strong></td>
<td>107,799</td>
<td>64,175</td>
<td>85,825</td>
<td>150,000</td>
</tr>
</tbody>
</table>

7.3 Key Best Estimate Assumptions Underlying the Directors’ Forecast

The best estimate assumptions described below relate to the Directors’ Forecast for the six months ending 31 March 2004.

Investors should note that Virgin Blue has a limited operating history and has grown significantly since commencing operations in August 2000. As a result of the Company’s rapid growth and significant changes in the competitive environment, the Company’s historical performance may not be an accurate indicator of future performance.

The Directors’ Forecast is based on best estimate assumptions. The key best estimate assumptions are summarised below.

### General Assumptions

The following general assumptions are relevant to the Directors’ Forecast:

- No material adverse change in the competitive operating environment in Australia and the markets in which Virgin Blue operates. The Directors’ Forecast assumes that no new national domestic carrier establishes operations in the market and that the mutual recognition legislation between Australia and New Zealand is not enacted. In addition, the Directors’ Forecast assumes that there will be no material impact to the Company’s results during the forecast period as a result of media reports on 16 October 2003 that Qantas intends to launch a new low cost domestic carrier after May 2004.
- No significant change in the economic conditions prevailing in Australia and the markets in which Virgin Blue operates.
- An average unhedged AUD/USD exchange rate of 0.64 in the six months ending 31 March 2004. The Directors’ Forecast assumes that approximately 71% of Virgin Blue’s US dollar currency requirements are hedged. See Section 6.9 for further details.
• An average unhedged aircraft fuel price of US$30 per barrel in the six months ending 31 March 2004. The Directors' Forecast assumes that approximately 70% of Virgin Blue's aircraft fuel requirements are hedged. See Section 6.9 for further details.

• Borrowing costs are at a range of rates from 2.9% per annum to 6.2% depending on the actual terms of the agreements, including the currency, for the six months ending 31 March 2004. Cash balances earn interest income at an average rate of 4.6% per annum.

• No significant change in the legislative regimes and regulatory environments in the jurisdictions in which Virgin Blue or its key customers or suppliers operate.

• No change in applicable accounting standards that would have a material impact on Virgin Blue's accounting policies, financial reporting or disclosure.

• No change in the taxation legislation in Australia or any jurisdiction in which Virgin Blue operates.

• No material environmental losses or material legal claims.

• No material adverse change in the operating environment in the Australian aviation industry as a result of unforeseen events, including war, terrorism or SARS.

• No significant aviation accident or incident in Australia or involving a Boeing 737 aircraft.

• No material business acquisitions or disposals.

Prospective investors should also consider the risks described in Section 8.

Revenue Assumptions

Scheduled revenue

The scheduled revenue forecast is based on estimates of the average number of seats in service, the average passenger load factor and the average air fare on a per sector basis. The Directors' Forecast assumes that Virgin Blue will increase its fleet from 38 aircraft as at 30 September 2003 to 44 aircraft as at 31 March 2004. The increase in capacity is forecast to generate increased scheduled revenue. The majority of this increased scheduled revenue is expected to come from increasing frequencies on selected existing routes, including the key business routes between Sydney, Brisbane, and Melbourne. In addition, increased revenue is expected to come from the introduction of certain new domestic and international services.

Natural market growth has been assumed on the majority of routes at approximately 1.5% to 3.5%.

The Directors’ Forecast assumes that Virgin Blue will have a passenger market share commensurate with its capacity share on the routes which it flies. The Directors’ Forecast assumes that there will be no material change in the level of capacity in the domestic passenger aviation market, except for the additional aircraft to be operated by Virgin Blue in the forecast period.

The Directors have forecast average fares on a route by route basis resulting in a total average fare across the network of approximately $132 for the six months ending 31 March 2004. This forecast average fare reflects fares on individual routes, the mix of leisure and business passengers and scheduling.

The Directors’ Forecast assumes that Virgin Blue will continue to capitalise on its position in the leisure travel market, as well as continue to increase its share of corporate/business travellers.

Other revenue

Other revenue is expected to comprise approximately 4% of the Directors’ Forecast revenue and includes on board sales, freight revenue and government grants.
2. FORECAST FINANCIAL INFORMATION (CONTINUED)

The table below sets out the key operating statistics underlying the key best estimate assumptions summarised above, together with historical comparatives for illustrative purposes.

Key Operating Statistics

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Passengers carried</td>
<td>6,591,120</td>
<td>4,483,032</td>
<td>5,636,037</td>
<td>10,119,069</td>
</tr>
<tr>
<td>RPK (millions)</td>
<td>7,194</td>
<td>5,115</td>
<td>6,620</td>
<td>11,735</td>
</tr>
<tr>
<td>ASK (millions)</td>
<td>9,078</td>
<td>6,084</td>
<td>8,096</td>
<td>14,180</td>
</tr>
<tr>
<td>Average fare ($)</td>
<td>134.6</td>
<td>132.2</td>
<td>131.6</td>
<td>131.9</td>
</tr>
<tr>
<td>Passenger load factor (%)</td>
<td>79.4%</td>
<td>83.8%</td>
<td>81.7%</td>
<td>82.7%</td>
</tr>
<tr>
<td>Yield (cents)(1)</td>
<td>12.71</td>
<td>12.06</td>
<td>11.62</td>
<td>11.81</td>
</tr>
<tr>
<td>Aircraft utilisation (block hours per day)</td>
<td>10.9</td>
<td>11.6</td>
<td>12.1</td>
<td>11.9</td>
</tr>
</tbody>
</table>

Note:
(1) Yield is calculated as total revenue divided by RPK.

Operating Expense Assumptions
Virgin Blue’s operating expenses are largely driven by the forecast revenue assumptions and operating statistics shown above. Specific operating expense assumptions for the six months ending 31 March 2004 are:

- **Employees** – the number of employees is assumed to increase by approximately 500 to 3,300 as at 31 March 2004;
- **Aircraft fuel** – 70% of the anticipated aircraft fuel requirements for the six months ending 31 March 2004 are hedged;
- **Airport and navigation charges** – the basis for charging airport passenger facility fees, landing fees and navigation fees is assumed to remain the same as in historical periods, or has been adjusted for changed contractual circumstances;
- **Depreciation and amortisation** – the depreciation and amortisation expense has been based on historical rates and applied in accordance with the accounting policies set out in Note 1 to the financial statements in Appendix A; and
- **Other operating expenses** – where appropriate, expenses have been escalated over the forecast period by CPI unless otherwise specified by contract.

Financing Assumptions

Operating Leases
The Directors’ Forecast assumes that Virgin Blue’s lease payments in connection with its existing fleet of leased aircraft will continue to be made in accordance with existing lease terms. Terms for four additional operating leased aircraft have been agreed pursuant to which these aircraft are expected to be delivered during the Directors’ Forecast period at rates that have been agreed, and Virgin Blue’s last remaining Boeing 737-300 is assumed to be returned.

Borrowings
The additional three Firm Aircraft to be acquired in the six months ending 31 March 2004 are assumed to be financed through finance facilities provided by RBS and guaranteed by Ex-Im Bank. See Section 10.6 for further information on the Company’s long term aircraft financing. The Pre Delivery Payments Facility is assumed to be repaid as the aircraft are delivered. See Section 10.5 for further information on the Company’s pre-delivery payment financing.

Operating Cash Flows
Consistent with the discussion in Section 6.7, operating cash flows are forecast to continue to be greater than profit from ordinary activities after income tax expense, predominantly as a result of Virgin Blue’s forecast continued expansion and consequential increase in unearned scheduled revenue during the six months ending 31 March 2004.
Fleet Plan Assumptions
The Directors’ Forecast assumes that Virgin Blue will continue to utilise and expand its aircraft fleet from 38 aircraft as at 30 September 2003 to 44 aircraft as at 31 March 2004. The average number of aircraft during the Aggregated Forecast period is assumed to be 34.3 and is a function of the dates on which aircraft are scheduled to be delivered.

Fleet

<table>
<thead>
<tr>
<th>Historical As at 30 September 2003</th>
<th>Forecast As at 31 March 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boeing 737-300</td>
<td>1</td>
</tr>
<tr>
<td>Boeing 737-400</td>
<td>–</td>
</tr>
<tr>
<td>Boeing 737-700</td>
<td>21</td>
</tr>
<tr>
<td>Boeing 737-800</td>
<td>16</td>
</tr>
<tr>
<td>Total Fleet</td>
<td>38</td>
</tr>
</tbody>
</table>

Capital Expenditure Assumptions
Capital expenditure is forecast to be $213.5 million in the six months ending 31 March 2004 and consists of the acquisition of three Boeing 737 Next Generation aircraft, property, rotables, spare parts, computer equipment and part payment for the flight simulator.

Taxation Assumptions
Taxation assumptions reflect a forecast effective tax rate of 30.4% in the six months ending 31 March 2004. This is consistent with the Company’s effective tax rate in the year ended 31 March 2003.

Dividend Policy Assumptions
It is assumed that Virgin Blue will not pay a dividend with respect to the six months ending 31 March 2004.

7.4 Sensitivity Analysis
The Directors’ Forecast is based on a number of estimates and assumptions that are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Virgin Blue and the Directors, and upon assumptions with respect to future business decisions, which are subject to change.

Set out below is a summary of the sensitivity of the Directors’ Forecast profit from ordinary activities after income tax expense to variations in a number of key variables to the overall Aggregated Forecast. The sensitivity analysis is specific to the yields, passenger traffic, load factors, expenses and exchange rate forecast for the six months ending 31 March 2004. The changes in the key variables set out in the sensitivity analysis are not intended to be indicative of the complete range of variations that may be experienced.

Care should be taken in interpreting these sensitivities. The estimated impact of changes in each of the variables has been calculated in isolation from changes in other variables over the six months ending 31 March 2004 to illustrate the likely impact on the Aggregated Forecast. In practice, changes in variables may offset each other or may be additive, and it is likely that Virgin Blue’s management would respond to any adverse change in one variable by taking action to minimise the net effect on Virgin Blue’s earnings.

Sensitivity Analysis on Aggregated Forecast

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Change in Assumption</th>
<th>Impact on Forecast Profit from Ordinary Activities after Income Tax Expense 31 March 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger load factor</td>
<td>+/- 1%</td>
<td>$5.3 million</td>
</tr>
<tr>
<td>Average fare</td>
<td>+/- $1</td>
<td>$3.7 million</td>
</tr>
<tr>
<td>Average jet fuel price</td>
<td>+/- US$1</td>
<td>$0.5 million</td>
</tr>
<tr>
<td>AS against US$</td>
<td>+/- US$0.01</td>
<td>$0.7 million</td>
</tr>
<tr>
<td>Interest rate</td>
<td>+/- 25 basis points</td>
<td>$0.4 million</td>
</tr>
</tbody>
</table>
SECTION 8:
RISK FACTORS

8.1 Introduction
The future performance of Virgin Blue and future investment performance of Shares in Virgin Blue may be influenced by a range of risk factors, many of which are outside the control of Virgin Blue and the Directors. These risk factors are listed in Sections 8.2 and 8.3. Prospective investors should note that this list of risk factors may not be exhaustive.

The risk factors are specific to Virgin Blue and the airline industry and of a general nature in relation to investing in shares. Virgin Blue’s business, financial condition, or results of operations could be materially and adversely affected by any of these risks, either individually or in combination. The market price of the Shares could decline due to any of these risks and investors may lose all or part of their investment.

Before making an investment in Virgin Blue, prospective investors should read the whole of this Prospectus, should specifically consider the factors contained within this Section in order to fully appreciate the risks, and should have regard to their own investment objectives and financial circumstances. Investors should also consider seeking professional guidance from their stockbroker, solicitor, accountant or other professional advisors before deciding whether to invest.

8.2 Risks Associated with Virgin Blue and the Airline Industry
Virgin Blue has a limited operating history and it is difficult to evaluate an investment in Virgin Blue Shares.

Virgin Blue commenced operations in August 2000. It is difficult to evaluate Virgin Blue’s future prospects and an investment in the Shares due to Virgin Blue’s short operating history. Virgin Blue’s prospects are uncertain and must be considered in light of the risks, uncertainties and difficulties often encountered by companies in the early stage of operations. Historically, there has been a high failure rate among start up airlines.

Virgin Blue’s future performance depends on many factors which may not be successfully addressed.
Virgin Blue’s future performance will depend upon a number of factors, including the Company’s ability to:

- provide high quality customer service at low prices;
- maintain adequate control over expenses;
- monitor and manage major operational and financial risks (e.g. network operations, foreign exchange and fuel);
- secure favourable trading terms with counterparties including airports, suppliers and contractors;
- obtain and maintain necessary regulatory approvals (e.g. an International AOC to allow it to implement its international expansion);
- attract, retain and motivate qualified employees with the “Virgin Blue” entrepreneurial spirit;
- react to customer and market demands and changes in its competitive environment; and
- maintain the safety and security of its operations and comply with regulatory requirements.

There is no assurance that Virgin Blue will successfully address any of these factors, and the failure to do so could negatively impact the operating and financial performance of its business.
Hostilities, terrorism, economic conditions and other external events could have an impact on Virgin Blue’s performance.

The airline industry has suffered substantial financial loss in recent years as a result of external global events. The terrorist attacks in the United States on 11 September 2001, the war in Iraq, and the recent outbreak of SARS have resulted in lower industry wide demand for air travel. These events have caused a reduction in international passenger arrivals in Australia. Virgin Blue’s financial performance may be impacted by global tensions or the commencement of military action either in the region or globally. In addition, future terrorist attacks, if any, together with any ensuing military or other responsive actions, could have a material adverse effect on the earnings, financial condition and share price of Virgin Blue. Any such future events could adversely affect demand for Virginia Blue’s services which in turn could harm its business.

More generally, since a substantial portion of airline travel, for both business and leisure, is discretionary, the industry tends to experience poorer financial performance during general economic downturns than otherwise. Any such general reduction in airline passenger traffic could have a material adverse effect on Virgin Blue’s business.

The airline industry is characterised by high fixed costs and low profit margins. A decrease in Virgin Blue’s revenue could negatively impact its financial performance.

The airline industry is generally characterised by high fixed costs, primarily related to aircraft operating lease rentals and financing commitments, employee costs, aircraft fuel and maintenance costs, and low profit margins. The expenses of each flight do not vary significantly with the number of passengers carried and a relatively small change in the numbers of passengers or in the pricing or traffic mix could have a disproportionate effect on an airline’s financial performance. Accordingly, a minor shortfall in Virgin Blue’s expected revenue levels could have a material adverse effect on the Company’s financial performance.

The airline industry is subject to extensive regulation.

The airline industry in Australia is subject to extensive regulation. For example:

- to operate in Australia, airlines are required to have an AOC. To obtain an AOC, airlines in Australia have traditionally had to undergo a rigorous and lengthy certification process. Virgin Blue holds an AOC to fly within Australia and will require an International AOC if it operates flights to and from Australia. CASA has responsibility for certification of aircraft, licensing of operators, approval of support activities, conduct of safety surveillance and enforcement of safety standards and rules. CASA has the power to refuse to grant or revoke Virgin Blue’s AOC, or order the grounding of any or all of its fleet. A decision by CASA to ground any or all of Virgin Blue’s fleet, to revoke its AOC, to refuse to grant its International AOC, or to take any other regulatory action concerning Virgin Blue’s aircraft or operations, could have a material adverse effect on the business, financial condition and financial performance of Virgin Blue;

- Virgin Blue must obtain approval from CASA to operate aircraft on its AOC. As at 10 November 2003, Virgin Blue had approval to operate all aircraft in its fleet. Virgin Blue’s growth plans contemplate a continued expansion of the Company’s fleet. Virgin Blue will need to obtain approval from CASA to operate each additional aircraft. There can be no assurance that such authorisation will be granted. The failure of CASA to grant approval to operate additional aircraft would materially restrict Virgin Blue’s ability to grow and materially impact its operating and financial performance; and

- the Aviation Transport Security Bill 2003 calls for the implementation of additional security measures at airports and on aircraft. Virgin Blue believes it has made appropriate preparations and provisions for the measures proposed in the bill, however, the precise amount of additional costs is not yet clear. Additional security measures, pursuant to this bill or future regulations, could have significant compliance costs for Virgin Blue. If not passed on to passengers, these costs could adversely affect Virgin Blue’s financial performance.

In addition, safety, environmental, noise, competition, labour and similar regulations give rise to significant requirements and compliance costs for Virgin Blue.

Virgin Blue has no control over the regulations that apply to it. Changes in the interpretation of current regulations or introduction of new laws or regulations may have a negative impact on Virgin Blue’s costs, business model, and competitive environment, and therefore could adversely affect Virgin Blue’s operating and financial performance.

There are reasonably low regulatory barriers to entry to the Australian domestic aviation industry.

There are very few ownership or regulatory limitations on purchasing, or commencing operations as, a domestic airline in Australia. Competitors of Virgin Blue, therefore face reasonably low regulatory barriers to entry.
8. RISK FACTORS (CONTINUED)

- On 23 September 2003, the Australian government agreed to liberalise air services between Australia and Singapore. The liberalisation will allow Singapore Airlines to fly from Singapore to any airport in Australia and most airports in between. It also lifts restrictions on flight and passenger numbers, and allows for the collection of passengers en route. If Singapore Airlines offers more flights and routes within the Australian domestic market and competes with Virgin Blue for customers, this could adversely affect Virgin Blue’s business and financial condition;

- The Australian government has recently introduced the Civil Aviation Legislation Amendment (Mutual Recognition with New Zealand) Bill 2003, which, if enacted, would permit airlines with New Zealand AOCs to fly domestically in Australia under a principle of mutual recognition. Consequently, airlines already certified in New Zealand (including domestic New Zealand low cost operators) could immediately commence domestic Australian operations in competition with Virgin Blue. New Zealand airlines could potentially operate on a lower cost base than Virgin Blue because airline staff are, on average, paid less in New Zealand, and New Zealand law allows flights to operate with fewer cabin crew. In addition, certification in New Zealand can generally be achieved more quickly than in Australia, allowing potential competitors more rapid access to the Australian domestic market through the New Zealand certification process which would allow operations in Australia under the mutual recognition principle. Accordingly, if the mutual recognition bill is enacted, and a New Zealand air carrier commences passenger services in Australia, Virgin Blue’s business and financial condition could be adversely affected.

Virgin Blue is subject to vigorous competition from airlines, such as Qantas, which have greater financial resources and is also exposed to the risk of a new carrier entering the market.

Virgin Blue’s largest existing competitor, Qantas, is larger and has significantly greater financial resources than Virgin Blue. Since Virgin Blue began operations, Qantas has reduced its fares on certain routes to compete with fares charged by Virgin Blue. The airline industry is particularly susceptible to price discounting primarily because airlines incur only nominal costs to provide services to passengers occupying otherwise unsold seats. Virgin Blue’s management believes that it can operate on its current routes, offering lower fares than Qantas, because of its lower cost base. However, the resources of Qantas are considerably greater than those of Virgin Blue. In the event that Qantas were to reduce its fares to levels at which Virgin Blue could not sustain profitable operations, and were to maintain such reduced fares for an extended period, it is likely that Qantas could withstand sustained losses for a longer period of time than Virgin Blue. Although predatory pricing is illegal in Australia, there is no assurance that Virgin Blue could obtain sufficiently rapid or adequate redress under applicable laws.

Virgin Blue could also face substantial competition from new carriers entering the Australian domestic aviation market, including other low cost carriers. Government aviation policies in Australia favour the creation of a more competitive environment, including liberal rights of entry into the Australian domestic market. If another low cost carrier is established and becomes successful within the medium to long term, it may have a material adverse effect on the financial position and operations of incumbent Australian airlines, including Virgin Blue.

On 16 October 2003, Qantas announced its intention to launch a new domestic low cost airline in May 2004 which will operate as a separate business with its own brand. Qantas has indicated that it was negotiating with Boeing, Airbus and aircraft lessors for the acquisition or lease of Boeing 737-800 or Airbus A320 aircraft, and that the new low cost carrier is expected to have a minimum of 25 aircraft by mid-2005. Virgin Blue is unable to predict whether Qantas will, in fact, establish a low cost carrier in Australia, the timing of the launch of such operations or the effect, if any, that such competition would have on Virgin Blue.

The proposed Qantas – Air New Zealand alliance could affect Virgin Blue’s growth prospects.

In November 2002, Qantas and Air New Zealand proposed a strategic alliance between the two companies. Under the proposed alliance, Qantas would acquire up to a 22.5% voting equity interest in Air New Zealand, and Qantas and Air New Zealand would enter into a number of collaborative agreements with regard to their operations. The proposed alliance was conditional on the approval of the ACCC and the NZCC. On 9 September 2003, the ACCC declined to give its approval. Qantas and Air New Zealand have applied to the Australian Competition Tribunal for a review of the ACCC decision. On 23 October 2003, the NZCC rejected the application for the proposed alliance submitted by Qantas and Air New Zealand. Virgin Blue is unaware if Air New Zealand and Qantas will appeal the NZCC’s decision. If they do decide to appeal the decision, it is not possible to predict the outcome of the appeal.

As a result of the decisions of the ACCC and NZCC rejecting the proposed alliance, Qantas and Air New Zealand may determine to abandon the proposed alliance and elect to pursue new strategies. These new strategies could materially alter the competitive environment on Trans-Tasman routes, domestic routes in Australia and New Zealand, as well as the Pacific Region.
Virgin Blue Holdings Limited Share Offer

Air New Zealand had agreed to provide Pacific Blue with access to the Auckland Airport domestic terminal, which is capacity constrained, conditional upon the NZCC approving the alliance. These concessions are unlikely to be granted. There is a risk that in the absence of the alliance, Virgin Blue’s proposed New Zealand operations could be restricted or adversely affected including, for example, if no suitable access to Auckland terminal can be negotiated.

Alternatively, if the appeal proceeds and is successful and the alliance is approved, there is a risk that Virgin Blue will not be able to compete as effectively on routes between Australia and New Zealand and within New Zealand. This could materially restrict Virgin Blue’s ability to grow and could materially impact its operating and financial performance.

**Virgin Blue’s business could be adversely affected by a change in the availability or cost of airport facilities.**

The availability and cost of terminal space, landing slots, aircraft parking and aircraft hangars are fundamental to the ability of Virgin Blue to operate.

Most Australian airports are privately owned and owners have flexibility to increase charges to airlines. See Section 4.17 for further information regarding price increases at Sydney Airport. Significant increases in these costs and charges could have a material adverse effect on Virgin Blue’s business, financial position and financial performance. Virgin Blue’s expansion is dependent on the availability of airport facilities and capacity. The inability of Virgin Blue to lease, acquire or access airport facilities as required on reasonable terms to support its growth could have a material adverse effect on Virgin Blue’s business and financial performance.

**Virgin Blue’s failure to successfully implement and manage its growth strategy could harm the business.**

Virgin Blue’s growth strategy involves increasing the frequency of flights to markets it currently serves, as well as introducing services to new markets.Virgin Blue will also need to access suitable airports located in targeted geographic markets in order to expand into new markets, and will need to secure access, on terms that preserve its low cost base, to sufficient desirable landing slots and related infrastructure, including terminal space and gates. In addition, existing management resources and operational, financial and management information systems may also be strained by the growth of the business requiring Virgin Blue to make significant expenditures. There is no assurance that Virgin Blue will be able to successfully implement and manage its growth strategy, and a failure in this regard could have a material adverse effect on the Company’s operating and financial performance.

**If Virgin Blue is unable to attract and retain sufficient qualified employees at reasonable costs or fails to maintain its unique culture, its business could be harmed.**

Virgin Blue’s expansion plans will require it to hire and train a significant number of new employees, including specialised employees such as pilots and engineers. If it is unable to hire and train qualified employees at a reasonable cost, it may not be able to complete its expansion plans and its business could be harmed.

Virgin Blue believes one of its competitive strengths is the entrepreneurial spirit of the Company and the enthusiasm, commitment and productivity of its workforce. A contributing factor to this culture is Virgin Blue’s tailored recruitment processes. As Virgin Blue grows, it may be unable to identify, hire, and retain sufficient people who meet its criteria. If Virgin Blue fails to maintain the strength of its corporate culture, its competitive advantage and business may be harmed.

Virgin Blue believes it currently has good industrial relations with its employees. Virgin Blue’s enterprise bargaining agreements are in force until at least June 2005. However, there can be no assurance that some of the Company’s employees will not in the future make employee compensation and working condition demands that would increase operating expenses and impede the Company’s ability to keep costs low.

**Virgin Blue’s reliance on high aircraft utilisation rates make it vulnerable to factors causing delays in aircraft turnaround times.**

One of the key elements of Virgin Blue’s business strategy is to maintain a high aircraft utilisation rate to lower unit costs. This is achieved in part by reducing turnaround times at airports. Aircraft utilisation may be reduced by delays resulting from the following factors, many of which are beyond the Directors and Virgin Blue’s control:

- security requirements;
- customer processing and baggage handling;
- air traffic and airport congestion;
- adverse weather conditions;
8. RISK FACTORS (CONTINUED)

- unavailability of crews;
- acts of third parties upon which Virgin Blue relies, such as fuelling and ground handling; and
- maintenance and technical issues.

Virgin Blue's exposure to these delay factors could increase with the implementation of its growth strategy to include new flight destinations and increased flight frequency on existing routes.

**Failure to obtain international operating rights could hinder Virgin Blue's international expansion plan.**

As a general principle, in order to operate international air services, it is necessary for the entities in the Virgin Blue Group who conduct those activities to remain substantially owned and effectively controlled by Australian nationals. In addition, under the New Zealand Bilateral, it is necessary for Pacific Blue Airlines (NZ) Ltd to remain effectively controlled by Australian or New Zealand nationals, with two thirds of its directors and the chairman being Australian Persons. Failure to comply with these requirements could result in revocation of Pacific Blue Airlines (NZ) Ltd's licence or Virgin Blue's rights to operate as an Australian International Airline, as the case may be.

There is a risk that these ownership restrictions may be inadvertently breached. Virgin Blue will have no control over future shareholders or their nationality. Virgin Blue's Constitution does not contain any foreign ownership restrictions. Virgin Blue may be required by the Minister of Transport in Australia or by the Ministry of Transport in New Zealand to amend its Constitution to include mandatory provisions restricting foreign ownership to no more than 49% of the Company. The failure of the Company to amend its Constitution or, once amended, to enforce any such restrictions, or any inadvertent breach of such restrictions, could result in a revocation or withdrawal of the Company's rights to operate as an Australian International Airline. Enforcement of these provisions could include requiring divestiture of Shares by some shareholders.

Similarly, if Patrick Corporation becomes substantially owned or effectively controlled by foreign persons, it may no longer be deemed to be an Australian Person under the relevant legislation, and Virgin Blue could cease to be substantially owned or effectively controlled by Australian Persons. This could lead to the revocation or withdrawal of rights to operate as an Australian International Airline or a refusal to grant Pacific Blue Airlines (NZ) Ltd the right to fly internationally under the New Zealand Bilateral. One possibility would be to introduce appropriate constitutional amendments.

Virgin Blue will be working towards implementing its international strategy in a way which seeks to reduce these risks, but there is no assurance that its structural initiatives will be acceptable or, therefore, implemented.

**Virgin Blue is exposed to certain risks against which it does not insure, and may have difficulty obtaining insurance on acceptable terms or at all.**

The availability of insurance is fundamental to airline operations. Any inability on the part of Virgin Blue to access insurance for its general operations or specific assets poses a risk to the nature and extent of Virgin Blue's operations.

The aviation insurance policies effected by Virgin Blue are consistent with normal industry practice and in line with industry practice, Virgin Blue leaves some business risks uninsured including:

- loss of profit/loss of revenue. Cover is not generally available for these types of losses and where coverage can be purchased, it is considered to be too expensive; and
- mechanical breakdown. Cover is not generally available for the cost of rectifying mechanical breakdown. Where coverage can be purchased, it is considered to be too expensive.

To the extent that uninsured risks materialise, for example, Virgin Blue experiences serious mechanical problems or lengthy interruptions to business operations, Virgin Blue's operating and financial performance could be detrimentally affected. In addition, while Virgin Blue believes that it currently maintains liability insurance in amounts and of the type generally consistent with industry practice, the amount of such coverage may not be adequate to cover losses incurred in connection with any incidents involving its aircraft. This could cause Virgin Blue to bear substantial losses which would directly impact the Company's financial position.
Following the 11 September 2001 terrorist attacks in the United States, aviation insurers dramatically increased airline insurance premiums and significantly reduced the amount of insurance coverage available to airlines. As a result, Virgin Blue’s insurance costs have increased substantially. In the event of additional terrorist attacks, hijackings, airline crashes or other events adversely affecting the airline industry, there is a risk that aviation insurers will further increase their premiums or reduce the availability of insurance coverage. This may have material adverse effect on Virgin Blue’s business, financial position and financial performance.

**Loss of fuel supply or increases in fuel costs could harm Virgin Blue’s business.**

Fuel costs constitute a significant portion of Virgin Blue’s total operating expenses. Historically, fuel costs have been subject to wide price fluctuations driven by supply and demand dynamics, geopolitical issues and economic conditions. As a result, the future availability and cost of fuel cannot be predicted with any degree of certainty. Increases in fuel costs, or fuel shortages, could have a material adverse effect on Virgin Blue’s operations, financial condition and results of operations. In September 2003, fuel rationing was introduced for several days as a result of a jet fuel shortage at Sydney Airport. Virgin Blue’s operations were not materially adversely effected by the shortage, but there is no guarantee that similar situations will not arise in the future that will have a negative impact on the Company’s operating results and financial position.

Virgin Blue has implemented a fuel hedging programme to partially protect against significant increases in fuel prices. This fuel hedging programme is limited in fuel volume and duration. There can be no assurance that Virgin Blue’s hedging programme will be sufficient to protect it against increases in the price of fuel.

**Changes in accounting standards may impact the reporting of Virgin Blue’s financial performance and position.**

Australian accounting standards are set by the AASB and are outside the Directors and Virgin Blue’s control. Changes in accounting standards could impact the financial performance and position reported in Virgin Blue’s financial statements. For example, they could result in lower reported profits, increased volatility of earnings, higher gearing, or less flexibility in hedging arrangements.

In July 2002, the Financial Reporting Council and the AASB announced that Australia will adopt IFRS as the reporting and accounting framework for reporting periods beginning on or after 1 January 2005. The application of IFRS will result in changes to the accounting principles for recognition, measurement and presentation of financial information. As a result of these changes, the major impacts for Virgin Blue may include accounting for:

- financial instruments; and
- income tax.

The likely impact of such changes has not been reflected in the financial information disclosed in this Prospectus due to the uncertainty of the final form of the IFRS, the elections to be made by Virgin Blue in relation to these standards and the resulting impact the adoption of IFRS may have on the historical financial information reported.

**Virgin Blue is exposed to currency fluctuations and interest rate movements.**

Virgin Blue’s operating results may be significantly affected by fluctuations in exchange rates, particularly between the Australian dollar and the US dollar. Approximately one third of Virgin Blue’s operating expenses (excluding interest and income tax) are denominated in US dollars. These expenses related mainly to aircraft lease payments, maintenance reserves, engine maintenance and aircraft fuel purchases.

Virgin Blue engages in currency hedging transactions between the Australian dollar and the US dollar to reduce its exposure to currency fluctuations in the context of committed foreign currency cash flow requirements. See Section 6.5 and Note 19 in Appendix A. There can be no assurance that Virgin Blue’s currency hedging transactions will be sufficient to protect against adverse exchange rate movements. Such movements may therefore have a material impact on Virgin Blue’s financial performance and position.

In addition, Virgin Blue is subject to the effects of interest rate fluctuations on its floating rate financing arrangements. As at 31 March 2003 and 30 September 2003, floating rate instruments represented all of Virgin Blue’s borrowings. Increases in the interest rates of Virgin Blue’s floating rate obligations may have a significant impact on the Company’s operating results. Virgin Blue has not entered any interest rate risk management contracts due to its aircraft acquisition facilities only recently being established. With Virgin Blue’s exposure to interest rate movements increasing, the Company is reviewing its interest rate risk management policies and procedures. There can be no assurance that Virgin Blue’s interest rate hedging programme will be sufficient to protect against adverse interest rate movements.
Virgin Blue has a significant amount of fixed obligations, and will incur significantly more fixed obligations as it continues to grow which could impede its ability to achieve strategic goals.
Virgin Blue has significant long term on balance sheet and off balance sheet commitments. As at 10 November 2003, 33 of the Company’s 40 aircraft were leased through long term operating leases. Virgin Blue has also arranged long term bank debt facilities with Ex-Im Bank and The Royal Bank of Scotland to finance the acquisition of 10 Boeing 737 Next Generation aircraft.

Virgin Blue’s level of indebtedness and other fixed obligations could:
- limit Virgin Blue’s ability to obtain additional financing to support capital expansion plans and for working capital and other purposes;
- divert substantial cash flow from Virgin Blue’s operations, expansion plans and the purchase of aircraft, in order to service its fixed obligations;
- limit Virgin Blue’s flexibility in planning for, or reacting to, changes in its business and the industry in which it competes; and
- place Virgin Blue at a possible competitive disadvantage compared to less leveraged competitors and competitors that have better access to capital resources.

Virgin Blue’s ability to make scheduled payments on its debt and other fixed obligations will depend upon its future operating performance and cash flow. There can be no assurance that Virgin Blue will be able to generate sufficient cash flow from its operations to pay its debt and other obligations as and when they fall due. Virgin Blue’s failure to do so could force it to modify its aircraft acquisition plans or incur higher than anticipated financing costs and otherwise have a material adverse effect on its business.

If Virgin Blue is unable to make payments on its debt and other fixed obligations, it could be forced to renegotiate those obligations or obtain additional equity or debt financing. To the extent Virgin Blue finances its activities with debt, it may also become subject to financial and other covenants that may restrict its ability to pursue its growth strategy. There can be no assurance that renegotiation efforts would be successful or timely, or that Virgin Blue could refinance its obligations on acceptable terms or at all.

Virgin Blue is subject to the risk of having a sole supplier for its aircraft.
One of the key elements of Virgin Blue’s business strategy is to operate only one type of aircraft, the Boeing 737. Operating a fleet with only one type of aircraft leads to cost savings because maintenance issues are simplified, spare parts inventory requirements are reduced, flight and crew scheduling is more efficient and training costs are lowered.

As at 10 November 2003, Virgin Blue operated a fleet of 40 Boeing 737 Next Generation aircraft, and had a firm order with Boeing for a further eight 737 Next Generation aircraft to be delivered by August 2004, with options to acquire up to a further 45 aircraft. A number of factors could limit or preclude Virgin Blue’s ability to obtain the aircraft from Boeing including:
- Boeing could refuse, or may not be financially able, to perform its obligations under the purchase agreements;
- Boeing could experience a fire, strike or any other event that affects its ability to complete or timely fulfil its contractual obligations; or
- Boeing could seek to renegotiate the terms of its arrangements with Virgin Blue on terms unsatisfactory to the Company.

If Boeing was unable or unwilling to perform its contractual obligations, Virgin Blue would have to find another supplier for its aircraft. Airbus is currently the only other manufacturer from which Virgin Blue could purchase alternative aircraft. If Virgin Blue had to purchase alternative aircraft from Airbus, it would lose the benefits of operating a single fleet and would incur substantial transitional costs including costs associated with retraining employees and replacing manuals.

In addition, Virgin Blue’s operations could also be harmed by the failure or inability of Boeing to provide sufficient parts or related support services on a timely basis.
Virgin Blue is highly exposed to the performance of the Boeing 737 aircraft.
Virign Blue's dependence on the Boeing 737 Next Generation aircraft for all of its flights makes it particularly vulnerable to any problems that might be associated with the aircraft. Virgin Blue's business would be significantly harmed if a design defect or mechanical problem with the Boeing 737 were discovered, causing its aircraft to be grounded while any such defect or problem is being corrected, assuming it could be corrected at all.

Virgin Blue's business could also be significantly harmed if the public avoids flying its aircraft due to an adverse perception of the Boeing 737 aircraft due to safety concerns or other problems, whether real or perceived.

Virgin Blue's maintenance costs will increase as its fleet ages.
Because the average age of Virgin Blue's aircraft is only 1.6 years, the aircraft require less maintenance now than they will in the future. Increased maintenance in the future will impact Virgin Blue's aircraft utilisation and may result in an increase in unit costs.

There is also a risk that actual maintenance costs will exceed the costs provided for by the Company in its financial statements.

The financial performance of Virgin Blue is dependent on key employees, who could leave.
Virgin Blue's success depends significantly on the continued service of its key senior executives, including Chief Executive Officer Brett Godfrey, as well as its ability to continue to attract, retain and motivate qualified employees. The loss of the services of any of these key personnel without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on Virgin Blue's business. Virgin Blue has not taken out key man insurance for any of its employees.

Although Virgin Blue has entered into a contract with the Chief Executive Officer, there can be no assurance that he will remain with Virgin Blue. The Chief Executive Officer's employment contract has no fixed term and may be terminated by either him or the Company on six months' notice. The Chief Executive Officer is subject to a non-compete obligation for 12 months from the date upon which he ceases to act as the Chief Executive Officer.

Virgin Blue does not own its name and branding.
Virgin Blue does not own the rights to the "Virgin" or "Virgin Blue" marks, but instead licenses them from Virgin Enterprises. The licence provides Virgin Blue Holdings Limited with a non exclusive licence to use the "Virgin" mark and an exclusive licence to use the "Virgin Blue" mark. The licence limits Virgin Blue's right to use the "Virgin" or "Virgin Blue" marks to domestic passenger air services, in flight sales of certain products, air freight, aircraft engineering and maintenance and valet parking at airports ("Licensed Activities"), all solely within Australia. Virgin Blue has also entered into a restraint and release deed with Virgin Group, which, subject to existing licences, restrains the Virgin Group while the licence is in force, from using or licensing:
- the name "Virgin" in connection with Licensed Activities in the Pacific Region; and
- the name "Virgin Blue" in connection with (i) Licensed Activities anywhere in the world, and (ii) tourism and transport services in the Pacific Region. See Section 10.8 for further details concerning the terms of the licence agreement and the restraint and release deed.

A loss of the licence by Virgin Blue could have a substantial negative impact on Virgin Blue's operating and financial results. Virgin Blue is unable to restrict the use of the "Virgin" or "Virgin Blue" brand by other companies except as provided in its licence agreement and the restraint and release deed. Actions of parties outside the authorised scope of the licence and the restraint and release deed are not subject to the Directors or Virgin Blue's control and the use by these parties of the name "Virgin" or "Virgin Blue" could have a negative impact on the "Virgin Blue" brand. For further information regarding Virgin Blue's trademark licence agreement refer to Section 10.8.

Regarding rights in the "Blue" name (used without the word "Virgin" for example "Pacific Blue"), Virgin Enterprises has given Virgin Blue Holdings Limited some limited acknowledgements regarding ownership by Virgin Blue. See Section 4.19 for additional information.

Virgin Blue could suffer from negative publicity related to affiliated parties.
Virgin Blue believes that its market position has been enhanced through its affiliation with the “Virgin” name and signature logo and with Sir Richard Branson. Sir Richard Branson is the Life President of Virgin Blue. In the event Sir Richard Branson or any member of the Virgin Group were to suffer from any negative publicity, such publicity could have a material adverse effect on Virgin Blue's future operations.
8. RISK FACTORS (CONTINUED)

Following the Offer, Patrick Corporation will remain a substantial shareholder in Virgin Blue with a 45% stake in the Company. In the event Patrick Corporation, or any of its related companies or officers, were to suffer from any negative publicity, such publicity could likewise have a material adverse effect on Virgin Blue’s future operations.

Virgin Blue relies heavily on information technology systems to operate its business in an efficient manner.
Virgin Blue depends on automated systems to operate its business, including its reservation system, flight and crew rostering systems, telecommunications system, website and other automated systems. Unlike many other airlines which issue traditional paper tickets, Virgin Blue uses a ticketless booking system. Virgin Blue’s website and reservation system must be able to accommodate a high volume of traffic and deliver important flight information. These systems are vulnerable to damage, power loss, computer viruses, third party disruptions, misuse by employees, fire and similar events.

Substantial or repeated website, reservations system, telecommunications systems or any information technology systems failures could reduce the attractiveness of Virgin Blue’s services. Any disruption in these systems could result in the loss of important data, increased expenses, disruption of flight services and generally harm Virgin Blue’s business. While Virgin Blue is in the process of further developing business continuity plans to cover all its major systems and disruption risks, a comprehensive plan is not yet in place. In any event, such plans may ultimately prove to be inadequate.

Virgin Blue relies on third parties to provide its customers with facilities and services that are integral to its business.
Virgin Blue has entered into agreements with third party operators to provide certain facilities and services required for its operations including aircraft maintenance, ground handling, fuel, check-in services, baggage services, IT system hosting and support, catering and call centre operations. Virgin Blue will be likely to enter into similar agreements in new markets it decides to enter. The loss or expiration of these contracts or any inability to find suitable alternate providers or renew or negotiate contracts with those providers at comparable rates could harm Virgin Blue’s business. Virgin Blue’s reliance on others to provide essential services on its behalf also gives it less control over costs and the efficiency, timeliness and quality of contract services.

A change in ownership of Virgin Blue could harm Virgin Blue’s business.
Immediately following the Offer, the two largest shareholders will be the Patrick Shareholder and the Virgin Group Shareholders. If either or both of these shareholders change their shareholding or if the ownership of Patrick Corporation or Virgin Group Shareholders changes, there could be adverse consequences for Virgin Blue. For example, a new major shareholder could alter the strategic direction of Virgin Blue. Furthermore, a limited number of contracts which Virgin Blue has entered are subject to review or termination in the event of a change of control of Virgin Blue. Change of control is defined differently depending on the contract and each relevant contract has different exceptions. The contracts affected include some long term terminal leases. Virgin Blue generally seeks to avoid entering into contracts containing such change of control termination provisions.

Substantial sales of Shares after the Offer could cause the price of Shares to fall.
Each of the Existing Shareholders has agreed with the Joint Global Coordinators that they will not sell Shares for a period of 180 days after Listing, unless the Joint Global Coordinators agree otherwise. Sales of Shares into the market could cause the market price of the Shares to drop significantly, even if Virgin Blue’s business is doing well.

There can be no assurance that significant sales of Shares will not occur in the future or that such sales will not adversely affect the market price of the Shares.

Patrick Corporation and the Virgin Group may exercise significant influence over Virgin Blue following the Offer.
The Existing Shareholders may exercise a significant influence over the Company. Following the Offer, the Patrick Shareholder will own 45% of the issued share capital, on a fully diluted basis. Following the Offer, the Virgin Group Shareholders will control 29.1% of the Shares in Virgin Blue based on the mid-point of the Indicative Price Range and assuming Virgin Group sells the minimum number of Shares necessary under the Offer. The Patrick Shareholder and the Virgin Group Shareholders have entered into an Ongoing Shareholders’ Agreement to regulate the relationship between them as Shareholders.

The Patrick Shareholder and the Virgin Group Shareholders, between them are likely to be able to control the outcome of virtually all matters submitted to a vote of Shareholders. The Patrick Shareholder’s level of shareholding alone may be sufficient to allow it to significantly influence matters submitted to a vote of Shareholders. The combined shareholdings of the Patrick Shareholder and the Virgin Group
Shareholders, and to a lesser extent the Patrick Shareholder alone, may have the effect of delaying, deferring or preventing a change of control of Virgin Blue.

The efficiency of Virgin Blue’s operation could be impacted and its affairs could be adversely affected if the Patrick Shareholder and the Virgin Blue Shareholders do not agree on matters relating to the Company.

Under the Corporations Act, either the Patrick Shareholder or the Virgin Group Shareholders, may transfer shares to the other without Shareholder consent and without the requirement to make an offer to all Shareholders. Such a transfer could result in either Patrick Corporation or Virgin Group owning a majority of Shares in the Company. See Section 10.3 for further information relating to the transfer of shares between Patrick Corporation and Virgin Group.

8.3 General Risks Associated with Investing in Shares

There has been no prior market for the Shares and the Shares may experience extreme price and trading volume fluctuations. Following the Offer, an active trading market in the Shares might not develop or continue. If a market does not develop or is not sustained, it may be difficult for investors to sell their Shares at a price that is attractive to them or at all. The Final Price of the Shares will be determined by the Selling Shareholder and the Joint Global Coordinators and may not be representative of the price that will prevail after the Offer.

The market price of the Shares may be volatile, which could cause the value of investors’ investment in Virgin Blue to decline. Any of the following factors could affect the market price of Shares:

- general market, political and economic conditions;
- changes in earnings estimates and recommendations by financial analysts;
- changes in market valuations of listed stocks in general and other airline stocks in particular;
- changes to government policy, legislation or regulation;
- inclusion or removal from major market indices;
- general operational and business risks; and
- the expiration of the restricted periods on Shares that were outstanding prior to the Offer.

In addition, many of the risks described elsewhere in this Section could materially and adversely affect the market price of Shares.

The equity markets have experienced price and volume volatility that has affected the share price of many companies. Share prices for many companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. Fluctuations such as these may adversely affect the market price of the Shares.
SECTION 9:

EXPERTS' REPORTS

INVESTIGATING ACCOUNTANT’S REPORT - HISTORICAL FINANCIAL INFORMATION

INDEPENDENT REVIEW OF DIRECTORS’ FORECAST REPORT
9.1 Investigating Accountant's Report – Historical Financial Information

The Directors
Virgin Blue Holdings Limited
Level 7
131 Barry Parade
Fortitude Valley QLD 4006

10 November 2003

Dear Directors

Investigating Accountant’s Report – Historical Financial Information

1 Introduction
This report has been prepared by KPMG Transaction Services (Australia) Pty Limited (“KPMG Transaction Services”) for inclusion in the Prospectus to be dated 10 November 2003, and to be issued by Virgin Blue Holdings Limited (“VBH”) and Virgin Holdings SA in its capacity as a Selling Shareholder in respect of the issue of new shares and sale of existing shares in VBH.

KPMG Transaction Services has been requested to prepare a report covering certain historical financial information, being the pro forma historical financial information and the unadjusted historical financial information of Virgin Blue, as defined in the Prospectus and described more fully in Section 2 of this report.

Expressions defined in the Prospectus have the same meaning in this report.

2 Historical financial information
2.1 Pro forma historical financial information
The Virgin Blue consolidated group (“Virgin Blue”) comprises:

- Virgin Blue Holdings Limited (“VBH”); and
- Virgin Australia Holdings Pty Limited and its controlled entities (“VAH”).

VBH was incorporated in the British Virgin Islands on 1 August 2000. Prior to re-domiciling to Australia, it had a financial year-end of 31 January and a functional currency of Great British Pounds. During this period, VBH did not undertake any significant transactions other than the raising of capital for its investment in VAH and the subsequent investment in VAH. VAH was engaged in this period in establishing airline operations in Australia.
In order to present the results of operations and cash flows for this period on a basis consistent with how Virgin Blue now reports and will continue to report in the future, the financial information for the seven month period ended 31 March 2001 and the year ended 28 March 2002 has been presented on a pro forma basis as if Virgin Blue:

- was an Australian domiciled entity;
- had a functional currency of Australian dollars;
- had financial year-ends of 31 March for 2001 and 28 March for 2002;
- owned 100% of VAH from incorporation; and
- incurred the costs relating to the start up of the airline.

This pro forma historical financial information of Virgin Blue, as set out in Appendix A of the Prospectus, comprises the pro forma, unaudited:

- statements of financial performance of Virgin Blue for the seven month period ended 31 March 2001 and the year ended 28 March 2002;
- statements of cash flows of Virgin Blue for the seven month period ended 31 March 2001 and the year ended 28 March 2002; and
- notes to those pro forma, unaudited statements.

The pro forma historical financial information has been derived from the audited financial statements of VAH and Virgin Blue, after reflecting the matters noted above and after adjusting for the pro forma transactions and/or adjustments described in Appendix A of the Prospectus.

The financial statements of VAH for the seven month period ended 31 March 2001 and the year ended 28 March 2002, were audited by KPMG in accordance with Australian Auditing and Assurance Standards. The audit opinions issued to the respective members relating to those financial statements were unqualified.

In addition, the pro forma historical financial information also includes the pro forma statement of financial position of Virgin Blue as at 30 September 2003 which has been derived from the audited statement of financial position as at that date adjusted for certain shareholder transactions, the issue of securities pursuant to this Offer document and the recognition of the related costs.

The directors of VBH are responsible for the preparation and presentation of the pro forma historical financial information, including the determination of the pro forma transactions and/or adjustments.

The pro forma historical financial information is presented in an abbreviated form insofar as it does not include all of the disclosures required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act 2001 ("Corporations Act").

2.2 Unadjusted historical financial information

The unadjusted historical financial information, as set out in Appendix A of the Prospectus, comprises:

- the statements of financial performance of Virgin Blue for the year ended 31 March 2003 and the six month periods ended 30 September 2002 and 30 September 2003;
- the statements of cash flows of Virgin Blue for the year ended 31 March 2003 and the six month periods ended 30 September 2002 and 30 September 2003;
- the statements of financial position of Virgin Blue as at 31 March 2003 and 30 September 2003; and
- the notes to those statements.

The unadjusted historical financial information set out in Appendix A of the Prospectus has been extracted from the audited financial statements of Virgin Blue for the year ended 31 March 2003 and the six month periods ended 30 September 2002 and 30 September 2003. Where appropriate, items in the statement of financial performance for the six months ended 30 September 2002 and the year ended 31 March 2003 have been reclassified to be consistent with the disclosures in the statement of financial performance for the six months ended 30 September 2003.
The financial statements of Virgin Blue for each of those periods were audited by KPMG in accordance with Australian Auditing and Assurance Standards. The audit opinions issued to the members of Virgin Blue relating to those financial statements were unqualified.

The directors of VBH are responsible for the preparation and presentation of the unadjusted historical financial information.

The unadjusted historical financial information is presented in an abbreviated form insofar as it does not include all of the disclosures required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

3 Scope

3.1 Review of financial information
We have reviewed the historical financial information, comprising the unadjusted historical financial information and the pro forma historical financial information, in order to report whether anything has come to our attention which causes us to believe that the historical financial information, as set out in Appendix A and summarised in Section 6 of the Prospectus, does not present fairly:

- the pro forma historical financial performance of Virgin Blue for the seven month period ended 31 March 2001 and the year ended 28 March 2002;
- the pro forma historical cash flows of Virgin Blue for the seven month period ended 31 March 2001 and the year ended 28 March 2002;
- the unadjusted historical financial performance of Virgin Blue for the year ended 31 March 2003 and the six month periods ended 30 September 2002 and 30 September 2003;
- the unadjusted historical cash flows of Virgin Blue for the year ended 31 March 2003 and the six month periods ended 30 September 2002 and 30 September 2003;
- the unadjusted historical statements of financial position of Virgin Blue as at 31 March 2003 and 30 September 2003; and
- the pro forma historical statement of financial position of Virgin Blue as at 30 September 2003;

in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements, and accounting policies adopted by Virgin Blue disclosed in Appendix A of the Prospectus, and, with respect to the pro forma historical financial information, on the basis of the pro forma transactions and/or adjustments.

Our review has been conducted in accordance with Australian Auditing and Assurance Standard AUS 902 "Review of Financial Reports". We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances, including:

- analytical procedures on the historical financial information;
- a review of the pro forma transactions and/or adjustments made for the purposes of preparing the pro forma historical financial information;
- a review of work papers, accounting records and other documents;
- a comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by Virgin Blue disclosed in Appendix A of the Prospectus; and
- enquiry of directors, management and others.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.
9. EXPERTS’ REPORTS (CONTINUED)

4 Review statements

4.1 Review statement on the historical financial information
Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the historical financial information comprising the unadjusted historical financial information and the pro forma historical financial information, as set out in Appendix A and summarised in Section 6 of the Prospectus, does not present fairly:

- the pro forma historical financial performance of Virgin Blue for the seven month period ended 31 March 2001 and the year ended 28 March 2002;
- the pro forma historical cash flows of Virgin Blue for the seven month period ended 31 March 2001 and the year ended 28 March 2002;
- the unadjusted historical financial performance of Virgin Blue for the year ended 31 March 2003 and the six month periods ended 30 September 2002 and 30 September 2003;
- the unadjusted historical cash flows of Virgin Blue for the year ended 31 March 2003 and the six month periods ended 30 September 2002 and 30 September 2003;
- the unadjusted historical statement of financial position of Virgin Blue as at 31 March 2003 and 30 September 2003; and
- the pro forma historical statement of financial position of Virgin Blue as at 30 September 2003.

in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements, and accounting policies adopted by Virgin Blue disclosed in Appendix A of the Prospectus, and, with respect to the pro forma historical financial information, on the basis of the pro forma transactions and/or adjustments.

5 Independence

KPMG Transaction Services does not have any interest in the outcome of this issue, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. KPMG is the auditor of Virgin Blue and from time to time, KPMG also provides Virgin Blue with certain other professional services for which normal professional fees are received.

Yours faithfully

Robert S Jones
Director
9.2 Independent Review of Directors’ Forecast Report

Dear Directors

Independent Review of Directors’ Forecast Report

We have prepared this Independent Review of Directors’ Forecast Report (the “Report”) for inclusion in a Prospectus to be dated on or about 10 November 2003 (the “ Prospectus”) relating to the offer of between 199.3 million and 244.0 million ordinary shares and sale of between 68.4 million and 81.8 million ordinary shares in Virgin Blue Holdings Limited (“Virgin Blue” or “the company”) based on the Indicative Price Range of $1.80 to $2.25 per Share, and the listing of the company on the Australian Stock Exchange.

Expressions defined in the Prospectus have the same meaning in this Report.

The nature of this Report is such that it can be given only by an entity, which holds a Dealer’s Licence under the Corporations Act. Ernst & Young Transaction Advisory Services Limited holds the appropriate Dealer’s Licence.

Scope

You have requested Ernst & Young Transaction Advisory Services Limited to prepare a Report on the forecast statement of financial performance for the six month period ending 31 March 2004 (the “Directors’ Forecast”) as set out in Section 7.2 of the Prospectus. This Report, and our opinion, does not extend to the Aggregated Forecast for the year ending 31 March 2004 set out also in Section 7.2 of the Prospectus.

The Directors are responsible for the preparation and presentation of the Directors’ Forecast, including the best-estimate assumptions on which they are based. The Directors’ Forecast has been prepared for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the Directors’ Forecast to which it relates for any purposes other than for which it was prepared.

Review of Directors’ Best-Estimate Assumptions

Our review of the best-estimate assumptions underlying the Directors’ Forecast was conducted in accordance with Australian Auditing and Assurance Standard AUS 902 “Review of Financial Reports”. Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary. These procedures included discussion with the Directors and management of Virgin Blue and have been undertaken to form an opinion whether anything has come to our attention which causes us to believe that:

(a) the best-estimate assumptions set out in Section 7.3 of the Prospectus do not provide a reasonable basis for the preparation of the Directors’ Forecast;

(b) in all material respects, the Directors’ Forecast is not properly prepared on the basis of the best-estimate assumptions;

(c) the Directors’ Forecast is not presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies of Virgin Blue disclosed in Note 1 of Appendix A of the Prospectus so as to present a view of Virgin Blue which is not inconsistent with our understanding of Virgin Blue’s past, current and future operations. It is in the nature of forecasts that it is not feasible to present all the disclosures that would be required by applicable Accounting Standards.

Ernst & Young Transaction Advisory Services Limited

Holder of Dealers Licence (Corporations Act) ABN 87 003 599 844

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW).

121
9. EXPERTS' REPORTS (CONTINUED)

**ERNST & YOUNG**

The Directors' Forecast has been prepared by the Directors to provide investors with a guide to Virgin Blue's potential future financial performance based upon the achievement of certain economic, operating, developmental and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of the Directors' Forecast. Actual results may vary materially from the Directors' Forecast and the variation may be materially positive or negative. Accordingly, investors should have regard to the Risk Factors set out in Section 8 of the Prospectus and Sensitivity Analysis set out in Section 7.4 of the Prospectus.

Our review of the Directors' Forecast, which is based on best-estimate assumptions, is substantially less in scope than an audit examination conducted in accordance with Australian Auditing and Assurance Standards. A review of this nature provides less assurance than an audit. We have not performed an audit and we do not express an audit opinion on the Directors' Forecast included in the Prospectus.

**Statement**

Based on our review of the Directors' Forecast as set out in Section 7.2 of the Prospectus, which is not an audit, and based on an investigation of the reasonableness of the Directors' best-estimate assumptions giving rise to the Directors' Forecast, nothing has come to our attention which causes us to believe that:

(a) the Directors' best-estimate assumptions set out in Section 7.3 of the Prospectus do not provide a reasonable basis for the preparation of the Directors' Forecast; and

(b) the Directors' Forecast is not properly compiled on the basis of the Directors' best-estimate assumptions and are not presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by Virgin Blue and disclosed in Note 1 of Appendix A to the Prospectus as applied in Australia for presenting forecasts in prospectuses. It is in the nature of forecasts that it is not feasible to present all the disclosures that would be required by applicable Accounting Standards.

The underlying assumptions are subject to significant uncertainties and contingencies often outside the control of Virgin Blue and the Directors. If events do not occur as assumed, actual results achieved by Virgin Blue may vary significantly from the Directors' Forecast. Accordingly, we do not confirm or guarantee the achievement of the Directors' Forecast, as future events, by their very nature, are not capable of independent substantiation. Investors should have regard to the Sensitivity Analysis and Risk Factors detailed in Sections 7.4 and 8 of the Prospectus, respectively.

**Subsequent Events**

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief no material transactions or events outside of the ordinary business of Virgin Blue have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

**Independence or Disclosure of Interest**

Ernst & Young Transaction Advisory Services Limited and the firm, Ernst & Young, does not have any interest in the outcome of the offer and subsequent listing, other than in connection with the preparation of this Report and participation in due diligence procedures. Ernst & Young Transaction Advisory Services Limited will receive a professional fee for the preparation of this Report. Ernst & Young will receive a professional fee for the provision of taxation advice.

Virgin Blue has agreed to indemnify and hold harmless Ernst & Young, Ernst & Young Transaction Advisory Services Limited and its employees, officers and agents from any claims arising out of misstatement or omission in any material or information supplied by Virgin Blue for the purpose of this Report.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

Graeme M Browning
Director and Authorised Representative

Paul Siviour
Director and Authorised Representative


**SECTION 10:**

### ADDITIONAL INFORMATION

**10.1 Incorporation**

Virgin Blue was incorporated in the British Virgin Islands as Virgin Blue Holdings Limited on 1 August 2000. The place of registration of Virgin Blue was transferred to Australia and it was registered with ASIC as Virgin Blue Holdings Pty Limited on 27 May 2002. The Company was converted to a public company on 30 October 2003 under the name Virgin Blue Holdings Limited.

Virgin Blue is the holding company of VAH. VAH is the holding company of each of:

- VBA, the principal company through which Virgin Blue’s Australian airline operations are conducted;
- Virgin Tech, the company through which some of Virgin Blue’s maintenance is provided (see Section 4.13 for further information about Virgin Tech);
- Stava 2 Pty Limited, a shelf company with no assets and no liabilities; and
- Pacific Blue Holdings Pty Ltd, the holding company of Pacific Blue Airlines (NZ) Limited and Pacific Blue Airlines (Aust) Pty Ltd, the companies through which Virgin Blue’s international operations will be conducted.

VBA has two wholly owned subsidiaries, VBNC1 Pty Ltd and VBNC3 Pty Ltd. VBNC1 Pty Ltd has a wholly owned subsidiary VBNC2 Pty Ltd. VBNC1 Pty Ltd and VBNC2 Pty Ltd are special purpose vehicles established in connection with the purchase and financing of aircraft from Boeing. VBNC3 Pty Ltd is a shelf company with no assets and no liabilities.

**10.2 Rights Attaching to Shares**

**Virgin Blue’s Share Capital**

Virgin Blue currently has only one class of shares, fully paid ordinary shares. As at the date of this Prospectus, Virgin Blue has 868,865,040 shares on issue.

On 28 October 2003, Virgin Blue effected a 120:1 share split whereby every one ordinary share in its capital was converted into 120 new ordinary shares.

Prior to 12 December 2003, it is proposed that Virgin Blue conduct the Share Buy-back. At the mid-point of the Indicative Price Range, this would result in the repurchase by the Company of 44.6 million Shares. The Company reserves the right to conduct the Share Buy-back at a price per Share greater or less than the mid-point of the Indicative Price Range, but no higher than the Final Price. For additional information on the Share Buy-back, see Section 2.8.

At the completion of the Offer, following the Share Buy-back and assuming the Share Buy-back is conducted at the mid-point of the Indicative Price Range, Virgin Blue will have between 1,024 million and 1,069 million Shares on issue based upon the Indicative Price Range.

**Rights Attaching to Shares**

The rights attaching to Shares are:

- set out in the Constitution; and
- in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the SCH Business Rules and the general law.
10. ADDITIONAL INFORMATION (CONTINUED)

The following is a summary of the principal rights of the holders of Shares. This summary is not intended to be exhaustive and does not constitute a definitive statement of the rights and liabilities of shareholders.

Voting
At a general meeting, every member present in person or by proxy, attorney or representative has one vote on a show of hands, and on a poll every member present has one vote for each Share held. On a poll, partly paid shares confer a fraction of a vote pro rata to the amount paid up on the shares. Voting at any meeting of shareholders is by a show of hands unless a poll is demanded in the manner described in the Constitution.

The quorum required for a meeting of shareholders is three members or, if only one member is entitled to vote, that member.

General Meetings
Each member is entitled to receive notice of and, except in certain circumstances, to attend and vote at general meetings of Virgin Blue and to receive all financial statements, notices and other documents required to be sent to members under the Constitution or the Corporations Act.

Dividends
The Directors may from time to time pay dividends to members out of the profits of Virgin Blue. The payment of a dividend does not require approval or ratification by a general meeting.

Subject to any special terms and conditions of issue, all dividends must be paid to members in proportion to the number of, and the amounts paid up on, shares held.

The Constitution contains a provision allowing the Directors to implement a dividend reinvestment plan and a dividend selection plan on such terms as they consider appropriate.

Issue of Shares
The Directors may (subject to the restrictions on the issue of Shares imposed by the Constitution and the ASX Listing Rules) grant options in respect of, or otherwise dispose of, Shares to such persons, for such price, on such conditions, at such times and with such preferred, deferred or other special rights, obligations or restrictions, whether with regard to dividends, voting, return of share capital, payment of calls or otherwise, as the Directors consider appropriate.

Transfer of Shares
Subject to the Constitution, Shares are freely transferable. Holders of Shares may transfer them by an instrument in writing in any usual or common form, or in any other form that the Directors approve and, while Virgin Blue is a listed company, Shares may be transferred electronically in accordance with the SCH Business Rules.

The Directors may refuse to register an instrument of transfer where:

• the transfer would result in a contravention of, or failure to observe, the provisions of any applicable law or the ASX Listing Rules;
• the transfer relates to Shares in respect of which the Company has a lien or which are subject to forfeiture; or
• the refusal to register the transfer is permitted under the ASX Listing Rules.

Subject to the ASX Listing Rules and SCH Business Rules, while Virgin Blue is a listed company, the Directors may suspend the registration of transfers at such time and for such periods, not exceeding in total 30 days in any year, as they think appropriate.

Proportional Takeover Provisions
The Constitution contains provisions which prohibit the registration of any transfer of voting shares giving effect to an offer made under a proportional takeover scheme (i.e. an offer for some but not all of the shares in Virgin Blue) until the members holding the shares in the class for which the offer is made under the takeover have passed a resolution approving it. To remain effective, these provisions must be renewed by Virgin Blue in general meeting every three years.
Liquidation Rights
Virgin Blue has only one class of shares on issue, which all rank equally in the event of liquidation. Subject to the Constitution and any special or preferential rights attaching to any class or classes of shares, a liquidator in winding up may distribute among the members the whole or any part of the property of Virgin Blue.

Directors
The minimum and maximum number of Directors permitted under the Constitution is three and ten, respectively. By resolution of the Board, the Directors have determined that notwithstanding the greater number permitted by the Constitution, the maximum number of Directors will be eight. The chairperson of a meeting of Directors, in addition to his or her deliberative vote, has a casting vote, except at those meetings at which only two Directors who are present are entitled to vote. Questions arising at a meeting of Directors will be decided by a majority of votes of the Directors present and voting. The Constitution provides that Directors are entitled to such remuneration as the Directors determine, but the remuneration of non-executive Directors may not exceed such amount as may be fixed by the Company in general meeting. See Section 10.19 for further information.

Directors’ Indemnity
Virgin Blue must, subject to certain exceptions set out in the Constitution, indemnify each of its officers on a full indemnity basis and to the full extent permitted by law against all costs, charges, losses, damages, expenses, penalties and liabilities of any kind (including legal costs) incurred by the officer arising out of the conduct of the business of the Company or the discharge of the duties of the officer (including all liabilities incurred where the officer acts as an officer of any other body corporate at the request of Virgin Blue).

Virgin Blue has executed a deed of indemnity in favour of each Director. See Section 10.19 for further information.

Shares Buy-backs
Virgin Blue may buy back Shares in itself in accordance with the provisions of the Corporations Act.

Alterations of Constitution
The Constitution can only be amended by a special resolution passed by at least three quarters of members present and voting at a general meeting of Virgin Blue.

10.3 Ongoing Shareholders’ Agreement
Virgin Blue, VAH, CU Nominees, Brett Godfrey, the Patrick Shareholder and the Virgin Group Shareholders have entered into a deed of termination and release in respect of an existing shareholders’ agreement dated 17 April 2002 effective on Listing. The Patrick Shareholder and the Virgin Group Shareholders have entered into the Ongoing Shareholders’ Agreement to take effect on Listing. Under the Ongoing Shareholders’ Agreement, the Patrick Shareholder and the Virgin Group Shareholders have agreed that:

- for a period of 12 months following the completion of the Offer, they will not increase their respective shareholdings or voting power in the Company from the level of their shareholdings or voting power as at the completion of the Offer, except:
  - either the Patrick Shareholder or the Virgin Group Shareholders may acquire further Shares by purchasing Shares on market, if the purchase price per Share for any Share so acquired is less than the Final Price; and
  - either the Patrick Shareholder or the Virgin Group Shareholders may acquire further Shares at any time if the Shares are acquired under a takeover bid made by the Patrick Shareholder or the Virgin Group Shareholders (as the case may be);
- until such time as one of them ceases to have (either alone or together with its Associates) a relevant interest in 5% or more of the issued share capital, they will each support the election and re-election of:
  - two of the other’s nominees for Director, for so long as the nominator and/or its Associates have relevant interests in 15% or more of the issued share capital in the Company; or
  - one of the other’s nominees for Director, for so long as the nominator and/or its Associates have relevant interests greater than 5% but less than 15% of the issued share capital in the Company;
10. ADDITIONAL INFORMATION (CONTINUED)

- the Virgin Group Shareholders will support the election and re-election of a Director nominated by the Patrick Shareholder as the Chairman of Virgin Blue, for so long as the Patrick Shareholder holds 40% or more of the issued share capital of the Company and the Virgin Group Shareholders hold greater than 5% of the issued share capital of the Company;
- the Patrick Shareholder will not support any increase in the capital of Virgin Blue during the 12 month period following the completion of the Offer, without the agreement of the Virgin Group Shareholders;
- if either of them acquires further Shares in reliance only on item 9 of section 611 of the Corporations Act (which permits purchases of shares that do not exceed 3% of the issued share capital in any six month period) and the number acquired is more than its proportion of that 3% entitlement (having regard to the Patrick Shareholder's and the Virgin Group Shareholders' relative shareholdings immediately prior to the acquisition) the party so acquiring shall offer to sell to the other that number of those Shares which is in excess of its proportionate entitlement, at the same price per Share as that paid by the party so acquiring those Shares. The effect of the arrangements between them in the Ongoing Shareholders' Agreement is that acquisitions of Shares by either of the Patrick Shareholders and the Virgin Group Shareholders in these circumstances, will count against the number of Shares which the other is permitted to acquire under item 9 of section 611, while those arrangements continue in place;
- each will allow the Company to issue a disclosure document if, following completion of the Offer, it is requested to do so by the other, in order to facilitate a sale of some or all of that other party's Shares; and
- in certain circumstances, if a proposal is made by the Company to include in the Constitution foreign ownership restrictions of the type required by Australian legislation or the New Zealand Ministry of Transport, they will each vote in favour of the proposal. Either the Virgin Group Shareholders or the Patrick Shareholder may request that a meeting of shareholders be convened for that purpose in certain circumstances.

Change of Control Implications of the Ongoing Shareholders' Agreement

Under section 606 of the Corporations Act, a person is, subject to certain exceptions, prohibited from acquiring a relevant interest in shares in a listed company if following that acquisition that person or another person’s percentage voting power in the company increases above 20% (or, where the relevant person’s voting power was already above 20% at the time of the acquisition, there is any increase in that person’s percentage voting power). One of the exceptions to this rule is an acquisition which results from acceptance of a takeover offer made in accordance with Chapter 6 of the Corporations Act. Under Chapter 6, a takeover offer must be made to all holders of shares in a particular class, the offer must be for all or a specified proportion of the shares and all of the offers must be the same (subject to certain minor exceptions). The intent of these provisions is to ensure that so far as practicable, shareholders have a reasonable and equal opportunity to participate in any benefits accruing to the holders through any proposal under which a person would acquire a substantial interest in the company.

Under the Corporations Act, a person has a “relevant interest” in shares if they have direct or indirect power to control the exercise of the right to vote attaching to those shares or to control the disposal of those shares. A person’s “voting power” is equal to the number of shares in which that person and its Associates have a relevant interest.

The principal implications of the Ongoing Shareholders’ Agreement for a takeover/change of control of the Company are as follows:

- the provisions of the Ongoing Shareholders’ Agreement requiring each of the Patrick Shareholder and the Virgin Group Shareholders to support the other’s nominees to the Board give each of the Patrick Shareholder and the Virgin Group Shareholders a relevant interest in the other’s Shares. For example, while immediately following completion of the Offer, the respective shareholdings of the Patrick Shareholder and the Virgin Group Shareholder will be 45.9% and 29.1% (at the mid-point of the Indicative Price Range), they will each have a relevant interest and voting power in 75% of the Shares. One consequence of this is that, while those provisions continue, each of the Patrick Shareholder and the Virgin Group Shareholders will be free to acquire any of the other’s Shares without contravening the prohibition in section 606 of the Corporations Act referred to above (and therefore without requiring a takeover bid for all of the shares in the Company or approval of the other shareholders). This is because the acquisition does not increase their existing percentage relevant interests or voting power in the Company. Those provisions of the Ongoing Shareholders’ Agreement continue indefinitely until either party’s voting power in the Company falls to 5% or less;
- the effect of this ability is that, to the extent it does not already have control of the Company at the relevant time, control of the Company could pass to the Patrick Shareholder or the Virgin Group Shareholders without other shareholders in the Company sharing in any premium paid for that control or being given a vote or an option to sell its Shares in the same transaction;
• the provisions of the Ongoing Shareholders’ Agreement requiring each of the Patrick Shareholder and the Virgin Group Shareholders to support the other’s nominees to the Board may also operate to deter a third party from making a takeover bid for the Company and thus reduce the likelihood of shareholders receiving a takeover premium under such a bid. For so long as:
  – the provisions of the Ongoing Shareholders’ Agreement requiring each of the Patrick Shareholder and the Virgin Group Shareholders to support each other’s nominees to the Board continue; and
  – the combined shareholding of the Patrick Shareholder and the Virgin Group Shareholders (including the shareholdings of their respective Associates) exceeds 50%,

a third party will not be able to displace the nominees of the Patrick Shareholder or the Virgin Group Shareholders on the Board at a meeting of shareholders. Even where the combined shareholding is less than 50%, the existence of this obligation in the Ongoing Shareholders’ Agreement will make it more difficult for a third party to displace such nominees, as that will require a resolution passed by more than 50% of the shares present and voting at a meeting of shareholders. Depending on the spread of shareholdings in the Company after completion of the Offer and the extent to which shareholders participate in voting, it may be that the combined shareholding of the Patrick Shareholder and the Virgin Group Shareholders may prevent their nominees on the Board being displaced even where that combined shareholding is below 50%. The number of Directors immediately following completion of the Offer is eight and the Constitution provides that the Board will comprise a maximum of ten Directors. The nominees of the Patrick Shareholder and the Virgin Group Shareholders may therefore constitute a significant proportion of the Board;

• as discussed above, these provisions may continue indefinitely.

10.4 Purchase of Aircraft from Boeing

On 20 December 2002, VBA signed an agreement with Boeing details of which included:

• a firm order for 10 Boeing 737-800 aircraft (the “Firm Aircraft”);
• purchase rights, exercisable at Virgin Blue’s discretion, to acquire 40 additional Boeing 737 Next Generation aircraft on substantially the same terms and conditions, subject to a price escalation mechanism and agreed concessions (the “Purchase Rights Aircraft”); and
• additional purchase rights, exercisable at Virgin Blue’s discretion, to acquire up to a maximum of 10 Boeing 737 Next Generation aircraft on the same terms and conditions as any of the Purchase Rights Aircraft on a one-for-one basis – that is, one additional purchase right for each purchase right exercised, up to a maximum of 10 Boeing 737 Next Generation aircraft (the “Rolling Purchase Rights Aircraft”).

The Boeing contract became unconditional in January 2003. The key features of the Boeing contract are set out below.

Delivery Schedule

The Firm Aircraft are scheduled to be delivered in the period between August 2003 and May 2004. As of 10 November 2003, seven aircraft had been delivered. Virgin Blue expects the remaining three Firm Aircraft to be delivered in March, April and May 2004. Virgin Blue has exercised purchase rights to acquire five of the Purchase Rights Aircraft, to be delivered between August and November 2004.

Price

The basic price (equivalent to a standard list price for a Boeing 737-800 aircraft) for each Firm Aircraft is US$53,129,000. This amount includes the cost of the airframe, engines and certain optional features agreed between the parties. CFM International ("CFMI") will manufacture the CFM 56 7B26 engines to be fitted on the Firm Aircraft.

The basic price per aircraft is to be increased/decreased by an escalation factor reflecting increases in wages and salaries and producer prices as published by the United States Department of Labor’s Bureau of Labor Statistics between the time the basic price is set and the period six months before the scheduled delivery of such aircraft.

VBA will also be responsible for the payment of taxes other than United States federal and California State income taxes and Washington State business and occupation taxes imposed upon Boeing.

Boeing has granted VBA certain substantial confidential price and payment terms concessions with regards to the Firm Aircraft. These concessions include credit memoranda which VBA may apply towards the purchase of goods and services from Boeing or towards payment of the purchase price of the Firm Aircraft at delivery.
10. ADDITIONAL INFORMATION (CONTINUED)

VBA’s total capital expenditure to acquire the Firm Aircraft may vary depending on relevant taxes, the escalation factor, additional features added and the benefit of applicable price concessions. For details of VBA’s total capital expenditure commitments, including its commitment in relation to Firm Aircraft, see Section 6.7 and the financial statements contained in Appendix A. Since 30 September 2003, the Company has exercised purchase rights in relation to a further five Purchase Rights Aircraft.

Payment Terms
VBA is required to make periodic advance payments (“Pre-Delivery Payments”) of the purchase price for each Firm Aircraft during the period preceding the delivery of each such aircraft. Subject to the concessions granted, VBA is required to pay up to an agreed percentage of the total cost for each Firm Aircraft plus the escalation factor (which is based on estimates at the time of signing the Boeing contract as updated upon issuance of relevant supplemental agreements) prior to its delivery (before the deduction of credit memoranda and concessions due, which occurs at delivery), with the balance of the net price being due at the time of delivery.

The following table sets out the delivery dates for the remaining three Firm Aircraft and five Purchase Rights Aircraft, excluding the substantial confidential price and payment terms concessions granted to VBA by Boeing.

### Aircraft Pricing in US dollars

<table>
<thead>
<tr>
<th>Delivery Date</th>
<th>No. of Aircraft</th>
<th>Basic Price per Aircraft</th>
<th>Seller Purchased Equipment Estimate</th>
<th>Estimated Price per Aircraft</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2004</td>
<td>1</td>
<td>$53,129,000</td>
<td>–</td>
<td>$60,530,000</td>
</tr>
<tr>
<td>April 2004</td>
<td>1</td>
<td>$53,129,000</td>
<td>–</td>
<td>$60,695,000</td>
</tr>
<tr>
<td>May 2004</td>
<td>1</td>
<td>$53,129,000</td>
<td>–</td>
<td>$60,843,000</td>
</tr>
<tr>
<td>August 2004</td>
<td>2</td>
<td>$59,663,900</td>
<td>–</td>
<td>$61,943,000</td>
</tr>
<tr>
<td>September 2004</td>
<td>1</td>
<td>$59,663,900</td>
<td>–</td>
<td>$62,092,000</td>
</tr>
<tr>
<td>October 2004</td>
<td>1</td>
<td>$59,663,900</td>
<td>–</td>
<td>$62,253,000</td>
</tr>
<tr>
<td>November 2004</td>
<td>1</td>
<td>$59,663,900</td>
<td>–</td>
<td>$62,420,000</td>
</tr>
</tbody>
</table>

**Notes:**
1. These payments do not take into account the deduction of the substantial confidential credit memoranda or other concessions due. However, such deductions are taken into account in the aggregate capital expenditure commitments of the Company appearing in this Prospectus for the Firm Aircraft. An agreed proportion of the price of each aircraft, after deductions, is paid prior to delivery of the aircraft.
2. On 14 March 2003, the parties amended the Boeing contract by removing all obligations relating to seller purchased equipment on the last eight Firm Aircraft to be delivered by Boeing. The seller purchased equipment to be installed on the last eight Firm Aircraft has been replaced by buyer furnished equipment. See below for more information.
3. Estimated price per aircraft includes the basic price and an estimated escalation factor but excludes certain substantial confidential price and payment terms concessions which Boeing has granted to VBA and also excludes seller purchased equipment and buyer furnished equipment.
4. The Purchase Rights Aircraft basic price per aircraft is set at a different date to the Firm Aircraft.

Boeing Support
In addition to manufacturing and delivering the Firm Aircraft, Boeing is required to provide various other goods and services to VBA both prior to delivery of the Firm Aircraft and during the period when such aircraft are operated by VBA. These additional goods and services include:

- assisting with United States Customs compliance prior to export of the aircraft;
- allowing pre-delivery inspections and demonstration flights;
- providing maintenance and flight training, ongoing engineering support services and planning assistance and revising technical data and documents as necessary;
- installing software (owned or licensed to VBA) on the aircraft;
- assisting in the development of a programme for the initial provisioning of spare parts for the aircraft;
- providing promotional support in relation to operation of the aircraft; and
- installing winglets to aircraft post delivery.
At the time of delivery, Boeing will provide to VBA a 48 month warranty for each of the Firm Aircraft in relation to certain matters including compliance with specification and absence of defects in design, materials and workmanship. Boeing will also be required to pass on to VBA the benefit of engine warranties provided by CFMI.

Further, Boeing has agreed to indemnify VBA against certain intellectual property infringement claims brought in respect of the Firm Aircraft.

Termination and Assignment
The purchase agreement for each individual aircraft may be terminated by either party in the event of insolvency or similar events affecting the other party or if the scheduled delivery of an aircraft is delayed for more than 12 months because of excusable delay. Excusable delays include acts of god, hostilities, government acts, fires, floods, earthquakes, strikes or other labour troubles, and other causes beyond Boeing’s control and not caused by its fault or negligence.

The rights and obligations of the parties may not (subject to certain stated exceptions) be assigned or transferred without the consent of the other party.

Boeing Contract Variation – Buyer Furnished Equipment
On 14 March 2003, VBA and Boeing varied the Boeing contract by removing all obligations in respect of seller purchased equipment. The variation applied to all Firm Aircraft except the two aircraft delivered in August 2003.

On 6 March 2003, VBA entered into an agreement with GE Capital Aviation Services Limited (“GECAS”), pursuant to which GECAS will acquire buyer furnished equipment for VBA to replace seller purchased equipment and supply it to Boeing. VBA will pay GECAS for the buyer furnished equipment.

For details of VBA’s total capital expenditure commitments, including its commitment in relation to buyer furnished equipment, see Section 6.7 and the financial statements contained in Appendix A.

Option to Acquire Additional Aircraft
In addition to the order for Firm Aircraft, VBA has the option to acquire up to 40 Boeing 737-800 aircraft which will be priced at Boeing’s then current aircraft price subject to escalation provisions applicable at the time of execution of the definitive purchase agreement for such aircraft and to certain agreed concessions. VBA has exercised its right to acquire five Purchase Rights Aircraft, which will be delivered by November 2004. There are currently no scheduled delivery dates for the remaining 35 Purchase Rights Aircraft although such aircraft must be delivered no later than 31 December 2013 or the rights will extinguish. All Purchase Rights Aircraft are subject to available positions. VBA will also have the right to substitute any Purchase Rights Aircraft with another model Boeing 737 aircraft as agreed with Boeing, as well as the conditional right to assign purchase rights for up to 10 Purchase Rights Aircraft to Virgin Express.

Upon exercising an option to acquire a Purchase Rights Aircraft, VBA has the additional option to acquire another Boeing 737-800 aircraft on a one-for-one basis for each Purchase Rights Aircraft up to a maximum of 10 Rolling Purchase Rights Aircraft. The terms and conditions for each Rolling Purchase Rights Aircraft shall be the same as those applicable to the corresponding Purchase Rights Aircraft.

10.5 Financing of Pre-Delivery Payments for the Firm Aircraft
VBA has entered into financing arrangements in respect of its Pre Delivery Payment obligations to Boeing for the Firm Aircraft.

On 13 January 2003, VBA entered into a secured US$85 million facility with WestLB AG (Sydney Branch) and Hamburgische Landesbank Girozentrale, among others (“PDP Facility”). Virgin Blue and VAH guaranteed VBA’s obligations. The facility is expected to be repaid in full by May 2004.
10. ADDITIONAL INFORMATION (CONTINUED)

The PDP Facility is required to be repaid in instalments on the delivery date for each Firm Aircraft. Accordingly, it is expected that the PDP Facility will be fully repaid in May 2004 on delivery of the last Firm Aircraft. While the PDP Facility is outstanding, the lenders have security over VBA’s rights under the Boeing contract in relation to the Firm Aircraft and the contract with GECAS regarding the buyer furnished equipment (but not over VBA’s rights in respect of the Purchase Rights Aircraft or the Rolling Purchase Rights Aircraft or over the majority of VBA’s substantial confidential price and payment terms concessions with regard to the Firm Aircraft).

While the PDP Facility is outstanding, the ability of each of VBA and its subsidiaries to make distributions, or undertake acquisitions or disposals, is limited. After Listing, Virgin Blue would have the financial resources to procure the repayment of the PDP Facility at any time, should it choose to do so.

10.6 Long Term Financing for the Firm Aircraft

The Facilities

In August 2003, The Royal Bank of Scotland (“RBS”) provided long term financing for a substantial portion of the purchase price, and the Export-Import Bank of the United States (“Ex-Im Bank”) provided RBS with a guarantee for approximately 85% of the purchase price, for the acquisition of the Firm Aircraft. Subject to the terms of the respective agreements, Ex-Im Bank has agreed to guarantee a 12 year finance facility for the Australian dollar equivalent of approximately 85% of the purchase price for the first seven Firm Aircraft and, subject to Ex-Im Bank board approval, the last three Firm Aircraft. The financing of the last three Firm Aircraft is subject to the approval of the Ex-Im Bank board and the issuance of the guarantee. A portion of each facility is available on a delivered aircraft basis, and is conditional on the pre-delivery payment financing for the corresponding aircraft being repaid, and the associated security being discharged.

RBS has provided two facilities – the first is guaranteed by Ex-Im Bank (the “Ex-Im Bank Facility”), and the second is a commercial bank facility (the “Commercial Bank Facility”). The RBS facilities are denominated in Australian dollars and have floating interest rates. The Ex-Im Bank Facility is repayable by quarterly instalments over 12 years. The Commercial Bank Facility is repayable by quarterly instalments over five years. The facilities are secured by the Firm Aircraft.

The balance of the Ex-Im Bank Facility provided by RBS and the balance of the Commercial Bank Facility following delivery of five of the Firm Aircraft covered by these facilities is included under interest bearing liabilities in the balance sheet as at 30 September 2003. The remaining five Firm Aircraft covered by these facilities are scheduled to be delivered by May 2004.

Structure

For the purposes of the Ex-Im Bank Facility and the Commercial Bank Facility, VBA established a special purpose, wholly owned Australian subsidiary called VBNC1 Pty Limited (“VBNC1”), which in turn established a special purpose, wholly owned Australian subsidiary called VBNC2 Pty Limited (“VBNC2”).

VBNC2 is the borrower under both the Ex-Im Bank Facility and the Commercial Bank Facility. It is also the purchaser of the aircraft from Boeing (following the unwinding of the financing of the pre delivery payments and assignment of purchase contract rights from VBA) and leases the newly delivered aircraft to VBA which operates the aircraft.

Documentation

VBA, VBNC2, VBNC1, Ex-Im Bank, RBS and other parties have entered into a number of agreements, normal for these types of transactions, to document the lending, security and leasing arrangements for the Ex-Im Bank Facility and the Commercial Bank Facility.

Most of these documents are governed by the law of the State of New York.

VBNC2’s obligations as borrower under the Ex-Im Bank Facility and the Commercial Bank Facility are guaranteed by VBA. At the end of the term under each lease agreement between VBNC2 as lessor and VBA as lessee in respect of each Firm Aircraft, VBA has the right to acquire the relevant Firm Aircraft for $100 plus any amount outstanding under the facilities for that aircraft.

The facilities are secured over the Firm Aircraft, rights under the Boeing contract in relation to the Firm Aircraft, insurances and other related rights. In addition, VBA has granted a charge over its shares in VBNC1 and VBNC1 has granted security over all of its assets including its shares in VBNC2.
Swap Documents

On 13 August 2003, RBS granted VBA an Interest Rate Swap Facility, exercisable in relation to each of the Ex-Im Bank Facility and the Commercial Bank Facility for each aircraft, exercisable up to five years after the date of the relevant aircraft delivery.

When exercised, VBA will pay a fixed interest rate to RBS on its Australian Dollar Facilities and receive in return from RBS a floating interest rate. This will enable VBA to pay rent under the Master Lease Deed and relevant Supplemental Leases to VBNC2 based on a floating interest rate. In turn, VBNC2 will pay out of those funds principal and interest at a floating rate on its Ex-Im Bank Facility and its Commercial Bank Facility.

10.7 Offer Management Agreement and Escrow Deed

On 10 November 2003, Virgin Blue, the Selling Shareholder, Ivanco (No. 1) Limited, as guarantor of the Selling Shareholder (the “Guarantor”) and the Joint Global Coordinators entered into the Offer Management Agreement. Under the agreement, the Joint Global Coordinators agree to manage the Institutional Offer and the Retail Offer, including the bookbuild process and the allocation process.

Subject to the termination of the agreement by the Joint Global Coordinators by reason of the termination events described below (“Termination Events”) and conditional on the successful completion of the bookbuild process, the Joint Global Coordinators agree to enter into a settlement support agreement on the date of allocation of the Shares.

Virgin Blue must pay the Joint Global Coordinators a fee of 2.5% of the Final Price per Share issued or transferred in connection with the Offer, excluding any proceeds raised from subscriptions or acquisitions under the Patrick Offer or the Executive Offer or on acceptance of an application by the KEPP Trustee, on the date of such issue or transfer, subject to limited exclusions. Virgin Blue also agrees to pay the Joint Global Coordinators an incentive fee of up to 0.5% of the Final Price per Share issued or transferred in connection with the Offer excluding any proceeds raised from subscriptions or acquisitions under the Patrick Offer or the Executive Offer or on acceptance of an application by the KEPP Trustee. The incentive fee is payable in two parts, up to 0.25% is payable at the absolute discretion of Virgin Blue having regard to the performance of the Joint Global Coordinators and up to 0.25% is payable depending upon the amount of the Final Price in relation to the Indicative Price Range. Provided the Joint Global Coordinators have been paid their fees under the Offer Management Agreement, the Joint Global Coordinators must pay any commissions and fees due to any co-managers and brokers to the Offer. Virgin Blue must pay, or reimburse the Joint Global Coordinators for, the reasonable costs, charges and expenses of and incidental to the Offer.

Under the Offer Management Agreement, Virgin Blue, the Selling Shareholder and the Guarantor give certain representations, warranties and undertakings.

The Company has unconditionally indemnified the Joint Global Coordinators and certain affiliated parties from all losses suffered, directly or indirectly, as a result of any statement in or omission from this Prospectus, the making of the Offer, the distribution of this Prospectus, any advertising or publicity of the Offer or any breach of the Offer Management Agreement by the Company or any of the Company’s representations and warranties being not true and correct. The Seller has unconditionally indemnified the Joint Global Coordination in similar terms. These indemnities are subject to certain limitations and exclusions.

The Selling Shareholder and the Company have entered a separate deed in which they have agreed to share financial responsibility for liabilities they may have to the Joint Global Coordinators in the proportion that reflects the net proceeds received by each of them under the Offer.

Each Joint Global Coordinator may terminate the Offer Management Agreement by notice to Virgin Blue and the Selling Shareholder at any time after a Joint Global Coordinator becomes aware of the happening of any one or more of the Termination Events set out below (although, in the case of the Termination Events marked with an asterisk (*), a Joint Global Coordinator may not terminate the Offer Management Agreement unless it has reasonable bona fide grounds to believe and does believe that (i) the event has or is likely to have a material adverse effect on the success or settlement of the Offer or, if the event occurs after the time which is 24 hours before the close of the bookbuild on the Institutional Offer Closing Date, the likely price at which the Shares will trade on ASX within the first two weeks of trading or (ii) the event will give rise to a material liability of the Joint Global Coordinators under the Corporations Act or other applicable securities law or regulation.
The Termination Events in the Offer Management Agreement include:

- a statement contained in the Prospectus is misleading or deceptive, or a matter is omitted from the Prospectus*. The Prospectus is defined in the Offer Management Agreement to include this Prospectus and any application forms and any document that supplements or replaces any of them or the disclosure in any of them;

- the Offer Documents do, or any aspect of the Offer does, not comply with the Corporations Act, the ASX Listing Rules or any other applicable law or regulation*. The Offer Documents are defined in the Offer Management Agreement to include the Prospectus and the International Offering Circular;

- there is a material adverse effect including a material adverse change or any development or event involving a prospective material adverse change in, or affecting, the general affairs, management, financial position, shareholders’ equity or results of operations of Virgin Blue from those respectively disclosed in the Offer Documents;

- there is an event which is reasonably likely, in the bona fide opinion of the Joint Global Coordinators, to give rise to a material liability of the Joint Global Coordinators under any law applicable in relation to the Offer, which liability the Joint Global Coordinators are not indemnified against under the Offer Management Agreement;

- the Patrick Subscription Agreement is terminated or a party to the Patrick Subscription Agreement fails to comply or is unable to comply with the Patrick Subscription Agreement;

- there occurs a new circumstance that has arisen since the Prospectus was lodged that would have been required to be included in the Prospectus if it had arisen before the Prospectus was lodged*;

- any of the following occur:
  - a Director of Virgin Blue is charged with an indictable offence relating to any financial or corporate matter;
  - any government agency commences any public action against Virgin Blue or any of its Directors in their capacity as a Director, or announces that it intends to take such action*; or
  - any Director of Virgin Blue is disqualified from managing a corporation under the Corporations Act;

- a contravention by Virgin Blue or the Selling Shareholder of the Corporations Act, its Constitution, the ASX Listing Rules or any ASIC Modification or ASX waiver*;

- the due diligence report or any other written information in its final form supplied by or on behalf of Virgin Blue or the Selling Shareholder to the Joint Global Coordinators in relation to offers, the Company or the Selling Shareholder is misleading or deceptive*;

- approval is refused or not granted, other than subject to customary conditions, in respect of admission to or quotation on ASX;

- any of the following notifications are made:
  - ASIC issues an order under section 739 of the Corporations Act;
  - an application is made by ASIC for an order under part 9.5 of the Corporations Act in relation to the Prospectus or ASIC commences any investigation or hearing under part 3 of the Australian Securities and Investments Commission Act 1989 (Cth) in relation to the Prospectus;
  - any person gives a notice under section 733(3) of the Corporations Act or any person (other than a Joint Global Coordinator seeking to terminate the agreement) who has previously consented to the inclusion of their name in the Offer documents or to be named in the offer documents withdraws that consent; or
  - any person gives a notice under section 730 of the Corporations Act in relation to the Offer documents*;

- the Company or the Selling Shareholder fails to perform or observe any of its material obligations under the Offer Management Agreement and that failure is not capable of being remedied or, if capable of remedy, is not remedied to the satisfaction of the Joint Global Coordinators, acting reasonably, within a reasonable period (not being more than two business days) after the relevant party is given notice of the breach*;

---

10. ADDITIONAL INFORMATION (CONTINUED)

Virgin Blue Holdings Limited Share Offer
• a representation or warranty contained in the Offer Management Agreement on the part of any of Virgin Blue, the Selling Shareholder or the Guarantor is not true or correct*;

• the other Joint Global Coordinator terminates the Offer Management Agreement;

• there is introduced, or there is a public announcement of a proposal to introduce, into the parliament of Australia or, any state of Australia or, the congress of the United States, a new law, or the Reserve Bank of Australia, any federal or state authority of Australia or the United States, adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the Offer Management Agreement), any of which does or will prohibit or regulate the Offer, capital issues or stock markets*;

• after the time which is 24 hours before the close of the bookbuild on the Institutional Offer Closing Date, there has occurred any change in the financial markets in the United States, Australia and the United Kingdom or the international financial markets, or in foreign exchange rates or in national or international political, financial or economic conditions, the effect of which is to make it, in the bona fide judgement of the Joint Global Coordinators, impracticable or inadvisable to proceed with the Offer or the issue, sale, delivery, payment and distribution of the Shares on Settlement on the terms and in the manner contemplated in the Prospectus;

• the S&P/ASX 200 Index falls to a level that is 90% or less of its level as at the last close of trading prior to the time which is 24 hours before the close of the bookbuild or the Institutional Offer Closing Date, and remains at or below that level for one whole business day;

• after the time which is 24 hours before the close of the bookbuild on the Institutional Offer Closing Date:
  – there is a suspension or material limitation in trading in securities generally on ASX, the New York Stock Exchange and/or the London Stock Exchange;
  – a general moratorium on commercial banking activities in Australia, New York or London is declared, or there is a material disruption in commercial banking or securities settlement or clearance services in those places;
  – there is a change or development involving a prospective change in Australian taxation affecting the Company, the Shares or their transfer;
  – there is an outbreak or major escalation of hostilities involving any one or more of Australia, the United States, the United Kingdom, any member of the European Union, Indonesia, China or Japan, or the declaration by any of these countries of a national emergency or war, or a major terrorist attack is perpetrated anywhere in the world; or
  – the occurrence of any other calamity or crisis or any change in financial, political or economic conditions or currency exchange rates or controls in Australia, United States or the United Kingdom.

In the case of the last three events specified above, there will only be a termination right if, in the bona fide judgement of the Joint Global Coordinators, it is impracticable or inadvisable to proceed with the Offer or the issue, sale, delivery and distribution of the Shares on Settlement on the terms and in the manner contemplated in this Prospectus.

**Escrow Deed**

On 10 November 2003, Virgin Blue, the Existing Shareholders and the Joint Global Coordinators entered into an Escrow Deed. Under this deed the Company has undertaken with the Joint Global Coordinators that it will not, and will ensure that its subsidiaries do not, at any time after the date of the deed and before the expiration of 180 days after the settlement of the Offer, allot or issue or agree to allot or issue, or indicate that it may or will allot or issue any equity securities or securities that are convertible into equity (other than in connection with the Offer or an Employee Plan) without the consent of the Joint Global Coordinators.

Each Existing Shareholder has undertaken that it will not, and will ensure that their respective related corporations (excluding the Company) do not, at any time after the date of the deed and before the expiration of 180 days after the settlement of the Offer, sell or agree to sell, or indicate in any way that it may or will sell any shares, or agree to allot or issue, or indicate in any way that it may or will allot or issue any securities that are convertible into, or that have the right to receive equity of Virgin Blue or any of Virgin Blue's subsidiaries from time to time. This obligation on the part of each Existing Shareholder is subject to the following exceptions:

• that an Existing Shareholder may transfer its Shares to a bidder pursuant to a takeover offer which satisfies the following conditions:
  – offers are made for all of the Shares in the Company; and...
10. ADDITIONAL INFORMATION (CONTINUED)

- holders of at least half of the Shares in the Company that are not subject to escrow arrangements described in the Escrow Deed, have accepted the Offer; and

- the Shares held by an Existing Shareholder may be cancelled by Virgin Blue or transferred as part of a merger by scheme of arrangement,

provided that any Shares for which an Existing Shareholder has accepted the takeover offer or which are the subject of the merger by scheme of arrangement, will remain subject to the escrow arrangements set out in the Escrow Deed if the takeover offer for all of the Shares in the Company does not become unconditional or the merger by scheme of arrangement does not take effect.

10.8 Licence of Virgin Trade Mark and Deed of Restraint and Release

Virgin Enterprises owns the “Virgin” and “Virgin Blue” trade marks, as well as certain other trade marks which incorporate the words “Virgin” or the word “Virgin” together with the word “Blue” (the “Marks”).

As between Virgin Enterprises and Virgin Blue, within the Pacific Region and in relation to (a) passenger air services, in-flight sales of certain products, air freight, aircraft engineering and maintenance and valet parking at airports (the “Licensed Activities”) and (b) tourism and transport services, it is acknowledged that Virgin Blue owns the name “Blue” when not used in combination with “Virgin” (for example, Pacific Blue).

Trade Mark Licence

Virgin Blue Holdings Limited and Virgin Enterprises have entered into a licence agreement (“the Licence Agreement”) and a restraint and release deed (the “Deed”) in respect of those Marks. The key terms of the Licence Agreement are:

- Virgin Enterprises licences the Marks to Virgin Blue for a period expiring on 31 December 2015;

- use of the Marks is geographically limited to Australia;

- the Marks may only be used in connection with the Licensed Activities;

- Virgin Blue has an exclusive licence to use certain marks including both the words “Virgin” and “Blue” (the “Virgin Blue Marks”) and a non exclusive licence to use marks including the name “Virgin” and the Virgin signature logo when used in combination with the Virgin Blue Marks;

- Virgin Blue will pay Virgin Enterprises an annual royalty for use of the Marks equal to the greater of: (a) $100,000; or (b) 0.5% of gross sales in respect of each quarter or part of a quarter during the term of the licence, provided that royalties payable by Virgin Blue after 1 January 2011 will not exceed 1.5 times the amount of royalties paid by Virgin Blue for the period 1 April 2003 to 31 March 2004 (such amount to be adjusted each year in accordance with the Australian consumer price index). Gross sales for this purposes includes all revenue from sales of flights and in-flight sales (whether or not conducted under the Marks), as well as revenue from air cargo, air freight, aircraft maintenance and engineering and valet parking to the extent it is carried on under the Marks;

- Virgin Blue agrees that it shall not at any time do or omit to do anything which is likely to prejudice Virgin Enterprise’s rights in the Marks; and acknowledges that all goodwill generated by use of the Marks by Virgin Blue shall accrue to Virgin Enterprises;

- Virgin Blue agrees that it shall (i) continue to use the Marks in Australia for the duration of the term of the Licence Agreement and (ii) market and/or promote domestic flights (i.e. flights where all points of embarkation and disembarkation are within Australia) and conduct all in-flight sales activities exclusively under or by reference to the Marks whether operated using Virgin Blue’s own aircraft, on a third party code-share basis or otherwise;

- Virgin Enterprises agrees that Virgin Blue may, because of operational and commercial needs, use aircraft and equipment which is not Virgin Blue branded to operate domestic routes, provided that it does not phase out the Virgin Blue liveried fleet and further, that, except for instances of operational ad hoc necessity, it shall only ever use aircraft branded with marks using “Blue” (or any other mark Virgin Blue owns and uses in replacement of the “Blue” mark);

- the licence permits Virgin Blue to co-market and distribute products and services under the Marks or the “Blue” mark by way of normal commercial airline code sharing and marketing activities;
Virgin Enterprises acknowledges that, as between the parties, the proprietary rights, including goodwill, in the word “Blue” (but not in combination with “Virgin”) in the Pacific Region in relation to (a) the Licensed Activities, and (b) tourism and transport services belong to Virgin Blue. Virgin Blue in turn acknowledges that its use of certain “Blue” marks shall be at all times in accordance with standards of quality and customer service comparable to those which Virgin Blue is obliged to adhere in relation to the Marks under the terms of the Licence Agreement;

Virgin Blue’s rights to assign are limited to its related bodies corporate and Express Blue Air Freight Pty Ltd;

Virgin Enterprises may terminate the Licence Agreement immediately if (a) Virgin Enterprises has reasonable grounds to believe that the use of the Marks by Virgin Blue has been or is likely to be damaging to the goodwill or reputation of Virgin Enterprises, (b) Virgin Blue commits a material breach of any term or condition of the Licence Agreement, (c) Virgin Blue suffers certain insolvency events, (d) Virgin Blue continually fails to make a net profit or ceases or threatens to cease to carry on the whole or any material part of its business which Virgin Enterprises considers, in its reasonable opinion, may have an adverse effect on the Marks or the expected royalty income to be paid to Virgin Enterprises under the Licence Agreement, or (e) Virgin Blue challenges the validity of or the entitlement of Virgin Enterprises to use or licence the use of any of the Marks;

Virgin Blue has the right to terminate the Licence Agreement immediately if: (a) Virgin Blue has reasonable grounds to believe that the Marks have been brought into disrepute, other than by Virgin Blue, to the extent that continued use of the Marks by Virgin Blue is likely to be damaging to the goodwill of Virgin Blue or in any way materially disparaging of its reputation, (b) Virgin Enterprises commits a material breach of any of the terms or conditions of the Licence Agreement, or (c) Virgin Enterprises’ entitlement to use or licence any of the Marks is successfully challenged by any person other than Virgin Blue;

Virgin Enterprises agrees to allow Virgin Blue a reasonable period of time following the expiry or termination of the Licence Agreement, not exceeding two years in respect of aircraft livery and 12 months in other cases, in which to cease using the Marks, for example, by repainting its aircraft and redirecting online traffic, unless the relevant termination was due to Virgin Blue’s breach of the Licence Agreement, in which case the period is six months from the date of the relevant termination;

Virgin Enterprises has the exclusive right to take action in respect of infringement of the Marks, except that where it fails to take action and such failure would have a material adverse effect on Virgin Blue, then Virgin Blue may itself take action;

Virgin Blue indemnifies Virgin Enterprises in respect of all costs and expenses arising from a breach by it of the Licence Agreement;

Virgin Blue agrees to ensure that the goods and services to which the Marks are applied are of a style, appearance and quality appropriate to maintain the value and reputation of the Marks. Use of the Marks is subject to Virgin Enterprises trademark guidelines; and

Virgin Blue and Virgin Enterprises each undertake that they will, at Virgin Blue’s expense, execute any document which may be necessary to record the rights granted to Virgin Blue by the Licence Agreement and to cancel such record on the expiry or termination of this agreement. Virgin Blue agrees that it will not seek to register any trademark, copyright or analogous right which is identical with or similar to any of the Marks or which otherwise incorporates the “Virgin” name in Australia. In the case of any registration for any of the Marks which relates to use only by Virgin Blue, the costs of renewal of registrations is to be paid by Virgin Blue. In other cases costs are shared equally among users of the Marks.

Deed of Restraint and Release

The Deed contains agreed restrictions and restraints on Virgin Enterprises’ use of its Marks. Under the Deed, Virgin Enterprises agrees that:

• for so long as the Licence Agreement is subsisting and subject to any existing licences, Virgin Enterprises will not:
  – in respect of any Marks containing the word “Virgin”, use or licence any person to use, the word “Virgin” in the Pacific Region in connection with the Licensed Activities; and
  – in respect of any names or marks containing the word “Blue” (whether or not in combination with the word “Virgin”), use or license any person to use those marks in connection with (a) Licensed Activities anywhere in the world, and (b) tourism and transport services, anywhere in the Pacific Region;
10. ADDITIONAL INFORMATION (CONTINUED)

- Virgin Enterprises agrees that for 12 months after the termination or expiry of the Licence Agreement (other than where the Licence Agreement has been terminated by reason of Virgin Blue’s breach) it shall not use or licence any third party to use marks containing “Virgin” and “Blue” in connection with Licensed Activities in Australia; and
- Virgin Enterprises shall at all times during the continuance of the Licence Agreement ensure that its use of any names or marks containing the word “Blue” (whether or not also using “Virgin”) is in accordance with standards of quality and customer service comparable to those under which the Virgin Blue is obliged to use the Marks under the terms of the Licence Agreement.

10.9 Agreement with Jet Care
Jet Care and Virgin Blue have entered into a maintenance agreement pursuant to which Jet Care has agreed to provide maintenance services to Virgin Blue in relation to Virgin Blue’s aircraft fleet. Jet Care is a subsidiary of Patrick Corporation, which is the parent of the Patrick Shareholder. The initial term of the agreement expired on 28 February 2003 but the agreement continues subject to either party’s right to terminate the agreement upon six months notice.

The fees paid by Virgin Blue to Jet Care under the agreement are calculated by reference to Jet Care’s costs. If Virgin Blue ceases to use Jet Care for the services contemplated by the agreement, Virgin Blue must pay an exit fee which is equal to all of the liabilities, costs and expenses incurred by Jet Care as a direct result of Virgin Blue ceasing to use such services. This fee also includes a goodwill amount of $2.3 million. If, within one month of termination, Jet Care:
- is unable to effectively utilise certain assets associated with servicing Virgin Blue; and
- has made reasonable attempts to sell these assets but has not succeeded,
Virgin Blue may be required to acquire the assets pursuant to a put option held by Jet Care. The purchase price for the assets would be the greater of the market value (determined by an independent valuer appointed by the parties) and $4 million. Virgin Blue does not believe that the purchase price will be greater than $4 million.

10.10 Employee Share, Option and Performance Plans
Virgin Blue has granted options to certain employees (including senior executives) under the terms and conditions of the Existing Option Plan described below. Virgin Blue has also granted options to the Chief Financial Officer, pursuant to the CFO Plan as described below.

The Board and the Existing Shareholders have approved the following additional executive and employee share, option and performance plans:
- the General Employee Share Plan (“GESP”) which will come into effect on or around Listing;
- the Key Employee Performance Plan (“KEPP”) which will come into effect on or around Listing; and
- the Senior Executive Option Plan (“SEOP”) which will come into effect on or around Listing.

In addition, it is the Company’s intention to establish an Employee Contribution (Salary Sacrifice) Plan (“CSSP”) which will come into effect on the first anniversary of Listing, or earlier if any necessary waiver from ASIC is obtained or ASIC confirms that no such waiver is required. The Board has approved the terms of the proposed CSSP and they are described below.

Key provisions of these plans are summarised in this Section.

Existing Option Plan
Virgin Blue’s Existing Option Plan is known as the Virgin Blue Executive Share Option Plan. Under this plan, 46 senior employees and executives (the “Existing Option Holders”) have been granted 40,547,160 options (“Existing Options”) over unissued ordinary Shares in Virgin Blue.

The key terms of the Existing Option Plan are as follows:
• (Commencement and Termination). The Existing Option Plan commenced on 30 May 2002 and may be terminated or suspended at any time by a resolution of the Board. Any such termination or suspension must not affect the rights and obligations of the Existing Option Holders. The Board has determined that no further options will be granted under the Existing Option Plan.

• (Amendment). The Existing Option Plan may be amended by resolution of the Board provided there is no prejudicial effect upon Existing Options except where the amendment is to ensure compliance with the ASX Listing Rules after an initial public offering of Virgin Blue’s Shares (“IPO”).

• (Administration). The Existing Option Plan is administered by the Board.

• (Grant of Options). Each Existing Option entitles the Existing Option Holder to subscribe for one Share at a specified exercise price. All Existing Options have an exercise price of approximately $0.008.

• (Vesting of Options). All Existing Options have vested.

• (Exercise of Existing Options). Upon Listing, an Existing Option Holder becomes entitled to exercise up to 50% of his or her Existing Options. The remainder of his or her Existing Options may not be exercised until 12 months after Listing unless the Board permits otherwise. All Existing Options must be exercised on or before 31 December 2005 or such later date as the Board determines. Any Existing Options not exercised by 31 December 2005 will be cancelled without payment of any compensation. Shares issued upon exercise of Existing Options rank equally with the Shares.

• (Cancellation of Existing Options on IPO). Following notification from the Board that an IPO is imminent, one half of Existing Options held by each Existing Option Holder will be unilaterally cancelled by the Company, unless the Existing Option Holder notifies the Board that he or she does not wish his or her Existing Options to be cancelled but instead intends to exercise those options. The consideration to be paid by Virgin Blue to the Existing Option Holders for the cancellation of each Existing Option is equal to the Final Price less the exercise price that would have been payable in relation to the cancelled Existing Option. Upon cancellation, the relevant Existing Option Holder will be deemed to have applied for the number of Shares in the IPO that is equal to the number of underlying Shares the subject of the cancelled Existing Options and directed the Company to apply the consideration received for the cancellation of Existing Options as part consideration for the issue of Shares under the IPO. This feature of the Existing Option Plan is the basis for the Executive Offer described in Section 10.12.

• (Good Leaver). If an Existing Option Holder ceases to be an employee as a result of death, incapacity or permanent disability, a redundancy from employment with the Virgin Blue Group, dismissal from or termination of employment (other than for fraud, dishonesty or wilful misconduct, resignation from employment 12 months after the IPO, non-compliance with any agreement or obligation entered into by the Existing Option Holder with the Joint Global Coordinators in relation to any Shares the Existing Option Holder may hold or acquire as a result of exercise or cancellation of any options or any other termination in respect of which the Board determines that the Existing Option Holder should be regarded as a good leaver), the Existing Option Holder will retain the right to exercise any Existing Options which have vested as at the date of cessation.

• (Bad Leaver). If an Existing Option Holder ceases to be an employee for any reason other than as set out immediately above, all Existing Options will be cancelled with effect from the cessation without payment of any compensation. In addition, the Company will buy back, and the Existing Option Holder must sell, any Share held by the Existing Option Holder as a result of the exercise of any Existing Options at a price per Share which is equal to the lower of the value of the Shares determined by an independent first rate merchant bank nominated by the Company and the exercise price paid by the Existing Option Holder in respect of the Shares. This last sentence does not apply to Shares obtained on exercise or cancellation of Existing Options at the time of the IPO.

• (Anti-Dilution). Virgin Blue must take the necessary measures to preserve the economic value of each Existing Option Holder’s entitlements under the Existing Option Plan.

• (Quotation). The Existing Options will not be listed on ASX. However, Shares issued upon exercise or cancellation will be listed on ASX.

Grant of Options to Chief Financial Officer (the “CFO Plan”)
In February 2003, at the time he joined the Group, Virgin Blue granted 1,357,560 options to the Chief Financial Officer as part of his compensation package. The key terms of such options are as follows:

• (Exercise). The options are able to be exercised in three equal tranches on the anniversary of the grant or Listing, whichever occurs earlier. The first tranche is exercisable upon Listing.
10. ADDITIONAL INFORMATION (CONTINUED)

- (Entitlement). Each option entitles the Chief Financial Officer to one Share.
- (Exercise Price). The exercise price is $0.57.
- (Consideration). The options were issued for no consideration.
- (Exercise Conditions). The only condition to exercise is the continued employment of the Chief Financial Officer during the period leading up to exercise of the options.

All other terms and conditions pertaining to the options granted to the Chief Financial Officer are identical to those set out under the Senior Executive Option Plan, described below.

General Employee Share Plan ("GESP")
- (Commencement and termination). The GESP will commence on such date as the Board may determine and may be terminated or suspended at any time by a resolution of the Board provided that such termination or suspension will not affect the rights and obligations of employees who were issued Shares prior to that termination or suspension.
- (Amendment). The GESP may be amended by resolution of the Board provided there is no reduction of rights of employees in respect of Shares issued under the GESP except where the amendment is to correct any manifest error or mistake, to ensure compliance with law or the ASX Listing Rules or (subject to the ASX Listing Rules) where the Company provides appropriate compensation to the relevant participating employee so that the employee is no worse off than before the amendment.
- (Administration). The GESP is administered by the Board.
- (Eligibility). Under the GESP, the Company may from time to time offer Shares to eligible full-time or permanent part-time employees of the Virgin Blue Group or to such other person as the Board determines in its discretion, but not including a director of a member of the Virgin Blue Group or participants in the Senior Executive Option Plan.
- (Offer). Under the GESP, the Company may make an offer of Shares for no consideration (a "Relevant Value Offer"), or the Company may make an offer of Shares where a Relevant Value Offer is conditional on the participating employee acquiring a specified number of Shares for valuable consideration.
- (Consideration). For a Relevant Value Offer, no consideration is payable by employees for Shares issued under the GESP. For an offer other than a Relevant Value Offer, the consideration payable will be specified in the offer.
- (Maximum Number of Shares). If the Board proposes to make a Relevant Value Offer, the maximum number of Shares which an employee will be invited to receive will be determined by dividing the "relevant value" (which will not be more than $1,000, or such other amount as the Board may determine) by the offer price of the Shares determined by the Board (which will not be less than the minimum price per Share (if any) specified in the ASX Listing Rules). An initial offer of $1,000 worth of Shares is being made to Gift Offer Employees pursuant to the Employee Gift Offer under this Prospectus.
- (Ranking of Shares). Shares issued under the GESP will rank equally with the Shares.
- (Restrictions on Transfers). Unless otherwise determined by the Board, employees who receive Shares under the GESP will not be entitled to sell or transfer those Shares until the earlier of the end of three years from the date of acquisition of the Shares or the time at which that person ceases to be an employee of the Virgin Blue Group.

Key Employee Performance Plan ("KEPP")
- (Performance Rights). Performance rights may be granted by the Company to participating employees on such terms and conditions, including vesting conditions, as the Board may determine in its discretion. Vesting conditions could include performance hurdles or criteria, passage of time and/or minimum average quoted share price conditions.
- (Eligibility). Under the KEPP, the Company may from time to time grant performance rights to eligible full-time or permanent part-time employees of the Virgin Blue Group or such other persons as the Board may determine (other than a non-executive director of a member of the Virgin Blue Group).
- (Commencement and Termination). The KEPP will commence on such date as the Board may determine prior to Listing. The Company will appoint a trustee prior to the completion of the Offer to acquire and hold Shares under the KEPP. The KEPP may be terminated or
suspended at any time by resolution of the Board provided that such termination or suspension will not affect the rights and obligations of participating employees who were granted performance rights prior to that termination or suspension. The Board shall decide how Shares held under the KEPP will be dealt with following such termination or suspensions of the KEPP and will give directions to this effect to the trustee.

- **(Amendment).** The KEPP may be amended by resolution of the Board provided there is no reduction of rights of employees in respect of performance rights granted under the KEPP except where the amendment is to correct a manifest error or mistake, to ensure compliance with law or the ASX Listing Rules or (subject to the ASX Listing Rules) where the Company provides appropriate compensation to the relevant participating employee so that the employee is no worse off than before the amendment.

- **(Administration).** The KEPP will be administered by the Board.

- **(Consideration).** No consideration will be payable by participating employees for performance rights granted under the KEPP.

- **(Acquisition of Shares).** In addition to any Shares acquired by the Trustee under the General Public Offer, the trustee may acquire Shares from time to time and 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 will provide all monies required by the trustee to acquire Shares required for the purposes of the KEPP, including costs and duties. The KEPP Trustee will apply for a number of Shares in the Offer (up to a maximum of 10,000,000 Shares) sufficient to allow it to satisfy its obligation to issue the number of Shares the subject of certain initial grants of performance rights on Listing and to provide it with a pool of additional Shares to satisfy in part future grants of performance rights under the KEPP.

- **(Vesting).** When vesting conditions in relation to a performance right have been satisfied in accordance with its terms of grant, the number of Shares the subject of the performance right will be transferred by the trustee to the participating employee for no consideration.

- **(Participation in Future Issues).** Other than for bonus shares, a participating employee will not be 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 such employee, following satisfaction of any vesting conditions. If the Company makes an issue of bonus shares to its shareholders after a performance right has been granted, then the participating employee will be entitled, upon later vesting of that performance right, to receive additional Shares as would have been issued to a shareholder who held the same number of Shares as were comprised in the participating employee’s performance right on the record date for the bonus issue.

- **(Expiry of Performance Rights).** Unless otherwise determined by the Board, a performance right which has not vested will immediately expire and cease to exist if the participating employee has committed any act of fraud or gross misconduct in relation to the affairs of the Virgin Blue Group, if the vesting conditions have not been satisfied, or are waived by the Board, by the date specified in the grant or if the employee ceases to be an employee of the Virgin Blue Group in the circumstances specified in the notice of grant.

- **(Rights Granted on Listing).** An initial grant of performance rights will be made effective on or around 12 December 2003 as follows:
  - to each Founding Employee, being an Eligible Employee, other than a Captain or First Officer, who was employed by Virgin Blue on or before 31 August 2001 and continues to be employed on the Retail Closing Date, who applies for at least $5,000 worth of Shares under the Employee Offer. If the conditions attached to these performance rights are satisfied, Founding Employees will receive one Share for every Share they acquired for their first $5,000 invested under the Employee Offer. Performance conditions will require Founding Employees to hold and not sell any of the $5,000 worth of Shares they receive under the Offer for three years from Listing and to remain a Virgin Blue employee throughout that period. The $5,000 worth of Shares will be recorded and tracked to enable Virgin Blue to determine if the performance conditions have been satisfied;
  - to each Captain, who applies for at least $30,000 worth of Shares under the Employee Offer. If the conditions attached to these performance rights are satisfied, Captains will receive one Share for every two Shares they acquired under the Employee Offer between $30,000 and $50,000. Performance conditions will require Captains to hold and not sell any of the $30,000 to $50,000 worth of Shares they receive under the Offer from the date of Listing until the seventh anniversary of the commencement of their employment and to remain a Virgin Blue employee throughout that period. The $30,000 to $50,000 worth of Shares will be recorded and tracked to enable Virgin Blue to determine if the performance conditions have been satisfied; and
  - to each First Officer, who applies for at least $20,000 worth of Shares under the Employee Offer. If the performance conditions attached to these performance rights are satisfied, First Officers will receive one Share for every two Shares they acquired under the Employee Offer between $20,000 and $30,000. Performance conditions will require First Officers to hold and not sell any of the
$20,000 to $30,000 worth of Shares they receive under the Offer from the date of Listing until the seventh anniversary of the commencement of their employment and to remain a Virgin Blue employee throughout that period. The $20,000 to $30,000 worth of Shares will be recorded and tracked to enable Virgin Blue to determine if the performance conditions have been satisfied.

Senior Executive Option Plan (“SEOP”)

• (Eligibility). Under the SEOP, the Company may offer options over unissued Shares to certain senior executives of the Virgin Blue Group (including executive directors but excluding directors who are not employees of the Virgin Blue Group). Options may be offered to senior executives from time to time as determined by the Board in its discretion and in accordance with the terms and conditions of the SEOP and applicable law.

• (Consideration). Options will be issued for no consideration.

• (Commencement and Termination). The SEOP will commence on such date as the Board may determine prior to Listing and may be terminated or suspended at any time by a resolution of the Board, provided that such termination or suspension will not affect the rights and obligations of senior executives who were granted options prior to that termination or suspension.

• (Amendment). The SEOP may be amended by resolution of the Board, provided there is no reduction of rights of senior executives in respect of options granted under the SEOP, except where the amendment is to correct a manifest error or mistake, to ensure compliance with law or the ASX Listing Rules or (subject to the ASX Listing Rules) where the Company provides appropriate compensation to the relevant participating employee so that the employee is no worse off than before the amendment.

• (Administration). The SEOP is administered by the Board.

• (Exercise of Options). An option holder will be entitled to exercise options granted under the SEOP as a result of an offer in respect of which all exercise conditions have been satisfied, and which are otherwise capable of exercise, in accordance with the relevant rules of the SEOP. No option may be exercised until the later of 12 months after Listing (provided that the Shares have not been suspended from trading for more than two trading days in that 12 month period) and the day on which all exercise conditions have been satisfied in respect of that option.

• (Exercise Conditions). The Board must stipulate in an offer the exercise conditions which must be satisfied before an option can be exercised. These exercise conditions may include performance hurdles or criteria, passage of time; and/or minimum average quoted share price conditions. The Board retains a discretion to waive exercise conditions including where, after Listing, there is a change of control of the Company. The first grant of options to be made on or around Listing, will include performance hurdles.

• (Exercise Price). The Board may determine the option exercise price for an offer of options in its absolute discretion.

• (Changes in Share Capital). If, during the life of any option, the Company makes a bonus issue to its shareholders, the option holder will be entitled, upon later exercise of that option, to receive additional Shares as if the option holder had exercised the option prior to the record date for the bonus issue. The rights of option holders will also be changed to the extent necessary to comply with the ASX Listing Rules applying to a reorganisation of capital of a body corporate (other than a bonus issue). The option holder will only be able to participate in respect of an option in a new issue of Shares or other securities to shareholders if the option has been exercised on or before the record date for determining entitlements to the issue.

• (Assignment of Options and Renunciation). Unless Board approval is obtained, neither options nor offers of options are assignable except that on receipt of an offer the relevant executive may renounce that offer in favour of a permitted nominee.

• (Expiry of Options). Unless otherwise determined by the Board, an option which has not been exercised will, subject to the terms of the offer made to the option holder, immediately lapse if an option holder ceases to be an employee of the Virgin Blue Group for whatever reasons (other than on the death, permanent disability or retirement from the workforce of the option holder in which circumstances the Board in its discretion may permit options held, which have not yet become exercisable, to be exercised provided the options have not lapsed). Options will also lapse if they have not been exercised within six years of the date of grant of the option or such other date as the Board determines.

• (Quotation). Options will not be quoted on the Official List. The Company will apply for Official Quotation of Shares issued upon exercise of options in accordance with the ASX Listing Rules.
• (Shares). Once an option is capable of exercise, and the option exercise price is paid for each option exercised, the Company will, subject to the ASX Listing Rules (as relevant), issue Shares credited as being fully paid to the option holder, within ten business days of exercise.

• (Ranking of Shares). A Share issued upon exercise of an option under the SEOP will rank equally with all other existing Shares at the date of exercise of the option except for any entitlements that had a record date before the date of the issue of that Share.

• (Initial Grant of Options). An initial grant of options will be made on or around the date of Listing to 13 senior executives, including the Chief Executive Officer. Senior executives other than the Chief Executive Officer will be granted a total of up to 5.6 million options. The exercise price will be the Final Price. Subject to satisfaction of performance conditions, the options will vest in equal tranches on the first, second, third and fourth anniversary of grant. The options will vest on the first anniversary if the Virgin Blue Share Price is 10% or more above the Final Price and on each anniversary after that if the Virgin Blue Share Price is 10% or more above the targeted Virgin Blue Share Price for the previous year. The options will expire on the fifth anniversary of grant. The Virgin Blue Share Price for this purpose will be the volume weighted average price of Virgin Blue Shares for the first five days of December on which the Shares trade.

The Chief Executive Officer will be granted such number of options as is equal to 1% of the issued capital following completion of the Offer and after the Share Buy-back. At the mid-point of the Indicative Price Range this would equate to 10.4 million options. The exercise price will be the Final Price plus 10%. Subject to satisfaction of performance conditions, the options will vest in equal tranches on the first, second and third anniversary of grant. The options will vest on the first anniversary if the Virgin Blue Share Price is 10% or more above the Final Price, on the second anniversary if the Virgin Blue Price is 21% or more above the Final Price and on the third anniversary if the Virgin Blue Share Price is 33% or more above the Final Price. 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. The options will expire on the fifth anniversary of grant. The Virgin Blue Share Price for this purpose will be the volume weighted average price of Virgin Blue Shares for the first five days of December on which the Shares trade.

**Employee Contribution (Salary Sacrifice) Plan ("CSSP")**

The terms of the CSSP proposed to be established by the Company are as follows:

• (Eligibility). The Board may invite full-time or permanent part-time employees of the Virgin Blue Group, or such other persons as the Board may determine (other than a non-executive director of a member of the Virgin Blue Group), to participate in the CSSP.

• (Commencement and Termination). The CSSP will commence on such date as the Board may determine. The Company will appoint a trustee to acquire and hold Shares under the CSSP. The CSSP may be terminated or suspended at any time by resolution of the Board provided that such terminations or suspensions will not affect the rights and obligations of participating employees who accepted an offer prior to that termination or suspension. The Board shall decide how Shares held under the CSSP will be dealt with following such termination or suspensions of the CSSP and will give directions to this effect to the trustee.

• (Amendment). The CSSP may be amended by resolution of the Board provided there is no reduction of rights of employees in respect of Shares acquired under the CSSP except where the amendment is to correct any manifest error or mistake, to ensure compliance with law or the ASX Listing Rules or (subject to the ASX Listing Rules) where the Company provides appropriate compensation to the relevant participating employee so that the employee is no worse off than before the amendment.

• (Administration). The CSSP will be administered by the Board.

• (Salary Sacrifice). If an employee elects to participate in the CSSP, such employee will sacrifice a specified amount of his or her future salary up to a maximum amount equal to 20% of that employee's base annual salary. On the normal salary payment date, the Company will pay the amount specified by the employee into a separate bank account operated by the trustee.

• (Additional Amount). Where the trustee holds Shares acquired under the CSSP on behalf of a participating employee in the CSSP for three years, the Company will pay to that employee additional salary calculated by reference to that shareholding (on a one for 10 whole number) which will be applied to acquire additional Shares on the employee's behalf.

• (Acquisition of Shares). Amounts paid to the trustee in respect of an employee will be used by the trustee to acquire Shares on-market on behalf of that employee.
10. ADDITIONAL INFORMATION (CONTINUED)

- (Restrictions on Transfer). Shares held by the trustee on behalf of a participating employee under the CSSP may not be disposed of (including by transfer to such employee) until the earlier of one year after the acquisition of such Shares, the employee ceasing to be employed by the Virgin Blue Group, the occurrence of certain change of control events, or the date upon which the Board otherwise consents (in its discretion). Ten years after the trustee acquires Shares on behalf of an employee, such employee must give the trustee a notice within two months of that date to either sell the relevant Shares on the employee’s behalf or transfer the Shares to the employee.

- (Forfeiture). When inviting an employee to participate in the CSSP, the Board may determine that the forfeiture provision in the CSSP shall apply to the Shares issued under the CSSP for a period of 10 years subject to the Board’s discretion. Where the forfeiture provision applies and Shares are held for a participating employee by the trustee, a participating employee under the CSSP is liable to forfeit any right or interest in the Shares or other entitlements such employee has under the CSSP in certain circumstances. Forfeiture will occur following a determination by the Board that the employee has committed an act of fraud or gross misconduct, or has been dismissed for cause, or for any other reason specified by the Board in its initial invitation to the employee to participate in the CSSP.

- (Cessation of Participation). A participating employee under the CSSP is entitled to discontinue his or her participation in the CSSP at any time. An employee will automatically cease to participate in the CSSP if for any reason he or she ceases to be an employee of the Virgin Blue Group.

- (Share Entitlements). A participating employee under the CSSP will be entitled to any income derived from, or bonus shares accruing to, Shares held for the benefit of such employee. A participating employee under the CSSP will also be entitled to give the trustee written notice of how to vote the Shares held for that employee at a general meeting of the Company.

- (ASIC Waiver). The Company’s intention is that the CSSP will commence on the first anniversary of Listing or may commence earlier if any necessary waiver from ASIC is obtained or ASIC confirms that no such waiver is required.

10.11 Employee Gift Offer

The Board has determined that each Gift Offer Employee will be offered $1,000 worth of Shares to be granted upon Listing based on the Final Price. If the number of Shares is not a whole number, the number of Shares issued will be rounded down to the nearest whole number. The Shares offered under the Employee Gift Offer are in addition to any Shares acquired by Gift Offer Employees under the Employee Offer.

A Gift Offer Employee who wishes to take up the Employee Gift Offer must complete and return their personalised Application Form in accordance with the instructions on that Application Form.

The Employee Gift Offer is being made under the terms of the GESP and is a Relevant Value Offer as described in Section 10.10. In summary, the Shares will be granted on the following terms:

- Gift Offer Employees will not be required to make any payment for the Shares; and
- unless otherwise determined by the Board, Gift Offer Employees who receive Shares under the Employee Gift Offer will not be entitled to sell or transfer those Shares until the earlier of the end of three years from the date of acquisition of the Shares or the time at which that person ceases to be an employee of the Virgin Blue Group.

If all Gift Offer Employees accept their Employee Gift Offer Shares, approximately 1.5 million Shares will be issued, based on the mid-point of the Indicative Price Range.

The Employee Gift Offer does not raise money for the Company or the Selling Shareholder. It is an employee retention and incentive scheme. Additional grants of Shares under the GESP may be made periodically.

10.12 Executive Offer

Under the terms of the Existing Option Plan, half of the Existing Options held by each Existing Option Holder become exercisable upon Listing. In accordance with the terms of the Existing Option Plan, Existing Option Holders will be offered the opportunity to exercise or cancel one half of the Existing Options held by them. If an Existing Option Holder elects to have his or her Existing Options cancelled, Virgin Blue will pay such Existing Option Holder an amount equal to the Final Price less the exercise price payable per Existing Option. That amount will be required to be paid as part consideration for the application for one Share in the Executive Offer.
An Existing Option Holder who wishes to participate in the Executive Offer must not indicate that he or she will exercise his or her Existing Options and then must complete and return the relevant Application Form for the Executive Offer in accordance with the instructions on that Application Form.

In summary, Shares under the Executive Offer will be granted on the following terms:

- each Existing Option cancelled would have entitled the Existing Option Holder to the issue of one Share;
- existing Option Holder will be required to pay the Final Price for each Share;
- part of the Application Monies, being the Final Price less the exercise price per Existing Option, will be paid to the Existing Option Holder by Virgin Blue in consideration for the cancellation of the Existing Option and must then be applied toward the Final Price for the Share under the Executive Offer; and
- the balance of the Application Monies, being the exercise price per Existing Option ($0.008), must be funded by the Existing Option Holders from other sources.

If all Existing Option Holders accepted their maximum entitlement of Shares under the Executive Offer, approximately 20.3 million Shares would be issued.

The Executive Offer raises up to a maximum of $168,947. It is not offered for the purpose of capital raising. It is an employee incentive offer made to satisfy Virgin Blue’s obligations under the Existing Option Plan. There will be a further offer on similar terms 12 months after Listing to allow Existing Option Holders to exercise or cancel the remaining half of their Existing Options.

Existing Option Holders who acquired Shares under the Executive Offer, have agreed with the Joint Global Coordinators that in the period between Listing and 6 January 2004:

- individual restrictions will apply to the number of Shares they can sell;
- no more than an aggregate of approximately 50% of the Shares issued under the Executive Offer may be sold in the period. This restriction applies to Existing Option Holders differently;
- no Existing Option Holder will sell more than 20% of the Shares he or she is permitted to sell in any one day; and
- any such sale will be conducted through the Joint Global Coordinators.

In accordance with the Company’s policy on securities trading, Existing Option Holders will be prohibited from trading in Virgin Blue Shares from 6 January 2004 until the next permitted open period. See Section 5.4 for a description of the Company’s security trading policy.

**10.13 Patrick Offer**

As part of their agreement to undertake the IPO, the Existing Shareholders and Virgin Blue agreed that the Patrick Shareholder would be entitled to acquire such number of Shares in the Offer as would result in it or its Associates holding, on completion of the Offer, 45% of the Company’s issued share capital, on a fully diluted basis. For the purposes of calculating the size of the Patrick Offer, the fully diluted capital of the Company includes any Shares issued under the Employee Gift Offer, as well as any Shares or options issued, or to be issued, under the Employee Plans for which all performance tests or conditions have been met or satisfied at the time of completion of the Offer, or at the date of such issue.

In a subscription agreement, the Patrick Shareholder has committed to take up that entitlement.

Pursuant to the Patrick Offer, the Patrick Shareholder will therefore apply for such number of Shares as will result in it holding 45% of the Virgin Blue’s share capital, on a fully diluted basis. For each Share acquired under the Patrick Offer, the Patrick Shareholder will pay an amount equal to the Final Price less the result of all the costs, expenses and fees payable to the Joint Global Coordinators in relation to the Offer divided by the number of Shares issued or sold under the Offer, other than under the Patrick Offer, the Executive Offer, the Employee Gift Offer or applied for by the KEPP Trustee. Shares acquired pursuant to the Patrick Offer will rank equally with the Shares. The Patrick Offer will close at the close of business on 8 December 2003.

At the mid-point of the Indicative Price Range, and assuming the Share Buy-back is conducted at the mid-point of the Indicative Price Range, the Patrick Shareholder would be entitled to apply for 67.1 million Shares pursuant to the Patrick Offer.
10.14 Legal and Other Matters
As at 1 November 2003, except as disclosed below, there were no material legal proceedings pending or threatened against Virgin Blue.

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

Allegations have been made against the Company, including a threat to bring a class action, alleging discriminatory hiring practices. The Directors have taken legal advice and believe such allegations are unfounded. No legal actions have been commenced. If any such action were commenced, the Company will vigorously defend it.

10.15 Dealings with Patrick Corporation and Virgin Group
The Company has certain business dealings with its major shareholders, Patrick Corporation and Virgin Group. A summary of such business dealings is set out below.

Virgin Group
• (Trademark Licence). Virgin Enterprises holds the proprietary rights to the mark “Virgin” and “Virgin Blue” and has granted to the Company a non exclusive licence to use such mark in connection with scheduled and chartered aviation operations within Australia for the payment of an annual royalty of the greater of $100,000 and 0.5% of gross sales. The licence expires on 31 December 2015. This licence and a related deed are summarised in more detail in Section 10.8.
• (Loan). As at 30 September 2003, Ivanco (No 1) Limited, part of the Virgin Group, owed the Company $18,400,000 under a loan agreement which provides for the loan to be repayable after seven years. The obligations of Ivanco (No 1) are guaranteed by Virgin Group Investments Limited. This loan is expected to be repaid as part of the Share Buy-back described in Section 2.8 so that no amounts are payable to Virgin Blue.
• (Loan). As at 30 September 2003, Virgin Blue had a shareholder loan liability (including guarantee fee) of $0.3 million to Barfair Limited, a related party of Virgin Group. The loan and guarantee was provided to Virgin Blue to assist Virgin Blue reach an agreement with Boeing for its first order of 10 Boeing 737-700 aircraft which were delivered in 2001.
• (Shareholders access and confidentiality deed). The Company and Virgin Group Shareholders have entered into a deed which provides that, for so long as the Virgin Group holds a relevant interest in at least 20% of the Shares, it shall be entitled to receive access to confidential information regarding the financial and legal affairs of the Virgin Blue Group for the purpose of complying with its legal and accounting obligations. Virgin Group has agreed to keep such information confidential.

In addition there may from time to time be promotional activity between Virgin Blue on the one hand and Virgin Mobile and Virgin Money on the other hand and Virgin Blue may undertake selling activity on behalf of Virgin Atlantic.

Patrick Corporation
• (Maintenance Services). Patrick Corporation acquired Jet Care in November 2002. Jet Care provides maintenance services to Virgin Blue under a contract which is terminable by either party upon six months’ notice. Other service providers compete with Jet Care to satisfy the Company’s maintenance requirements. This contract is summarised in more detail in Section 10.9.
• (Ancillary Services). Patrick Air Services provides toilet and water services and ground service equipment such as push-back tractors to Virgin Blue. Patrick Air Services also receives and consolidates Virgin Blue’s freight.
• (Liberty Joint Venture). Patrick Corporation and Virgin Blue have formed a joint venture to provide international ground handling services. The joint venture will initially provide such services to Virgin Blue’s international operations (Pacific Blue) and another international
carrier at Brisbane international airport. Virgin Blue has not otherwise committed to use the services of the joint venture. Virgin Blue has
the benefit of a put option against Patrick Corporation in respect of Virgin Blue’s interest in the joint venture for an initial period.
• (Loan). As at 30 September 2003, the Patrick Shareholder owed the Company $20,985,000 under a loan agreement which provides for the
loan to be repayable after seven years. The obligations of the Patrick Shareholder are guaranteed by Patrick Corporation. This loan is
expected to be repaid as part of the Share Buy-back described in Section 2.8 so that no amounts are payable to Virgin Blue.
• (Shareholders access and confidentiality deed). The Company and the Patrick Shareholder have entered into a deed which provides that,
for so long as Patrick Corporation holds a relevant interest in at least 20% of the Shares, it shall be entitled to receive access to
confidential information regarding the financial and legal affairs of the Virgin Blue Group for the purpose of complying with its legal and
accounting obligations. Patrick Corporation has agreed to keep such information confidential.

In future the Company may enter into contracts or arrangements with Patrick Corporation or Virgin Group (or in entities in which either group
has an interest), where the terms of such dealings are attractive to the Company. For example, Patrick Corporation and Qantas have formed a
joint venture to acquire certain engineering assets of Ansett. Virgin Blue has stated that it will consider any tender from that joint venture in
relation to Virgin Blue’s heavy maintenance requirements.

Non executive Directors on the Board including those who are associated with either Virgin Group or Patrick Corporation will receive the
following from Virgin Blue: an indemnity, fees, expense reimbursement and flights at no cost when on Company business. Some further
details are provided in Section 10.19.

10.16 Electronic Prospectus
This Prospectus is available in electronic form at www.virginblue.com.au. The Offer constituted by this Prospectus in electronic form is
available to persons receiving this Prospectus in electronic form within Australia. A paper copy of this Prospectus is available free of charge
by calling the Virgin Blue Share Offer Hotline on 1800 007 848.

An Application under the Retail Offer can be made by completing and lodging a paper copy of an Application Form attached to or
accompanying this Prospectus or a paper copy of the Application Form from the online version of this Prospectus. Applications under the
General Public Offer can also be made by submitting an online Application Form via Virgin Blue’s website, www.virginblue.com.au. The
Application Form must be completed in accordance with the instructions set out in the Application Form.

The Corporations Act prohibits any person from passing the Application Form on to another person unless it is attached to or accompanying a
paper copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

10.17 ASIC Exemptions and Modifications
The following exemptions and modifications of the Corporations Act have been sought from ASIC:
• relief from section 707 to permit the on-sale of Shares offered under the off-shore component of the Institutional Offer without the
requirement to lodge a further prospectus; and
• relief from Chapter 6 of the Corporations Act in relation to the undertakings given to the Joint Global Coordinators by certain of the
Company’s executives and the Existing Shareholders restricting their ability to sell further Shares for an agreed period (as further
described in Section 2.9) (“Escrow Arrangements”) so that the Escrow Arrangements are disregarded for the purposes of determining
the relevant interest of the Joint Global Coordinators and their Associates in the Shares the subject of the Escrow Arrangements.

10.18 Ownership Restrictions
The sale and purchase of shares in Virgin Blue is regulated by a number of laws that restrict the level of ownership or control by any one
person (either alone or in combination with others). This Section contains a general description of these laws. Further information on
ownership restrictions can be found in Section 3.4.

Air Navigation Act
Under the Air Navigation Act, the Minister for Transport can require Virgin Blue to give to the Minister information regarding the extent
(if any) to which foreign persons have relevant interests in Shares of Virgin Blue. Further, if foreign persons have relevant interests in more
than 49% of the total value of the issued share capital of Virgin Blue, the Minister has power under the Air Navigation Act to require Virgin Blue to take all necessary action to ensure that its Constitution imposes restrictions on foreign ownership and to confer certain powers on the Directors to enable them to enforce that restriction.

Virgin Blue’s Constitution currently does not contain foreign ownership restrictions. Virgin Blue will be working towards implementing its international strategy in a way which seeks to reduce the risk of breaching foreign ownership restrictions but there is no assurance that its structural initiatives will be acceptable or implemented. Accordingly, Virgin Blue reserves the right to convene a shareholders’ meeting to resolve to amend its Constitution to insert provisions to this effect at some point in the future. If it does, the Virgin Group Shareholders and the Patrick Shareholder have agreed with each other as part of their Ongoing Shareholders’ Agreement to support any resolution approved by the Board to include these provisions.

If more than 49% of the total issued share capital of Virgin Blue is acquired by foreign persons, Virgin Blue’s rights to operate international air services may be revoked or withdrawn and if it ceases to be effectively controlled by Australian Persons, its rights to operate in New Zealand under the New Zealand Bilateral may be revoked or withdrawn.

**Foreign Acquisitions and Takeovers Act**

Generally, the Foreign Acquisitions and Takeovers Act applies to acquisitions of shares and voting power in a company of 15% or more by a single foreign person and its Associates (“substantial interest”), or 40% or more by two or more unassociated foreign persons and their Associates (aggregate substantial interest). Where an acquisition of a substantial interest meets certain criteria, the acquisition may not occur unless notice of it has been given to the Australian Treasurer and he has either stated that there is no objection to the proposed acquisition in terms of the Australian government’s foreign investment policy or a statutory period has expired without objection from the Australian Treasurer. An acquisition of a substantial interest or an aggregate substantial interest meeting certain criteria may also lead to divestment orders unless a process of notification, and either a statement of non objection or expiry of a statutory period without objection, has occurred.

**Corporations Act**

Subject to limited exceptions, the takeover provisions in Chapter 6 of the Corporations Act prohibit acquisitions of shares in listed companies if the acquirer’s (or another party’s) voting power would increase to above 20%, or would increase from a starting point that is above 20% and below 90%. The Ongoing Shareholders’ Agreement between the Patrick Shareholder and the Virgin Group Shareholders affects the way that Chapter 6 of the Corporations Act is interpreted as regards them. See Section 10.3 for further information.

**10.19 Directors’ Interests**

**Disclosure**

Except as disclosed in this Prospectus:

- no Director or proposed Director, has or has had in the two years before lodgement of this Prospectus with ASIC, any interest in the formation or promotion of Virgin Blue or the offer of the securities, or in any property acquired or proposed to be acquired by Virgin Blue in connection with its formation or promotion or the offer of the securities; and
- no amounts have been paid or agreed to be paid, and no benefit has been given or agreed to be given, to any Director or proposed Director, either to induce him or her to become, or to qualify him or her as a Director, or otherwise for services rendered by him or her in connection with the promotion or formation of Virgin Blue, or the offer of the securities.

**Shareholding Qualification**

Directors are not required under the Constitution to hold any Shares.

**Directors’ Shareholdings**

CU Nominees, as bare nominee for Brett Godfrey, owns 34,754,520 Shares. Brett Godfrey will be granted options under the SEOP over Shares equal to 1% of the issued share capital following completion of the Offer and after the Share Buy-back. At the mid-point of the Indicative Price Range this would equate to 10.4 million under the SEOP at Listing.
Cricket S.A. has granted an option to Stephen Murphy to acquire from it 799,320 Shares at an exercise price of $0.656 per Share and an option to Patrick McCall to acquire from it 499,560 Shares at an exercise price of $0.587 per Share. In each case, the options are exercisable on or after Listing.

No other Director holds or has a beneficial interest in Shares as at the date of this Prospectus.

Directors and their affiliates may acquire Shares offered for sale or issued under the Offer.

Remuneration of Directors and Senior Executives
The Constitution provides that non-executive Directors are entitled to such remuneration as the Board determines, but the total amount of fees provided to all non-executive Directors for their services must not exceed in aggregate in any financial year the amount fixed by Virgin Blue in general meeting, currently $750,000.

Non-executive Directors
For the financial year ending 31 March 2004, non-executive Directors’ fees will be $75,000 per annum each and $125,000 per annum in the case of the Chairman, inclusive of superannuation. Non-executive Directors may also be reimbursed for their expenses properly incurred as a non-executive Director in connection with the affairs of the Company, including for serving on committees of the Board.

The Constitution further provides that non-executive Directors may be paid fees or other amounts as the non-executive Directors determine where a non-executive Director performs extra services or makes special exertions in connection with the affairs of the Company.

Ryvan Pty Limited (a company of which David Ryan is a director) is entitled to receive a fee of approximately $175,000 for providing the services of David Ryan as Chairman of the Due Diligence Committee in connection with the Listing and the preparation of this Prospectus.

Managing Director and Chief Executive Officer
The Managing Director is currently the sole executive Director. For the financial year ending 31 March 2004, the Managing Director’s remuneration will be as follows:

• he will receive a base salary of $500,000 per annum, inclusive of superannuation, but excluding the incentives described immediately below;
• he will be entitled to a bonus of up to 75% of his base salary upon satisfying annual operationally based performance hurdles. This bonus will comprise cash and the issue of performance rights under the KEPP; and
• he will be entitled to participate in the SEOP described in Section 10.10. The number of options to be issued to the Managing Director and the terms and conditions as to exercise of those options, including the performance conditions, are also set out in that Section. The SEOP is intended to operate as Virgin Blue’s key long term incentive plan. However, in addition, the Managing Director may participate in certain other of the Employee Plans as described in Section 10.10.

The Managing Director may also be reimbursed for his expenses properly incurred in the performance of his duties.

The Managing Director’s employment contract may be terminated by either the Managing Director or the Company on six months’ notice.

The Managing Director is subject to a non compete obligation for 12 months from the date upon which he ceases to act as the Chief Executive Officer.

Senior Executives
Key details of the terms of employment and remuneration of Virgin Blue’s senior executives are as follows:

• no senior executive has a total employment cost (inclusive of superannuation) exceeding that of the Chief Executive Officer;
• the Company or the senior executive may terminate the employment at any time on four months’ notice;
• the senior executive is not subject to any non compete obligations on termination of employment;
10. ADDITIONAL INFORMATION (CONTINUED)

- the senior executive will be eligible to receive short term and medium term incentives based on meeting certain performance criteria set by the Chief Executive Officer each year. Such incentives will take the form of a cash bonus and/or the issue of performance rights under the Key Employee Performance Plan (“KEPP”). Any performance rights issued must be held for a minimum of two years before being exercised; and
- the senior executive will be entitled to participate in the SEOP.

Deed of Indemnity
Virgin Blue has executed a deed of insurance and indemnity in favour of each Director. The indemnity is subject to the restrictions prescribed in the Corporations Act. The deed also requires the Company to maintain insurance cover for the Directors. The Company has arranged this insurance.

10.20 Australian Taxation Implications
The Retail Offer and the Institutional Offer
This is a general description of the Australian tax consequences for investors that acquire Shares. The following taxation summary addresses the taxation implications for investors who are Australian residents for tax purposes and who will hold Shares acquired through the Retail Offer or Institutional Offer on capital account.

This opinion does not address the taxation implications for investors that are not Australian tax residents, or those who hold their investment on revenue account. The taxation implications for employees who obtain Shares through the General Employee Share Plan (“GESP”), the Key Employee Performance Plan (“KEPP”) or the Employee Contribution (Salary Sacrifice) Share Plan (“CSSP”) are described separately below. Existing Option Holders should seek advice from their tax advisors as to their own particular circumstances before electing whether to exercise or allow the cancellation of Existing Options (including the subsequent acquisition of Shares under the Executive Offer).

If you are not an Australian resident for tax purposes, the way you are taxed will depend on the nature and size of your shareholding and, where relevant, the terms of a double tax agreement (if any) between Australia and your country of residence. If you are not an Australian resident for tax purposes, you should obtain specific professional advice in this regard.

The Australian tax laws are complex. This taxation summary is not intended to be an authoritative or complete statement of the applicable law. The general nature of this summary envisages that the individual circumstances of each investor may affect the taxation implications of the investment to that investor. If you are uncertain as to how the tax laws apply to you in participating in the Offer, you should obtain independent professional advice before deciding whether to invest.

To the extent permitted by law, Virgin Blue disclaims all liability to any investor or other party for all costs, loss, damage and liability that the investor or other party may suffer or incur arising from or relating to or in any way connected with the contents of this summary or the provision of this summary to the investor or other party or the reliance on this summary by the investor or other party.

The summary of income tax matters set out below is based on judicial and administrative interpretations of the Income Tax Assessment Act 1997 (Cth), the Income Tax Assessment Act 1936 (Cth) and the Taxation Administration Act 1953 (Cth) as at the date of this summary, and has regard to proposed tax changes to the extent relevant.

Capital Gains Tax (“CGT”)

Acquisition of Shares
For CGT purposes, you acquire your Shares on the date the contract for the acquisition of the Shares is entered into by you, or, if there is no contract, when the Shares are issued or allotted to you. The cost base of any Share you acquire is generally the amount you paid for the Share and any associated costs (such as brokerage and stamp duty) that you may incur.

Disposal of Shares
You make a capital gain if the capital proceeds you receive when you dispose of your Shares exceed the cost base of those Shares. If the capital proceeds you receive when you dispose of the Shares are less than the reduced cost base, you make a capital loss.

Cost base adjustments may be required (and capital gains may arise) should a distribution representing a return of capital or certain other non-assessable amounts be paid in respect of the Shares.
If you are a non-resident, the CGT provisions will generally not apply to you unless you and your Associates owned at least 10% of the value of the Shares at some time during the five years before the disposal of your Shares.

Capital gains you make are included in your assessable income and are taxed as income. Capital losses made in the same or prior years can be used to offset capital gains.

Some taxpayers will be entitled to a discount on the taxable amount of any capital gains they derive where they have held the Shares for 12 months or more. Broadly, if you are an individual (either holding the Shares directly or indirectly through a trust), the capital gain is discounted by 50%. If you are a trustee of a complying superannuation fund, or a life insurance company holding the Shares as a CGT asset that is a “virtual pooled superannuation trust asset”, the capital gain is discounted by 33%. The discount CGT provisions do not apply to companies.

Capital losses must be applied to reduce capital gains before applying the discount CGT provisions.

**Dividends**

While you hold Shares, you may receive a dividend. The dividend will be taxed as income. Dividends may be franked (either in part or fully) or unfranked.

Generally, if you have held the Shares at risk for at least 45 days (excluding the dates of acquisition and disposal), the amount of any franking credits attaching to the dividend will be taxed as income and you are able to claim a tax credit for that amount.

Certain types of taxpayers, including individuals and superannuation funds, are entitled to a refund of any excess franking credits. Companies are generally not able to claim a refund for excess franking credits.

Dividends received by trusts will either be included in the trustee’s or the beneficiary’s assessable income, depending on whether there is an Australian tax resident beneficiary that is presently entitled to the income of the trust. Taxation of dividends derived by trusts will depend on the legal identity of the recipient (beneficiary) of the income from the distribution (i.e. whether the beneficiary is an individual, a company or a trust or a non-resident).

**Withholding Tax Obligations**

You are not obliged to quote your tax file number (TFN) to Virgin Blue. However, if you do not quote your TFN or claim an exemption from quotation, the Company will be obliged to withhold tax from certain distributions (if any) at the highest individual marginal rate plus the Medicare Levy (currently 48.5%).

Virgin Blue may also be required to withhold tax at the maximum rate of 30% on the payment of any unfranked dividends paid to investors with an address outside Australia. This rate may be reduced in accordance with the provisions of a double tax agreement between Australia and the country of residence of the relevant investor. As withholding tax is considered to be a final tax, no further Australian income tax will be payable by a non-resident investor on the unfranked dividend in those circumstances.

**Taxation Implications of Employee Share Plans**

The following taxation summary addresses the general tax implications for employees of Virgin Blue and its Australian subsidiaries who are Australian tax residents and who will hold Shares acquired through the GESP, the CSSP or the KEPP (as they are intended to operate), on capital account.

This taxation summary is not intended to be an authoritative or complete statement of the law applicable. As the precise tax consequences of participation in the offers will be affected by a participant’s personal circumstances, it is recommended that participants obtain independent professional advice before participating.

**General Employee Share Plan (“GESP”)**

Taxation of Discount on Acquisition of Shares

It is intended that employees participating in the GESP will be eligible for concessional tax treatment in respect of the Shares issued under the plan provided an appropriate election (“the Upfront Taxation Election”) is made.
This concessional tax treatment provides for an exemption from taxation for the first $1,000 of discount on the share issue. Any discount in excess of $1,000 will be taxable to the employee in the year in which the Shares are granted.

As the Shares are to be issued under the GESP for no consideration, the discount is the market value of the Shares at the time of issue. There are detailed rules that set out the calculation of the market value of the Shares. Information will be provided to employee participants in due course regarding the determination of the market value of the Shares.

Where the employee does not make the Upfront Taxation Election, they will not be subject to income tax on the discount at the time the Shares are granted. Instead, an amount will be subject to income tax at the earlier of the end of the employee's employment or three years from the issue of the Shares ("the GESP Cessation Time"). The amount included in their assessable income will be calculated as follows:

- where the Shares are sold within 30 days of the GESP Cessation Time – the market value of the Shares at the GESP Cessation Time; or
- where the Shares are sold within 30 days of the GESP Cessation Time – the proceeds received on disposal. In this case, there will be no capital gains tax implications from the sale.

Capital Gains Tax on Disposal of the Shares

On disposal of the Shares, the employee will be subject to the capital gains tax regime unless they did not make the Upfront Taxation Election and then sold their Shares within 30 days of the GESP Cessation Time. The capital gain or loss on the disposal will be calculated as the difference between the disposal proceeds and the cost base of the Shares.

Where the employee has made the Upfront Taxation Election, the cost base will be the market value of the Shares at the time of issue, plus any incidental costs in relation to the Shares (e.g. stamp duty and broker fees). Where the employee has not made the Upfront Taxation Election and they sell the Shares more than 30 days after the GESP Cessation Time, their cost base will be the market value of the Shares at the GESP Cessation Time, plus any incidental costs in relation to the Shares.

Where the employee has held the Shares for at least 12 months prior to disposal, the amount included in their taxable income for any net capital gain on the disposal may be discounted by 50%.

Key Employee Performance Plan ("KEPP")

The comments below in relation to the KEPP deal with the income tax issues associated with performance rights that may be issued to certain employees under the KEPP on or around Listing. There are three potential categories of grant under the KEPP on Listing (one each for Captains, First Officers and Founding Employees). While there are some differences in the conditions for each of these grants, the comments set out below apply equally to all three.

Taxation of Discount on Acquisition of Performance Rights

Under each of the grants as they apply on or around Listing (the "Listing Grants"), it is intended that where the employee makes an appropriate election ("the Upfront Taxation Election"), the amount included in his or her taxable income in the year of issue will be the market value of the performance rights issued to him or her, as at the time of issue. Employees are not eligible for the $1,000 exemption, described in relation to the GESP above, on performance rights issued under the Listing Grant.

There are complex rules relating to the valuation of the performance rights. However, the minimum amount included in the employee's taxable income in respect of the Listing Grant (where the employee has made the Upfront Taxation Election) is broadly the Final Price for the Shares multiplied by the number of Shares that will be issued on exercise of the performance rights granted.

Where an employee does not make an Upfront Taxation Election, he or she will be subject to income tax on the performance rights issue at the earliest of cessation of employment of the employee, the disposal of the performance rights (otherwise than by exercise), the exercise of the performance rights (resulting in the issue of Shares to the employee) or ten years from the time of issue of the performance rights (the "Listing Grant Cessation Time"). Where the employee sells his or her performance rights or Shares within 30 days of the Listing Grant Cessation Time, the amount included in his or her taxable income will be the proceeds received for disposal of the performance rights or
Shares. Where the employee does not sell his or her performance rights or Shares within 30 days of the Listing Grant Cessation Time, the amount included in his or her taxable income will be the market value of the performance rights or Shares at the Listing Grant Cessation Time.

Capital Gains Tax
On disposal of the performance rights or Shares, the employee will be subject to the capital gains tax regime unless they did not make the Upfront Taxation Election and then sold their performance rights or Shares within 30 days of the Listing Grant Cessation Time. The capital gain or loss on the disposal will be calculated as the difference between the disposal proceeds and the cost base of the Shares.

Where the employee has made the Upfront Taxation Election, the cost base will be the market value of the performance rights at the time of issue, plus any incidental costs in relation to the performance rights or Shares (e.g., stamp duty and broker fees). Where the employee has not made the Upfront Taxation Election and they sell the performance rights or Shares more than 30 days after the Listing Grant Cessation Time, their cost base will be the market value of the performance rights or Shares at the Listing Grant Cessation Time, plus any incidental costs in relation to the Shares.

Where the employee has held Shares for at least 12 months prior to disposal (calculated from the time that the Shares were acquired), the amount included in their taxable income for any net capital gain on the disposal may be discounted by 50%.

Employee Contribution (Salary Sacrifice) Share Plan (“CSSP”)
Taxation of Salary and Wages
It is intended that under the CSSP, the taxable salary of the employee will be reduced by the amount sacrificed (the value of the Shares acquired under the CSSP).

Taxation of Discount on Acquisition of Shares
Under the CSSP, it is intended that where an employee makes an appropriate election (“the Upfront Taxation Election”), the amount included in their taxable income in the year of issue will be the market value of the Shares at the time of issue. Employees are not eligible for the $1,000 exemption on Shares issued under the CSSP.

Where an employee does not make an Upfront Taxation Election, they will be subject to income tax on the Share issue at the earliest of cessation of employment of the employee, the disposal of the Shares, or ten years from the time of issue (“the CSSP Cessation Time”). Where the employee sells their Shares within 30 days of the CSSP Cessation Time, the amount included in their taxable income will be the proceeds received for disposal of the Shares. Where the employee does not sell their Shares within 30 days of the CSSP Cessation Time, the amount included in their taxable income will be the market value of the Shares at the CSSP Cessation Time.

Capital Gains Tax on Disposal of the Shares
On disposal of the Shares, the employee will be subject to the capital gains tax regime unless they did not make the Upfront Taxation Election and then sold their Shares within 30 days of the CSSP Cessation Time. The capital gain or loss on the disposal will be calculated as the difference between the disposal proceeds and the cost base of the Shares.

Where the employee has made the Upfront Taxation Election, the cost base will be the market value of the Shares at the time of issue, plus any incidental costs in relation to the Shares (e.g., stamp duty and broker fees). Where the employee has not made the Upfront Taxation Election and they sell the Shares more than 30 days after the CSSP Cessation Time, their cost base will be the market value of the Shares at cessation time, plus any incidental costs in relation to the Shares.

Where the employee has held the Shares for at least 12 months prior to disposal, the amount included in their taxable income for any net capital gain on the disposal may be discounted by 50%.

10.21 Interests of Advisors for Disclosure
Except as set out in this Prospectus, no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus:

- has any interest, or has had any interest during the last two years, in the formation or promotion of Virgin Blue, or in property acquired or proposed to be acquired by Virgin Blue in connection with its formation or promotion, or the offer of the securities; and
10. ADDITIONAL INFORMATION (CONTINUED)

- no amount has been paid, or agreed to be paid, and no benefit has been given, or agreed to be given, to any such person in connection with the services provided by the person in connection with the formation or promotion of Virgin Blue, or the offer of the securities.

Allens Arthur Robinson has acted as legal advisor to Virgin Blue in relation to the Offer, has advised Virgin Blue generally in relation to its admission to the Official List and has also performed work in relation to due diligence enquiries. Virgin Blue has paid, or agreed to pay, approximately $1.7 million for the above services.

Goldman Sachs JBWere Pty Ltd and Credit Suisse First Boston Australia Limited are acting as Joint Global Coordinators in relation to the Offer and have also performed work in relation to due diligence enquiries. Virgin Blue has agreed to pay a base fee of 2.5% plus an incentive fee of 0.5% of the gross proceeds of the Offer (excluding the Patrick Offer, Executive Offer, Employee Gift Offer, Employee Offer) and excluding proceeds received from the KEPP Trustee.

KPMG Transactions Services Australia Pty Ltd has acted as the Investigating Accountant and has prepared the Investigating Accountant’s Report on Historical Financial Information and has also performed work in relation to due diligence enquiries. Virgin Blue has paid, or agreed to pay, approximately $0.5 million for the above services.

Ernst & Young Transaction Advisory Services Limited has acted as the Independent Reviewer of the Directors’ Forecast and has prepared the Independent Review of the Directors’ Forecast Report. Virgin Blue has paid, or agreed to pay, approximately $0.8 million for the above services.

10.22 Consents

Lawyers
Allens Arthur Robinson has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as legal advisor to the Company in the form and context in which it is named.

Accountants
KPMG Transaction Services Australia Pty Limited has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as Investigating Accountant in the form and context in which it is named and the inclusion of its report in the form and context in which it is included.

Ernst & Young Transaction Advisory Services Limited has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as the Independent Reviewer of the Directors’ Forecast in the form and context in which it is named and the inclusion of its report in the form and context in which it is included.

Auditor
KPMG has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as auditor of Virgin Blue in the form and context in which it is named.

Joint Global Coordinators
Goldman Sachs JBWere Pty Ltd has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as Joint Global Coordinator in the form and context in which it is named.

Credit Suisse First Boston Australia Limited has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as Joint Global Coordinator in the form and context in which it is named.

Registrar
Computershare Investor Services Pty Limited has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as Registrar for Virgin Blue in the form and context in which it is named.

Brokers to the Offer
ABN AMRO Morgans Limited has given and before lodgement of this Prospectus with ASIC has not withdrawn its written consent to being named in this Prospectus as Broker to the Offer. ABN AMRO Morgans Limited has not authorised or caused the issue of any part of this
Prospectus and does not make or purport to make any statement in this Prospectus and takes no responsibility for any part of this Prospectus other than any reference to its name.

Commonwealth Securities Limited has given and before lodgement of this Prospectus with ASIC has not withdrawn its written consent to being named in this Prospectus as Broker to the Offer. Commonwealth Securities Limited has not authorised or caused the issue of any part of this Prospectus and does not make or purport to make any statement in this Prospectus and takes no responsibility for any part of this Prospectus other than any reference to its name.

ETRADE Australia Securities Limited has given and before lodgement of this Prospectus with ASIC has not withdrawn its written consent to being named in this Prospectus as Broker to the Offer. ETRADE Australia Securities Limited has not authorised or caused the issue of any part of this Prospectus and does not make or purport to make any statement in this Prospectus and takes no responsibility for any part of this Prospectus other than any reference to its name.

Others
TravelQuality.com has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to the inclusion of the statements in Sections 4.2 and 4.10 of this Prospectus which are based on statements made by it in the form and context in which the statements are included.

SkyTrax Research has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to the inclusion of the statements in Section 4.10 of this Prospectus which are based on statements made by it in the form and context in which the statements are included.

Teleperformance has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to the inclusion of the statements in Section 4.10 of this Prospectus which are based on statements made by it in the form and context in which the statements are included.

No one referred to above has made any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, except as stated above. Each of the persons referred to above expressly disclaims and takes no responsibility for any statements in or omissions from this Prospectus. This applies to the maximum extent permitted by law and does not apply to any matter to the extent to which consent is given above.

10.23 Expenses of the Offer
If the Offer proceeds, the total estimated costs of the Offer, including advisory, legal, accounting, tax, listing and administrative fees, as well as printing, advertising and other expenses are currently estimated to be approximately $20 million and will be paid by Virgin Blue.

10.24 Directors of the Selling Shareholder
The directors of the Selling Shareholder are Patrick McCall and Mark Poole.

10.25 ASX Admission and Quotation
Virgin Blue will apply to ASX for admission to the Official List and quotation of the Shares on the exchange operated by ASX within seven days of the date of this Prospectus.

10.26 Governing Law
The contracts that arise from the acceptance of the Applications and of the bids made under the Institutional Offer are governed by the laws applicable in Queensland and each Applicant and each bidder under the Institutional Offer submits to the exclusive jurisdiction of the courts of Queensland.

10.27 Expiry Date
No Shares will be offered on the basis of this Prospectus after the Expiry Date.
10.28 Authorisation of this Prospectus
Each director of Virgin Blue and each director of the Selling Shareholder has consented to the lodgement of this Prospectus with ASIC as required by section 720 of the Corporations Act.

Signed for Virgin Blue Holdings Limited by Brett Godfrey

Signed for Virgin Holdings SA by Patrick McGall
### SECTION 11:

**DEFINITIONS AND GLOSSARY**

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>$, cents</td>
<td>Australian currency</td>
</tr>
<tr>
<td>AASB</td>
<td>Australian Accounting Standards Board</td>
</tr>
<tr>
<td>ACCC</td>
<td>Australian Competition and Consumer Commission</td>
</tr>
<tr>
<td>Aggregated Forecast</td>
<td>represents the aggregation of the audited consolidated statement of financial performance for the six months ended 30 September 2003 and the Directors’ Forecast</td>
</tr>
<tr>
<td>Air Navigation Act</td>
<td>Air Navigation Act 1920 [Cth]</td>
</tr>
<tr>
<td>Aircraft Utilisation</td>
<td>the number of hours an aircraft is operated in a period of time, where hours include flying time and the time spent taxiing on the ground</td>
</tr>
<tr>
<td>AOC</td>
<td>Air Operator’s Certificate</td>
</tr>
<tr>
<td>Applicant</td>
<td>a person who submits a valid Application Form pursuant to this Prospectus</td>
</tr>
<tr>
<td>Application</td>
<td>an application for Shares under this Prospectus</td>
</tr>
<tr>
<td>Application Form</td>
<td>an application form attached to or accompanying this Prospectus (including an application form downloaded from the online Prospectus) for investors to apply for Shares under the Offer</td>
</tr>
<tr>
<td>Application Monies</td>
<td>monies received from Applicants in respect of their Applications whether by way of cheque or BPAY®</td>
</tr>
<tr>
<td>ASIC</td>
<td>Australian Securities and Investments Commission</td>
</tr>
<tr>
<td>ASK</td>
<td>available seat kilometres – the total number of seats available for passengers multiplied by the number of kilometres flown</td>
</tr>
<tr>
<td>Associates</td>
<td>has the meaning given in the Corporations Act</td>
</tr>
<tr>
<td>ASX</td>
<td>Australian Stock Exchange Limited (ABN 98 008 624 691)</td>
</tr>
<tr>
<td>ASX Listing Rules</td>
<td>the listing rules of ASX</td>
</tr>
<tr>
<td>Australian GAAP</td>
<td>generally accepted accounting principles in Australia</td>
</tr>
<tr>
<td>Australian International Airline</td>
<td>an airline designated as an Australian international airline by the Australian government under the Air Navigation Act</td>
</tr>
<tr>
<td>Australian Person</td>
<td>has the meaning given in the Air Navigation Act</td>
</tr>
<tr>
<td>Bilateral ASA</td>
<td>Bilateral Air Services Agreement</td>
</tr>
<tr>
<td>Board</td>
<td>the board of directors of Virgin Blue</td>
</tr>
<tr>
<td>Boeing</td>
<td>The Boeing Company</td>
</tr>
<tr>
<td>Boeing 737 Classic</td>
<td>Boeing 737-300 and 400 series aircraft</td>
</tr>
</tbody>
</table>
### 11. DEFINITIONS AND GLOSSARY (CONTINUED)

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Boeing 737 Next Generation</strong></td>
<td>Boeing 737 Next Generation aircraft, comprising aircraft of the series 737-600, 700, 800 and 900</td>
</tr>
<tr>
<td><strong>Broker Firm Applicant</strong></td>
<td>an Applicant that has received a firm allocation of Shares from their broker</td>
</tr>
<tr>
<td><strong>Broker Firm Offer</strong></td>
<td>the invitation under this Prospectus to Australian resident clients of brokers who have received a firm allocation from their broker, as described in Section 2.6</td>
</tr>
<tr>
<td><strong>CAGR</strong></td>
<td>compounded annual growth rate</td>
</tr>
<tr>
<td><strong>capacity</strong></td>
<td>the revenue generating seats on an aircraft</td>
</tr>
<tr>
<td><strong>Captains</strong></td>
<td>Eligible Employees who are employed by Virgin Blue as a pilot in the position of “Captain”</td>
</tr>
<tr>
<td><strong>CASA</strong></td>
<td>Civil Aviation Safety Authority</td>
</tr>
<tr>
<td><strong>CASK</strong></td>
<td>total operating costs per ASK</td>
</tr>
<tr>
<td><strong>CFO Plan</strong></td>
<td>the plan pursuant to which 1,357,560 options have been granted to the Chief Financial Officer, as described in Section 10.10</td>
</tr>
<tr>
<td><strong>CHESS</strong></td>
<td>Clearing House Electronic Subregister System</td>
</tr>
<tr>
<td><strong>Company</strong></td>
<td>Virgin Blue Holdings Limited (ACN 100 686 226) and, unless the context requires otherwise, includes the Virgin Blue Group</td>
</tr>
<tr>
<td><strong>Constitution</strong></td>
<td>the constitution adopted by the Company effective on 30 October 2003</td>
</tr>
<tr>
<td><strong>Corporations Act</strong></td>
<td>Corporations Act 2001 (Cth)</td>
</tr>
<tr>
<td><strong>Cricket S.A.</strong></td>
<td>Cricket S.A., a company incorporated in Switzerland with number CH-660 0485000-7</td>
</tr>
<tr>
<td><strong>CSSP</strong></td>
<td>the Employee Contribution (Salary Sacrifice) Plan, as described in Section 10.10</td>
</tr>
<tr>
<td><strong>CU Nominees</strong></td>
<td>C.U. Nominees Pty Limited (ACN 000 747 679)</td>
</tr>
<tr>
<td><strong>Directors</strong></td>
<td>the directors of Virgin Blue from time to time</td>
</tr>
<tr>
<td><strong>Directors' Forecast</strong></td>
<td>forecast consolidated statement of financial performance for the six months ending 31 March 2004 which has been prepared by the Directors and reviewed by Ernst &amp; Young Transaction Advisory Services Limited</td>
</tr>
<tr>
<td><strong>DOTARS</strong></td>
<td>Department of Transport and Regional Services</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>earnings before interest and tax</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>earnings before interest, tax, depreciation and amortisation</td>
</tr>
<tr>
<td><strong>EBITDAR</strong></td>
<td>earnings before interest, tax, depreciation, amortisation and operating aircraft leases (rentals)</td>
</tr>
<tr>
<td><strong>Eligible Employees</strong></td>
<td>all Australian resident full time and part time employees of Virgin Blue who were employed on or before 31 August 2003 and who continue to be employed by Virgin Blue and have not given or received notice of termination on or before the Retail Closing Date</td>
</tr>
<tr>
<td><strong>Employee Gift Offer</strong></td>
<td>the gift of $1,000 worth of Shares to be made each Gift Offer Employee under this Prospectus, as described in Section 10.11</td>
</tr>
<tr>
<td><strong>Employee Offer</strong></td>
<td>the invitation to Eligible Employees to subscribe for Shares under this Prospectus as described in Section 2.6</td>
</tr>
<tr>
<td><strong>Employee Plans</strong></td>
<td>the Existing Option Plan, the CFO Plan, the GESP, the CSSP, the KEPP and the SEOP, as described in Section 10.10</td>
</tr>
<tr>
<td><strong>ETOPS</strong></td>
<td>in relation to an aircraft with two engines, means an operation to a distance in excess of 60 minutes flight time from an adequate aerodrome calculated at single engine cruise speed</td>
</tr>
<tr>
<td><strong>Executive Offer</strong></td>
<td>the invitation to Existing Option Holders to receive Shares in consideration for the cancellation of Existing Options as described in Section 10.12</td>
</tr>
<tr>
<td>---------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Ex-Im Bank</strong></td>
<td>Export-Import Bank of the United States</td>
</tr>
<tr>
<td><strong>Existing Option Holders</strong></td>
<td>employees and senior executives who have been granted options under the Existing Option Plan</td>
</tr>
<tr>
<td><strong>Existing Option Plan</strong></td>
<td>the Virgin Blue Executive Share Option Plan, described in Section 10.10</td>
</tr>
<tr>
<td><strong>Existing Options</strong></td>
<td>options over Shares granted to Existing Option Holders under the Existing Option Plan</td>
</tr>
<tr>
<td><strong>Existing Shareholders</strong></td>
<td>the Virgin Group Shareholders, the Patrick Shareholder and C.U. Nominees</td>
</tr>
<tr>
<td><strong>Existing Shares</strong></td>
<td>the 868,865,040 fully paid ordinary shares in the capital of Virgin Blue on issue immediately prior to the date of this Prospectus</td>
</tr>
<tr>
<td><strong>Expiry Date</strong></td>
<td>10 December 2004</td>
</tr>
<tr>
<td><strong>Exposure Period</strong></td>
<td>the period of seven days from 10 November 2003 (being the date this Prospectus was lodged with ASIC) unless the period is extended by ASIC by up to a further seven days in which event it means the extended period</td>
</tr>
<tr>
<td><strong>Final Price</strong></td>
<td>the price which Applicants will pay for Shares under the Offer, as described in Section 2.7</td>
</tr>
<tr>
<td><strong>Firm Aircraft</strong></td>
<td>the ten new Boeing 737-800 aircraft to be acquired under a purchase agreement between Boeing and VBA dated 20 December 2002</td>
</tr>
<tr>
<td><strong>First Officers</strong></td>
<td>Eligible Employees who are employed by Virgin Blue as a pilot in the position of “first officer”</td>
</tr>
<tr>
<td><strong>Foreign Acquisitions and Takeovers Act</strong></td>
<td>Foreign Acquisitions and Takeovers Act 1975 (Cth)</td>
</tr>
<tr>
<td><strong>Founding Employees</strong></td>
<td>Eligible Employees who were employed by Virgin Blue on or before 31 August 2001, other than Captains and First Officers</td>
</tr>
<tr>
<td><strong>General Public Offer</strong></td>
<td>the invitation under this Prospectus to Australian resident retail investors and the KEPP Trustee, as described in Section 2.6</td>
</tr>
<tr>
<td><strong>GESP</strong></td>
<td>the General Employee Share Plan, described in Section 10.10</td>
</tr>
<tr>
<td><strong>Gift Offer Employees</strong></td>
<td>Eligible Employees except those senior executives who are participants in the SEOP</td>
</tr>
<tr>
<td><strong>Global Distribution Systems</strong></td>
<td>software used by travel agents for booking passenger flights</td>
</tr>
<tr>
<td><strong>heavy maintenance</strong></td>
<td>a combination of maintenance tasks such as overhaul, repair, inspection, replacement, modification or defect rectification, which ensure the continued airworthiness of the aircraft and are specified in the Virgin Blue system of maintenance. These tasks generally require major disassembly activity and are conducted during extended aircraft downtime which requires the removal of the aircraft from scheduled service</td>
</tr>
<tr>
<td><strong>HIN</strong></td>
<td>Holder Identification Number</td>
</tr>
<tr>
<td><strong>IFRS</strong></td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td><strong>Indicative Price Range</strong></td>
<td>$1.80 to $2.25 per Share, but the Final Price may be higher or lower</td>
</tr>
<tr>
<td><strong>Institutional Bookbuild</strong></td>
<td>process for determining the Final Price in the Offer where in which Institutional Investors bid for allocations of Shares in the Offer</td>
</tr>
<tr>
<td><strong>Institutional Closing Date</strong></td>
<td>5 December 2003, or such other date as may be determined by Virgin Blue, the Selling Shareholder and the Joint Global Coordinators</td>
</tr>
</tbody>
</table>
11. DEFINITIONS AND GLOSSARY (CONTINUED)

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Investor</td>
<td>an investor to whom offers or invitations in respect of Shares can be made without the need for a lodged prospectus (or other formality, other than a formality which the Company is willing to comply with) including in Australia a person to whom offers or invitations in respect of Shares can be made without the need for a lodged prospectus under section 708 of the Corporations Act</td>
</tr>
<tr>
<td>Institutional Offer</td>
<td>the invitation to Institutional Investors under this Prospectus, as described in Section 2.7</td>
</tr>
<tr>
<td>Interlining</td>
<td>a process by which airlines can offer customers easier connections between flights of different carriers at the same airport</td>
</tr>
<tr>
<td>International AOC</td>
<td>an AOC that permits international operations</td>
</tr>
<tr>
<td>International Offering Circular</td>
<td>the offer memorandum under which the Institutional Offer will be made in certain overseas jurisdictions</td>
</tr>
<tr>
<td>Jet Care</td>
<td>Jet Care Pty Limited (ACN 010 378 006)</td>
</tr>
<tr>
<td>Joint Global Coordinators</td>
<td>Goldman Sachs JBWere Pty Ltd (ACN 006 797 897) and Credit Suisse First Boston Australia Limited (ACN 007 016 300)</td>
</tr>
<tr>
<td>KEPP</td>
<td>the Key Employee Performance Plan, as described in Section 10.10</td>
</tr>
<tr>
<td>KEPP Trustee</td>
<td>the trustee appointed by Virgin Blue to acquire and hold Shares under the KEPP, as described in Section 10.10</td>
</tr>
<tr>
<td>Liberty</td>
<td>a joint venture between Virgin Blue and Patrick Corporation established to undertake ground service operations</td>
</tr>
<tr>
<td>line maintenance</td>
<td>maintenance tasks including inspection, test and defect rectification which ensure the continued airworthiness of the aircraft and are conducted pre-flight, daily or during overnight stops as specified in the Virgin Blue System of Maintenance. These tasks do not generally require major disassembly activity</td>
</tr>
<tr>
<td>Listing</td>
<td>admission of Virgin Blue to the Official List</td>
</tr>
<tr>
<td>New Shares</td>
<td>the new shares proposed to be issued by the Company as part of the Offer</td>
</tr>
<tr>
<td>New Zealand Bilateral</td>
<td>the Bilateral ASA between Australia and New Zealand</td>
</tr>
<tr>
<td>NZCC</td>
<td>New Zealand Commerce Commission</td>
</tr>
<tr>
<td>Offer</td>
<td>the invitation under this Prospectus and the International Offering Circular to apply or bid for Shares, comprising the Retail Offer, the Institutional Offer, the Patrick Offer, the Employee Gift Offer and the Executive Offer</td>
</tr>
<tr>
<td>Offer Management Agreement</td>
<td>the offer management agreement between Virgin Blue, the Selling Shareholder and the Joint Global Coordinators described in Section 10.7</td>
</tr>
<tr>
<td>Official List</td>
<td>the official list of ASX</td>
</tr>
<tr>
<td>Ongoing Shareholders’ Agreement</td>
<td>the ongoing Shareholders’ Agreement between the Patrick Shareholder and the Virgin Group Shareholders, described in Section 10.3</td>
</tr>
<tr>
<td>Open Skies</td>
<td>reservation booking software used by Virgin Blue</td>
</tr>
<tr>
<td>Pacific Blue</td>
<td>the name under which Virgin Blue intends to operate international services</td>
</tr>
<tr>
<td>Pacific Region</td>
<td>Australia, New Zealand, Indonesia, Fiji, Vanuatu, Cook Islands, New Caledonia, Norfolk Islands, Samoa, Solomon Islands, Tuvalu, Tahiti and French Polynesia, Tonga, Papua, Papua New Guinea, Micronesia and Marshall Islands</td>
</tr>
<tr>
<td>Passenger load factor</td>
<td>the proportion of revenue generating seats to total seats available</td>
</tr>
</tbody>
</table>
Patrick Corporation

Patrick Corporation Limited (ACN 008 660 124) and its subsidiaries and controlled entities, including the Patrick Shareholder

Patrick Offer

the invitation to the Patrick Shareholder to subscribe for a number of New Shares in the Offer such that, on completion of the Offer, its shareholding in Virgin Blue will be not less than 45% of the issued share capital of Virgin Blue on a fully diluted basis, as described in Section 10.13

Patrick Price

has the meaning given in Section 2.5

Patrick Shareholder

Plzen Pty Limited (ACN 065 905 571), a wholly owned subsidiary of Patrick Corporation

Prospectus

this prospectus dated 10 November 2003 and any supplementary or replacement prospectus

Qantas

Qantas Airways Limited (ACN 009 661 901)

QIB

a qualified institutional buyer as defined in Rule 144A of the US Securities Act

RASK

revenue per available seat kilometre

Registrar

Computershare Investor Services Pty Limited (ACN 078 279 277)

Retail Closing Date

28 November 2003, or such other date as may be determined by Virgin Blue, the Selling Shareholder and the Joint Global Coordinators

Retail Offer

the invitation to investors who are members of the general public, the KEPP Trustee, Eligible Employees, and Broker Firm Applicants under this Prospectus, as described in Section 2.5

RPK

revenue passenger kilometres – number of paying passengers carried multiplied by the number of kilometres flown

Sabre

route planning and scheduling software used by Virgin Blue

SAM

the Single Aviation Market agreement between Australia and New Zealand under the New Zealand Bilateral

SARS

severe acute respiratory syndrome

SCH Business Rules

the Securities Clearing House Business Rules issued by ASX Settlement and Transfer Corporation Pty Limited (ACN 008 504 432)

Scheduled Revenue

revenue derived from passenger ticket sales as well as fees associated with the cancellation and change of tickets

Sector

a single flight from one airport to another

Selling Shareholder

Virgin Holdings S.A., a company incorporated in Switzerland with number CH-660 1578998-2

SEOP

the Senior Executive Option Plan described in Section 10.10

Share Buy-back

the equal access share buy-back from Existing Shareholders, as described in Section 2.8

Shares

fully paid ordinary shares in the capital of Virgin Blue

slot

designated time for landing or taking off an aircraft at an airport

slot coordinator

person responsible for the issuing and subsequent monitoring of designated times when aircraft can utilise an airport’s runway

Total Domestic Market

all regular air transport operations within Australia including jet operations of regional carriers but excluding turbo prop aircraft operations of regional airlines with less than 8,000 passengers per month

US Securities Act

United States Securities Act of 1933, as amended

VAH

Virgin Australia Holdings Pty Limited (ACN 093 924 675)
### 11. DEFINITIONS AND GLOSSARY (CONTINUED)

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>VBA</td>
<td>Virgin Blue Airlines Pty Limited (ACN 090 670 965)</td>
</tr>
<tr>
<td>Virgin Blue</td>
<td>Virgin Blue Holdings Limited (ACN 100 686 226) and, unless the context requires otherwise, includes the Virgin Blue Group</td>
</tr>
<tr>
<td>Virgin Blue Group</td>
<td>Virgin Blue and its subsidiaries and controlled entities or any one or more of them</td>
</tr>
<tr>
<td>Virgin Blue Share Offer Hotline</td>
<td>1800 007 848 in Australia</td>
</tr>
<tr>
<td>Virgin Enterprises</td>
<td>Virgin Enterprises Limited</td>
</tr>
<tr>
<td>Virgin Express</td>
<td>Virgin Express Holdings plc</td>
</tr>
<tr>
<td>Virgin Group</td>
<td>Virgin Group Investments Limited and its subsidiaries and controlled entities, including the Selling Shareholder and Cricket S.A.</td>
</tr>
<tr>
<td>Virgin Group Shareholders</td>
<td>the Selling Shareholder and Cricket S.A.</td>
</tr>
<tr>
<td>Virgin Tech</td>
<td>Virgin Tech Pty Limited (ACN 101 808 879)</td>
</tr>
<tr>
<td>Yield</td>
<td>the price paid by passengers divided by kilometres flown</td>
</tr>
</tbody>
</table>
### APPENDIX A:

### DETAILED FINANCIAL INFORMATION

Set out below is Virgin Blue’s historical financial information for the seven month period ended 31 March 2001, the years ended 28 March 2002 and 31 March 2003, and for the six months ended 30 September 2002 and 30 September 2003 prepared on the basis of the Notes 1 to 23 of this appendix.

#### Statements of Financial Performance

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>Note / Pro Forma</td>
<td>Note / Pro Forma</td>
<td>Note / Pro Forma</td>
<td>Note / Pro Forma</td>
<td>Note / Pro Forma</td>
</tr>
<tr>
<td>Scheduled revenue</td>
<td>2(a)</td>
<td>70,354</td>
<td>376,921</td>
<td>886,903</td>
<td>385,833</td>
</tr>
<tr>
<td>Other</td>
<td>4,421</td>
<td>11,376</td>
<td>27,664</td>
<td>12,458</td>
<td>24,129</td>
</tr>
<tr>
<td>Total revenue</td>
<td>74,775</td>
<td>388,297</td>
<td>914,567</td>
<td>398,291</td>
<td>616,669</td>
</tr>
<tr>
<td>Operating expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aircraft fuel</td>
<td>(13,958)</td>
<td>(59,557)</td>
<td>(109,740)</td>
<td>(45,461)</td>
<td>(78,152)</td>
</tr>
<tr>
<td>Maintenance and repairs</td>
<td>(12,021)</td>
<td>(47,418)</td>
<td>(102,986)</td>
<td>(47,594)</td>
<td>(67,623)</td>
</tr>
<tr>
<td>Airport charges</td>
<td>(4,209)</td>
<td>(26,077)</td>
<td>(87,617)</td>
<td>(32,724)</td>
<td>(72,904)</td>
</tr>
<tr>
<td>Navigation fees</td>
<td>(2,023)</td>
<td>(8,097)</td>
<td>(19,282)</td>
<td>(8,087)</td>
<td>(13,236)</td>
</tr>
<tr>
<td>Flight operations and cabin crew</td>
<td>(8,497)</td>
<td>(44,356)</td>
<td>(95,213)</td>
<td>(41,999)</td>
<td>(65,729)</td>
</tr>
<tr>
<td>Station operations</td>
<td>(5,600)</td>
<td>(23,290)</td>
<td>(58,834)</td>
<td>(27,849)</td>
<td>(51,494)</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>(8,789)</td>
<td>(41,851)</td>
<td>(81,804)</td>
<td>(33,828)</td>
<td>(56,194)</td>
</tr>
<tr>
<td>General and administrative</td>
<td>(5,927)</td>
<td>(20,692)</td>
<td>(41,469)</td>
<td>(14,499)</td>
<td>(20,845)</td>
</tr>
<tr>
<td>Other aircraft ownership</td>
<td>(581)</td>
<td>(9,334)</td>
<td>(31,698)</td>
<td>(21,413)</td>
<td>(16,886)</td>
</tr>
<tr>
<td>EBITDAR</td>
<td>13,170</td>
<td>107,625</td>
<td>285,924</td>
<td>124,837</td>
<td>173,606</td>
</tr>
<tr>
<td>Aircraft rentals</td>
<td>(12,547)</td>
<td>(60,408)</td>
<td>(128,726)</td>
<td>(54,956)</td>
<td>(77,367)</td>
</tr>
<tr>
<td>Depreciation and amortisation (excluding goodwill)</td>
<td>3</td>
<td>(509)</td>
<td>(2,213)</td>
<td>(7,776)</td>
<td>(2,026)</td>
</tr>
<tr>
<td>Goodwill amortisation</td>
<td>3</td>
<td>(350)</td>
<td>(525)</td>
<td>(2,483)</td>
<td>(263)</td>
</tr>
<tr>
<td>EBIT</td>
<td>(236)</td>
<td>44,479</td>
<td>146,939</td>
<td>67,590</td>
<td>85,997</td>
</tr>
<tr>
<td>Net interest income</td>
<td>2(d)</td>
<td>24</td>
<td>2,464</td>
<td>8,647</td>
<td>3,446</td>
</tr>
<tr>
<td>Start up costs</td>
<td>(10,590)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Profit/(loss) from ordinary activities before income tax expense</td>
<td>(10,802)</td>
<td>46,943</td>
<td>155,586</td>
<td>71,036</td>
<td>91,994</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>4(a)</td>
<td>–</td>
<td>(12,179)</td>
<td>(47,787)</td>
<td>(21,492)</td>
</tr>
<tr>
<td>Profit/(loss) from ordinary activities after income tax expense</td>
<td>(10,802)</td>
<td>34,764</td>
<td>107,799</td>
<td>49,544</td>
<td>64,175</td>
</tr>
</tbody>
</table>

To be read in conjunction with the Notes numbered 1 to 23 of this appendix and the Investigating Accountant’s report set out in Section 9.1 of the Prospectus.
### APPENDIX A: DETAILED FINANCIAL INFORMATION

#### Statements of Financial Position

<table>
<thead>
<tr>
<th>$ Thousand</th>
<th>31 March 2003</th>
<th>30 September 2003</th>
<th>30 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash assets</td>
<td>126,878</td>
<td>118,708</td>
<td>426,326</td>
</tr>
<tr>
<td>Receivables</td>
<td>5</td>
<td>72,547</td>
<td>78,431</td>
</tr>
<tr>
<td>Inventories</td>
<td>6</td>
<td>2,041</td>
<td>1,582</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>7</td>
<td>212,391</td>
<td>182,195</td>
</tr>
<tr>
<td>Prepayments and other assets</td>
<td>8</td>
<td>14,620</td>
<td>10,142</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
<td>428,477</td>
<td>391,058</td>
</tr>
</tbody>
</table>

**Non current assets**

<table>
<thead>
<tr>
<th>$ Thousand</th>
<th>31 March 2003</th>
<th>30 September 2003</th>
<th>30 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables</td>
<td>5</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>7</td>
<td>65,104</td>
<td>9,215</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>9</td>
<td>58,683</td>
<td>456,708</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td></td>
<td>11,151</td>
<td>15,547</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>10</td>
<td>46,293</td>
<td>45,051</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>–</td>
<td>3,316</td>
</tr>
<tr>
<td><strong>Total non current assets</strong></td>
<td></td>
<td>181,231</td>
<td>529,837</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td>609,708</td>
<td>920,895</td>
</tr>
</tbody>
</table>

**Current liabilities**

<table>
<thead>
<tr>
<th>$ Thousand</th>
<th>31 March 2003</th>
<th>30 September 2003</th>
<th>30 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payables</td>
<td>11</td>
<td>115,277</td>
<td>122,867</td>
</tr>
<tr>
<td>Interest bearing liabilities</td>
<td>12</td>
<td>110,888</td>
<td>80,298</td>
</tr>
<tr>
<td>Provisions</td>
<td>13</td>
<td>21,849</td>
<td>26,629</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td></td>
<td>41,675</td>
<td>14,999</td>
</tr>
<tr>
<td>Unearned passenger revenue</td>
<td>14</td>
<td>102,523</td>
<td>154,935</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td></td>
<td>392,212</td>
<td>401,728</td>
</tr>
</tbody>
</table>

**Non current liabilities**

<table>
<thead>
<tr>
<th>$ Thousand</th>
<th>31 March 2003</th>
<th>30 September 2003</th>
<th>30 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payables</td>
<td>11</td>
<td>–</td>
<td>2,666</td>
</tr>
<tr>
<td>Interest bearing liabilities</td>
<td>12</td>
<td>28,777</td>
<td>253,302</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td></td>
<td>1,732</td>
<td>3,632</td>
</tr>
<tr>
<td>Provisions</td>
<td>13</td>
<td>2,969</td>
<td>11,374</td>
</tr>
<tr>
<td><strong>Total non current liabilities</strong></td>
<td></td>
<td>33,478</td>
<td>270,974</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td>425,690</td>
<td>672,702</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td>184,018</td>
<td>248,193</td>
</tr>
</tbody>
</table>

**Equity**

<table>
<thead>
<tr>
<th>$ Thousand</th>
<th>31 March 2003</th>
<th>30 September 2003</th>
<th>30 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital/Contributed equity</td>
<td>15</td>
<td>45,789</td>
<td>45,789</td>
</tr>
<tr>
<td>Retained profits/(accumulated losses)</td>
<td></td>
<td>138,229</td>
<td>202,404</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td></td>
<td>184,018</td>
<td>248,193</td>
</tr>
</tbody>
</table>

---

[1] Adjustments reflect the impact of the equity raising and the associated costs, the Share Buy-back and the repayment by Patrick Corporation and the Selling Shareholder of loans totalling $40.1 million. The Share Buy-back is assumed to be conducted at the mid-point of the Indicative Price Range. The Company reserves the right to conduct the Share Buy-back at a price per Share greater or less than the mid-point of the Indicative Price Range but no higher than the Final Price.

To be read in conjunction with the Notes numbered 1 to 23 of this appendix and the Investigating Accountant’s report set out in Section 9.1 of the Prospectus.
## Statements of Cash Flows

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pro Forma</td>
<td>Pro Forma</td>
<td>Pro Forma</td>
<td>Pro Forma</td>
<td>Pro Forma</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>623</td>
<td>47,217</td>
<td>157,198</td>
<td>69,879</td>
<td>96,239</td>
</tr>
<tr>
<td>Decrease/(Increase) in Working Capital</td>
<td>9,471</td>
<td>93,504</td>
<td>62,394</td>
<td>37,125</td>
<td>54,025</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(482)</td>
<td>(146)</td>
<td>(518)</td>
<td>(407)</td>
<td>(6,689)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>–</td>
<td>–</td>
<td>(27,711)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>9,612</td>
<td>140,575</td>
<td>191,363</td>
<td>106,597</td>
<td>73,183</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td>506</td>
<td>2,596</td>
<td>9,729</td>
<td>3,590</td>
<td>6,547</td>
</tr>
<tr>
<td>Payments for term deposits</td>
<td>(8,429)</td>
<td>(9,650)</td>
<td>(71,572)</td>
<td>(74,516)</td>
<td>(26,185)</td>
</tr>
<tr>
<td>Payments for property, plant and equipment</td>
<td>(6,291)</td>
<td>(21,564)</td>
<td>(41,923)</td>
<td>(18,069)</td>
<td>(266,077)</td>
</tr>
<tr>
<td>Payments for leased aircraft security and other deposits</td>
<td>(6,607)</td>
<td>(5,967)</td>
<td>(150,880)</td>
<td>1,698</td>
<td>–</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(20,821)</td>
<td>(34,585)</td>
<td>(254,646)</td>
<td>(87,297)</td>
<td>(285,715)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from borrowings – related party</td>
<td>1,995</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Proceeds from borrowings</td>
<td>–</td>
<td>–</td>
<td>139,155</td>
<td>–</td>
<td>206,375</td>
</tr>
<tr>
<td>Loan to related party</td>
<td>–</td>
<td>(15,000)</td>
<td>(23,400)</td>
<td>(38,400)</td>
<td>–</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>–</td>
<td>–</td>
<td>(1,202)</td>
<td>(13,827)</td>
<td>–</td>
</tr>
<tr>
<td>Proceeds from the issue of shares</td>
<td>18,068</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Share buy-back</td>
<td>–</td>
<td>–</td>
<td>(14,368)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Finance lease payments</td>
<td>(436)</td>
<td>(264)</td>
<td>(262)</td>
<td>(192)</td>
<td>–</td>
</tr>
<tr>
<td>Repayment of borrowings – related party</td>
<td>–</td>
<td>(1,848)</td>
<td>–</td>
<td>13,827</td>
<td>–</td>
</tr>
<tr>
<td><strong>Net cash provided by/(used in) financing activities</strong></td>
<td>19,627</td>
<td>(17,112)</td>
<td>99,923</td>
<td>(38,592)</td>
<td>206,375</td>
</tr>
<tr>
<td><strong>Net increase in cash held</strong></td>
<td>8,418</td>
<td>88,878</td>
<td>36,640</td>
<td>(19,292)</td>
<td>(6,157)</td>
</tr>
<tr>
<td>Cash at the beginning of the financial year</td>
<td>–</td>
<td>8,418</td>
<td>97,005</td>
<td>97,005</td>
<td>126,878</td>
</tr>
<tr>
<td>Effects of exchange rate fluctuations on the balances of cash held in foreign currencies</td>
<td>–</td>
<td>(291)</td>
<td>(6,767)</td>
<td>6</td>
<td>(2,013)</td>
</tr>
<tr>
<td><strong>Cash at the end of period</strong></td>
<td>8,418</td>
<td>97,005</td>
<td>126,878</td>
<td>77,719</td>
<td>118,708</td>
</tr>
</tbody>
</table>

To be read in conjunction with the Notes numbered 1 to 23 in this appendix and the Investigating Accountant’s report set out in Section 9.1 of the Prospectus.

### 1. Statement of significant accounting policies

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

(a) Basis of preparation

#### Historical financial information

The historical financial information has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and other mandatory professional reporting requirements in Australia. The historical financial information is derived or extracted from:

- the audited financial statements of Virgin Australia Holdings Pty Limited ("VAH") for the seven month period ended 31 March 2001 and the year ended 28 March 2002; and
- the audited financial statements of Virgin Blue for the year ended 31 March 2003, the six month period ended 30 September 2002 and the six month period ended 30 September 2003.

The historical financial information of Virgin Blue has been drawn up as a special purpose financial report and has been prepared in accordance with generally accepted accounting principles as applied in Australia for the purposes of inclusion in the Prospectus. It has been prepared on the accrual basis of accounting as defined in AASB 1001 Accounting Policies, using the historical cost convention and going concern assumption. Except where stated, it does not take into account changing money values or fair values of non current assets.
The historical financial information of Virgin Blue includes the financial information of Virgin Blue Holdings Limited and its subsidiaries detailed in Note 23.

These accounting policies have been consistently applied by each entity in Virgin Blue and have been consistently applied in the financial periods presented.

Pro forma financial information for 2001 and 2002
VBA was incorporated on 24 November 1999 to establish a domestic airline operation in Australia. On 21 September 2000, VAH acquired 100% of the shares in VBA subsequent to the initial start up costs of the airline being incurred. At this time, Virgin Blue owned 92% of the shares of VAH. On 12 March 2002, Virgin Blue entered into an agreement to acquire the remaining 8% of the shares of VAH.

Additionally, Virgin Blue (previously domiciled in the British Virgin Islands) was re-domiciled to Australia, changed its financial year end to 31 March and changed its functional currency to Australian Dollars. Prior to being re-domiciled, Virgin Blue did not undertake any significant transactions other than the raising of capital for its investment in VAH and the subsequent investment in VAH.

Consequently, the historical financial information set out below is pro forma for the period ended 31 March 2001 and the year ended 28 March 2002 as it presents the results of Virgin Blue for these periods as if it:
• was an Australian domiciled entity;
• had a functional currency of Australian dollars;
• had financial year ends of 31 March for 2001 and 28 March for 2002;
• owned 100% of VAH from incorporation; and
• incurred the costs relating to the start up of the airline.

Virgin Blue’s historical financial information has been adjusted in the period ended 31 March 2001 to include certain start up costs incurred by VBA prior to its acquisition by VAH. Additional information is provided in Section 6.3 of the Prospectus.

(b) Reclassifications and pro forma adjustments made to the historical financial information
Reclassifications
For the purposes of presenting the historical financial information, Virgin Blue has reclassified certain revenue and expense items from those presented in the audited financial statements of VAH for the seven month period ended 31 March 2001 and the year ended 28 March 2002 and Virgin Blue for the six month period ended 30 September 2002 and the year ended 31 March 2003. These reclassifications have been undertaken to provide more detailed financial information and are consistent with the audited financial statements of Virgin Blue for the six month period ended 30 September 2003. The reclassifications have not had any impact on Virgin Blue’s net profit after income tax.

Pro forma adjustments
Pro forma adjustments have been made to the historical financial information to present the historical financial information on a consistent and comparable basis with the current and ongoing operations of Virgin Blue. These adjustments include:
• pre operating start up costs that had previously not been expensed in VAH (as they were incurred prior to VAH’s acquisition of VBA) have been included in 2001. The additional expense recognised was $10.1 million. See Section 6.3 of the Prospectus.
• pre acquisition expenses relating to the establishment of a new aircraft fleet that had previously not been expensed by VAH, have also been included in 2001. The additional expense recognised was $0.4 million. See Section 6.3 of the Prospectus.

Additional pro forma adjustments have been made to the statement of financial position at 30 September 2003 to reflect the following transactions had they occurred at that date:
• a Share Buy-back (assumed to be at the mid-point of the Indicative Price Range). As a part of the equity raising, Virgin Blue will buy back 44.6 million Shares for $90.4 million. The Share Buy-back will be settled through a cash payment to Existing Shareholders of $50.3 million and forgiveness of loans outstanding of approximately $40.1 million;
• the issue of New Shares under the Retail Offer, the Institutional Offer and the Patrick Offer. The estimated proceeds are based on the mid-point of the Indicative Price Range and is adjusted for the pricing arrangements relating to the Patrick Offer as outlined in Section 2.5. Costs of approximately $20 million associated with the Offers have been offset against proceeds.
(c) Principles of consolidation
The financial statements of controlled entities are included from the date control commences until the date control ceases. Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full upon consolidation.

(d) Revenue recognition
Scheduled revenue
Scheduled revenue comprises income from passenger ticket sales. Revenue is recognised in the statement of financial performance when the actual carriage is performed.

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

Interest revenue
Interest revenue is recognised in the statement of financial performance as it accrues.

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

(e) Foreign currency
Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

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

(f) Derivatives
Virgin Blue is exposed to changes in foreign exchange rates and commodity prices from its activities and interest rate fluctuations from borrowings. Virgin Blue uses forward foreign exchange contracts and options to hedge its foreign exchange risk. Virgin Blue also enters into forward purchase contracts to hedge movements in jet fuel prices. Derivative financial instruments are not held for speculative purposes.

Where hedge transactions are designated as a hedge of the anticipated purchase or sale of goods or services, or purchase of qualifying assets, gains and losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

The net amounts receivable or payable under the hedge agreements and the associated deferred gains or losses are recorded in the statement of financial performance over the life of the transaction.

When the anticipated transaction is no longer expected to occur as designated, any deferred gains and losses relating to the hedged transaction are recognised immediately in the statement of financial performance.

(g) Taxation
Virgin Blue adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on profit from ordinary activities adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.
(h) Receivables
The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts. A general provision is also maintained. A significant proportion of Virgin Blue’s revenue is derived from credit cards. Credit card charges are normally settled within seven days and are carried at amounts due. The remainder of Virgin Blue’s trade debtors are normally settled within 45 days and are carried at amounts due.

(i) 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 and merchandise inventory is valued at the lower of cost and net realisable value.

(j) Property, plant and equipment

**Acquisition**

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 consideration provided plus incidental costs directly attributable to the acquisition.

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

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

**Depreciation and amortisation**

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.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

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

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

<table>
<thead>
<tr>
<th>Asset Description</th>
<th>Depreciation/amortisation rate (%)</th>
<th>Estimated residual (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>11 years</td>
<td></td>
</tr>
<tr>
<td>Aircraft and aeronautic related assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Modifications to leased aircraft</td>
<td>20.0-40.0</td>
<td></td>
</tr>
<tr>
<td>– Rotables and maintenance parts</td>
<td>7.25</td>
<td>27.5</td>
</tr>
<tr>
<td>– Rotables and maintenance parts not yet used</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Airframe, engines and landing gear</td>
<td>10.0</td>
<td>40.0</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>20.0</td>
<td>–</td>
</tr>
<tr>
<td>Leased plant and equipment</td>
<td>20.0</td>
<td></td>
</tr>
<tr>
<td>Computer equipment</td>
<td>33.3</td>
<td>–</td>
</tr>
<tr>
<td>Leased computer equipment</td>
<td>33.3</td>
<td>–</td>
</tr>
</tbody>
</table>

(1) Rotables and maintenance parts are depreciated from the date of installation.
(2) The useful life to Virgin Blue of owned aircraft is estimated to be 10 years.

**Maintenance**

Routine maintenance costs including annual airframe checks are written off to the statement of financial performance as incurred. This applies equally to owned and leased aircraft and is distinct from major cyclical maintenance.
Provision is made for the estimated future costs of major cyclical maintenance of lease airframes, engines 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. Virgin Blue is currently presently obligated to these aircraft rectification requirements pursuant to the operating lease agreement. The costs of major cyclical maintenance are written off against the provision when incurred.

Cyclical maintenance on owned aircraft is capitalised to the carrying value of the aircraft as incurred and amortised over the period to the next scheduled heavy maintenance.

(k) Payables
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to Virgin Blue. Trade accounts payable are normally settled within 60 days.

(l) Employee entitlements

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

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

The provision is calculated using estimated 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 securities at balance date which most closely match the terms of maturity of the related liabilities.

Superannuation Plan
Virgin Blue is required to make contributions to defined contribution employee superannuation funds. Such contributions are charged to the statement of financial performance as they are made.

(m) Non current assets
The carrying amounts of all non current assets, valued on the cost basis, are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non current asset exceeds its recoverable amount, the asset is written down to the lower value. The write down is recognised as an expense in the reporting 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 that group of assets. In assessing recoverable amounts of non current assets, the relevant cash flows have not been discounted to their present value.

(n) Leased assets
Leases under which Virgin Blue 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 economic entity will obtain ownership of the asset, the life of the asset.

Repayments of principal reduce lease liabilities. The interest components of the lease payments are expensed.

Operating leases
Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.
(o) Borrowing costs
Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangements of borrowings, and foreign exchange differences net of hedged amounts on borrowings.

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

Borrowing costs are expensed as incurred unless they relate to qualifying assets such as aircraft. 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.

(p) Revision of accounting estimates
Revisions to accounting estimates are recognised prospectively in current and future periods only.

(q) Provisions
A provision is recognised when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

(r) Goods and services tax
Revenue, 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 Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

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

(s) Goodwill
Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets acquired. Goodwill is amortised on a straight line basis over a period of 20 years. The unamortised balance of goodwill is reviewed at least annually. Where the balance exceeds the value of expected future benefits, the difference is charged to the statement of financial performance.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pro Forma</td>
<td>Pro Forma</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Scheduled Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scheduled revenue</td>
<td>69,298</td>
<td>372,070</td>
<td>876,076</td>
<td>381,275</td>
<td>586,077</td>
</tr>
<tr>
<td>Other passenger revenue</td>
<td>1,056</td>
<td>4,851</td>
<td>10,827</td>
<td>4,558</td>
<td>6,463</td>
</tr>
<tr>
<td>Total Scheduled revenue</td>
<td>70,354</td>
<td>376,921</td>
<td>886,903</td>
<td>385,833</td>
<td>592,540</td>
</tr>
<tr>
<td>(b) Interest Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Related Parties</td>
<td>–</td>
<td>484</td>
<td>1,739</td>
<td>342</td>
<td>1,328</td>
</tr>
<tr>
<td>Other</td>
<td>507</td>
<td>2,112</td>
<td>7,990</td>
<td>3,522</td>
<td>5,219</td>
</tr>
<tr>
<td>Total</td>
<td>507</td>
<td>2,596</td>
<td>9,729</td>
<td>3,864</td>
<td>6,547</td>
</tr>
<tr>
<td>(c) Interest Expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Related Parties</td>
<td>482</td>
<td>97</td>
<td>491</td>
<td>404</td>
<td>–</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>35</td>
<td>591</td>
<td>14</td>
<td>550</td>
</tr>
<tr>
<td>Total</td>
<td>483</td>
<td>132</td>
<td>1,082</td>
<td>418</td>
<td>550</td>
</tr>
<tr>
<td>(d) Net Interest Income/(Expense)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Related Parties</td>
<td>(482)</td>
<td>387</td>
<td>1,248</td>
<td>(62)</td>
<td>1,328</td>
</tr>
<tr>
<td>Other</td>
<td>506</td>
<td>2,077</td>
<td>7,399</td>
<td>3,508</td>
<td>4,669</td>
</tr>
<tr>
<td>Total</td>
<td>24</td>
<td>2,464</td>
<td>8,647</td>
<td>3,446</td>
<td>5,997</td>
</tr>
</tbody>
</table>

3. Profit/loss from ordinary activities before income tax expense
Profit/(loss) from ordinary activities before income tax expense has been arrived at after charging/(crediting)
the following items

**Depreciation and amortisation of:**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>–</td>
<td>–</td>
<td>407</td>
<td>–</td>
<td>377</td>
</tr>
<tr>
<td>Aircraft and aeronautic related costs</td>
<td>2</td>
<td>281</td>
<td>919</td>
<td>546</td>
<td>3,719</td>
</tr>
<tr>
<td>Aircraft and aeronautic related leased assets</td>
<td>67</td>
<td>241</td>
<td>579</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>92</td>
<td>393</td>
<td>3,306</td>
<td>462</td>
<td>2,872</td>
</tr>
<tr>
<td>Leased plant and equipment</td>
<td>21</td>
<td>79</td>
<td>158</td>
<td>79</td>
<td>–</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>229</td>
<td>1,064</td>
<td>2,253</td>
<td>862</td>
<td>2,032</td>
</tr>
<tr>
<td>Leased computer equipment</td>
<td>98</td>
<td>155</td>
<td>154</td>
<td>77</td>
<td>–</td>
</tr>
<tr>
<td>Goodwill</td>
<td>350</td>
<td>525</td>
<td>2,483</td>
<td>263</td>
<td>1,242</td>
</tr>
</tbody>
</table>

**Aircraft operating lease rentals**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum lease payments</td>
<td>12,711</td>
<td>61,794</td>
<td>125,457</td>
<td>54,958</td>
<td>69,452</td>
</tr>
<tr>
<td>Contingent rentals (maintenance reserves)</td>
<td>4,437</td>
<td>18,161</td>
<td>38,273</td>
<td>16,432</td>
<td>21,443</td>
</tr>
<tr>
<td>Bad debts expense</td>
<td>–</td>
<td>32</td>
<td>–</td>
<td>–</td>
<td>111</td>
</tr>
<tr>
<td>Net foreign exchange (gain)/loss</td>
<td>(386)</td>
<td>(1,282)</td>
<td>4,753</td>
<td>(1,898)</td>
<td>3,341</td>
</tr>
</tbody>
</table>
APPENDIX A: DETAILED FINANCIAL INFORMATION (CONTINUED)

$ Thousand

4. Taxation
(a) Income tax expense
Prima facie income tax expense calculated at 30% (2002: 30%, 2001: 34%) on the profit from ordinary activities:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pro Forma</td>
<td>Pro Forma</td>
<td>Pro Forma</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(3,673)</td>
<td>14,083</td>
<td>46,676</td>
<td>21,311</td>
<td>27,598</td>
</tr>
<tr>
<td>Increase in income tax expense due to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>non deductible expenses</td>
<td>827</td>
<td>942</td>
<td>1,423</td>
<td>181</td>
<td>735</td>
</tr>
<tr>
<td>Over provision in prior year</td>
<td>–</td>
<td>–</td>
<td>(312)</td>
<td>–</td>
<td>(514)</td>
</tr>
<tr>
<td>Recognition and recovery of deferred tax assets not previously brought to account</td>
<td>2,846</td>
<td>(2,846)</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Income tax expense attributable to operating profit</td>
<td>–</td>
<td>12,179</td>
<td>47,787</td>
<td>21,492</td>
<td>27,819</td>
</tr>
<tr>
<td>Current income tax provision</td>
<td>–</td>
<td>13,009</td>
<td>55,076</td>
<td>28,360</td>
<td>30,315</td>
</tr>
<tr>
<td>Deferred income tax provision</td>
<td>–</td>
<td>1,598</td>
<td>134</td>
<td>355</td>
<td>1,900</td>
</tr>
<tr>
<td>Under provision in prior year</td>
<td>–</td>
<td>–</td>
<td>1,300</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>–</td>
<td>(2,428)</td>
<td>(8,723)</td>
<td>(7,223)</td>
<td>(4,396)</td>
</tr>
<tr>
<td>Income tax expense attributable to operating profit is made up of:</td>
<td>–</td>
<td>12,179</td>
<td>47,787</td>
<td>21,492</td>
<td>27,819</td>
</tr>
<tr>
<td>(b) Dividend franking account</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class C (30%) franking credits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>93,260</td>
</tr>
</tbody>
</table>

5. Receivables
Current
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade debtors</td>
<td>30,749</td>
<td>34,470</td>
<td>34,470</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Provision for doubtful debts</td>
<td>(450)</td>
<td>(900)</td>
<td>(900)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>30,299</td>
<td>33,570</td>
<td>33,570</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Related entity loan – unsecured</td>
<td>40,125</td>
<td>38,392</td>
<td>–</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other debtors</td>
<td>2,123</td>
<td>6,469</td>
<td>5,253</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>72,547</td>
<td>78,431</td>
<td>38,825</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
6. Inventories

Maintenance spare parts – at cost 1,192 985 985
Catering, consumables and merchandise inventory – at cost 849 597 597

2,041 1,582 1,582

7. Other financial assets

Current
Deferred foreign currency hedge exchange difference and costs 5,727 39,845 39,845
Term and other deposits 206,664 142,350 142,350

212,391 182,195 182,195

Non current
Term and other deposits 65,104 9,215 9,215

65,104 9,215 9,215

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

8. Other assets

Current
Prepayments 8,970 8,473 8,473
Deferred equity transaction costs – 1,368 –
Deferred borrowing costs – 301 301
Other assets 5,650 – –

14,620 10,142 8,774

Non current
Deferred borrowing costs – 3,316 3,316

9. Property, plant and equipment

Buildings – at cost 8,447 12,488 12,488
Accumulated depreciation (407) (784) (784)

8,040 11,704 11,704

Aircraft and aeronautic related assets
Accumulated depreciation/amortisation (1,498) (5,026) (5,026)

26,831 421,183 421,183

Plant and equipment – at cost 20,014 23,774 23,774
Accumulated depreciation (3,306) (6,957) (6,957)

16,708 16,817 16,817

Leased plant and equipment – at capitalised cost 590 – –
Accumulated amortisation (158) – –

432 – –

Computer equipment – at cost 8,774 12,976 12,976
Accumulated depreciation (2,253) (5,972) (5,972)

6,521 7,004 7,004

Leased computer equipment – at capitalised cost 205 – –
Accumulated amortisation (154) – –

51 – –

Total property, plant and equipment – net book value 58,683 456,708 456,708

(1) As at 30 September 2003, included in aircraft and aeronautic related assets are deposits and other costs incurred in respect of aircraft which have not yet been delivered.
### APPENDIX A: DETAILED FINANCIAL INFORMATION (CONTINUED)

<table>
<thead>
<tr>
<th></th>
<th>31 March 2003</th>
<th>30 September 2003</th>
<th>30 September 2003 Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$ Thousand</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>10. Intangible assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill – at cost</td>
<td>49,651</td>
<td>49,651</td>
<td>49,651</td>
</tr>
<tr>
<td>Accumulated amortisation</td>
<td>(3,358)</td>
<td>(4,600)</td>
<td>(4,600)</td>
</tr>
<tr>
<td></td>
<td>46,293</td>
<td>45,051</td>
<td>45,051</td>
</tr>
<tr>
<td><strong>11. Payables</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade creditors and accruals</td>
<td>102,192</td>
<td>94,135</td>
<td>94,135</td>
</tr>
<tr>
<td>Trade creditors and accruals – related entities</td>
<td>1,830</td>
<td>498</td>
<td>498</td>
</tr>
<tr>
<td>Other creditors</td>
<td>5,528</td>
<td>5,558</td>
<td>5,558</td>
</tr>
<tr>
<td>Deferred foreign currency hedge exchange difference and costs</td>
<td>5,727</td>
<td>22,676</td>
<td>22,676</td>
</tr>
<tr>
<td></td>
<td>115,277</td>
<td>122,867</td>
<td>122,867</td>
</tr>
<tr>
<td>Non current</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other creditors and accruals</td>
<td>–</td>
<td>2,666</td>
<td>2,666</td>
</tr>
<tr>
<td><strong>12. Interest bearing liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease liabilities (Note 16(a))</td>
<td>511</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Loans – secured</td>
<td>110,377</td>
<td>80,298</td>
<td>80,298</td>
</tr>
<tr>
<td></td>
<td>110,888</td>
<td>80,298</td>
<td>80,298</td>
</tr>
<tr>
<td>Non current</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans – secured</td>
<td>28,777</td>
<td>253,302</td>
<td>253,302</td>
</tr>
<tr>
<td></td>
<td>28,777</td>
<td>253,302</td>
<td>253,302</td>
</tr>
<tr>
<td>Refer to Section 10.5 for details of security</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>13. Provisions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee entitlements (Note 20)</td>
<td>8,745</td>
<td>12,681</td>
<td>12,681</td>
</tr>
<tr>
<td>Maintenance</td>
<td>6,540</td>
<td>7,666</td>
<td>7,666</td>
</tr>
<tr>
<td>Other</td>
<td>6,564</td>
<td>8,282</td>
<td>8,282</td>
</tr>
<tr>
<td></td>
<td>21,849</td>
<td>28,629</td>
<td>28,629</td>
</tr>
<tr>
<td>Non current</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance</td>
<td>2,969</td>
<td>9,890</td>
<td>9,890</td>
</tr>
<tr>
<td>Employee entitlement (Note 20)</td>
<td>–</td>
<td>1,484</td>
<td>1,484</td>
</tr>
<tr>
<td></td>
<td>2,969</td>
<td>11,374</td>
<td>11,374</td>
</tr>
<tr>
<td><strong>14. Other liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unearned passenger revenue</td>
<td>102,523</td>
<td>154,935</td>
<td>154,935</td>
</tr>
</tbody>
</table>
31 March 30 September 30 September
2003 2003 2003

$ Thousand Pro Forma

15. Contributed equity

Issued and paid up capital
Ordinary shares fully paid 45,789 45,789 399,957

Pro forma adjustments to contributed equity at 30 September include:
Balance at 30 September 2003 – 868,865,040 Shares(1) 45,789
Shares bought back – 44,641,975 Shares(2) (2,352)
New Shares issued 376,520
197,530,864 New Shares issued under the Retail Offer, Institutional Offer and Patrick Offer –
20,273,580 New Shares issued under the Executive Offer –
1,333,333 New Shares issued under the Employee Gift Offer –
Estimated equity raising costs (20,000)
Pro forma balance at 30 September 2003 – 1,043,360,842 Shares 399,957

(1) Represents shares on issue at 30 September 2003 and shares issued by Virgin Blue as a result of a share split prior to the equity raising.

(2) Shares bought back in accordance with Section 2.8 of this Prospectus. The pro forma statement of financial position has been compiled on the basis that the Share Buy-back will be conducted at the mid-point of the Indicative Price Range. The Company reserves the right to conduct the Share Buy-back at a price per Share greater or less than the mid-point of the Indicative Price Range but no higher than the Final Price.

16. Commitments

(a) Commitments

Lease liabilities provided for in the financial statements:
Current (Note 12) 511 – –
Non current (Note 12) – – –
Total lease liability 511 – –

(b) Finance lease commitments

Finance lease rentals are payable as follows:
Not later than one year 533 – –
Later than one year but not later than five years – – –
Less: Future lease finance charges 22 – –
511 – –

Virgin Blue leased computer equipment, office equipment and ground support equipment under finance lease agreements.

(c) Operating lease commitments

Future operating lease rentals not provided for in the financial statements and payable:
Not later than one year 181,213 184,829 184,829
Later than one year but not later than five years 656,724 628,693 628,693
Later than five years 355,990 314,544 314,544
1,193,927 1,128,066 1,128,066

Virgin Blue leases property and equipment, principally aircraft, under operating leases expiring from one to 10 years. Aircraft lease payments are payable in US dollars. Leases of property and equipment generally provide Virgin Blue with a right of renewal at which time the terms are renegotiated or the asset is returned to the lessor.

(d) Aircraft and aeronautical related capital expenditure commitments

Contracted but not provided for and payable: 626,743 219,779 219,779
17. Related parties

During the year ended 31 March 2001, a related entity, Barfair Limited, loaned Virgin Blue funds to assist in the establishment of its airline operation in Australia. The loan was unsecured and is repayable on demand. No interest was charged during the period. The amount payable by Virgin Blue to Barfair Limited at 31 March 2003 was $131,000 and $115,000 at 30 September 2003.

Barfair Limited acts as guarantor for a number of Virgin Blue's aircraft leases. Under the Counter-Indemnity and Guarantee Fee Agreement, Virgin Blue is liable to pay a quarterly fee for this guarantee. This arrangement is conducted on normal terms and conditions. The amount payable by Virgin Blue to Barfair Limited at 30 September 2003 in relation to this arrangement was $331,000.

During the year ended 28 March 2002, Virgin Blue loaned $15,000,000 to Barfair Limited. The loan was unsecured and had no fixed term of repayment. Interest was charged on a variable interest rate basis and interest totalling $484,000 was charged throughout the year ended 28 March 2002. The loan was repaid in full during the period by dividend payment.

During the year ended 31 March 2003, Virgin Blue loaned $20,000,000 to Plzen Pty Ltd, a related entity. The loan is unsecured and is repayable within seven years. Interest is charged monthly on a variable interest rate basis and interest totalling $826,000 was charged throughout the year ended 31 March 2003, and $747,000 from 1 April 2003 to 30 September 2003. The amount owing to Virgin Blue at 30 September 2003 was $20,985,000.

During the year ended 31 March 2003, Virgin Blue loaned $18,400,000 to Ivanco Limited, a related entity. The loan is unsecured and is repayable within seven years. Interest is charged monthly on a variable interest rate basis and interest totalling $764,000 was charged throughout the year ended 31 March 2003, and $669,000 from 1 April to 30 September 2003. The amount owing to Virgin Blue at 30 September 2003 was $18,623,000.

During the year ended 31 March 2003, Virgin Blue leased two aircraft from Virgin Express Holdings plc, a related entity. These lease agreements are on normal terms and conditions and entered into on an arm's length basis. The leased aircraft were returned during the year ended 31 March 2003. The amount payable by Virgin Blue to Virgin Express Holdings plc at 30 September 2003 was $51,000.

Virgin Blue is party to an agreement with a related entity to use the “Virgin” and “Virgin Blue” brand names. During the financial year ended 31 March 2003, $4,248,000 and from 1 April to 30 September 2003, $2,884,000 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 Virgin Blue at 30 September 2003 was $1,581,000.

Personal travel by Directors and their related parties is undertaken on terms no more favourable than those of employees, as per Virgin Blue policy.

Maintenance services are provided by Jet Care Pty Limited, a related entity, to Virgin Blue since the year ended 31 March 2003. Services are provided on normal terms and conditions. The amount payable by Virgin Blue at 30 September 2003 was $347,000.

Patrick Air Services Pty Ltd, a related entity, provided toilet and water services, ground service equipment and freight handling services to Virgin Blue during the six months ended 30 September 2003 on normal terms and conditions. An amount of $520,000 was paid during this period. The amount payable by Virgin Blue at 30 September 2003 was $99,000.
18. Foreign exchange

Virgin Blue enters into forward foreign exchange and option contracts (FX contracts) to hedge certain anticipated purchase commitments denominated in foreign currencies (principally US dollars).

Virgin Blue’s policy is to enter into FX contracts to hedge a proportion of foreign currency transactions expected in each month. The amount of anticipated future transactions is forecast based on lease commitments, expected fuel purchases and other expenditure in light of current conditions and experience.

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 Virgin Blue.

<table>
<thead>
<tr>
<th>Date</th>
<th>Weighted average strike price</th>
<th>Weighted average rate</th>
<th>$ Thousand</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 September 2003</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forward exchange contracts – buy US dollars forward no later than one year</td>
<td>–</td>
<td>0.580</td>
<td>180,974</td>
</tr>
<tr>
<td>31 March 2003</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forward exchange contracts – buy US dollars forward no later than one year</td>
<td>–</td>
<td>0.571</td>
<td>441,768</td>
</tr>
</tbody>
</table>

As these contracts are hedging anticipated purchases, any unrealised gains and losses on the contracts, together with the costs of the contracts, will be recognised in the financial statements at the time the underlying transaction occurs.

19. Additional financial instrument disclosures

(a) Credit risk exposures

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

On-balance sheet financial instruments

The credit risk on financial assets, excluding investments, of Virgin Blue, which have been recognised on the balance sheet, is the carrying amount, net of any provision for doubtful debts.

Virgin Blue minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties throughout Australia.

Virgin Blue is not materially exposed to any individual overseas country or individual customer.

Off-balance sheet 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 Virgin Blue pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay Virgin Blue. The full amount of the exposure is disclosed in Note 18.

(b) Net fair values of financial assets and liabilities

The carrying values of recognised financial instruments approximate their fair values.

The fair value of unrecognised financial instruments (foreign exchange contracts and commodity hedges) reflects the estimated amounts which Virgin Blue expects to pay should it choose to terminate the contracts or replace the contracts at their current market rates as at reporting date.
Virgin Blue Holdings Limited Share Offer

APPENDIX A: DETAILED FINANCIAL INFORMATION (CONTINUED)

(c) Interest rate risk
Virgin Blue’s exposure to interest rate risk and the effective weighted average interest rate from classes of financial assets and financial liabilities is set out below:

<table>
<thead>
<tr>
<th>Headings</th>
<th>30 September 2003</th>
<th>31 March 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Weighted average interest rate</td>
<td>Floating interest rate</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>---------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Financial Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>3.7%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Receivables</td>
<td>7.25%</td>
<td>7.25%</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>4.7%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest bearing liabilities</td>
<td>4.6%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee entitlements</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(d) Commodity price risk
Virgin Blue enters into future contracts to hedge (or hedge a portion of) specific commodity purchases prices on anticipated purchase commitments of aircraft fuel. The terms of these contracts are rarely more than one year. The specific contracts outstanding at year-end were:

<table>
<thead>
<tr>
<th>Headings</th>
<th>31 March 2003</th>
<th>30 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hedging purchases</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not later than one year</td>
<td>63,344</td>
<td>71,722</td>
</tr>
<tr>
<td>Later than one year but not later than two years</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

The deferred gains or (losses) on hedges of anticipated future commodity purchase contracts are:

<table>
<thead>
<tr>
<th>Headings</th>
<th>31 March 2003</th>
<th>30 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not later than one year</td>
<td>1,752</td>
<td>3,341</td>
</tr>
<tr>
<td>Later than one year but not later than two years</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>
20. Employee entitlements

<table>
<thead>
<tr>
<th>$ Thousand</th>
<th>31 March 2003</th>
<th>30 September 2003</th>
<th>30 September 2003 Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate liability for employee entitlements, including on-costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>8,745</td>
<td>12,681</td>
<td>12,681</td>
</tr>
<tr>
<td>Non current</td>
<td>–</td>
<td>1,484</td>
<td>1,484</td>
</tr>
<tr>
<td></td>
<td>8,745</td>
<td>14,165</td>
<td>14,165</td>
</tr>
<tr>
<td>Discount rate used in calculating employee entitlements</td>
<td>5.54%</td>
<td>5.31%</td>
<td>5.31%</td>
</tr>
<tr>
<td>Number of employees at year-end</td>
<td>2,414</td>
<td>2,784</td>
<td>2,784</td>
</tr>
</tbody>
</table>

Executive Share Option Plan

The directors of Virgin Blue Holdings Pty Limited established the “Virgin Blue Executive Share Option Plan” on 30 May 2002 under which certain executives have been issued options over unissued ordinary shares in Virgin Blue.

The plan provides for certain executives to receive options over ordinary shares each year for no consideration. Each option is convertible to one ordinary share. There are no voting rights attached to the options until they are converted to ordinary shares.

All options expire on the earlier of 31 December 2005 or such later date as the Board may determine. In addition, the ability to exercise the options is conditional on the occurrence of an Initial Public Offering (“IPO”). A participating executive may not exercise 50% of their options until 12 months after the occurrence of the IPO.

A second executive option plan commenced on 28 January 2003. The options vest in equal proportions on each anniversary date over a three year period. The first anniversary date is the earlier of 28 January 2004 or the occurrence of an IPO.

Unissued ordinary shares of Virgin Blue under option are:

<table>
<thead>
<tr>
<th>Issue date</th>
<th>Expiry date</th>
<th>Exercise price</th>
<th>Options issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 May 2002</td>
<td>31 December 2005</td>
<td>$1.00</td>
<td>337,893</td>
</tr>
<tr>
<td>28 January 2003</td>
<td>28 January 2007</td>
<td>$68.61</td>
<td>11,313</td>
</tr>
</tbody>
</table>

There were no shares acquired or which became entitled to be acquired by employees under the scheme up to reporting date.

21. Contingent liabilities

Virgin Blue has provided bank guarantees and standby letters of credit to third parties as guarantees of payment for fuel, hedging of foreign currency transactions and fulfilment of obligations under government assistance agreements.

The value of bank guarantees and standby letters of credit issued, and obliged to be issued, as at 30 September 2003 was $17,979,000.

Some government assistance received may be refundable if agreed performance criteria are not achieved each year for a five year period. The Directors are of the opinion that no amounts will be refundable.
Under the Virgin Blue Executive Share Option Plan, certain executives hold options over unissued ordinary shares. There are mechanisms in place to allow for the cancellation of the options at 31 December 2003 or in the event of a non IPO sale. If the IPO does not proceed by 31 December 2003, the options will be cancelled and significant bonus payments will become payable by Virgin Blue Holdings Limited to these executives, the level of which will be dependent upon Virgin Blue’s performance and valuation at that date.

The ATO has made routine enquiries of Virgin Blue in relation to general GST compliance requirements. In the course of doing so, it has reviewed certain of Virgin Blue’s aircraft leases and related transactions to which Virgin Blue is a party, as lessee. There are other arrangements entered into before March 2002 to which Brett Godfrey (Chief Executive Officer) and entities within the Virgin Blue group are parties. Virgin Blue is not a party to these other arrangements. Under these other arrangements those parties could receive payments of up to US$18 million, although there is no certainty that all of these amounts will be paid. No further arrangements of this type exist. Virgin Blue has taken advice on this matter and believes that no adverse consequences have resulted or will result to Virgin Blue as a result of these enquiries or the arrangements.

22. Contingent assets
Virgin Blue is a party to various arrangements under which it may receive grants or incentives. Entitlements to these incentives is contingent upon Virgin Blue meeting the necessary requirements set out in these agreements.

As the achievement incentive requirements is contingent upon the occurrence of certain future events the amounts receivable cannot be reliably measured. Total contingent assets receivable under current arrangements, should Virgin Blue meet all requirements, amount to $5,785,000 at 30 September 2003. This amount will not be recognised as revenue until it is earned.

23. Controlled entities

<table>
<thead>
<tr>
<th>Parent entity</th>
<th>31 March 2003</th>
<th>30 September 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Virgin Blue Holdings Limited</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Virgin Australia Holdings Pty Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Virgin Blue Airlines Pty Limited</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Virgin Tech Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Stava No. 2 Pty Ltd</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Pacific Blue Holdings Pty Ltd</td>
<td>–</td>
<td>100</td>
</tr>
<tr>
<td>Pacific Blue Airlines (NZ) Ltd</td>
<td>–</td>
<td>100</td>
</tr>
<tr>
<td>VBNC1 Pty Ltd</td>
<td>–</td>
<td>100</td>
</tr>
<tr>
<td>VBNC2 Pty Ltd</td>
<td>–</td>
<td>100</td>
</tr>
<tr>
<td>VBNC3 Pty Ltd</td>
<td>–</td>
<td>100</td>
</tr>
</tbody>
</table>

All entities with the exception of Pacific Blue Airlines (NZ) Ltd were incorporated in Australia. Pacific Blue Airlines (NZ) Ltd was incorporated in New Zealand.
SECTION 12:

APPLICATION FORM
GUIDE TO COMPLETING THE APPLICATION FORM

A Application Amount
Enter the total Australian dollar amount you are applying to invest in securities.
The Application must be for a minimum of $5,000 worth of Shares and in multiples of $500 worth of Shares thereafter.

B Registration Name(s)
Enter the full name(s) you wish to appear on the statement of Shareholdings. This must be either your own name or the name of a company. Up to three joint Applicants may register. You should refer to the table below for the correct forms of registration. Applications using the wrong form of name may be rejected. Clearing House Electronic Subregister System ("CHESS") participants should complete their name and address in the same format as those that are presently registered in the CHESS system.

C Postal Address
Enter your postal address for all communications from Virgin Blue Holdings Limited. For joint Applicants, only one address can be entered. Only Australian residents are permitted to use this Application Form.

D CHESS HIN (if applicable)
Virgin Blue will apply to ASX to participate in CHESS, operated by ASX Settlement and Transfer Corporation Pty Ltd, a wholly owned subsidiary of Australian Stock Exchange Limited. In CHESS, the Company will operate an electronic CHESS subregister of Shareholdings and an electronic issuer sponsored subregister of Shareholdings. Together the two subregisters will make up the Company's principal register of Shares. The Company will not be issuing certificates to Applicants in respect of Shares allotted. If you are a CHESS participant (or are sponsored by a CHESS participant) and you wish to hold Shares allotted to you under this Application in unincorporated form on the CHESS subregister, enter your CHESS HIN. Otherwise, leave the section blank and on allotment, you will be sponsored by Virgin Blue Holdings Limited and a Shareholder Reference Number ("SRN") will be allocated to you.

Please note that if you supply a CHESS HIN but the name and address details on your form do not correspond exactly with the registration details held at CHESS, your Application will be deemed to be made without the CHESS HIN and any Shares issued as a result of the Share Offer will be held on the issuer sponsored subregister.

E V-Mail Subscriber
Tick this box if you are a registered Virgin Blue V-Mail Subscriber.

F e-mail Address
Enter your e-mail address. This will be used to communicate other matters to you subject to the Virgin Blue privacy statement.

G Contact Details
Enter your telephone number on which you can be readily contacted. This will assist if there are any queries regarding your Application.

Correct Forms of Registration
Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name(s) of natural persons, companies or other legal entities acceptable to the Company. At least one full given name and the surname is required for each natural person. The name of the beneficial holder or any other registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms of registrable names below.

<table>
<thead>
<tr>
<th>Type of Investor</th>
<th>Correct Form</th>
<th>Samples of Incorrect Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>John Alfred Smith</td>
<td>JA Smith</td>
</tr>
<tr>
<td>• Use given names, not initials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company</td>
<td>ABC Pty Ltd</td>
<td>ABC P/L</td>
</tr>
<tr>
<td>• Use company title, no abbreviations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trusts</td>
<td>Janet Smith</td>
<td>Janet Smith Family Trust</td>
</tr>
<tr>
<td>• Use the personal name(s) of trustee(s)</td>
<td>Janet Smith Family A/C</td>
<td></td>
</tr>
<tr>
<td>• Do not use the name of the trust</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deceased Estates</td>
<td>Michael Smith</td>
<td>Estate of the late John Smith</td>
</tr>
<tr>
<td>• Use personal name(s) of executor(s)</td>
<td>&lt;Est. John Smith A/C&gt;</td>
<td></td>
</tr>
<tr>
<td>• Do not use the name of the deceased</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partnerships</td>
<td>John Smith and Michael Smith</td>
<td>John Smith &amp; Son</td>
</tr>
<tr>
<td>• Use personal names of partner(s)</td>
<td>&lt;John Smith &amp; Son A/C&gt;</td>
<td></td>
</tr>
<tr>
<td>• Do not use the name of the partnership</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clubs/Unincorporated Bodies/Business Names</td>
<td>Janet Smith</td>
<td>ABC Tennis Association</td>
</tr>
<tr>
<td>• Use personal name(s) of office bearer(s)</td>
<td>&lt;ABC Tennis Association A/C&gt;</td>
<td></td>
</tr>
<tr>
<td>• Do not use the name of the clubs etc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Superannuation Funds</td>
<td>John Smith Pty Ltd</td>
<td>John Smith Pty Ltd</td>
</tr>
<tr>
<td>• Use name of trustee of the fund</td>
<td>&lt;Super Fund A/C&gt;</td>
<td>Superannuation Fund</td>
</tr>
<tr>
<td>• Do not use the name of the fund</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Put the name(s) of any joint Applicant(s) and/or account description using < > as indicated above in designated space(s) on the Application.

H Payment Details
Make your cheque or bank draft payable to “Virgin Blue Share Offer” in Australian currency and cross it “Not Negotiable”. Your cheque or bank draft must be drawn on an Australian Bank.

Complete the payment section and cheque details in the boxes provided. The amount must agree with the amount shown in box “A”.

Sufficient cleared funds should be held in your account as cheques returned unpaid will not be represented and will result in your Application being rejected. Cheques must not be post dated.

Pin (do not staple) your cheque(s) to the Application Form where indicated.

Applicants wishing to pay via BPAY should log onto www.virginblue.com.au and complete an online Application Form. Should you pay via BPAY DO NOT post your Application Form. Your Application will be submitted electronically as part of the online application process.

BEFORE COMPLETING THE APPLICATION FORM THE APPLICANT(S) SHOULD READ THE PROSPECTUS TO WHICH THE APPLICATION RELATES. BY LODGING THE APPLICATION FORM, THE APPLICANT(S) AGREES THAT THIS APPLICATION IS FOR SHARES IN VIRGIN BLUE HOLDINGS LIMITED UPON AND SUBJECT TO THE TERMS OF THE OFFER (INCLUDING THE REPRESENTATIONS, WARRANTIES AND AGREEMENTS CONTAINED IN THE PROSPECTUS AND THE APPLICATION FORM), AGREES TO TAKE ANY NUMBER OF SHARES EQUAL TO OR LESS THAN THE NUMBER OF SHARES OBTAINED FROM DIVIDING THE DOLLAR AMOUNT APPLIED FOR BY THE FINAL PRICE AND DECLARES THAT ALL DETAILS AND STATEMENTS MADE ARE COMPLETE AND ACCURATE. IT IS NOT NECESSARY TO SIGN THE APPLICATION FORM.

Lodgement of Applications
Return the Application Form with cheque(s) attached to:

By Mail OR Hand deliver to
Virgin Blue Share Offer
Virgin Blue Share Offer

Computershare Investor Services Pty Limited
Pty Limited
GPO Box 1486
Level 3, 60 Carrington Street
SYDNEY NSW 2001
SYDNEY NSW 2000

Application Forms must be received at the Sydney office of Computershare Investor Services Pty Limited no later than 5:00pm Sydney time on 28 November 2003.

Application Forms must be received at the Sydney office of Computershare Investor Services Pty Limited no later than 5:00pm Sydney time on 28 November 2003.

Payment Details
Make your cheque or bank draft payable to “Virgin Blue Share Offer” in Australian currency and cross it “Not Negotiable”. Your cheque or bank draft must be drawn on an Australian Bank.

Complete the payment section and cheque details in the boxes provided. The amount must agree with the amount shown in box “A”.

Sufficient cleared funds should be held in your account as cheques returned unpaid will not be represented and will result in your Application being rejected. Cheques must not be post dated.

Pin (do not staple) your cheque(s) to the Application Form where indicated.

Applicants wishing to pay via BPAY should log onto www.virginblue.com.au and complete an online Application Form. Should you pay via BPAY DO NOT post your Application Form. Your Application will be submitted electronically as part of the online application process.

IMPORTANT NOTICE
The Corporations Act prohibits any person from passing onto another person the Application Form which was attached to this Prospectus, unless the Application Form is attached to or accompanying a complete and unaltered copy of the Prospectus. A person who gives another person access to the Application Form must at the same time and by the same means give the other person access to the Prospectus, and any supplementary prospectus. Applications for Shares will only be accepted if made on an Application Form issued together with this Prospectus.
Virgin Blue Share Offer
Hotline 1800 007 848
ACN 100 686 226

BEFORE COMPLETING THE APPLICATION FORM THE APPLICANT(S) SHOULD READ THE PROSPECTUS TO WHICH THE APPLICATION RELATES.
THIS FORM IS FOR AUSTRALIAN RESIDENTS ONLY.

AUSTRALIAN RETAIL OFFER APPLICATION FORM
OFFER CLOSES 28 NOVEMBER 2003

A APPLICATION AMOUNT
Write here the total dollar amount you are applying for.

A$ 0 0

Applications must be for a minimum of $5,000 worth of Shares and in multiples of $500 worth of Shares thereafter.

B COMPLETE FULL NAME OF APPLICANT
Name of Applicant 1

Name of Applicant 2 or <Account>

Name of Applicant 3 or <Account>

C COMPLETE FULL POSTAL DETAILS
Address

Suburb/Town

State Postcode

D CHESS HIN (if applicable)

X

E V-MAIL SUBSCRIBER

Tick this box if you are a Virgin Blue V-Mail Subscriber.

F E-MAIL ADDRESS


G CONTACT TELEPHONE NUMBER

( )

H CHEQUE PAYMENT DETAILS
Please fill out your cheque details and make your cheque payable to: “Virgin Blue Share Offer” and cross “not negotiable”.

Name of Drawer of Cheque

Cheque No.

BSB No.

Account No.

Amount A$

I

Total Amount Enclosed A$

I/we declare that by lodging this Application Form, I/we represent and warrant that I/we have read the Prospectus to which this Application Form relates, agree to be bound by the Constitution of Virgin Blue and the terms and conditions of the Offer (including the representations, warranties and agreements contained in the Prospectus). I/we hereby apply for such number of Shares as may be calculated in accordance with the terms of the Prospectus. I/we hereby authorise Virgin Blue to complete and execute any documents necessary to effect the allotment and transfer of any Shares. By lodging this Application Form, I/we declare that this Application Form is completed and lodged according to the Prospectus and that all statements made by me/us are complete and accurate. I/we represent and warrant that by lodging this Application Form, I/we am/are in compliance with all laws of any jurisdiction outside the Commonwealth of Australia relevant to this Application. I/we acknowledge that I/we am a resident of Australia.
Privacy Policy

Personal information is collected on this form by Computershare Investor Services Pty Limited ("CIS") as registrar for Virgin Blue for the purpose of processing your Application, contacting you about the Virgin Blue Share Offer, maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. Your personal information may be disclosed to our related bodies corporate, to Virgin Blue and its related bodies corporate, to Virgin Blue's investment advisers to assist in determining actual demand for Shares under the Virgin Blue Share Offer, to external service companies (such as print or mail service providers) or as otherwise required or permitted by law.

If you would like details of your personal information held by CIS, or you would like to correct information that is inaccurate, incorrect or out of date, please contact CIS. In accordance with the Corporations Act 2001, you may be sent material (including marketing material) approved by Virgin Blue in addition to general corporate communications. You may elect not to receive marketing material by contacting CIS. You can contact CIS by calling 1300 552 270 or writing to CIS at the address listed on this form.
The Company
Virgin Blue Holdings Limited
(ACN 100 686 226)
Level 7
Centenary Square
100 Wickham Street
Fortitude Valley QLD 4006
Tel: +61 7 3295 3000

The Selling Shareholder
Virgin Holdings S.A.
(CH-660 1578998-2)
c/- Virgin Investments S.A.
3 Cours de Rive
1204 Geneva

Joint Global Coordinators
Goldman Sachs JBWere Pty Ltd
(ACN 006 797 897)
Level 48
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Credit Suisse First Boston Australia Limited
(ACN 007 016 300)
Level 31
Gateway
1 Macquarie Place
Sydney NSW 2000

Lawyers to the Company
Allens Arthur Robinson
Level 23
The Chifley Tower
2 Chifley Square
Sydney NSW 2000

Auditors to the Company
KPMG
Level 30
Central Plaza One
345 Queen Street
Brisbane QLD 4000

Investigating Accountant
KPMG Transaction Services (Australia) Pty Limited
(ACN 003 891 718)
Level 30
Central Plaza One
345 Queen Street
Brisbane QLD 4000

Independent Review of Directors’ Forecast
Ernst & Young Transaction Advisory Services Limited
(ACN 003 599 844)
Level 5
Waterfront Place
1 Eagle Street
Brisbane QLD 4000

Share Registrar
Computershare Investor Services Pty Limited
(ACN 078 279 277)
Level 3
60 Carrington Street
Sydney NSW 2000

Brokers to the Offer
ABN AMRO Morgans Limited
(ACN 010 669 726)
Level 29
Riverside Centre
123 Eagle Street
Brisbane QLD 4000

Commonwealth Securities Limited (CommSec)
(ACN 067 254 399)
Level 6
120 Pitt Street
Sydney NSW 2000

ETRADE Australia Securities Limited
(ACN 078 174 973)
Level 1
10 Bridge Street
Sydney NSW 2000