



the report.

ANNUAL REPORT 2009

Pictured: Five members
of the Van Dongen family
who all work for Virgin Blue.

From left:

- First Officer Luke Van Dongen
- Cabin Supervisor Clare Van Dongen
- Captain Arch Van Dongen
- First Officer Jacinta Van Dongen
- Captain Ben Van Dongen

“Never have I worked for a company
where I’ve had so much opportunity
to broaden my horizons, both
career-wise and travel-wise.”

Margaret Lewis, Cash Management Accountant
More than four years service

“Each day brings a new adventure!
Working with a group of fantastic
people who are doing some amazing
things ensures that every day is
different from the last.”

Lisa Ingram, Program Administrator – V Australia
More than five years service



the guide.

ALL ABOUT US AND MORE

"I love the Virgin Blue brand and the reputation it has. People always say 'wow' when they hear you work at Virgin Blue and I'm proud of that. We are friendly, fun and innovative. And all my friends here, who are like my family now, they keep me coming back every day!"

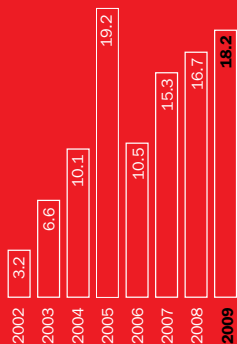
Danielle Petrovski, Management Assistant –
Ground Operations MEL
More than five years service

"Working for Virgin Blue Airlines Group is fabulous because it's a vibrant, professional and enjoyable place to fly modern equipment and enhance the flying publics' travel experiences... Trans-continental Australian flying is fantastic and now it's exciting to have larger Boeing 777s to aspire to."

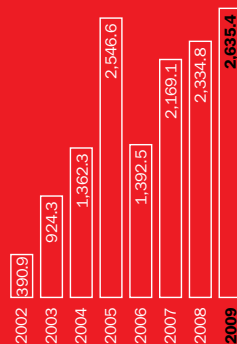
Pat Devlin, Melbourne-based Boeing 737 Captain
More than seven years service

the wrap.

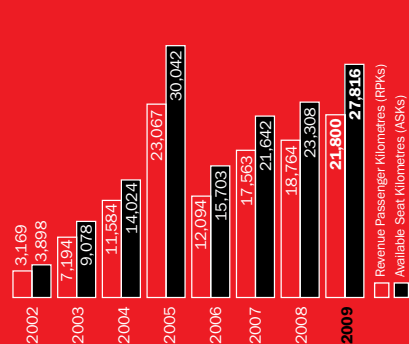
Passengers Carried
(millions)



Total Revenue
(\$ millions)



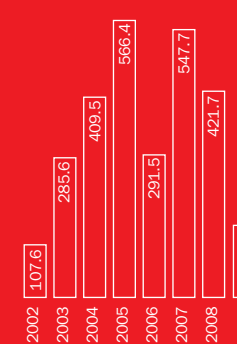
RPKs/ASKs
(millions)



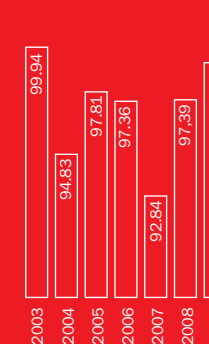
Notes

- 1 2005 figures over 18 months
- 2 2006 figures over 9 months

EBITDAR
(\$ millions)



Carbon Footprint
(g CO₂-e/RPK)



FINANCIAL HIGHLIGHTS \$ million

	2009	2008	Change
Total Revenue	2,635	2,335	12.8%
EBITDAR – Underlying*	355	483	–26.5%
Net (loss)/profit after tax	(160)	98	nm

* (excludes one offs – ineffective hedging and V Australia start up/fx costs)

OPERATING STATISTICS

	2009	2008	Change
Yield per RPK – Group	10.84m	11.45m	–5.3%
CASK (exc fuel) – Group Underlying*	6.53m	6.80m	–4.0%
Available Seat Kilometres	27.8bn	23.3bn	+19.3%
Revenue Passenger Kilometre	21.8bn	18.8bn	+16.0%
Passenger Load Factor %	79.1%	79.7%	–0.6pts

FINANCIAL POSITION \$ million

	2009
Total Assets	3,367
Total Liabilities	2,790
Total Equity	577

going somewhere?

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Virgin Blue Partner Airlines

pacificblue

polynesianblue

Vaustralia

Virgin atlantic

malaysia AIRLINES

AIR MAURITIUS

UNITED

Vietnam Airlines

Aircalin
International Airlines of New Caledonia

AIR AUSTRAL

ROYAL BRUNEI

HAWAIIAN AIRLINES

THAI
Smooth as silk

Airlines PNG
COME FLY OUR WAY

SOUTH AFRICAN AIRWAYS

Emirates

skywest

- Virgin Blue Direct Domestic Routes
- V Australia International Routes
- Pacific Blue/Polynesian Blue International Routes

Brisbane-Phuket direct routes will commence November 2009. Melbourne-Phuket and Melbourne-Los Angeles direct routes will commence December 2009. Melbourne-Johannesburg direct routes will commence March 2010.

* Not to scale



who is virgin blue group?





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Our Group

The Virgin Blue Airlines Group includes multi-award winning Virgin Blue, international subsidiary airline Pacific Blue; Polynesian Blue, our joint venture airline with the Government of Samoa; and V Australia, Australia's newest international airline.

Together, Virgin Blue, V Australia, Pacific Blue and Polynesian Blue provide domestic and international services to 45 destinations across 13 countries covering Australia, New Zealand, the Pacific and also to and from North America, South East Asia*, South Africa* and Indonesia.

* Subject to regulatory approval.



Our people and service promise

Virgin Blue Airlines Group, incorporating all four airlines, employs just 5952 people who make up our team.

We believe, above all, it's our people who set us apart among airlines. Quite simply it's their commitment, imagination and pride that makes our business fly.

The team across all four of our airlines, both on the ground and in the sky, is motivated to go the extra mile to make flying memorable for all the right reasons. Indeed outstanding service is part of our DNA.

Our team's passion and belief in offering service translates directly to our Guest's enjoyment of their flights. It's been the cornerstone of our business since the day we first cross-checked and disarmed our doors.

Nearly a decade on, it's wonderful to know our team still set the benchmark for every service industry in Australia. This year we won the Customer Service Institute of Australia's 'Australian Service Excellence Award for Big Business', so our Guests – who are the centre of our universe – win on both counts.

Velocity Rewards

Velocity Rewards is the award winning loyalty program of the Virgin Blue Airlines Group.

Velocity rewards Members faster, with less Points required for Reward seats compared to other Australian loyalty programs, and featuring our 'any' seat redemption option so Members can use their Points to buy any available seat, on any flight, across the entire Group network (no blackouts, no restrictions).

Velocity's 'any' seat option also extends to Velocity's international airline partners: Virgin Atlantic, Malaysia Airlines, Hawaiian Airlines, Emirates, Skywest and, from October 2009, Delta Air Lines.

The more frequently Members fly, the more Status Credits they collect. It's these Status Credits that move a Member higher up the Velocity perks ladder to Silver then Gold Status Membership.

But Members don't need to fly to earn rewards, with more than 50 Program Partners offering many opportunities to earn and redeem Points. The ShopAndEarn Store also offers great shopping from more than 100 leading retailers. For more, go to www.velocityrewards.com.au.



Go GREEN – Carbon Offset Program

At Virgin Blue and our international airlines V Australia, Pacific Blue and Polynesian Blue, we take our commitment to minimising the environmental impact of our business very seriously through a range of activities under our environmental management program.

We are also very pleased to offer our Guests the opportunity to offset the carbon emissions related to each flight taken with us. Whenever a flight is booked with any of our airlines Guests are offered the option of offsetting their flight. If this option is selected, the offset charge is added to the cost of the flight in the one transaction. Guests can also offset their flight at any time via our post-purchase page at www.virginblue.com.au.

The decision to offset a flight is entirely optional and 100% of monies contributed to our Carbon Offset Program are donated to Approved Greenhouse Friendly™ Abatement Projects in Australia and government approved projects in New Zealand.



Blue Holidays – holiday your way

Blue Holidays, the holiday program of Virgin Blue Airlines Group, offers a comprehensive range of fair priced, best value package holidays that enables our Guests to build holidays the way they want with the support of innovative website technology. Our helpful Guest service team members are also happy to share their extensive local knowledge about any destination.

Blue Holidays offers products from more than 2,000 suppliers across 10 countries and last year delivered holiday options into a number of new destinations including LA, Bali, Papua New Guinea, Solomon Islands, Queenstown, Hamilton (NZ) and Dunedin to name a few. Blue Holidays has also moved into event package options including the Melbourne Cup Carnival, Australian Open and the Edinburgh Military Tattoo.

With Blue Holidays Guests can choose a destination and then 'mix 'n' match' Virgin Blue, Pacific Blue, Polynesian Blue and V Australia flights with a wide range of accommodation options. The result? A personalised trip with the flights, accommodation, events, attractions and transfers all tailored to personal budget and preferences.



Our Airline Partners – connecting you to the world

Virgin Blue Airlines Group has increased its Interline and Codeshare partnerships for Virgin Blue, Pacific Blue and V Australia and has added 10 new agreements, bringing the total number of partners to 20. These new agreements include airlines such as: Virgin Atlantic, Delta Air Lines, Northwest Airlines, Emirates, South African Airways, Continental and Alaskan, allowing us to provide one ticket itineraries and the through-check of baggage for travel with us and any of these carriers.

These partnerships provide Guests travelling with any airline in the Virgin Blue Airlines Group access to the networks of some of the world's best airlines, spanning five continents. They also help boost Australian tourism by facilitating inbound travel too by providing access to the Virgin Blue, Pacific Blue and Polynesian Blue networks with the added convenience of travelling on several airlines with just one ticket and seamless transfers of Guests and their baggage.

virgin blue





Virgin Blue

Virgin Blue is the flagship carrier of the Virgin Blue Airlines Group which also comprises Pacific Blue, Polynesian Blue and V Australia.

With more than 31%* of the domestic market and a modern fleet of Next Generation Boeing 737-700 and 800 series and Embraer E190 and E175 E-Jet aircraft, we currently operate close to 3000 flights a week to 28 Australian cities.

We launched as the first sustainable low fare airline in Australian skies, and since then Virgin Blue has grown to be recognised the world over as an innovator and leader in the global aviation industry, evolving to now lead a new category among airlines as a New World Carrier.

As a New World Carrier, Virgin Blue offers a product and service distinctly different to that of traditional 'no frills' low-cost carriers and vastly different to traditional legacy carriers.

Our focus is on offering a range of innovative products, services and features that meet the needs of all Guests – leisure, business and government travellers – while maintaining the significant cost advantage of a low-cost carrier.

However, unlike traditional 'no frills' low-cost carriers, Virgin Blue offers consistently affordable fares with outstanding service and a host of other options available on a pay-for-use basis, such as in-flight meals and snacks; Premium Economy and Blue Zone seating; Corporate Plus and Fully Flexible fares; live2air in-flight television, airport lounge facilities and carbon off-setting options.

It remains our promise to our Guests that Virgin Blue will maintain its low-cost base and endeavour to ensure all service additions or enhancements are fully self-funding based on a 'pay-for-use' principle.

* 31.3% market share is for the year-to-date July 2008 to June 2009 Australian Domestic (including domestic and competitive regional routes as defined by BITRE).



Flexibility and choice. We'll work with you, and for you

Network

Virgin Blue offers an extensive network covering 28 metropolitan and regional ports throughout Australia.

Schedule

We have excellent connectivity, with schedules arranged to minimise ground time and get our Guests where they need to be as efficiently and quickly as possible.

On-time performance

We know time is important and we aim to keep to our schedule so our Guests can plan with confidence. Compare us to the competition and you will find we are one of the best on-time performers in the world.

With 81.5% of our flights departing on-time on average over the 12 month period to 30 June 2009, we consistently beat our major competitors on OTP departures.

OTP by Airline

Period	Data	Virgin Blue*	Qantas	Jetstar
July 08 – June 09	Total sum of departures on-time	110,358	97,369	45,275
	Total sum of sectors flown	135,357	120,557	58,928
	Total % of departures on-time	81.50%	80.80%	76.80

* Virgin Blue's on-time performance statistics are audited and published by the Federal Bureau of Infrastructure, Transport and Regional Economics. A flight is 'on time' if it departs the gate within 15 minutes of the scheduled departure time.

Everyday low fares

Our competitive fares, starting with the everyday low GO! Fare, are designed to keep travel costs affordable all year round. For people needing greater flexibility, Virgin Blue offers a range of Fully Flexible and Corporate fares that give travellers the freedom to alter travel plans as required.

Premium Economy

Our new Premium Economy product offers all the bells and whistles, for less. Designed to meet the needs of business and government travellers, Premium Economy offers a range of additional benefits including spacious 2 x 2 premier seating, a 34 inch seat pitch and increased seat width.

Other extras of Premium Economy include Priority Check-in, an increased baggage allowance of 32kgs, entry to The Lounge and complimentary in-flight entertainment and food and beverages, as well as Fully Flexible and refundable fares.



Premium
economy

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The Lounge – your choice, business or leisure

The Lounge is an all-inclusive business and leisure haven at our major domestic airports: Sydney, Melbourne, Brisbane, Adelaide, Canberra and, from December 2009, Perth.

The Lounge offers a delicious choice of complimentary food from the café and bar, which serves alcoholic beverages from 11am each day. We also have check-in facilities, wireless broadband, meeting rooms, private workstations, relax zones and showers. All our Guests need to stay refreshed and regenerated for their journey.

Express Check-in options

Using our industry-leading Web Check-in facilities, Guests can save time and avoid queues by checking in for their flight, selecting their seat and printing their boarding pass – within 24 hours of their flight – from any internet-connected personal computer before they arrive at the airport.

Alternatively, at the airport they can use our convenient Self-Check kiosks and then go straight through to the boarding gate.



In-flight entertainment

live2air is the first LIVE in-flight entertainment system in Australian aviation history, offering 24 pay-per-view real-time Foxtel and Austar channels, including live news and sports channels. On longer flights we also offer eight recent release pay-per-view movies every month. Sometimes we even get them before they hit the big screen!

Blue Zone seating

Guests preferring extra legroom can pre-purchase special Blue Zone* seating – which are the seats located in the over-wing exit row.

* Guests must meet certain safety requirements.

In-flight V-licious snacks and drinks

V-licious is Virgin Blue's in-flight menu. To satisfy the mid-flight munchies, V-licious offers quality cheese and biscuits, soups and sandwiches, sweet tooth goodies, soft and hot drinks, premium wines and lagers, as well as delicious steaming hot breakfast and dinner meals on selected longer flights.

v australia

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V Australia

We're very proud of V Australia, Australia's new home-grown premium international airline we launched between Sydney and Los Angeles on 27 February 2009, with its second route between Brisbane and Los Angeles taking off less than six weeks later.

On board V Australia's brand new 361-seat Boeing 777-300ER aircraft is a three-class cabin comprising International Business with 33 fully lie-flat beds, International Premium Economy with 40 club seats as well as 288 International Economy seats. All cabins offer a modern, contemporary feel with state-of-the-art personal seat back entertainment, mood lighting relative to the time or day and unique touches of Australian through.

The premium, boutique-style carrier also has two in-flight bars, including a sit down bar and dining area for business-class Guests.

Our new airline is poised to expand soon with services from Australia to Johannesburg and Phuket set to launch from December 2009, subject to government approvals. Flights between Melbourne and Los Angeles will also take off from 1 December 2009.

Competitive fares, exceptional in-flight products and our world-famous service style combine to ensure V Australia provides an exceptional travel experience for both business and leisure travellers.





International Business

You'll fly like royalty tucked up in V Australia's exquisite cabin for International Business Guests. From the priority services for check-in, boarding and baggage release to the personalised and attentive service, Guests receive 'rock-star' treatment all the way.

We always believe it's the little things onboard that really make a flight enjoyable, which is why V Australia is full of nice surprises. Our International Business Guests enjoy a welcome onboard glass of something lovely (served in Riedel glassware no less), comfy seats that convert into fully horizontal flat beds with a superb 1.88 metres (or six-foot-two) length. Our Guests can also indulge in a massage at the flick of a switch and stretch out behind a privacy screen, with a luxurious doona, cosy pyjamas,

noise-cancelling headsets and a lush amenity kit. And if and when it's time to work, International Business Class provides a personal work station complete with laptop power, USB slot and reading light.

When it comes to dining our Guests can eat what they want, whenever they like from our gourmet menu served on stunning Narumi china. The fully stocked, self-service in-flight bar seats six people, and at quiet times Guests are welcome to settle in and order a meal.

If sleep is not part of the plan, V Australia's extensive on-demand in-flight entertainment system offers more than 100 movies and television shows, over 200 music CDs and 15 radio channels as well as seat-to-seat connectivity and interactive games to suit all interests and ages.



International Premium Economy

There's more room to move, relax and wind down inside V Australia's sleek cabins for International Premium Economy Guests.

After enjoying a welcome aboard refreshment from our in-flight service team, Guests can relax in all-leather seats which offer adjustable head and footrests as well as 38 inches of generous legroom, a nine-inch recline and 20-inch seat width.

The all-inclusive food and beverage service offers a choice of mains, drinks and delicious after-dinner liqueurs. International Premium Economy Guests can also swing by the self-service bar for a drink or two on us as soon as we hit cruise altitude.

In International Premium Economy, in-flight entertainment includes noise-cancelling headsets and a huge range of sights and sounds on offer with an on-demand in-seat 26.9cm (10.6-inch) personal screen. Or, for those who can drag themselves away from the latest in-flight entertainment, each seat provides a personal workstation with laptop power, USB slot and reading light.



International Economy

We've combined fabulous value with fun ideas to create a friendly and relaxed experience for our International Economy Guests. We have it on good authority that our ergonomically designed seats are the widest for economy travellers across the Pacific, with 32 inches of lovely legroom and a six-inch recline. For those who prefer legroom, Extra Legroom Seating* can be purchased on the day of travel via our check-in desk.

International Economy Guests will enjoy freshly made meals for dinner and breakfast as well as a self-service snack bar to appease any mid-flight munchies. All non-alcoholic drinks are included in the price of our fares, with one complimentary alcoholic beverage offered with main meals.

Many Guests tell us time really flies by when they discover our video-on-demand entertainment system. Movies, music, games and more are on offer from a personal in-seat 23cm-wide screen which also offers seat-to-seat connectivity. Our International Economy seats are also equipped with a USB slot to power personal devices so Guests can look at their photos, listen to their MP3 music or even check out PDF files.

* Please note that Exit Row Seats are allocated in accordance with Civil Aviation Authority rules and are subject to availability and our general conditions of carriage. Minimum age is 16.



Airport Lounge

V Australia is pleased to offer lounge access to our International Business Class Guests and Velocity Gold Members.

It's our pleasure to provide you with an exclusive lounge invitation that entitles our Guests and a friend, on the day of travel on an outbound V Australia flight, entry to the lounge facilities of our partner airlines:

- Sydney International Airport – Malaysia Airlines Golden Lounge
- Los Angeles International Airport T3 – Alaska Airlines Board Room

pacific blue and polynesian blue



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Pacific Blue

Now in its sixth year of operation, New Zealand-based Pacific Blue continues to add to its ever growing domestic and international network.

Domestically within New Zealand, Pacific Blue now flies to five destinations – Auckland, Wellington, Christchurch, Dunedin and Queenstown. Our great little kiwi airline also has international flights from the same ports and in addition is the only airline flying internationally from Hamilton, New Zealand's fourth largest city, located in central North Island.

Further afield Pacific Blue has added flights between Australia and Bali, Papua New Guinea and Solomon Islands over the past year, as well as launching direct flights to Fiji from Adelaide and Melbourne.

Later this year Pacific Blue will take off from Perth on its inaugural flight to Phuket, Thailand*.

Leisure travel remains the mainstay of Pacific Blue's international focus, providing low fares and famously friendly services for many thousands of Australian and New Zealand travellers as they choose a trans-Tasman, South Pacific, or Asian vacation.

Within New Zealand the airline's domestic services continue to win over business Guests with great service, a very strong on-time performance record and genuine value for money fares.

* Subject to regulatory approval.



Polynesian Blue

Polynesian Blue, or 'Poly Blue' as she is affectionately known by our team, will soon celebrate its fourth birthday as the joint-venture airline between Virgin Blue and the Government of Samoa.

As Samoa's international airline, Polynesian Blue has been instrumental in helping to drive increased tourism to this sun-drenched peaceful paradise. Thanks to Poly Blue's low fares, thousands more holiday makers have been able to discover the delights of snorkelling the lagoons or learning more about the unique Samoan culture.

Polynesian Blue offers several direct flights a week between Samoa and Auckland and three flights a week between Apia and Sydney. In the past year we have added a new destination with one return flight each week between Samoa and Brisbane.

As well as helping to grow tourism to Samoa, Polynesian Blue remains an affordable way for Samoans living in New Zealand and Australia to return to visit friends and family 'back home'.



On-time performance

On-time performance is very important to us because it's super important to our Guests.

Pacific Blue became New Zealand's first domestic airline to publicly report its on-time performance figures by publishing them on its website in July 2009.

Statistics from January 2009 show that for seven of the eight months, more than 90% of domestic Pacific Blue flights depart within 15 minutes of their scheduled departure time.

Everyday low fares

Pacific Blue and Polynesian Blue offer competitive fares, starting with everyday low GO! Fares, to keep travel costs down. For people needing greater flexibility, both airlines offer a range of Fully Flexible and Corporate fares, giving travellers freedom to alter their travel plans as required.

Blue Zone seating

Guests wanting extra legroom can pre-purchase special Blue Zone seating, which are the seats located in the over-wing exit row and row 1ABC* on the Boeing 737 Aircraft.

* Excluding Pacific Blue's Bali, Papua New Guinea and Solomon Islands flights operated by Virgin Blue, where it is the over-wing exit row only. Guests must meet certain safety requirements.

In-flight entertainment

Guests flying internationally have the option of hiring a digEplayer, our personal in-flight entertainment system featuring blockbuster movies, television shows and a broad array of music.

digEplayers have two headset outlets so two people can enjoy a movie together at the same time.

Guests can also buy earphones to access the complimentary in-flight audio.

In-flight V-licious snacks and drinks

On Pacific Blue and Polynesian Blue, V-licious is our in-flight menu offering a selection of quality cheese and biscuits, muffins, sandwiches, 'sweet tooth' goodies, soft and hot drinks and premium wines and lagers – as well as delicious steaming hot breakfast and dinner meals on selected international flights.

fare types

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Virgin Blue fare type guide

This is a guide only, for domestic flights. Full conditions can be found on our website at virginblue.com.au

CHECKED BAGGAGE ADD \$10

FARE TYPES	GO! FARE (L,F,V)	BLUE SAVER (R,X,U,A,T,S,Q,H,M)
Name change permitted – by contacting our Guest Contact Centre (GCC)	No	No
Flight changes (to time and date of flight) permitted – via website or GCC (Note – routing changes not permitted)	Yes – at least 24hrs prior to scheduled departure	Yes – at least 24hrs prior to scheduled departure
Flight change fees via our website (available where original booking made on website)	\$45 [^] plus any fare difference	\$40 [^] plus any fare difference
Flight change fees via GCC	\$50 [^] plus any fare difference	\$45 [^] plus any fare difference
Flight change fees via GDS	N/A	\$40 [^] plus any fare difference
Cancellations permitted	No	Yes – at least 24hrs prior to scheduled departure time
Flight cancel fee via our website	N/A	\$45 [^]
Flight cancel fee via GCC	N/A	\$55 [^]
Flight cancel fee via GDS	N/A	\$45 [^]
If flight cancellations made in accordance with fare rules, balance is held in credit	N/A	Yes – credit available for 12 months after date of first booking
If flight cancellations not made in accordance with fare rules	Loss of fare	Loss of fare
Refundable (provided flights cancelled in accordance with fare rules)	No	No – credit shell available
Checked baggage	Not Included – 23kg* allowance may be purchased for \$10 online or \$20 at the airport	Not Included – 23kg* allowance may be purchased for \$10 online or \$20 at the airport

ADDITIONAL BENEFITS

Priority Check-in	No	No
Complimentary access to The Lounge	No	No
Guaranteed seat in first three rows of aircraft with priority boarding and disembarking	No	No
Extra Personal Space	No	No
Extra baggage allowance of 32kg	No	No
Complimentary live2air in-flight entertainment [†]	No	No
Complimentary food and beverage from the V-Licious in-flight menu [†]	No	No

* GDS bookings together with Velocity Gold and Silver members are exempt. [^] Charges listed are in AUD and apply to Australian domestic flights. For International Travel, the currency in which you made your original booking will apply to your entire booking. Please refer to the Fees and Surcharges tab in the Booking section of our website or your itinerary for applicable charges in that currency. All Virgin Blue airfares are subject to change with/without notice.

CHECKED BAGGAGE AND MORE INCLUDED

FLEXIBLE (B,N)	CORPORATE PLUS (Y)	PREMIUM ECONOMY (W)
Yes – up to 30mins prior to scheduled departure time	Yes – up to 24hrs after scheduled departure time	Yes – up to 24hrs after scheduled departure time
Yes – at least 30mins prior to scheduled departure via GCC or 60mins prior to departure via website	Yes – up to 24hrs after scheduled departure time	Yes – up to 24hrs after scheduled departure time
Any fare difference	Any fare difference	Any fare difference
Any fare difference	Any fare difference	Any fare difference
Any fare difference	Any fare difference	Any fare difference
Yes – at least 30mins prior to scheduled departure time	Yes – up to 24hrs after scheduled departure time	Yes – up to 24hrs after scheduled departure time
Nil	Nil	Nil
Nil	Nil	Nil
Nil	Nil	Nil
Yes – credit available for 12 months after date of first booking	Yes – credit available for 12 months after date of first booking	Yes – credit available for 12 months after date of first booking
Loss of fare	Loss of fare	Loss of fare
No – credit shell available	Yes – admin fee of \$30 per guest per cancellation. Or credit shell available	Yes – admin fee of \$30 per guest per cancellation. Or credit shell available
23kg allowance included	32kg allowance included	32kg allowance included
Yes	Yes	Yes
No	Yes	Yes
No	No	Yes
No	No	Yes
No	Yes	Yes
No	No	Yes
No	No	Yes

If you change your booking, your new fare may be more expensive than the original fare paid. [†] Virgin Blue hopes to provide you with your first menu choice; if this is not available, an alternative will be offered. [–] live2air is available on the majority of Virgin Blue's Boeing 737 aircraft. live2air is not available on Virgin Blue's Embraer E170 and E190 aircraft. Information correct as at 7 May 2009.

V Australia Fare Rules POS Australia

This is a guide only, for international flights. Full conditions can be found on our website at vaustralia.com.au

	V PROMO	V DEAL	V SAVER	V FLEXI
Business Classes		-		
Prem Eco Classes		-		
Economy Classes	V, Q	N, E	K, G	H, B, Y
Minimum Stay	N/A	N/A	N/A	N/A
Maximum Stay	12 months	12 months	12 months	12 months
Stopovers	1 free + 1 additional at AU\$125	1 free + 1 additional at AU\$125	2 free + 2 additional at AU\$125 per stop	Up to 4 allowed free
Booking Changes	Fee AU\$200pp per change to itinerary before and after departure + any fare difference.	Fee AU\$100pp per change to itinerary before and after departure + any fare difference.	Fee AU\$100pp per change to itinerary before and after departure + any fare difference.	Allowed – Local fees may apply + any fare difference.
Booking Cancellations	Before day of departure – canx fee AU\$550pp. On or after day of departure no refund.	Before day of departure – canx fee AU\$550pp. On or after day of departure no refund.	Before day of departure – canx fee AU\$330pp. On or after day of departure canx fee AU\$550. After departure refund the difference between fare paid & applicable fare for transportation used less any penalty.	Before departure – full refund. After departure – difference between fare paid & applicable fare for transportation used less any penalty.
Name Changes	Not allowed	Not allowed	Not allowed	Not allowed
Children/ Infants	12 months	Infants (under 2 yrs) 10% of fare excluding taxes, fees & surcharges. Children (2–11 yrs) & Infant with a seat 75% of fare excluding taxes, fees & surcharges.	Infants (under 2 yrs) 10% of fare excluding taxes, fees & surcharges. Children (2–11 yrs) & Infant with a seat 75% of fare excluding taxes, fees & surcharges.	Infants (under 2 yrs) 10% of fare excluding taxes, fees & surcharges. Children (2–11 yrs) & Infant with a seat 75% of fare excluding taxes, fees & surcharges.
Ticketing	Ticketing must be completed within 3 days after reservations are made.	Reservations made more than 14 days before departure must be ticketed either 14 days after reservations or 14 days before departure, whichever is earlier. Reservations made within 14 days of departure must be ticketed 1 day after reservations are made.	Reservations made more than 14 days before departure must be ticketed either 14 days after reservations or 10 days before departure, whichever is earlier. Reservations made within 14 days of departure must be ticketed 1 day after reservations are made.	H & B class – reservations made more than 7 days before departure must be ticketed 7 days before departure. Reservations made within 7 days of departure must be ticketed 1 day after reservations are made. Y class – no restrictions.
Seasons	No season – promo	Seasons apply	Seasons apply	Seasons apply (except for Y class)
Additional Info	Credit card fee of AU\$15 for AU POS	Credit card fee of AU\$15 for AU POS	Credit card fee of AU\$15 for AU POS	Credit card fee of AU\$15 for AU POS
Baggage	2PC Maximum 32kg in total	2PC Maximum 32kg in total	2PC Maximum 32kg in total	2PC Maximum 32kg in total
Waitlist	Not permitted	Not permitted	Not permitted	Not permitted

This is a guide only, for international flights. Full conditions can be found on our website at vaustralia.com.au or for more information contact your local Virgin Blue/V Australia account manager. For international travel, the currency in which you made your original booking will apply to your entire booking.

PREM DEAL	PREM FLEXI	BUS DEAL	BUS FLEXI
		I	J, C, D
O	W, S, R		
N/A	N/A	N/A	N/A
12 months	12 months	12 months	12 months
1 free + 1 additional at AU\$125	Up to 4 allowed free	1 free + 1 additional at AU\$125	Up to 4 allowed free
Fee AU\$100pp per change to itinerary before and after departure + any fare difference.	Allowed – Local fees may apply + any fare difference.	Fee AU\$100pp per change to itinerary before and after departure + any fare difference.	Allowed – Local fees may apply + any fare difference.
Before day of departure – canx fee AU\$550pp. On or after day of departure no refund.	Before departure – full refund. After departure – S & R class refund permitted at 34% of return fare. W class refund the difference between fare paid & applicable fare for transportation used less any penalty.	Before day of departure – canx fee AU\$550pp. On or after day of departure no refund.	Before departure – full refund. After departure – C & D class refund permitted at 34% of return fare. J class refund the difference between fare paid & applicable fare for transportation used less any penalty.
Not allowed	Not allowed	Not allowed	Not allowed
Infants (under 2 yrs) 10% of fare excluding taxes, fees & surcharges. Children (2–11 yrs) & Infant with a seat 75% of fare excluding taxes, fees & surcharges.	Infants (under 2 yrs) 10% of fare excluding taxes, fees & surcharges. Children (2–11 yrs) & Infant with a seat 75% of fare excluding taxes, fees & surcharges.	Infants (under 2 yrs) 10% of fare excluding taxes, fees & surcharges. Children (2–11 yrs) & Infant with a seat 75% of fare excluding taxes, fees & surcharges.	Infants (under 2 yrs) 10% of fare excluding taxes, fees & surcharges. Children (2–11 yrs) & Infant with a seat 75% of fare excluding taxes, fees & surcharges.
Ticketing must be completed within 3 days after reservations are made.	No restriction	Ticketing must be completed within 3 days after reservations are made.	No restriction
Seasons apply	No season	No season	No season
Credit card fee of AU\$15 for AU POS	Credit card fee of AU\$15 for AU POS	Credit card fee of AU\$15 for AU POS	Credit card fee of AU\$15 for AU POS
2PC Maximum 32kg in total	2PC Maximum 32kg in total	2PC Maximum 32kg in total	2PC Maximum 32kg in total
Not permitted	Not permitted	Not permitted	Not permitted
Please refer to the Fees and Surcharges tab in the Booking section of our website or your itinerary for applicable charges in that currency. All V Australia airfares are subject to change with/without notice. If you change your booking, your new fare may be more expensive than the original fare paid. Information correct as of 30 June 2009.			

Pacific Blue fare type guide

This is a guide only, for domestic flights. Full conditions can be found on our website at flypacific.com

CHECKED BAGGAGE ADD \$10

FARE TYPES	GO! FARE (L,F,V)	BLUE SAVER (R,X,U,A,T,S,Q,H,M)
Name change permitted – by contacting our Guest Contact Centre (GCC)	No	No
Flight changes (to time and date of flight) permitted – via website or GCC (Note – routing changes not permitted)	Yes – at least 24hrs prior to scheduled departure	Yes – at least 24hrs prior to scheduled departure
Flight change fees via our website (available where original booking made on website)	\$50 [^] plus any fare difference	\$45 [^] plus any fare difference
Flight change fees via GCC	\$60 [^] plus any fare difference	\$55 [^] plus any fare difference
Flight change fees via GDS	N/A	\$40 [^] plus any fare difference
Cancellations permitted	No	Yes – at least 24hrs prior to scheduled departure time
Flight cancel fee via our website	N/A	\$60 [^]
Flight cancel fee via GCC	N/A	\$70 [^]
Flight cancel fee via GDS	N/A	\$60 [^]
If flight cancellations made in accordance with fare rules, balance is held in credit	N/A	Yes – credit available for 12 months after date of first booking
If flight cancellations not made in accordance with fare rules	Loss of fare	Loss of fare
Refundable (provided flights cancelled in accordance with fare rules)	No	No – credit shell available
Checked baggage	20kg allowance included	20kg allowance included
ADDITIONAL BENEFITS		
Priority Check-in	No	No
Complimentary access to The Lounge	No	No
Guaranteed seat in first three rows of aircraft with priority boarding and disembarking	No	No
Extra Personal Space	No	No
Extra baggage allowance of 32kg	No	No
Complimentary live2air in-flight entertainment†	No	No
Complimentary food and beverage from the V-Licious in-flight menu†	No	No
* GDS bookings together with Velocity Gold and Silver members are exempt. [^] Charges are listed in AUD and apply to Pacific Blue international flights. For International Travel, the currency in which you made your original booking will apply to your entire booking. Please refer to the Fees and Surcharges tab in the Booking section of our website or your itinerary for applicable charges in that currency. All Pacific Blue airfares are subject to change with/without notice. If you change your booking, your new fare may be more expensive than the original fare paid. † Pacific Blue		

CHECKED BAGGAGE AND MORE INCLUDED

FLEXIBLE (B,N)	CORPORATE PLUS (Y)	PREMIUM ECONOMY* (W)
Yes – up to 30mins prior to scheduled departure time	Yes – up to 24hrs after scheduled departure time	Yes – up to 24hrs after scheduled departure time
Yes – at least 30mins prior to scheduled departure via GCC or 60mins prior to departure via website	Yes – up to 24hrs after scheduled departure time	Yes – up to 24hrs after scheduled departure time
Any fare difference	Any fare difference	Any fare difference
Any fare difference	Any fare difference	Any fare difference
Any fare difference	Any fare difference	Any fare difference
Yes – at least 30mins prior to scheduled departure time	Yes – up to 24hrs after scheduled departure time	Yes – up to 24hrs after scheduled departure time
Nil	Nil	Nil
Nil	Nil	Nil
Nil	Nil	Nil
Yes – credit available for 12 months after date of first booking	Yes – credit available for 12 months after date of first booking	Yes – credit available for 12 months after date of first booking
Loss of fare	Loss of fare	Loss of fare
No – credit shell available	Yes – admin fee of \$30 per guest per cancellation. Or credit shell available	Yes – admin fee of \$30 per guest per cancellation. Or credit shell available
23kg allowance included	32kg allowance included	32kg allowance included
Yes	Yes	Yes
No	Yes	Yes
No	No	Yes
No	No	Yes
No	Yes	Yes
No	No	Yes
No	No	Yes

hopes to provide you with your first menu choice, if this is not available, an alternative will be offered. * Live2air is available on the majority of Pacific Blue Boeing 737 aircraft operating Premium Economy services, but may not be available on all flights. *Premium Economy fare class available on selected Pacific Blue international routes. Information correct as at 18 May 2009.

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Handy contacts for Guests

Virgin Blue bookings and general enquiries

www.virginblue.com.au
or 13 67 89

V Australia bookings and general enquiries

www.vaustralia.com.au
or 13 82 87

The Lounge

www.virginblue.com.au/thelounge
or 13 67 89

Blue Holidays

www.virginblue.com.au/holidays
or 13 15 16

Velocity Rewards

www.velocityrewards.com.au
or 13 18 75

Handy contacts for agents

nsw.sales@virginblue.com.au
qld.sales@virginblue.com.au
vic.sales@virginblue.com.au
nt.sales@virginblue.com.au
sa.sales@virginblue.com.au
act.sales@virginblue.com.au
tas.sales@virginblue.com.au



Mixed Sources

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and now
the serious
stuff



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2

“Despite less than optimal launch timing, we remain confident of the exceptional potential ahead for V Australia.”

CHAIRMAN'S REPORT

3

CHAIRMAN'S REPORT

CEO'S REPORT

COMMUNITY AND ENVIRONMENT

THE YEAR THAT WAS

BOARD PROFILES

The 2009 Financial Year coincided with the period recognised as global aviation's most challenging operating environment on record.

Continuing upward pressure on fuel costs, the global financial crisis (GFC), swine flu and continuing depressed consumer confidence, saw airlines dealing with complex circumstances which served to undermine even the strongest performers.

It was also the year in which Virgin Blue launched our fourth airline, long haul international carrier V Australia.

Having recognised the strategic potential of a three-class long haul operation several years prior, Board and management proceeded with the introduction of V Australia as an investment in future Group growth.

Despite less than optimal launch timing, we remain confident of the exceptional potential ahead for V Australia.

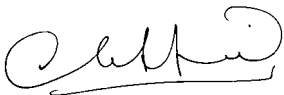
Our revised fleet and network strategy for the new airline including new routes to Phuket and Johannesburg and Melbourne-Los Angeles combined with our proposed Virgin Blue/Delta Air Lines joint venture will further improve the airline's opportunities.

Establishment of V Australia combined with prudent development of Australian domestic fleet and associated infrastructure, saw the company incur capital expenditure totalling more than \$840 million.

Also during the period under review, through the ingenuity and hard work of our people we successfully implemented a Group-wide programme of cost saving initiatives and productivity improvements. One of the larger initiatives included planned capacity reductions and redeployment of some fleet to new and uncontested routes.

Capital management strategy included an asset realisation programme which raised net proceeds of \$133 million and in the period between the end of Financial Year 2009 and the production of this Annual Report, the company also completed a fully underwritten equity raising \$231.4 million.

We are satisfied that through a series of early actions and structural and strategic response to the GFC the Virgin Blue Airlines Group is now in a good position to take advantage of market and economic recovery.



Neil Chatfield Chairman

Outlook

Strategic initiatives during Fiscal Year 2009, have now positioned the company to move swiftly to benefit from any economic improvement. These initiatives included:

- Successful cost savings initiatives
- Capacity redeployment to new routes
- A revised V Australia fleet strategy, and;
- A strengthening of Virgin Blue's capital position.

Further strategic initiatives ahead include the proposed Virgin Blue/Delta Air Lines joint venture, a continuing focus on productivity across the business and new routes for V Australia.

Subject to government and regulatory approval, four new V Australia routes are to commence from November onwards:

- Brisbane to Phuket, Thailand –
direct twice weekly from 22 November, 2009.
- Melbourne to Phuket, Thailand –
one direct flight a week from 3 December, 2009.
- Melbourne to Los Angeles, USA –
direct flights twice weekly from 1 December, 2009.
- Melbourne to Johannesburg, South Africa –
direct flights from 13 March, 2010.

New services to Fiji to improve aircraft utilisation have also been flagged.

Notwithstanding further economic deterioration and based on current market conditions, the Group result for FY10 is expected to be breakeven, with a positive Group cash inflow, excluding proceeds from the equity raising undertaken in the first quarter of Fiscal Year 2010. The gross proceeds of the offer – including the institutional and retail components of the Entitlement Offer, and the Placement – are A\$231.4 million.

Further asset realisation is planned for the current Fiscal Year, and these – together with a forecast net cash in flow for Fiscal Year 2010 – will see the cash position of the Group improve over the next year.

With funding in place for the majority of the forecast \$440 million of capital expenditure for Fiscal Year 2010, this puts Virgin Blue in a strong position to move quickly when the markets recover, and will enable the business to leverage existing under-utilised operating capacity.

Operating performance

Virgin Blue Airlines Group

Excluding one off and non recurring items, the Underlying Earnings before interest and tax for the Group was \$14 million, and the Underlying Net Loss after tax was \$13 million.

Total revenue increased 12.8% to \$2,635 million. Revenue Passenger Kilometres (RPKs) were 21.8 billion, up 16.0% on the prior year, while the passenger load factor fell 0.6pts to 79.1%. Group yield fell 5.3% to 10.84 cents, reflecting heavy discounting in both the domestic and international markets together, with the naturally lower yields of the long haul business following the introduction of V Australia in February.

Total operating expenses were \$2,665 million, up 22% on the prior year, reflecting the 19.3% increase in production as measured by Available Seat Kilometres (ASKs). Following is an outline of some key areas of significant and unavoidable cost increase:

- Fuel costs increased \$160 million, or 27%, driven by the increase in ASKs and an 18% increase in the average price per barrel paid for jet fuel, offset by efficiency savings through the fuel management programme and favourable currency movements.
- Commissions and marketing costs were up 41% to \$182.8 million, due to the launch campaigns for V Australia and increased marketing spend in the more competitive environment during the year.
- Aircraft ownership costs (lease costs and depreciation) increased 22% to \$325 million, consistent with the increase in the fleet from 68 to 81 aircraft during the year.
- Labour and staff related costs increased only 11% to \$595 million compared to the 19.3% increase

in production, reflecting cost saving and productivity initiatives introduced during the last 24 months.

- Net financing costs increased \$37 million in the year, reflecting debt financed aircraft acquisitions in the year and lower interest income.

Short haul operations

Underlying EBIT for the Short Haul business was \$57 million, with the other corporate operations contributing \$21 million.

Despite intense competition in the domestic market and a 14.1% increase in capacity, yield was down only 2.4% against the prior year. This was significantly less than the competition and reflects the on going 'flight to value' delivered by the New World Carrier strategy.

Yield improvement was seen through May to July, which indicated some stabilisation in the domestic markets at that time.

Passenger revenues increased 9.9% to \$2,363 million and passenger load factor fell marginally to 79.2%, down 0.5pts. With 22 new short haul routes launched in the year, 10 in the domestic market and 12 internationally, Virgin Blue's network footprint has been increased significantly, positioning the company well for when the markets recover.

Capacity reduction for the next financial year will be in the order of 5%, delivered mainly through lower utilisation flying and, as such, the business retains the flexibility to grow quickly when demand recovers.

Cost saving initiatives introduced by management during the year delivered a strong performance with some \$90 million savings across the business. The ongoing programme is targeted to deliver \$150 million next year. Excluding fuel, CASK was down 4.8%.

“Virgin Blue knows how to make teamwork fun and productive. There’s still a sense that we are doing something special in Australia and the South Pacific for our Guests.”

Bridget Costello, Guest Contact Centre Manager
More than eight years service

Long haul operations

In its first four months of operation V Australia delivered an underlying EBIT loss of \$64 million. Including one off costs for foreign exchange and start up costs, the EBIT loss was \$124 million, reflecting the difficult long haul environment compounded by the US centric focus of the launch routes.

Total revenues were \$69 million for the period and overall load factor for the same period was 62.3%. Importantly, Guest and industry response to V Australia's product and service offering has been extremely positive in both Australia and the USA and despite a very short launch period due to the Boeing strike which heavily impacted the forward sales profile, passenger load factors exceeded 75% for July 2009.

The outlook for August and September is equally encouraging, and the planned joint venture alliance with Delta Air Lines will further enhance the competitive position and future profitability of V Australia. Furthermore, the redeployment of the fourth aircraft to other markets including Phuket and South Africa has reduced the focus on the US markets and spread the concentration of risk.

Balance sheet and cash flow

Cash flows from operating activities during the reporting period were \$101 million, compared to \$294 million in the prior year, reflecting the decline in yields and the start up costs associated with V Australia.

Capital expenditure in the fiscal year totalled more than \$840 million, and saw the owned fleet grow by 10 aircraft, including eight narrow bodies and two wide-body B777-300ER's. A further three narrow-body and one wide-body aircraft were leased in the year, and

one leased B737 was returned in the year, at the expiry of the lease term.

During the 18 months prior to the end of the reporting period, Virgin Blue maintained a clear focus on capital management to increase liquidity and strengthen the balance sheet. The asset realisation programme was successful in raising net proceeds of some \$133 million and together with the recent fully underwritten equity raising for \$231.4 million, cash balances are now more than \$650 million.

Dividend

Given the Group's continued focus on capital preservation, for investment and growth, the Board does not recommend a Final Dividend for Fiscal Year 2009.

Our carbon footprint

Greenhouse gases are emitted as a consequence of our airline operations including jet fuel burn, ground electricity, fuel usage and waste disposal. While our total emissions have increased, we are extremely pleased to report that our efficiency has improved during the past six years.

While the growth of our fleet size has resulted in a steady increase in total emissions during the last three financial years; our efforts towards increased efficiencies to reduce emissions have resulted in a reduction in our carbon intensity against the 2003 Fiscal Year despite the fact that our fleet and the scale of our operations are larger today than they were back in 2003.

Our total direct greenhouse gas emissions during the Fiscal Year 2009 for all of our airlines were approximately 2,200,640 tonnes CO₂-e. Emissions per Revenue Passenger Kilometre have dropped by 1% during the last six years.



"In Virgin Blue's eighth and most challenging year our resilience is testament to the adherence to vision, incomparable commitment and sheer determination of our people."

In 2009 under the pressure shared by airlines everywhere, we went to our team with an extraordinary challenge, to mitigate and innovate at the same time; to keep our business basics strong; and yet to continue to position ourselves for opportunities ahead.

They succeeded admirably.

Despite delays outside of our control, we successfully launched our new premium international long-haul airline – V Australia; and on our domestic and international short haul routes we redeployed aircraft to best exploit yield potential.

Even in the best of market conditions, to launch 22 new short haul routes (10 in the domestic market and 12 internationally) in just one year is a phenomenal effort. It increased significantly Virgin Blue's network footprint, positioning the company well for when the markets recover.

We also significantly reduced planned capacity growth and yet, through working constructively with all of our team members, were able to avoid headcount reductions which on paper equated to about 400 positions to only about 25 permanent positions, thanks to team members volunteering to take leave without pay and similar initiatives.

While airlines around the world reacted variously to the global economic crisis and swine flu, our response to softening domestic demand was swift, while continuing to focus on cost saving and productivity initiatives across the business.

Such measures achieved a 4.5% reduction in overall Group CASK excluding fuel (Cost per Available Seat Kilometre); with the outstanding result in our short haul operation of reducing the unit cost for the second year in a row, by a further 4.8%. Further, the planning done in 2009 will also allow us to reduce our cost base again for 2010 – three straight years.

Through the efforts of our team we achieved an overall result in line with expectations and at the same time transformed our business into the best possible shape to take advantage of improved operating conditions when the current market cycle turns upward.

In Virgin Blue's eighth and most challenging year, our resilience is testament to the adherence to vision, incomparable commitment and sheer determination of our people.



Brett Godfrey Chief Executive



Clowning around for Red Nose Day



Daring CEO raises more than \$10,000 for charity

Our community focus

Red Jet Foundation

Established with the encouragement and support of Virgin Blue team members and management, Red Jet, the official charity foundation of Virgin Blue Airlines Group, seeks to provide a vision for the future for those who are striving to see it, to lift the wings of those determined to make a difference, and to encourage those already progressing to rise to greater heights.

This year Red Jet continued with its support of nine charities and projects nominated by Virgin Blue team members under the theme 'Indigenous Peoples, natural environment'. These charities include:

- The North Australian Indigenous Land & Sea Management Alliance – Savannah Land Management Project
- Souths Cares
- Engineers Without Borders – Cultural Restoration of Kooma Traditional Land

- Royal Children's Hospital Foundation – Indigenous Children's Health Screening Van
- Indigenous Enterprise Partnerships – Djarragun Indigenous College Medical Centre
- South Sydney Youth Service – The Shop Women & Girls Centre Redfern
- Tangentyere Council – Alice Springs Town Camp Thermal Efficiency Housing Upgrade Project
- Greencross
- Link-Up (Qld) Aboriginal Corporation.

The entire team across the Virgin Blue Airlines Group also pulled out all stops to assist those impacted by the devastating bushfires in Victoria and flooding in far North Queensland at the beginning of 2009.



A big thanks from St John's for bringing home their crew after the bushfires

What was started by one crew member as a 'pass the cap around' for the Red Cross Appeal resulted in thousands of dollars being donated by Guests onboard our flights. Thousands more dollars were donated by team members throughout our office locations, which Red Jet matched dollar for dollar. In the end, Virgin Blue donated more than \$700,000 to the Victoria Bushfire Appeal and the Queensland Premier's Disaster Relief Appeal.

In addition, Virgin Blue committed to provide hundreds of flights towards a respite holiday program for those impacted by the bushfires; as well as complimentary freight and transport for relief workers from Red Cross, Lifeline, St John's and wildlife organisations to assist impacted people in Townsville and Victoria.



Indigenous Children's Health Screening van

On an organisational level, we are also proud to provide our time, flights, freight services, cash donations, equipment and encouragement to many organisations who contribute important services to our community. Some of these include:

- Red Nose Day
- The Pyjama Foundation
- Mission Australia
- Interplast Australia
- Rotary
- Interact
- Westmead Hospital Cystic Fibrosis Clinic
- Muscular Dystrophy Foundation.

Further details of the good work our team does in the community can be found online at www.virginunite.com/redjet.



Environment

Towards sustainable aviation

Our planes may be red, our name may be blue, but we're especially proud of our efforts to be green.

At Virgin Blue we are very aware of our environmental responsibilities and place great importance on the way our business manages operational impacts.

We have been building on our Greenhouse Management Strategy with particular focus on our work on encouraging development of sustainable aviation biofuels and inputting into a regulatory framework to manage greenhouse emissions from international aviation over the next 10 years. Our Fuel and Emissions Management Team continues to focus on technological, operational and navigation improvements in the air as well as initiatives at airports and offices.

We view our commitment to responsible environmental management and continuous improvement in our environmental performance as an important component of our Corporate Social Responsibility and we seek always to meet government and community expectations and to strive for continual improvement.

Our initiatives

Aviation is estimated to contribute approximately 2% of man-made carbon dioxide emissions and we acknowledge our contribution to global greenhouse gas emissions and are committed to being part of the climate change solution.

We continue to make a positive contribution towards addressing greenhouse gas emissions and other environmental issues including:



Our millionth seat was off-set by Helen Townley

- measuring and reporting our energy use and greenhouse gas emissions.
- joining the Aviation Global Deal (AGD), a group that brings together leading international airlines and The Climate Group to work towards a fair and environmentally effective global solution to address international aviation emissions.
- being the first airline in Australia to join the Sustainable Aviation Fuel Users Group (SAFUG) which was formed to encourage the commercial development of sustainable aviation biofuel.
- joining the National Packaging Covenant, a voluntary initiative by government and industry to reduce the environmental effects of packaging on the environment.
- working closely with airport operators to ensure we comply with Commonwealth environmental legislation and have environmental management plans in place for our mainline airport terminal and hangar operations.
- minimising the impact of noise from our operations on communities by operating quieter more advanced aircraft with a low noise footprint and putting in place operating procedures that minimise noise impacts. We also take an active role in community aircraft noise forums and committees to work with stakeholders to achieve improved outcomes.



An Australian Government Initiative



Arrival of first V Australia's 777



Virgin Village opening with Queensland Premier
The Hon. Anna Bligh

THE YEAR THAT WAS

Some significant company developments during the reporting period include:

1 July 2008 Pacific Blue launches flights between Christchurch and Dunedin.

14 July 2008 Toll announces payment of an in specie dividend to Toll shareholders.

18 August 2008 Virgin Blue launches new GO! Fares.

2 September 2008 New flagship 'The Lounge' revealed at Sydney Airport.

22 September 2008 Pacific Blue launches flights between Melbourne and Auckland.

6 October 2008 Virgin Atlantic and Virgin Blue announce new interline agreement.

13 October 2008 Launch of daily flights between Melbourne and Mildura.

17 October 2008 Virgin Blue formally opens 'Virgin Village' – its new national headquarters.

21 October 2008 Launch of daily direct services from Perth to Newman and Karratha.

3 November 2008 Launch of services between Australia and Port Moresby.

11 November 2008 Virgin Blue reverses fuel surcharge as jet fuel prices drop.

2 December 2008 Inaugural flight to the Solomon Islands takes off.

6 February 2009 V Australia takes delivery of the first of seven brand new Boeing 777-300ER aircraft.

19 February 2009 V Australia cleared for take-off by the Civil Aviation Safety Authority after successfully completing all requirements and receiving its Air Operators Certificate.

27 February 2009 V Australia takes off on its inaugural flight between Sydney and Los Angeles.

23 March 2009 V Australia and Delta Air Lines sign an Australia-U.S. interline agreement.

8 April 2009 V Australia launches its second route between Brisbane and Los Angeles.

29 April 2009 Virgin Blue commences flights between Darwin and Perth.

1 June 2009 Pacific Blue launches flights from Sydney to Denpasar.

2 June 2009 Pacific Blue launches services between Melbourne and Bali.

3 June 2009 V Australia and Virgin America sign an Australia-U.S. interline agreement.

9 June 2009 Virgin Blue Airlines becomes the first Australasian airline to join the Aviation Global Deal (AGD) Group.



The Velocity team celebrates their win



The winning team at the NTIA awards

Awards

We love getting awards and Virgin Blue Airlines Group has received global recognition and many awards for achievements in the airline industry for our service and products.

Recent awards include:

Australian Service
Excellence Awards



Customer Service Institute of Australia Awards 2008

'Australian Service
Excellence Award for
Big Business' and
'Best of the Best'

Virgin Blue was doubly honoured for its focus on providing exceptional customer service after taking out "The Best of The Best" award at the National Customer Service Institute of Australia's annual awards event. The airline also won the "Australian Service Excellence Award for Big Business".



National Travel Industry Awards 2009

'Best Airline –
Domestic'

Virgin Blue was recognised at the 2009 Australian Federation of Travel Agents (afta) National Travel Industry Awards (NTIA) winning Australia's 'Best Airline Domestic' for the fourth time in four years.



Annual Freddie Awards 2009

'Program
of the Year'

Velocity, the loyalty program of the Virgin Blue Group of Airlines, took out the Program of The Year award at the annual Freddie Awards in Florida. The program also took out five of the other eight awards up for grabs including Best Award, Best Award Redemption, Best Web Site, Best Member Communications and Best Affinity Credit Card.

DIRECTORS

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

Mr Neil Chatfield

FCPA, FAICD

Independent Non-Executive Chairman
Chairman Remuneration, Nomination
and Governance Committee

Member Audit and Financial Risk
Committee

Neil is an established executive and non-executive director with experience across a range of industries. Neil has extensive experience in financial management, capital markets, mergers and acquisitions and risk management, and was most recently an Executive Director and Chief Financial Officer of Toll Holdings Limited. Other directorships of ASX listed companies are Seek Ltd since 2005, Whitehaven Coal Limited since 2007, Transurban Group and Grange Resources Ltd since 2009. Age 55.

Appointed 11 May 2006. Appointed Company Chairman 14 June 2007.

Mr Brett Godfrey

CA, B.Bus

Managing Director and
Chief Executive Officer

Co-founder of Virgin Blue and CEO since Virgin Blue's inception. Brett has over 18 years of experience in the airline industry, most of which was gained with low cost carriers. Brett is also a director of WestJet; a Canadian-based publicly listed low cost airline, Translink Transit Authority – the Queensland State Government's Transport Board and Green Cross Australia. Age 46.

Appointed 27 May 2002.

Mr Patrick McCall

B.Sc Econ

Non-Executive Director

Member Audit and Financial Risk
Committee

Virgin Group Commercial Director and holds a number of other directorships in the Virgin Group. Previously an investment banker at SBC Warburg/SGWarburg. Age 44.

Appointed 27 May 2002.

Mr David Baxby

B.Com (Acct), LLB (Hons)

Non-Executive Director

Member Remuneration, Nomination
and Governance Committee

Head of Aviation for Virgin Group and CEO of Virgin Management Asia-Pacific. David holds a number of other directorships within the Virgin Group including Virgin Atlantic Limited, Virgin Holidays Limited and Air Asia X. Prior to Virgin, David was an investment banker for 10 years with Goldman Sachs JBWere. Age 36.

Appointed 30 September 2004.

The Hon. Mark Vaile

Former Deputy Prime Minister
of Australia

Independent Non-Executive Director

Member of the Australian Parliament from 1993 to 2008, Former Deputy Prime Minister, Minister for Transport and Minister for Agriculture. Other directorships include CBD Energy Ltd, Stamfordland Limited, Palisade Regional Infrastructure and Sinoz Asia-Pacific. Age 53.

Appointed 22 September 2008.

Mr Robert Thomas

B.Econ, MSDIA, SF Fin

Independent Non-Executive Director

Chairman Audit and Financial Risk Committee

Member Remuneration, Nomination and Governance Committee.

Robert has over 30 years experience in the securities industry. Robert holds the Chairmanships of Tower Australia Ltd, and The Securities and Derivatives Industry Association. In addition, he is a Director of Grahger Capital Securities and O'Connell Street Associates Pty Ltd, is the President of the Library Council of NSW and a member of the Monash Research Advisory Council. Age 64.

Appointed 8 September 2006.

Mr Stephen Murphy

Alternate Director

Chief Executive Officer of Virgin Group, Chairman of Virgin Atlantic Limited, Director of Virgin America Inc and holds a number of other directorships in the Virgin Group. Previously held senior finance positions in Mars, Unilever and The Quaker Oats Company. Age 53.

Appointed as alternate director for Mr David Baxby and Mr Patrick McCall on 30 September 2004.

Mr Keith Roberts

M. Com (Hons) B. Bus.

Alternate Director

Australian Country Head of Virgin Management Asia Pacific. Prior to joining Virgin in March 2008, Keith was a management consultant at Bain and Company for nine years. His time at Bain included working with airlines in South Africa and Latin America. Age 33.

Appointed as alternate director for Mr David Baxby and Mr Patrick McCall on 28 November 2008.

The following directors resigned during the year:

- Mr Bob Watson (appointed 8 September 2006) – resigned 11 July 2008
- Mr Paul Little (appointed 11 May 2006) – resigned 22 August 2008
- Mr Bernard McInerney (appointed 8 September 2006) – resigned 22 August 2008
- Mr Terence Mallon (appointed 17 November 2006) – resigned 22 August 2008

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the numbers.

VIRGIN BLUE HOLDINGS LIMITED AND ITS CONTROLLED ENTITIES
FINANCIAL STATEMENTS | FOR THE 12 MONTH PERIOD FROM 1 JULY 2008 TO 30 JUNE 2009
ACN 100 686 226

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This financial report covers both Virgin Blue Holdings Limited as an individual entity and the Group consisting of Virgin Blue Holdings Limited and its controlled entities. The financial report is presented in Australian dollars.

Virgin Blue Holdings Limited is a company limited by shares, incorporated and domiciled in Australia. Details of its registered office and principal place of business are on the inside back cover.

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

Directors' Report

The directors present their report together with the financial report of Virgin Blue Holdings Limited ("the Company") and of the Group, being the Company, its controlled entities and the Group's interests in associates, for the financial year ended 30 June 2009 and the auditor's report thereon.

Directors

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

NAME, QUALIFICATIONS AND POSITION	EXPERIENCE	APPOINTMENT DATE
Mr Neil Chatfield FCPA, FAICD Independent Non-Executive Chairman Chairman Remuneration, Nomination and Governance Committee Member Audit and Financial Risk Committee	Neil is an established executive and non-executive director with experience across a range of industries. Neil has extensive experience in financial management, capital markets, mergers and acquisitions and risk management, and was most recently an Executive Director and Chief Financial Officer of Toll Holdings Limited. Other directorships of ASX listed companies are Seek Ltd since 2005, Whitehaven Coal Limited since 2007, Transurban Group and Grange Resources Ltd since 2009. Age 55.	Appointed 11 May 2006 Appointed Company Chairman 14 June 2007
Mr Brett Godfrey CA, BBus Managing Director and Chief Executive Officer	Co-founder of Virgin Blue and CEO since Virgin Blue's inception. Brett has over 18 years of experience in the airline industry, most of which was gained with low cost carriers. Brett is also a director of WestJet; a Canadian-based publicly listed low cost airline, Translink Transit Authority – the Queensland State Government's Transport Board and Green Cross Australia. Age 46.	Appointed 27 May 2002
Mr Patrick McCall BSc Econ Non-Executive Director Member Audit and Financial Risk Committee	Virgin Group Commercial Director and holds a number of other directorships in the Virgin Group. Previously an investment banker at SBC Warburg/SGWarburg. Age 44.	Appointed 27 May 2002
Mr David Baxby BCom (Acct), LLB (Hons) Non-Executive Director Member Remuneration, Nomination and Governance Committee	Head of Aviation for Virgin Group and CEO of Virgin Management Asia-Pacific. David holds a number of other directorships within the Virgin Group including Virgin Atlantic Limited, Virgin Holidays Limited and Air Asia X. Prior to Virgin, David was an investment banker for ten years with Goldman Sachs JBWere. Age 36.	Appointed 30 September 2004
The Hon. Mark Vaile Former Deputy Prime Minister of Australia Independent Non-Executive Director	Member of the Australian Parliament from 1993 to 2008, Former Deputy Prime Minister, Minister for Transport and Minister for Agriculture. Other directorships include CBD Energy Ltd, Stamfordland Limited, Palisade Regional Infrastructure and Sinoz Asia-Pacific. Age 53.	Appointed 22 September 2008
Mr Robert Thomas BEcon, MSDIA, SF Fin Independent Non-Executive Director Chairman Audit and Financial Risk Committee Member Remuneration, Nomination and Governance Committee	Robert has over 30 years experience in the securities industry. Robert holds the Chairmanships of Tower Australia Ltd and The Securities and Derivatives Industry Association. In addition, he is a Director of Grahger Capital Securities and O'Connell Street Associates Pty Ltd, is the President of the Library Council of NSW and is a member of the Monash Research Advisory Council. Age 64.	Appointed 8 September 2006
Mr Stephen Murphy Alternate Director	Chief Executive Officer of Virgin Group, Chairman of Virgin Atlantic Limited, Director of Virgin America Inc and holds a number of other directorships in the Virgin Group. Previously held senior finance positions in Mars, Unilever and The Quaker Oats Company. Age 53.	Appointed as alternate director for Mr David Baxby and Mr Patrick McCall on 30 September 2004
Mr Keith Roberts MCom (Hons) BBus Alternate Director	Australian Country Head of Virgin Management Asia Pacific. Prior to joining Virgin in March 2008, Keith was a management consultant at Bain and Company for nine years. His time at Bain included working with airlines in South Africa and Latin America. Age 33.	Appointed as alternate director for Mr David Baxby and Mr Patrick McCall on 28 November 2008.

The following directors resigned during the year:

- Mr Bob Watson (appointed 8 September 2006) – resigned 11 July 2008
- Mr Paul Little (appointed 11 May 2006) – resigned 22 August 2008
- Mr Bernard McInerney (appointed 8 September 2006) – resigned 22 August 2008
- Mr Terence Mallon (appointed 17 November 2006) – resigned 22 August 2008

Directors' Report (continued)

Company secretary

Ms Merren McArthur (BA LLB) was appointed company secretary on 25 July 2008. Ms McArthur joined Virgin Blue in May 2008 as General Counsel. She has over 20 years experience in corporate and commercial law in both private practice, as a partner in a national law firm, and in a number of senior in-house roles.

Directors' meetings

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

DIRECTOR	BOARD MEETINGS		AUDIT AND FINANCIAL RISK COMMITTEE MEETINGS		REMUNERATION, NOMINATION AND GOVERNANCE COMMITTEE MEETINGS	
	A	B	A	B	A	B
Mr N Chatfield	14	14	3	3	3	3
Mr B Godfrey	14	14	–	–	–	–
Mr P McCall	8	14	1	3	–	–
Mr D Baxby	14	14	3	3	3	3
Mr M Vaile	9	10	–	–	–	–
Mr R Thomas	14	14	3	3	3	3
Mr P Little	3	3	–	–	–	–
Mr R Watson	1	1	0	0	0	0
Mr B McInerney	3	3	–	–	–	–
Mr T Mallon	3	3	–	–	–	–
Mr J Ludeke	3	3	–	–	–	–
Mr K Roberts	1	1	–	–	–	–

A: Number of meetings attended

B: Number of meetings held during the time the director held office during the year

–: Not a member of the committee

Mr S Murphy was not required to attend any Board or committee meetings during the year. Mr K Roberts attended one meeting as alternate for Mr P McCall.

Corporate governance statement

This statement outlines the main corporate governance policies and practices in place through the financial year ended 30 June 2009, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

Role of the Board

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

The Board operates in accordance with the Company's Constitution and Board Charter. The Board's functions are set out in the Group's Board Charter and include:

- setting the direction, strategies and financial objectives of the Company;
- appointing, reviewing the performance of, and removing the Chief Executive Officer;
- monitoring senior management's performance;
- monitoring internal control and accountability systems;
- identifying, analysing and monitoring safety and risk management issues;
- approving and monitoring major capital expenditure, capital management, acquisitions and divestitures;
- monitoring compliance with regulatory requirements and ethical standards; and
- approving and monitoring financial and other reporting.

A copy of the Board Charter and Statement of Delegated Authority is available on the Company's website, www.virginblue.com.au.

Composition of the Board

At the date of this report, the Board comprises six directors, five of whom are non-executive directors (including three independent non-executive directors) and the Managing Director. Each of the directors is a senior and experienced executive with skills and experience necessary for the proper supervision and leadership of Virgin Blue. As a team, the Board brings 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. Details regarding the Group's directors, including their relevant skills, experience and expertise and terms of office can be found at page 1.

The composition of the Board is as follows:

- two directors of the Company have been elected after being nominated by Virgin Group and act as its representatives;
- three directors of the Company are independent, non-executive directors; and
- the remaining director is the Managing Director, who is also the Chief Executive Officer.

The Board considers that, fundamentally, the independence of directors is based on their capacity to put the best interests of the Company and its shareholders ahead of all other interests, so that directors are capable of exercising objective independent judgement. Capacity to act independently and the skill sets and experience of individual directors to complement the skills and experience of the Board overall are critical criteria in candidate selection. The capacity for individual directors to add value to the Board is very important.

When evaluating candidates, the Board will have regard to the potential for conflicts of interest, whether actual or perceived, and the extent or materiality of these in the ongoing assessment of director independence. In this respect the Board has regard to the definition of "independence" in the ASX Corporate Governance Principles and Recommendations. The Board does not believe that the existence of one or more of the relationships in the definition will necessarily result in the relevant director not being classified as independent, particularly given the criteria outlined above, and that the Company will seek to implement additional safeguards to ensure independence. An overall review of these considerations is conducted by the Board to determine whether individual directors are independent.

Additional policies, such as directors not being present during discussions or decision making in matters in which they have or could be seen to potentially have a material conflict of interest, as well as directors being excluded from taking part in the appointment of third party service providers where the director has an interest, provide further separation and safeguards to independence. The Board has considered materiality thresholds in relation to independence, but has determined not to establish fixed thresholds, believing that, if taken in isolation and out of context, these can be misleading and inconclusive.

The Company recognises that the ASX Corporate Governance Principles and Recommendations recommend that a listed company should have a majority of directors who are independent and that the chairperson should be an independent director. The Board as currently comprised, has an equal number of independent and non-independent directors, and the Chairman is an independent director. The Company believes that the Board, as composed during the 2009 financial year, had the necessary skills and motivation to ensure that the Company continued to perform, notwithstanding that its overall composition did not meet ASX guidelines on independence.

Independent professional advice and access to company information

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairperson, may seek independent professional advice from a suitably qualified advisor (including legal advice) at the Company's expense. Except in extraordinary cases (where the director will have notified the other Board members in writing), a copy of any such advice received is to be made available to other Board members.

Board committees

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

The Board does not believe that additional committees are appropriate or necessary for the Company in its current form. For example, the Board has not created a separate 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, Nomination and Governance Committee instead.

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

Audit and Financial Risk Committee

The Audit and Financial Risk Committee has a documented charter, approved by the Board. The Audit and Financial Risk Committee's Charter is available on the Company's website. All members of the Audit and Financial Risk Committee must be non-executive directors.

The Chairman of the Audit and Financial Risk Committee is an independent director, and under the terms of the Audit and Financial Risk Committee Charter, has a casting vote. In addition, the majority of the members of the Audit Committee are independent directors, in accordance with best practice recommendation 4.2 set out by the ASX Corporate Governance Council.

The role of the Audit and Financial Risk Committee is to verify and safeguard the integrity of the Company's financial reporting and to provide advice and assistance to the Board to allow the Board to:

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

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

The Chief Executive Officer and the Chief Financial Officer declared in writing to the Board that the financial records of the Company for the financial period have been properly maintained, and that the Company's financial reports for the financial year ended 30 June 2009 comply with Australian accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually and is made in accordance with section 295A of the Corporations Act.

Details of names and relevant qualifications of those directors appointed to the Audit and Financial Risk Committee, the number of meetings the Audit and Financial Risk Committee held during the financial year ended 30 June 2009, and the names of the attendees can be found at pages 1 and 2.

Remuneration, Nomination and Governance Committee

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

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

The names of the members of the Remuneration, Nomination and Governance Committee and their attendance at meetings are disclosed at pages 1 and 2.

The Remuneration, Nomination and Governance Committee's Charter is available on the Company's website, www.virginblue.com.au.

Remuneration policy

The purpose of the Company's remuneration policy is to ensure each compensation package properly reflects the person's duties, responsibilities and level of performance, and that compensation is competitive in attracting and motivating people of the highest quality. The compensation structures implemented by the Board are designed to attract suitably qualified candidates, reward the achievement of strategic objectives and achieve the broader outcome of creation of value for shareholders.

Non-executive directors are remunerated by way of fees and do not participate in schemes designed for the compensation of executives. They do not receive options or bonus payments and are not provided with retirement benefits other than statutory superannuation.

Further details of compensation of directors and key executives can be found in the Remuneration Report at page 5.

Risk Management Policy

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

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

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

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

Awareness of, and compliance with, 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.

The Chief Executive Officer and the Chief Financial Officer have declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other risk management compliance and controls have also been assessed and found to be operating efficiently and effectively. All assessments covered the whole financial period up to the signing of the annual financial report for all material operations of the Group.

Directors' Report (continued)

Financial reporting

The Chief Executive Officer and the Chief Financial Officer have declared, in writing to the Board, that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Monthly actual results are reported against budgets approved by the Board and revised forecasts for the year are prepared regularly.

Internal audit

The internal auditors assist the Board in ensuring compliance with internal controls and risk management programs by regularly reviewing the effectiveness of the above-mentioned compliance and control systems. The Audit Committee is responsible for approving the program of internal audit visits to be conducted each financial year and for the scope of the work to be performed. The Audit and Financial Risk Committee is responsible for recommending to the Board the appointment and dismissal of the Internal Audit Manager.

Ethics and codes of conduct

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

The Guide to Business Conduct formalises Virgin Blue's belief that business objectives are best achieved through acting at all times fairly, honestly and with integrity. It contains policy statements and summaries of what is expected of staff and contractors in many key areas of business conduct. The Code of Conduct further reflects the commitment of Virgin Blue to ethical standards and practices. This Code deals with issues specific to directors and senior executives. Copies of both the Guide to Business Conduct and the Code of Conduct are available on the Company's website, www.virginblue.com.au.

Securities Trading Policy

The Company has implemented a policy on securities trading which binds all directors, officers and employees of the Group. In addition to ensuring that all employees and directors are aware of the legal restrictions on trading in the Company's securities while in possession of unpublished price-sensitive information, the policy also restricts the times when directors, officers and employees may deal in the Company's securities. A copy of the Securities Trading Policy is available on the Company's website, www.virginblue.com.au.

Communication with shareholders and the market

The Company's commitment to communicating with its shareholders is embodied in its Market Disclosure and Communication 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.

In addition to the distribution of the Annual Report, information is communicated to shareholders via the Investor Information section of the Company's website, www.virginblue.com.au.

Further, the Company will require its external auditor to attend the Annual General Meeting and be available to answer any shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report. A copy of the Company's Market Disclosure and Communication Policy is available on the Company's website, www.virginblue.com.au.

Principal activities

The principal activity of the Group during the course of the financial year was the continued strategic development and operation of Virgin Blue, Pacific Blue and V Australia airlines.

Review and results of operations

Net loss after income tax for the year ended 30 June 2009 was \$160.0 million, which is a decrease compared with the \$97.7 million profit for the prior year ended 30 June 2008.

In the year to 30 June 2009, EBITDAR (earnings before interest, tax, depreciation, amortisation and aircraft rentals) decreased to a profit of \$147.4 million, when compared to an EBITDAR of \$421.7 million for the year ended 30 June 2008. EBIT (earnings before interest and tax) decreased from a profit of \$167.7 million to a loss of \$162.3 million during the same period.

Basic earnings per share, as shown in the financial statements was a loss of 15.2 cents per share and on a diluted basis, as shown in the financial statements, was also a loss of 15.2 cents per share.

Dividends

No dividends were paid or declared by the Company since the end of the previous financial period. No final dividend will be declared or paid for 2009.

State of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the Group that occurred during the financial year under review.

Environmental regulation

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

Likely developments

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

Directors' interests

The relevant interest of each director in shares, debentures, interests in registered schemes and rights or options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by the directors to the Australian Securities Exchange in accordance with section 205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

DIRECTOR	ORDINARY SHARES	OPTIONS/RIGHTS OVER ORDINARY SHARES
Mr B Godfrey	58,648,148	2,076,969
Mr N Chatfield	870,392	–
Mr P McCall	–	–
Mr D Baxby	20,000	–
Mr R Thomas	306,064	–
Mr M Vaile	–	–
Mr S Murphy	222,222	–
Mr K Roberts	12,000	–

Unissued shares under option

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

OPTION PLAN	NUMBER OF SHARES	EXERCISE PRICE	EXPIRY DATE
Senior Executive Option Plan (SEOP)			
– Issue 4	189,089	\$1.96	30 January 2010
– Issue 5	5,428,086	\$1.55	7 December 2010
– Issue 6	337,500	\$1.77	30 April 2011
– Issue 7	3,756,735	\$2.19	7 December 2011
– Issue 9	1,577,364	\$0.00	30 June 2011
– Issue 10	7,703,607	\$0.00	30 June 2012
Total unissued ordinary shares under option	18,992,381		

All options and rights expire on the earlier of their expiry date or termination of the employee's employment. In addition, the ability to exercise the options is conditional on the Group achieving certain performance hurdles in relation to the share price or earnings per share of Virgin Blue Holdings Limited. Further details are included in the Remuneration Report on pages 5 to 11. These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Shares issued on exercise of options

The Company has not issued ordinary shares as a result of the exercise of options during or since the end of the financial year.

Remuneration Report – audited

The Remuneration Report is presented under the following sections:

1. Introduction
2. Board oversight of remuneration
3. Overview of executive compensation arrangements
4. Directors' and executive officers' compensation
5. Equity instruments

1. Introduction

This report summarises the director and executive remuneration policies and practices, including detailed remuneration outcomes for the 2009 financial year, of the Group. It has been prepared in accordance with the remuneration reporting requirements under section 300A of the *Corporations Act 2001*, and details the remuneration arrangements for:

- Board Members and Senior Executives of the Company and Group (“the Directors and Senior Executives”); and
- Key Management Personnel (KMP) according to Accounting Standard AASB 124 *Related Party Disclosures*. The key management personnel of the Company and the Group includes the Directors as per page 1 above and the Senior Executives who had authority and responsibility for planning, directing and controlling the activities of the Company and the Group during the current financial year.

The information in the Remuneration Report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Remuneration is referred to as compensation throughout this Report.

2. Board oversight of remuneration

The Remuneration, Nomination and Governance Committee is responsible for making recommendations to the Board on compensation policies and packages applicable to the Directors and Senior Executives. The broad objective of the Compensation Policy is to implement a compensation package that properly reflects the person's duties and responsibilities and level of performance; and that compensation is competitive in attracting, retaining and motivating people of the highest quality.

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

- the capability and experience of the directors and senior executives;
- the Directors' and Senior Executives' ability to control the relevant business segment's performance;
- the Group's performance including:
 - the Group's earnings;
 - the growth in share price and returns on shareholder wealth; and
 - the amount of incentives within each Directors' and Senior Executives' compensation.

Compensation packages include a mix of fixed and variable compensation, and short-term, medium-term and long-term performance-based incentives.

3. Overview of executive compensation arrangements

The following table illustrates the structure of executive compensation arrangements:

FIXED COMPENSATION		Cash	Set with reference to role, market and experience. Set at 2007 levels due to a salary freeze.
PERFORMANCE LINKED COMPENSATION	Short-term Incentive (STI)	Cash	Group and individual objectives for the current financial year. No STI incentives to be paid in respect of the 2009 financial year.
	Medium-term Incentive (MTI)	Shares	Group and individual objectives over a two year period. Plan will not continue past its current cycle.
	Long-term Incentive (LTI)	Options	Senior Executive Option Plan Total shareholder returns and earnings per share hurdles. Executive Performance Rights Plan Earnings per share hurdles.

Fixed compensation

The CEO and Senior Executives' fixed compensation includes:

- cash salary;
- benefits the Senior Executive has elected to receive in lieu of salary (inclusive of any fringe benefits tax); and
- superannuation.

The level of fixed compensation paid to each Senior Executive is based on the Senior Executive's skills and experience, the requirements for their role and their relevant labour market in terms of the particular industry and geographical location. In setting fixed remuneration, the Senior Executive's total potential remuneration is taken into consideration to ensure an appropriate balance between fixed and variable remuneration.

Compensation levels are reviewed annually by the Remuneration, Nomination and Governance Committee through a process that considers individual and overall performance of the Group. In addition, external consultants provide analysis and advice to ensure the Directors' and Senior Executives' compensation is competitive in the marketplace.

Directors' Report (continued)

The Group has implemented a series of cost saving initiatives. One of these initiatives is management agreement to a freeze of all management salaries. Management salaries continued to be paid at the 2007 levels during the current financial year.

Performance-linked compensation

Performance-linked compensation includes short-term, medium-term and long-term incentives and is designed to reward Executive Directors and Senior Executives for meeting or exceeding their financial and personal objectives.

Short-term incentive (STI)

STIs may be awarded to Senior Executives based on their annual performance as evaluated under the Group's performance management system. STIs are paid in cash or as superannuation contributions.

The STI for all Executive Directors and Senior Executives considers performance metrics linked to measurable gains in the achievement of the Group's corporate objectives. Typically, the performance objectives comprise elements relating to individual performance, the performance of the relevant department and the performance of the Group. Accordingly, the specific STI objectives vary from executive to executive both in terms of their nature and the weighting of these objectives in accordance with the Group's priorities. Group metrics relate to financial, people, guest, safety, strategy and risk measures approved by the Board. The measures are chosen as they directly align the individual's reward to the objectives of the Group and to its strategy and performance.

At the end of the financial year the Board and Chief Executive Officer (CEO) assess the actual performance of the Group, the relevant department and the individual against the objectives set at the beginning of the financial year. For Senior Executives, up to 70% of an individual's fixed compensation is available to be paid as an STI. The CEO recommends the STI to be paid to the Senior Executives for ultimate approval by the Board. This method aims to provide an objective assessment of the Senior Executive's performance.

For the CEO, up to 100% of the CEO's fixed compensation is available to be paid as an STI. Where the CEO achieves less than 100%, the Board at its sole discretion may, having regard to those targets that are achieved in full or part, make a payment of an amount that the Board determines is reasonable.

The performance evaluation for the year ended 30 June 2008, which occurred in September 2008, took place in accordance with the process described above.

Senior Executives have agreed that no STI bonuses will be paid for the performance year ended 30 June 2009.

Medium-term incentive (MTI)

The MTI is designed to reward and retain executives in the Executive Management Team for performance over a two year period. The MTI is awarded on the basis of achievement against pre-determined objectives linked to both individual and company performance, as described for the STI above.

A single allocation of MTI was granted to executives for the 2 year period ended 30 June 2008. The calculation of the MTI involved the following steps:

- The Board approved the maximum amount of MTI payable to each executive.
- At the end of the performance period, the Board and CEO assessed the extent to which the pre-determined objectives were met, and determined the proportion of the maximum amount to be paid.
- The amount to be paid was divided by the volume weighted average price of shares of Virgin Blue Holdings Limited 20 days post the annual Company results announcement on 23 August 2006 (which was \$1.5895).
- The calculated amount represents the number of shares in Virgin Blue Holdings Limited allocated to each executive.

To be eligible to receive the MTI, the Executive Management Team member must have been a current employee of Virgin Blue and actively performing their duties as at the end of the performance period.

The MTI scheme will not continue beyond its current cycle.

Long-term incentive (LTI)

Senior Executives may be issued options under the Senior Executive Option Plan (SEOP) or the Executive Performance Rights Plan (EPRP), at the discretion of the Board. The ability to exercise the options may be conditional on the Group achieving certain performance hurdles. These performance hurdles, if applicable, relate to the profits or share price of Virgin Blue Holdings Limited and will be one of the following types:

	SEOP ISSUE 1 TO 4	SEOP ISSUE 5 TO 8	EPRP ISSUE 1 AND SEOP ISSUE 9	SEOP ISSUE 10
Issue date	SEOP 1: 8 December 2003 SEOP 2: 8 December 2003 SEOP 3: 4 October 2004 SEOP 4: 31 January 2005	SEOP 5: 8 December 2005 SEOP 6: 1 May 2006 SEOP 7: 8 December 2006 SEOP 8: 15 January 2007	EPRP 1: 27 December 2006 SEOP 9: 21 November 2007	22 April 2009
Vesting period	4 tranches, vesting equally over 4 years	3 years	3 years	3 years
Performance hurdle	1st tranche – Share price of the Company is 10% or more above the Company share price on the date that the options were issued. Subsequent tranches – Share price of the Company is 10% or more above the share price on the previous anniversary date.	Total shareholder return (growth plus dividend) ("TSR") of the Company over the vesting period is equal to or better than the percentage increase of the ASX 200 index. The performance hurdle must be met for a continuous period of 30 trading days.	Increase in earnings per share of the Company over the vesting period is greater than 62.5% for the EPRP, and 20.9% for SEOP Issue 9.	Fully diluted earnings per share at vesting date is as projected in the 3 year business plan approved by the Board.
Exercise price	SEOP 1: \$2.25 SEOP 2: \$2.48 SEOP 3: \$1.78 SEOP 4: \$1.96	SEOP 5: \$1.55 SEOP 6: \$1.77 SEOP 7: \$2.19 SEOP 8: \$2.37	Nil	Nil
Expiry conditions	Immediately if not vested on vesting date.	Options carried over each year until the performance hurdle is met, until the expiry date of the options.	Immediately if not vested on vesting date.	Immediately if not vested on vesting date.
Expiry date	5 years after issue date.	5 years after issue date.	EPRP 1: 30 June 2010 SEOP 9: 30 June 2011.	30 June 2012

The Virgin Blue Holdings Limited share price at 30 June 2009 was \$0.31.

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

While short-term incentives reward past performance, the Board considers it essential that executives and senior management, as the group which has responsibility for achievement of sustained performance and strategy, have reward incentives linked to longer-term Company performance and to creating value for shareholders.

TSR was chosen as a performance hurdle as it is an indicator of shareholder wealth creation. TSR includes share price growth, dividends and other capital adjustments. Earnings per share and Company share price were chosen as performance hurdles as they are indicators of the Company's growth in earnings and are aligned to shareholder wealth objectives.

In assessing whether the share price performance hurdles have been met the Board obtains the closing Company share price as quoted on the ASX on the date that options vest. The closing share price is compared with the performance conditions required by each option issue. In assessing whether the earnings per share performance condition has been met, the Board calculates the earnings per share of Virgin Blue Holdings Limited based on the audited financial results of the Company over the vesting period. Calculated earnings per share is then compared with the required performance condition of the option issue.

Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholders' wealth, the Remuneration, Nomination and Governance Committee have regard to the following indices in respect of the current financial period and the previous four financial periods:

	12 MONTHS TO 30 JUNE 2009 \$	12 MONTHS TO 30 JUNE 2008 \$	12 MONTHS TO 30 JUNE 2007 \$	9 MONTHS TO 30 JUNE 2006 \$	18 MONTHS TO 30 SEPTEMBER 2005 \$
Net profit/(loss) after tax	(160,000,000)	97,700,000	215,800,000	84,500,000	168,200,000
Dividends paid	-	41,700,000	21,000,000	259,800,000	-
Change in share price	(0.16)	(1.99)	0.96	(0.07)	(0.68)
Return of capital	-	-	-	-	-

Net profit is considered as one of the financial performance targets in setting the STI and MTI. Dividends, changes in share price and return of capital are included in the TSR calculation which is one of the performance criterion assessed for the LTI. The other performance criteria assessed for the LTI is growth in earnings per share, which again takes into account the Group's net profit.

The Remuneration, Nomination and Governance Committee considers that the above performance-linked compensation structure is appropriate, despite the current year net loss. Until the 2008 financial year, the Group had consistent growth in profits since start-up, and most of the Executive Directors and Senior Executives achieved a level of performance which qualified them for the majority of the performance incentives. The Remuneration, Nomination and Governance Committee consider that the performance-linked compensation structure has the appropriate incentives to generate favourable Group performance in future financial years.

Service contracts

Chief Executive Officer

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

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

Following Mr Godfrey's decision to retire from the Group during 2010, the Board has agreed with him to remain with the Group until 31 December 2010 in order to ensure a smooth transition to a newly appointed CEO.

Where the service contract is terminated by the Company, and the CEO continues to perform the role of CEO during his notice period, in addition to the cash component Virgin Blue shall also provide the CEO the cash equivalent amount in options equal to the notice period worked. Where the CEO gives notice, no entitlement to options will accrue during the notice period. The CEO has no entitlement to any termination payment in the event of removal for misconduct.

Senior Executives

It is the Group's policy that service contracts for Senior Executives are unlimited in term but capable of termination with between three and six months notice and that the Group retains the right to terminate the contract immediately, by making payment equal to pay in lieu of notice.

The Group has entered into service contracts with each Senior Executive that enables Senior Executives to receive on termination of their employment their statutory entitlements of accrued annual and long service leave.

The service contract outlines the components of compensation paid to the Senior Executives but does not prescribe how compensation levels are modified year to year. Compensation levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the Senior Executive and any changes required to meet the principles of the remuneration policy.

Directors' Report (continued)

Non-executive directors

Non-executive directors' fees are set based on advice from external advisors with reference to fees paid to other non-executive directors of comparable companies. Effective 1 March 2009, the Board resolved to decrease directors' fees by 10%. As a result of this resolution, directors' base fees during the year were as follows:

	BOARD	AUDIT AND FINANCIAL RISK COMMITTEE	REMUNERATION, NOMINATION AND GOVERNANCE COMMITTEE
To 28 February 2009			
Chairman	\$130,750	\$20,000	\$10,000
Members	\$80,750	\$12,000	\$5,000
From 1 March 2009			
Chairman	\$117,675	\$18,000	\$9,000
Members	\$72,675	\$10,800	\$4,500

Non-executive directors do not receive performance related compensation.

4. Directors' and executive officers' compensation

Details of the compensation of directors and the key management personnel (as defined by AASB 124 *Related Party Disclosures*) of Virgin Blue Holdings Limited and the Virgin Blue Holdings Limited Group are set out in the following tables.

The key management personnel of the Company and the Group includes the directors as per page 1 above and the following executive officers who had authority and responsibility for planning, directing and controlling the activities of the Company and the Group during the current and prior financial year:

NAME	POSITION	KEY MANAGEMENT PERSONNEL DURING:	
		2009	2008
Mr K Neate	Chief Financial Officer	Yes	Yes
Mr S Pichler	Chief Commercial Officer	To 31 March 2009	Yes
Mr A David	Chief Operating Officer	Yes	Yes
Mr R Tanner	General Manager of People	Yes	Yes
Mr S Swift	Executive General Manager – V Australia. Joint Company Secretary to 25 July 2008	Yes	Yes
Ms M McArthur	General Counsel. Company Secretary from 25 July 2008	Yes	From 19 May 2008

All key management personnel are employed by Virgin Blue Airlines Pty Limited, with the exception of Mr S Swift, who is employed by Virgin Blue International Airlines Pty Limited.

In addition, the following employee is a Company and Group executive whose remuneration must be disclosed under the *Corporations Act 2001* as he is one of the five highest compensated executives for the year ended 30 June 2009:

NAME	POSITION
Mr P Gunter	General Manager of Velocity

Details of the nature and amount of each major element of compensation of each director of the Company, other key management personnel of the Company and Group, and each of the five named Company executives and relevant Group executives who received the highest compensation for the financial year ended 30 June 2009 are:

FINANCIAL YEAR 2008/2009	RELEVANT DATE	SHORT-TERM EMPLOYEE BENEFITS		POST- EMPLOY- MENT	SHARE-BASED PAYMENTS		TOTAL	STI BONUS VESTED DURING YEAR	STI BONUS FORFEITED DURING YEAR	PRO- PORTION OF COMP- ENSATION PER- FORMANCE RELATED	VALUE OF OPTIONS AS A PRO- PORTION OF COMP- ENSATION
		CASH SALARY & FEES \$'000	STI CASH BONUS \$'000	SUPER- ANNUATION BENEFITS \$'000	OPTIONS VALUE ^(C) \$'000	MTI SHARE BONUS \$'000	\$'000	%	%	%	%
Directors											
Non-executive											
Mr N Chatfield		133	-	12	-	-	145	-	-	-	-
Mr P McCall		82	-	7	-	-	89	-	-	-	-
Mr D Baxby		76	-	7	-	-	83	-	-	-	-
Mr P Little	Resigned 22 August 2008	-	-	-	-	-	-	-	-	-	-
Mr R Watson	Resigned 11 July 2008	8	-	1	-	-	9	-	-	-	-
Mr R Thomas		89	-	8	-	-	97	-	-	-	-
Mr B McInerney	Resigned 22 August 2008	-	-	-	-	-	-	-	-	-	-
Mr T Mallon	Resigned 22 August 2008	13	-	1	-	-	14	-	-	-	-
Mr J Ludeke	Resigned 22 August 2008	-	-	-	-	-	-	-	-	-	-
Mr M Vaile	Appointed 22 September 2008	55	-	5	-	-	60	-	-	-	-
Alternate											
Mr S Murphy		-	-	-	-	-	-	-	-	-	-
Mr K Roberts	Appointed 28 November 2008 ^(D)	-	-	-	-	-	-	-	-	-	-
Executive											
Mr B Godfrey		826	281	100	402	281	1,890	62	38	51	21
Other key management personnel											
Mr K Neate ^(A)		413	189	54	114	63	833	63	37	43	13
Mr S Pichler ^(A)	Resigned 31 March 2009	413	240	59	6	60	778	60	40	39	1
Mr A David ^(A)		550	252	72	139	63	1,076	63	37	42	13
Mr R Tanner		275	124	36	69	47	551	62	38	42	12
Mr S Swift ^(A)		275	128	36	81	48	568	64	36	44	14
Ms M McArthur		350	-	32	27	-	409	-	-	6	6
Other executives											
Mr P Gunter ^(A)		298	122	38	132	-	590	75	25	42	22

Notes in relation to the tables of directors' and executive officers' compensation are set out on page 10.

FINANCIAL YEAR 2007/2008	RELEVANT DATE	SHORT-TERM EMPLOYEE BENEFITS		POST- EMPLOY- MENT	SHARE-BASED PAYMENTS		TOTAL	STI BONUS VESTED DURING YEAR	STI BONUS FORFEITED DURING YEAR	PRO- PORTION OF COMP- ENSATION PER- FORMANCE RELATED	VALUE OF OPTIONS AS A PRO- PORTION OF COMP- ENSATION
		CASH SALARY & FEES \$'000	STI CASH BONUS \$'000	SUPER- ANNUATION BENEFITS \$'000	OPTIONS VALUE ^(C) \$'000	MTI SHARE BONUS \$'000					
							\$'000	%	%	%	%
Directors											
Non-executive											
	Mr N Chatfield	130	-	12	-	-	142	-	-	-	-
	Mr P McCall	88	-	8	-	-	96	-	-	-	-
	Mr D Baxby	73	-	7	-	-	80	-	-	-	-
	Mr P Little	73	-	7	-	-	80	-	-	-	-
	Mr R Watson	93	-	8	-	-	101	-	-	-	-
	Mr R Thomas	90	-	8	-	-	98	-	-	-	-
	Mr B McInerney	77	-	7	-	-	84	-	-	-	-
	Mr T Mallon	73	-	7	-	-	80	-	-	-	-
	Mr J Ludeke	73	-	7	-	-	80	-	-	-	-
Alternate											
	Mr S Murphy	-	-	-	-	-	-	-	-	-	-
Executive											
	Mr B Godfrey	826	471	96	716	246	2,355	73	27	61	30
Other key management personnel											
	Mr K Neate ^(A)	413	279	52	274	56	1,074	74	26	56	25
	Mr S Pichler ^(A)	550	360	70	321	56	1,357	74	26	54	24
	Mr A David ^(A)	550	351	69	324	53	1,347	71	29	54	24
	Mr R Tanner	279	-	25	51	-	355	-	-	14	14
	Mr S Swift ^(A)	275	188	35	205	42	745	75	25	58	27
	Ms M McArthur	41	-	4	-	-	45	-	-	-	-
	Appointed 19 May 2008										

Notes in relation to the tables of directors' and executive officers' compensation are set out on page 10.

Directors' Report (continued)

STI bonus

The STI cash bonus disclosed in the 2009 table above represents the bonuses awarded to Senior Executives for their performance in the year ended 30 June 2008. The STI cash bonus was calculated in September 2008, and paid in October 2008. No amounts vest in future financial years in respect of the STI cash bonus scheme for the 2008 performance year.

As a result of Senior Executive agreement, no bonuses will be paid to Senior Executives for performance in the year ended 30 June 2009.

Options

None of the options which were due to vest during the year ended 30 June 2009 in fact vested, as the performance conditions relating to Company share price and earnings were not met.

Insurance of officers

During the financial year, the Group paid premiums of \$458,000 (2008: \$213,000) in respect of directors' and officers' liability insurance contracts which cover former directors and officers, including executive officers of the entity and directors, executive officers and secretaries of its controlled entities.

Notes in relation to the tables of directors' and executive officers' compensation

(A) Denotes one of the five highest compensated executives of the Company and Group, as required to be disclosed under the *Corporations Act 2001*.

(B) The fair value of the options is calculated at the date of grant using a Black-Scholes, binomial or Monte Carlo model (depending on the terms and conditions of the option plan) and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account. Refer to note 35 of the financial statements for further details regarding the fair value of options.

(C) Mr Keith Roberts was appointed as alternate director for Mr David Baxby and Mr Patrick McCall.

5. Equity instruments

MTI – Shares granted as compensation

The following shares were issued to the directors and each of the five highest paid Company executives and relevant Group executives during the financial year ended 30 June 2009. The shares were awarded under the MTI bonus scheme for the performance years ended 30 June 2007 and 30 June 2008.

The shares were issued on 9 June 2009.

	NUMBER OF SHARES	
	PERFORMANCE YEAR ENDED: 30 JUNE 2009	30 JUNE 2008
Executive director		
Mr B Godfrey	176,659	155,002
Other key management personnel of the Company and Group		
Mr K Neate	39,635	34,917
Mr S Pichler	37,748	34,917
Mr A David	39,635	33,501
Mr S Swift	30,198	26,541
Mr R Tanner	19,620	-
Ms M McArthur	-	-
Other executives		
Mr P Gunter	-	-

LTI – Options granted as compensation

All options refer to options over ordinary shares of Virgin Blue Holdings Limited, which are exercisable on a one-for-one basis under various option plans.

Options are provided at no cost to the recipients. Non-executive directors are not entitled to options.

During the reporting period, nil options were vested (2008: nil) and nil shares were issued on the exercise of options previously granted as remuneration.

No terms of equity-settled share-based payment transactions have been altered or modified by the Group during the current or prior period.

All options expire on the earlier of their expiry date or termination of the individual's employment. In addition to a continuing employment service condition, the ability to exercise options is conditional on the Group achieving certain performance hurdles. Details of the performance criteria are included in the long-term incentives discussion above and in note 35 to the financial statements. For options granted in the current financial period, the earliest exercise date is 28 November 2011.

Details of options granted as compensation, exercised and forfeited during current and prior years are as follows. No options have been granted since the end of the financial year.

2009	DATE GRANTED	OPTION PLAN	BALANCE AT BEGINNING OF YEAR '000	GRANTED IN YEAR '000	FORFEITED IN YEAR '000	BALANCE AT END OF YEAR '000	FAIR VALUE PER OPTION AT GRANT DATE \$	EXERCISE PRICE PER OPTION \$	VESTED IN YEAR ^(A) %	FORFEITED IN YEAR ^(B) %	VALUE OF OPTIONS GRANTED IN YEAR ^(C) \$'000	VALUE OF OPTIONS FORFEITED IN YEAR ^(D) \$'000	FINANCIAL YEARS IN WHICH GRANT VESTS	EXPIRY DATE
Executive Director														
Mr B Godfrey	27 Dec 2006	EPRP 1	566	-	(566)	-	2.24	-	-	100	-	1,268	-	-
	21 Nov 2007	SEOP 9	408	-	-	408	2.16	0.00	-	-	-	-	30 Jun 2010	30 Jun 2011
	22 Apr 2009	SEOP 10	-	1,669	-	1,669	0.29	0.00	-	-	477	-	30 Jun 2011	30 Jun 2012
Other key management personnel of the Company and Group														
Mr K Neate	8 Dec 2005	SEOP 5	1,043	-	-	1,043	0.40	1.55	-	-	-	-	30 Jun 2010	7 Dec 2010
	27 Dec 2006	EPRP 1	142	-	(142)	-	2.24	-	-	100	-	317	-	-
	21 Nov 2007	SEOP 9	102	-	-	102	2.16	0.00	-	-	-	-	30 Jun 2010	30 Jun 2011
	22 Apr 2009	SEOP 10	-	417	-	417	0.29	0.00	-	-	119	-	30 Jun 2011	30 Jun 2012
Mr S Pichler	4 Oct 2004	SEOP 3	250	-	(250)	-	0.30	-	-	25	-	75	-	-
	8 Dec 2005	SEOP 5	843	-	(843)	-	0.40	-	-	75	-	326	-	-
	27 Dec 2006	EPRP 1	157	-	(157)	-	2.24	-	-	100	-	352	-	-
	21 Nov 2007	SEOP 9	113	-	(113)	-	2.16	-	-	100	-	245	-	-
Mr A David	21 Jan 2005	SEOP 4	378	-	(189)	189	0.47	1.96	-	-	-	84	30 Jun 2008	31 Oct 2010
	8 Dec 2005	SEOP 5	1,035	-	-	1,035	0.40	1.55	-	-	-	-	30 Jun 2010	7 Dec 2010
	27 Dec 2006	EPRP 1	157	-	(157)	-	2.24	-	-	100	-	352	-	-
	21 Nov 2007	SEOP 9	113	-	-	113	2.16	0.00	-	-	-	-	30 Jun 2010	30 Jun 2011
	22 Apr 2009	SEOP 10	-	464	-	464	0.29	0.00	-	-	132	-	30 Jun 2011	30 Jun 2012
Mr R Tanner	21 Nov 2007	SEOP 9	70	-	-	70	2.16	0.00	-	-	-	-	30 Jun 2010	30 Jun 2011
	22 Apr 2009	SEOP 10	-	287	-	287	0.29	0.00	-	-	82	-	30 Jun 2011	30 Jun 2012
Mr S Swift	8 Dec 2005	SEOP 5	675	-	-	675	0.40	1.55	-	-	-	-	30 Jun 2010	7 Dec 2010
	27 Dec 2006	EPRP 1	98	-	(98)	-	2.24	-	-	100	-	218	-	-
	21 Nov 2007	SEOP 9	70	-	-	70	2.16	0.00	-	-	-	-	30 Jun 2010	30 Jun 2011
	22 Apr 2009	SEOP 10	-	287	-	287	0.29	0.00	-	-	82	-	30 Jun 2011	30 Jun 2012
Ms M McArthur	22 Apr 2009	SEOP 10	-	287	-	287	0.29	0.00	-	-	82	-	30 Jun 2011	30 Jun 2012
Mr P Gunter	1 May 2006	SEOP 6	338	-	-	338	0.44	2.19	-	-	-	-	30 Jun 2010	30 Apr 2011
	8 Dec 2006	SEOP 7	352	-	-	352	0.50	0.00	-	-	-	-	(E)	7 Dec 2011
	21 Nov 2007	SEOP 9	70	-	-	70	2.16	0.00	-	-	-	-	30 Jun 2010	30 Jun 2011
	22 Apr 2009	SEOP 10	-	301	-	301	0.29	0.00	-	-	86	-	30 Jun 2011	30 Jun 2012

Notes in relation to the table of options granted as compensation

- (A) No options vested during the current year. The minimum value of options yet to vest is \$nil as the performance criteria may not be met and consequently the option may not vest. The maximum value of options yet to vest is not determinable as it depends on the market price of shares of the Company on the Australian Securities Exchange at the date the option is exercised, or on the earnings per share of the Company over the vesting period.
- (B) The % forfeited in the year represents the reduction from the maximum number of options available to vest due to the performance or service conditions not being achieved.
- (C) The value of options granted in the year is the fair value of the options calculated at grant date using a Black-Scholes, binomial or Monte Carlo model. The total value of the options granted is allocated to compensation over the vesting period.
- (D) The value of options that lapsed during the year represents the benefit forgone and is calculated as the number of options at the date the options/rights lapsed multiplied by the fair value of the options calculated at grant date using a Black-Scholes, binomial or Monte Carlo model.
- (E) Remaining options vest equally each financial year between 30 June 2010 and 30 June 2011.

Directors' Report (continued)

Indemnification and insurance of officers and auditors

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

The Company has directors' and officers' liability insurance contracts in place, for all current and former officers of the Company (including directors and the company secretaries). The Directors have not included the details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance contracts, as such disclosure is prohibited under the terms of the insurance contract. The premium paid for directors' and officers' liability Insurance contracts is disclosed in the Remuneration Report on page 10.

Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor.
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out in note 37 to the financial statements.

Events subsequent to reporting date

On 27 July 2009, the Group announced a fully underwritten equity raising of approximately \$231.4 million, consisting of:

- an institutional placement of 105.2 million shares to raise approximately \$21.0 million; and
- a one-for-one non-renounceable pro-rata entitlement of 560.4 million shares to raise approximately \$210.4 million.

The offer was fully subscribed, and the full amount of \$231.4 million was raised. All new shares were issued by 8 September 2009.

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

Lead auditor's independence declaration under section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 13 and forms part of the Directors' Report for the financial year ended 30 June 2009.

Rounding off

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

This report is made in accordance with a resolution of the directors:



Brett Godfrey
Director

Dated at Brisbane this 30th day of September 2009.



Lead auditor's independence declaration under s307C of the Corporations Act 2001

To: The directors of Virgin Blue Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2009 there have been:

- (a) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

A stylized signature of the KPMG firm, appearing as 'Kpmg' in a handwritten style.

KPMG

A handwritten signature of Robert S. Jones, written in black ink.

Robert S Jones

Partner

Brisbane, 30 September 2009

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Income Statements

For the year ended 30 June 2009

		CONSOLIDATED		THE COMPANY	
	NOTE	2009 \$M	2008 \$M	2009 \$M	2008 \$M
Revenue and income					
Revenue	6	2,600.3	2,321.7	12.7	42.0
Share of net profits of associate accounted for using the equity method		0.4	3.5	-	-
Other income	7	34.7	9.6	-	-
		2,635.4	2,334.8	12.7	42.0
Operating expenditure					
Aircraft operating costs		141.1	141.7	-	-
Airport charges, navigation and station operations		535.3	457.9	-	-
Contract and other maintenance costs		140.0	109.0	-	-
Commissions and other marketing and reservations costs		182.8	130.1	-	-
Fuel and oil		748.9	589.3	-	-
Labour and staff related costs		595.2	536.1	-	-
Other expenses from ordinary activities		112.4	96.1	-	0.6
Depreciation and amortisation		183.7	123.7	-	-
Foreign exchange losses		25.1	-	-	-
Total operating expenses		2,664.5	2,183.9	-	0.6
Loss/profit before tax expense, finance costs, ineffective cash flow hedges and non-designated derivatives		(29.1)	150.9	12.7	41.4
Ineffective cash flow hedges and non-designated derivatives	8	133.2	(16.8)	-	-
(Loss)/profit before related income tax expense and net finance costs		(162.3)	167.7	12.7	41.4
Finance costs	8	(90.5)	(69.2)	-	-
Finance income		26.6	41.9	0.1	-
Net financing costs		(63.9)	(27.3)	0.1	-
(Loss)/profit before income tax expense		(226.2)	140.4	12.8	41.4
Income tax (benefit)/expense	9	(66.2)	42.7	3.9	(0.2)
Net (loss)/profit attributable to the members of Virgin Blue Holdings Limited		(160.0)	97.7	8.9	41.6
Earnings per share for profit attributable to the ordinary equity holders of the company:					
Basic earnings per share – (loss)/profit:	10	(15.2 cents)	9.3 cents	-	-
Diluted earnings per share – (loss)/profit:	10	(15.2 cents)	9.3 cents	-	-

The above Income Statements are to be read in conjunction with the accompanying notes.

Balance Sheets

As at 30 June 2009

	NOTE	CONSOLIDATED		THE COMPANY	
		2009 \$M	2008 \$M	2009 \$M	2008 \$M
Current assets					
Cash and cash equivalents	11	475.9	603.9	0.1	0.3
Trade and other receivables	12	122.3	108.5	289.8	330.7
Inventories	13	-	0.6	-	-
Derivative financial instruments	14	11.9	126.8	-	-
Current tax assets		1.7	23.5	2.1	21.6
Total current assets		611.8	863.3	292.0	352.6
Non-current assets					
Investments accounted for using the equity method	15	6.7	6.3	-	-
Other financial assets	16	49.0	24.0	79.8	79.3
Derivative financial instruments	14	1.9	60.9	-	-
Property, plant and equipment	17	2,645.7	2,336.0	-	-
Intangible assets	18	51.1	46.7	-	-
Deferred tax assets	19	0.7	0.7	78.7	10.0
Total non-current assets		2,755.1	2,474.6	158.5	89.3
Total assets		3,366.9	3,337.9	450.5	441.9
Current liabilities					
Trade and other payables	20	268.7	224.4	-	-
Interest-bearing liabilities	21	233.3	303.7	-	-
Provisions	22	75.1	43.4	-	0.2
Derivative financial instruments	14	88.6	72.3	-	-
Current tax liabilities		-	-	-	-
Unearned revenue	24	493.2	408.2	-	-
Total current liabilities		1,158.9	1,052.0	-	0.2
Non-current liabilities					
Payables	20	0.1	0.3	-	-
Interest-bearing liabilities	21	1,546.1	1,182.5	-	-
Provisions	22	42.5	47.0	-	-
Derivative financial instruments	14	36.1	3.7	-	-
Deferred tax liabilities	23	5.0	125.3	-	-
Unearned revenue	24	1.1	1.8	-	-
Total non-current liabilities		1,630.9	1,360.6	-	-
Total liabilities		2,789.8	2,412.6	-	0.2
Net assets		577.1	925.3	450.5	441.7
Equity					
Contributed equity	25	407.7	406.2	428.0	427.1
Reserves	26	(113.9)	75.8	13.3	14.3
Retained profits	27	283.3	443.3	9.2	0.3
Total equity		577.1	925.3	450.5	441.7

The above Balance Sheets are to be read in conjunction with the accompanying notes.

Statements of Recognised Income and Expense

For the year ended 30 June 2009

	NOTE	CONSOLIDATED		THE COMPANY	
		2009 \$M	2008 \$M	2009 \$M	2008 \$M
Exchange differences on translation of foreign operations	26(a)	(12.8)	(2.3)	–	–
Effective portion of changes in fair value of cash flow hedges	26(a)	(190.6)	181.5	–	–
Net change in fair value of cash flow hedges transferred to profit or loss	26(a)	29.8	(59.6)	–	–
Income and expense recognised directly in equity		(173.6)	119.6	–	–
(Loss)/profit for the year		(160.0)	97.7	8.9	41.6
Total recognised income and expense for the period attributable to equity holders of Virgin Blue Holdings Limited		(333.6)	217.3	8.9	41.6

The amounts recognised in equity are disclosed net of tax.

The above Statements of Recognised Income and Expense are to be read in conjunction with the accompanying notes.

Statements of Cash Flows

For the year ended 30 June 2009

	NOTE	CONSOLIDATED		THE COMPANY	
		2009 \$M	2008 \$M	2009 \$M	2008 \$M
Cash flows from operating activities					
Cash receipts in the course of operations		2,849.9	2,634.6	4.1	-
Cash payments in the course of operations		(2,673.7)	(2,242.8)	(0.2)	(0.6)
Finance costs paid		(96.7)	(75.5)	-	-
Income taxes refund/(paid)		21.6	(22.7)	(53.2)	(31.0)
Net cash inflow/(outflow) from operating activities	33	101.1	293.6	(49.3)	(31.6)
Cash flows from investing activities					
Interest received		26.6	42.5	0.1	-
Payments for other deposits		(24.1)	(2.1)	-	-
Payments for other financial assets		-	-	-	(0.6)
Payments for intangible assets		(7.8)	(1.9)	-	-
Payments for property, plant and equipment		(832.4)	(1,034.5)	-	-
Proceeds from sale of property, plant and equipment		276.0	0.8	-	-
Dividends received from related parties		-	-	-	42.0
Net cash (outflow)/inflow from investing activities		(561.7)	(995.2)	0.1	41.4
Cash flows from financing activities					
Proceeds from borrowings		751.4	740.8	-	-
Repayment of borrowings		(417.5)	(94.6)	-	-
Loan from related party		0.7	-	49.0	32.0
Proceeds from issue of shares		-	0.2	-	0.2
Dividends paid		-	(41.7)	-	(42.0)
Net cash inflow/(outflow) from financing activities		334.6	604.7	49.0	(9.8)
Net decrease in cash and cash equivalents		(126.0)	(96.9)	(0.2)	-
Cash and cash equivalents at the beginning of the financial year		603.9	704.0	0.3	0.3
Effects of exchange rate changes on cash and cash equivalents		(2.0)	(3.2)	-	-
Cash and cash equivalents at the end of the financial year	11	475.9	603.9	0.1	0.3

The above Statements of Cash Flows are to be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the year ended 30 June 2009

1 Reporting entity

Virgin Blue Holdings Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office and principal place of business is 56 Edmondstone Road, Bowen Hills, QLD 4006.

The consolidated financial statements of the Company as at and for the year ended 30 June 2009 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates. The Group is primarily involved in the airline industry.

2 Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The consolidated financial report of the Group and the financial report of the Company comply with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors on 30 September 2009.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group.

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest one hundred thousand dollars unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is disclosed in note 4.

3 Significant accounting policies

The accounting policies set out below have been consistently applied to all the periods presented in these consolidated financial statements and have been consistently applied by Group entities. Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Controlled entities are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Controlled entities are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intra-group balances, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

In the Company's financial statements, investments in subsidiaries are carried at cost.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control over the financial and operating policies, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes any notional goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the Income Statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's Income Statements, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

Scheduled revenue

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

Other revenue

Other revenue comprises revenue earned from the provision of other airline related services (including freight revenue, on-board sales and other product revenue), and government mandated charges. Other revenue is recognised in the Income Statements at the time the service is provided.

Interest revenue

Interest revenue is recognised in the Income Statements on an effective interest rate basis.

Dividends

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

(c) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the Income Statements over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the Income Statement on a straight-line basis over the expected lives of the related assets.

(d) Goods and services tax

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

The net amount of GST recoverable from, or payable to, the Australian Taxation Office ("ATO") is included as a current asset or liability in the balance sheet.

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

(e) Foreign currency

(i) Transactions and balances

Foreign currency transactions are translated to the functional currency of respective Group entities at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on qualifying cash flow hedges, which are recognised directly in equity.

Foreign currency gains and losses are reported on a net basis.

(ii) Foreign operations

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each Balance Sheet presented are translated at the closing rate at the date of that Balance Sheet;
- income and expenses for each Income Statement are translated at average exchange rates (unless that is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity in the Foreign Currency Translation Reserve. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the Income Statements as part of the gain or loss on sale.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are also considered to form part of a net investment in a foreign operation and are recognised directly in the Foreign Currency Translation Reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(f) Income tax

The income tax expense for the period comprises tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

3 Significant accounting policies (continued)

(f) Income tax (continued)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Tax consolidation legislation

Virgin Blue Holdings Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation from an implementation date of 1 April 2003.

The head entity, Virgin Blue Holdings Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Virgin Blue Holdings Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Nature of tax funding arrangements

The head entity, in conjunction with other members of the tax consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangements require payments to/(from) the head entity equal to the current tax liability/(asset), and any tax loss (deferred tax asset) assumed by the head entity for each subsidiary member, calculated as if each subsidiary member continues to be a stand-alone tax payer in its own right.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

The tax funding agreement also provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(g) Earnings per share

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

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

(h) Acquisitions of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call within financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Receivables

The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful accounts where a loss event has occurred. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The movement of the provision is recognised in the Income Statements.

A significant proportion of the Group's revenue is derived from credit cards. Credit card charges are normally settled within seven days and are carried at amounts due. The remainder of the Group's trade debtors are normally settled within 30 days and are carried at amounts due.

(k) Inventories

Maintenance spare parts are expected to be consumed in the following financial period and are carried at the lower of cost and net realisable value. Catering, consumables, uniforms and merchandise inventory are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

The cost of inventories is based on the first in-first out principle, and includes expenditure in acquiring the inventories and bringing them to their existing location and condition.

(l) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transactions costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control of substantially all the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial instruments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments

The Group holds derivative financial instruments to hedge (including economically hedge) its foreign currency, fuel price and interest rate risk exposures. Derivatives are recognised initially at fair value; attributable transactions costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in fair value of such derivatives are recognised in profit or loss as part of foreign currency gains and losses.

(m) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts and fuel contracts is determined using forward exchange market rates and fuel prices at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and trade payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(n) Leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases

Finance leases are capitalised. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Capitalised lease assets are amortised over the term of the relevant lease, or where it is likely the Group will obtain ownership of the asset, the life of the asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

3 Significant accounting policies (continued)

(n) Leases (continued)

Operating leases

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. If the sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount are deferred and amortised over the lease term.

If a sale and leaseback transaction results in an operating lease, and the transaction is established at fair value, any profit or loss is recognised immediately. If the sale price is below fair value, any profit or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above the fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used. If the fair value at the time of a sale and leaseback transaction is less than the carrying amount, a loss equal to the amount of the difference between the carrying amount and the fair value shall be recognised immediately.

(o) Intangibles

Goodwill

Goodwill represents the excess of the purchase consideration plus incidental costs over the net fair value of the identifiable assets of an entity or operation acquired at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing (refer to note 3(p) below). Each of those cash-generating units represents the Group's investment in each region of operation by each primary reporting segment. The two identified cash-generating units are Short haul and Long haul operations.

Other intangible assets

Other intangible assets include software, patents and trademarks. These items have a finite useful life and are measured at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the intangible asset over the estimated useful lives, which is three years (2008: three years).

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(p) Impairment of assets

Financial assets

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment is evidenced by one or more events having a negative effect on the estimated future cash flows of an asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit or group of units on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(q) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statements during the financial period in which they are incurred.

Items of property, plant and equipment are depreciated using the straight-line method over their estimated useful lives, taking into account estimated residual values, with the exception of finance lease assets which are depreciated over the term of the relevant lease, or where it is likely the Group will obtain ownership of the asset, the life of the asset.

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Depreciation methods, useful lives and residual values, are reviewed at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The depreciation and amortisation rates used for each class of asset for the current and comparative periods are as follows:

Buildings	11–40 years
Aircraft and aeronautic related assets:	
– Modifications to leased aircraft	20%
– Rotables and maintenance parts	7.25%
– Airframe, engines and landing gear	10%–25%
– Major cyclical maintenance	10%–80%
Plant and equipment	20%
Computer equipment	33.3%

Gains and losses on disposal of an item of property, plant or equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” in profit or loss.

Repairs and maintenance – owned aircraft

Routine maintenance costs, including annual airframe checks, are written off to the Income Statements as incurred.

Major 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. Any remaining carrying amount of the cost of the previous inspection is derecognised.

Repairs and maintenance – operating leased aircraft

Routine maintenance costs, including annual airframe checks, are written off to the Income Statements as incurred.

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

Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Group, whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over 3 to 5 years (2008: 1 to 5 years).

(r) Payables

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

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statements over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(t) Finance costs

Finance costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take a substantial period of time to get ready for their intended use or sale. If borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of finance costs capitalised are those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, finance costs are capitalised using a weighted average capitalisation rate.

(u) Employee entitlements

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised on an undiscounted basis in other payables in respect of employees’ services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

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

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

(iii) Employee bonus plans

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

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

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

(iv) Superannuation plan

The Group is required to make contributions to defined contribution employee superannuation plans. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Such contributions are charged to the Income Statements as they are made. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

(v) Share-based payments

The Group operates a number of employee option plans and share plans.

The fair values of options granted are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the option or performance rights.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

3 Significant accounting policies (continued)

(u) Employee entitlements (continued)

(v) Share-based payments (continued)

The fair value at grant date is determined using a Black-Scholes, binomial or Monte Carlo option pricing model depending on the terms and conditions of each option, that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the option granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimates.

Upon exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the shares vest.

When the Company grants options over its shares to employees of subsidiaries, the fair value at grant date is recognised as an increase in the investments in subsidiaries, with a corresponding increase in equity over the vesting period of the grant.

(v) Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are determined by discounting expected future cash flows at a pre-tax rate that is specific to the liability.

(w) Dividends

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

(x) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are recognised as a deduction in equity, net of any tax effects. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

In the Group's financial statements, the transactions of the Group sponsored Key Employee Performance Plan Trust are treated as being executed directly by the Company (as the Trust acts as the Company's agent). Accordingly, shares in the Company held by the Trust are recognised as Treasury shares and deducted from equity.

(y) Loyalty program accounting

The Group has adopted Accounting Interpretation 13 *Customer Loyalty Programmes* from 1 July 2008. There have been no changes to the accounting policies of the Group as a result of the adoption of this interpretation. There were no adjustments made to the financial statements of the Group as a result of the adoption of this interpretation.

The Group receives revenue from the sale to third parties of rights to have Velocity reward points allocated to members of the Velocity Program. This revenue is deferred and recognised in the Income Statements when the points are redeemed. Members of the Velocity Program also accumulate points by travelling on qualifying Group airline services. The obligation to provide awards to members is accounted for by deferring a portion of the flight ticket sales revenue. The amount deferred is the fair value. This revenue is recognised in the Income Statements when the points are redeemed.

(z) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets (other than goodwill).

(aa) New accounting standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They are available for early adoption at 30 June 2009, but have not been applied in preparing this financial report:

- Revised AASB 3 *Business Combinations* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. The revised standard becomes mandatory for and is expected to be applied in the Group's 30 June 2010 financial statements. The revised standard is not expected to have any impact on the Group's financial statements.
- AASB 8 *Operating Segments* introduces the "management approach" to segment reporting. AASB 8 becomes mandatory for and is expected to be applied to the Group's 30 June 2010 financial statements. AASB 8 will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 5). The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.
- Revised AASB 101 *Presentation of Financial Statements* (2007) introduces the term "total comprehensive income", which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement) or, in a income statement and a separate statement of comprehensive income. The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for and is expected to be applied to the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.

- Amended AASB 127 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amended standard will become mandatory for and is expected to be applied to the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.
- AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to AASB 2 will be mandatory for and are expected to be applied to the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial report.
- AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Process* and AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments will become mandatory for and are expected to be applied to the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amendments on the Group's financial report.
- AASB 2008-7 *Amendments to Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* changes the recognition and measurement of dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The amendments become mandatory for and are expected to be applied to the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amendments on the Group's financial report.
- AASB 2008-8 *Amendments to Australian Accounting Standard – Eligible Hedged Items* clarifies the effect of using options as hedging instruments and the circumstances in which inflation risk can be hedged. The amendments become mandatory for and are expected to be applied to the Group's 30 June 2010 financial statements, with retrospective application. The Group has not yet determined the potential effect of the amendments on the Group's financial report.
- AI 16 *Hedges of a Net Investment in a Foreign Operation* clarifies that net investment hedging can only be applied when the net assets of the foreign operation are recognised in the entity's consolidated financial statements. AI 16 will become mandatory for and is expected to be applied to the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amendments on the Group's financial report.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill and other non-current assets

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3(p). The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to notes 17 and 18 for details of these assumptions and the potential impact of changes to the assumptions.

(b) Maintenance provisions

As described in note 3(q), the Group provides for the estimated future costs of major cyclical maintenance of leased airframes, engines, landing gear and auxiliary power units, calculated by reference to the rectification costs and the number of hours or cycles operated during the period. These calculations require the use of assumptions regarding the timing of maintenance and the cost of repairs. The timing of future payments is estimated with reference to historical data, industry standards and manufacturers' specifications. Refer to note 22 for further details regarding maintenance provisions.

(c) Financial instruments

As detailed in note 3(l), the Group enters into financial arrangements to manage exposures to interest rates, foreign currency and fuel price risk. Financial instruments are recognised as financial assets and financial liabilities of the entity. The fair value of these financial assets and financial liabilities must be estimated for recognition and measurement disclosure purposes. These calculations require valuation techniques using various methods and assumptions. Refer to note 31 for further details regarding financial instruments.

(d) Residual values

The estimate of the useful life and depreciable amount of aircraft requires the use of assumptions regarding the residual value of the aircraft at the estimated time of disposal. Residual value is estimated based on market estimates of future aircraft values and current expectations of the aircraft operations. As the market for aircraft is based on US dollars, residual value estimates are also affected by expectations of future movements in the US dollar against the Australian dollar.

(e) Deferred points revenue

As described in note 3(y), the Group defers revenue relating to participation by members in the Velocity rewards program. This revenue is deferred and recognised in the Income Statements when points are redeemed. The amount of revenue deferred is calculated using assumptions regarding the fair value of reward points.

5 Segment reporting

Business segments

The Group comprises the following main business segments:

- Short haul operations – Operations using the short haul fleet of Boeing 737 aircraft and Embraer 170 and 190 aircraft. This comprises Australian domestic, New Zealand domestic, Trans-Tasman and Pacific Island flying.
- Long haul operations – Operations using the Boeing 777 aircraft. This comprises Trans-Pacific flying.

Costs associated with the centralised management and governance of Virgin Blue, together with certain items which are not allocated to business segments, are reported in Corporate/Unallocated.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

5 Segment reporting (continued)

(a) Business segments

2009	SHORT HAUL	LONG HAUL	CORPORATE/ UNALLOCATED	ELIMINATIONS	CONSOLIDATED
	\$M	\$M	\$M	\$M	\$M
Sales and other income					
External revenues	2,543.4	69.1	22.5	-	2635.0
Inter-segment revenues	41.5	-	82.1	(123.6)	-
Segment revenue	2,584.9	69.1	104.6	(123.6)	2635.0
Share of net profit of associate	-	-	0.4	-	0.4
Segment underlying EBITDAR	346.0	(44.7)	16.0	6.6	323.9
Non-cancellable operating lease rentals	(114.6)	(11.4)	-	-	(126.0)
Depreciation and amortisation	(174.8)	(7.4)	(1.5)	-	(183.7)
Segment underlying EBIT	56.6	(63.5)	14.5	6.6	14.2
Ineffective cash flow hedges and non-designated derivatives	-	-	(133.2)	-	(133.2)
Non-recurring items					
Net gain on sale of property, plant and equipment	16.8	13.8	-	-	30.6
V Australia start-up and foreign exchange expenses	-	(73.9)	-	-	(73.9)
Segment EBIT	73.4	(123.6)	(118.7)	6.6	(162.3)
Net finance costs					(63.9)
Loss before related income tax expense					(226.2)
Income tax benefit					(66.2)
Loss for the year					(160.0)
Significant items included in segment results:					
- Gain on sale of aircraft	18.1	13.8	-	-	31.9
Assets					
Segment assets	2,512.6	388.9	573.1	(114.5)	3,360.2
Investments accounted for using the equity method	-	-	6.7	-	6.7
Total assets	2,512.6	388.9	579.8	(114.5)	3,366.9
Liabilities					
Total liabilities	2,243.3	494.6	65.5	(13.6)	2,789.8
Capital expenditure					
Payments for property, plant and equipment	459.0	372.4	1.0	-	832.4

Inter-segment revenue has been determined on an arm's length basis or a cost plus margin basis, depending on the nature of the revenue and the financial impact on the segment receiving the revenue.

The total liabilities of the Long haul segment exceed the total assets of that segment. The Long haul segment primarily comprises the operations of V Australia. Amounts owing by the V Australia operations to other Group subsidiaries in relation to the initial start-up funding of V Australia and the arrangement of aircraft financing will not be required to be repaid if such repayment would render the V Australia operations unable to pay its debts as and when they fall due, for at least the next 12 months.

In the 2008 financial year, the Group only operated in the Short haul segment. All revenues, assets and liabilities were from operations of the Short haul segment.

(b) Geographic segments

Ticket sales revenue from domestic services within Australia is attributed to the Australia geographic region. Guest and other services revenue from inbound and outbound services between Australia and overseas is allocated proportionately to the area in which the sale was made. Other operating income is not allocated to a geographical region as it is impractical to do so.

	AUSTRALIA	NEW ZEALAND	PACIFIC ISLANDS	UNITED STATES	UNALLOCATED	CONSOLIDATED
	\$M	\$M	\$M	\$M	\$M	\$M
2009						
External revenues	2,182.5	134.7	14.8	14.9	288.1	2,635.0
2008						
External revenues	2,074.6	91.9	8.0	-	160.3	2,334.8

For the year ended 30 June 2009 and 30 June 2008, the principal assets of the Group comprised the aircraft fleet, all of which were registered and domiciled in Australia. These assets are used flexibly across the Group's worldwide route network. Accordingly, there is no suitable basis for allocating such assets and the related liabilities between geographic areas.

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M

6 Revenue

Airline passenger revenue	2,362.6	2,149.4	-	-
Dividend revenue – controlled entities	-	-	-	42.0
Other revenue	237.7	172.3	12.7	-
	2,600.3	2,321.7	12.7	42.0

7 Other income

Foreign exchange gains (net)	-	6.5	-	-
Government grants	4.1	3.1	-	-
Net gain on disposal of property, plant and equipment	30.6	-	-	-
	34.7	9.6	-	-

Government grants of \$4.1 million (2008: \$3.1 million) were recognised as other income by the Group during the financial period. Refer to note 30 for details of conditions or contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

8 Expenses

(Loss)/profit before income tax expense includes the following specific expenses

(a) Finance costs

Finance costs				
– interest and finance charges paid/payable	113.2	73.1	-	-
– less: capitalised finance charges	(22.7)	(3.9)	-	-
Finance costs expensed	90.5	69.2	-	-

Finance charges were capitalised to aircraft and aeronautic related assets at a weighted average rate of 4.43% (2008: 7.12%).

(b) Ineffective cash flow hedges and non-designated derivatives

Net loss/(gain) on ineffective cash flow hedges and non-designated derivatives				
– realised	84.4	-	-	-
– unrealised	48.8	(16.8)	-	-
	133.2	(16.8)	-	-

(c) Operating lease rentals

Aircraft operating lease rentals:				
– minimum lease payments	126.0	112.3	-	-
– maintenance reserves payments	44.2	34.2	-	-
Other operating lease rentals	58.0	53.0	-	-
Total operating lease rentals	228.2	199.5	-	-

(d) Loss on disposal

Loss on disposal of property, plant and equipment	-	1.4	-	-
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		CONSOLIDATED		THE COMPANY	
	NOTE	2009 \$M	2008 \$M	2009 \$M	2008 \$M

9 Income tax expense

(a) Income tax expense

Current tax	-	3.4	-	-
Deferred tax	(66.4)	42.5	3.8	(0.4)
Under/(over) provided in prior years	0.2	(3.2)	0.1	0.2

Income tax (benefit)/expense attributable to continuing operations	(66.2)	42.7	3.9	(0.2)
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Deferred income tax (revenue)/expense included in income tax expense comprises:				
(Increase)/decrease in deferred tax assets	19	(43.4)	(13.6)	3.8
(Decrease)/increase in deferred tax liabilities	23	(23.0)	56.2	-
		(66.4)	42.6	3.8

(b) Numerical reconciliation of income tax expense to pre-tax accounting profit

(Loss)/profit from continuing operations before income tax expense	(226.2)	140.4	12.8	41.4
Tax at the Australian tax rate of 30% (2008: 30%)	(67.9)	42.1	3.9	12.4
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Non-assessable income	(0.1)	(1.3)	-	(12.6)
Non-deductible expenditure	0.6	-	-	-
Sundry items	1.4	2.0	(0.1)	-
	(66.0)	42.8	3.8	(0.2)
Difference in overseas tax rates	-	0.3	-	-
(Over)/under provision in prior years	(0.2)	(0.4)	0.1	-
Income tax expense	(66.2)	42.7	3.9	(0.2)

(c) Amounts recognised directly in equity

Aggregate current and deferred tax arising in reporting period and not recognised in net profit or loss but directly debited to equity				
– Net deferred tax – (credited)/debited directly to equity	26	(53.8)	52.8	-
		(53.8)	52.8	-

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

	CONSOLIDATED	
	2009 \$M	2008 \$M

10 Earnings per share

(a) Reconciliation of earnings used in calculating earnings per share

(Loss)/profit attributable to ordinary shareholders	(160.0)	97.7
Basic earnings	(160.0)	97.7
Diluted earnings	(160.0)	97.7

	2009 NUMBER M	2008 NUMBER M
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Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share

	1,051.9	1,051.2
Adjustments for calculation of diluted earnings per share:		
- Effect of share options on issue	-	0.3

Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share

	1,051.9	1,051.5
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(b) Information concerning the classification of securities

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

During the year ended 30 June 2009, no options (2008: 0.1 million options) were converted to ordinary shares.

The following executive share options have not been included in the calculation of diluted earnings per share as they are anti-dilutive for the year ended 30 June 2009:

		CONSOLIDATED	
	GRANT DATE	2009 NUMBER M	2008 NUMBER M
Senior Executive Option Plan			
- Issue 1	8 December 2003	-	0.6
Senior Executive Option Plan			
- Issue 3	4 October 2004	-	0.5
Senior Executive Option Plan			
- Issue 4	31 January 2005	0.2	0.6
Senior Executive Option Plan			
- Issue 5	8 December 2005	4.9	5.8
Senior Executive Option Plan			
- Issue 6	1 May 2006	0.3	0.3
Senior Executive Option Plan			
- Issue 7	8 December 2006	3.8	3.8
Senior Executive Option Plan			
- Issue 8	15 January 2007	-	0.1
Senior Executive Option Plan			
- Issue 9	21 November 2007	1.6	1.8
Senior Executive Option Plan			
- Issue 10	22 April 2009	7.7	-
Executive Performance Rights Plan			
- Issue 1	27 December 2006	-	1.1

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M

11 Cash and cash equivalents

Cash at bank and in hand	244.1	215.9	0.1	0.3
Deposits at call	231.8	388.0	-	-

Cash and cash equivalents in Statements of Cash Flows	475.9	603.9	0.1	0.3
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(a) Restricted cash

The amount of restricted cash included in cash and cash equivalents but not available for use is:

Restricted cash	307.6	201.5	0.1	0.3
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Certain merchant acquiring relationships require restricted cash to be held to cover total forward sales for some forms of payment. Cash is also required to secure Standby Letters of Credit and Bank Guarantees.

(b) Interest rate risk

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 31.

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M

12 Trade and other receivables

Trade receivables	66.6	51.5	-	-
Less: Provision for doubtful receivables	(0.9)	(1.0)	-	-
	65.7	50.5	-	-
Other receivables	34.7	29.0	-	-
Receivables from controlled entities	-	-	289.8	330.7
Prepayments	21.9	29.0	-	-
	122.3	108.5	289.8	330.7

The Group's exposure to credit and currency risk and impairment losses related to trade and other receivables are disclosed in note 31.

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M

13 Inventories

Catering, consumables, uniforms and merchandise inventory - at cost	-	0.6	-	-
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Inventories recognised as an expense during the year ended 30 June 2009 amounted to \$2.7 million (2008: \$2.5 million).

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M

14 Derivative financial instruments

Current assets

Forward foreign exchange contracts – cash flow hedges	11.9	-	-	-
Interest rate swap contracts – cash flow hedges	-	3.6	-	-
Fuel hedging contracts – cash flow hedges	-	123.2	-	-
	11.9	126.8	-	-

Non-current assets

Forward foreign exchange contracts – cash flow hedges	1.9	-	-	-
Interest rate swap contracts – cash flow hedges	-	22.9	-	-
Fuel hedging contracts – cash flow hedges	-	38.0	-	-
	1.9	60.9	-	-

Current liabilities

Forward foreign exchange contracts – cash flow hedges	-	72.3	-	-
Fuel hedging contracts – cash flow hedges	76.3	-	-	-
Interest rate swap contracts – cash flow hedges	12.3	-	-	-
	88.6	72.3	-	-

Non-current liabilities

Forward foreign exchange contracts – cash flow hedges	-	3.7	-	-
Fuel hedging contracts – cash flow hedges	35.3	-	-	-
Interest rate swap contracts – cash flow hedges	0.8	-	-	-
	36.1	3.7	-	-

15 Investments accounted for using the equity method

(a) Carrying amounts

Information relating to associates is set out below:

NAME OF COMPANY	OWNERSHIP INTEREST		CARRYING AMOUNT			
	2009 %	2008 %	CONSOLIDATED		COMPANY	
			2009 \$M	2008 \$M	2009 \$M	2008 \$M

Unlisted

Polynesian Blue Limited	49%	49%	6.7	6.3	-	-
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The principal activity of Polynesian Blue Limited is the operation of airline activities between Samoa and Australia/New Zealand. Polynesian Blue Limited is incorporated in Samoa.

(b) Summarised financial information of associate

	100%			
	ASSETS \$M	LIABILITIES \$M	REVENUES \$M	PROFIT \$M
2009				
Polynesian Blue Limited	26.5	13.5	37.4	0.8
2008				
Polynesian Blue Limited	28.7	16.6	33.8	7.1

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M

16 Other financial assets

Other deposits	49.0	24.0	-	-
Shares in subsidiaries	-	-	79.8	79.3
	49.0	24.0	79.8	79.3

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M

17 Property, plant and equipment

Work in progress – buildings	-	73.5	-	-
Buildings – at cost	116.0	40.9	-	-
Accumulated depreciation	(11.5)	(7.0)	-	-
	104.5	33.9	-	-

Aircraft and aeronautic related assets – at cost*	2,886.1	2,474.4	-	-
Accumulated depreciation	(434.8)	(333.0)	-	-
	2,451.3	2,141.4	-	-

Plant and equipment – at cost	140.6	123.5	-	-
Accumulated depreciation and impairment	(60.3)	(44.3)	-	-
	80.3	79.2	-	-

Computer equipment – at cost	39.5	30.9	-	-
Accumulated depreciation	(29.9)	(22.9)	-	-
	9.6	8.0	-	-

Total property, plant and equipment – net book value	2,645.7	2,336.0	-	-
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* As at 30 June 2009, included in aircraft and aeronautic related assets are deposits and other costs incurred in respect of aircraft which have not yet been delivered. Such costs amount to \$312.5 million (2008: \$503.0 million).

Also included in aircraft and aeronautic related assets are engines held for sale. These engines are in use as at 30 June 2009, and have a net book value of \$51.2 million.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

17 Property, plant and equipment (continued)

(a) Reconciliations

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

CONSOLIDATED	CARRYING AMOUNT AT BEGINNING OF YEAR \$M	ADDITIONS \$M	DISPOSALS \$M	DEPRECIATION \$M	TRANSFERS \$M	FOREIGN EXCHANGE MOVEMENTS \$M	CARRYING AMOUNT AT END OF YEAR \$M
2009							
Work in progress – buildings	73.5	–	–	–	(73.5)	–	–
Buildings	33.9	1.6	–	(4.5)	73.5	–	104.5
Aircraft and aeronautic related assets	2,141.4	800.8	(242.0)	(150.0)	–	(98.9)	2,451.3
Plant and equipment	79.2	21.0	(1.2)	(18.5)	–	(0.2)	80.3
Computer equipment	8.0	9.0	–	(7.3)	–	(0.1)	9.6
Total	2,336.0	832.4	(243.2)	(180.3)	–	(99.2)	2,645.7
2008							
Work in progress – buildings	–	73.5	–	–	–	–	73.5
Buildings	35.7	0.3	(0.4)	(1.7)	–	–	33.9
Aircraft and aeronautic related assets	1,345.1	901.6	(1.4)	(103.9)	–	–	2,141.4
Plant and equipment	35.7	54.1	(0.5)	(10.1)	–	–	79.2
Computer equipment	8.5	5.0	–	(5.5)	–	–	8.0
Total	1,425.0	1,034.5	(2.3)	(121.2)	–	–	2,336.0

The Company has no property, plant and equipment.

(b) Non-current assets pledged as security

Refer to note 21 for information on non-current assets pledged as security by the Group.

(c) Other impairment testing

As a result of the net losses incurred in the start-up of V Australia, the cash-generating unit (“CGU”) containing the assets used by V Australia was tested for impairment at 30 June 2009. The recoverable amount of the cash-generating unit was estimated based on its value in use, with a pre-tax discount rate of 12.89% and a growth rate of 2.0%. These calculations use cash flow projections based upon financial budgets covering a three-year period. Cash flows beyond a three-year period are calculated using the estimated growth rate stated above. The cash flows are based on management’s expectations regarding the market including guest numbers, revenue yield and associated operating costs. The weighted average growth rate used is consistent with forecasts included in industry forecasts. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

The discount rate used is pre-tax and adjusted to reflect specific risks relating to the relevant segment and the countries in which it operates. The method used to determine the discount rate was the Weighted Average Cost of Capital method.

Descriptions of other key assumptions underlying the cash flow projections include:

- The fuel price has been set with regard to the spot West Texas Intermediate crude oil price adjusted for refining margins;
- The USD/AUD exchange rate is set to reflect the year end spot rate; and
- Load factors and average net fares were set having regard to historical experience, market conditions, fleet plans and competitor analysis over the forthcoming years. The average net fares would need to exceed a 17.32% decrease in projected average net fares (year on year) before the carrying amount would exceed the recoverable amount.

No impairment loss was identified as a result of the impairment testing performed.

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
18 Intangible assets				
Goodwill – at cost	43.8	43.8	–	–
Accumulated amortisation and impairment	–	–	–	–
	43.8	43.8	–	–
Software – at cost	25.3	17.9	–	–
Accumulated amortisation and impairment	(18.9)	(15.5)	–	–
	6.4	2.4	–	–
Patents and trademarks – at cost	1.4	1.1	–	–
Accumulated amortisation and impairment	(0.5)	(0.6)	–	–
	0.9	0.5	–	–
	51.1	46.7	–	–

(a) Reconciliations

Reconciliations of the carrying amounts for each class of intangible asset are set out below:

CONSOLIDATED	CARRYING AMOUNT AT BEGINNING OF YEAR \$M	ADDITIONS: ACQUIRED \$M	AMORTISATION \$M	TRANSFERS \$M	CARRYING AMOUNT AT END OF YEAR \$M
2009					
Goodwill	43.8	–	–	–	43.8
Software	2.4	7.4	(3.4)	–	6.4
Patents and trademarks	0.5	0.4	–	–	0.9
Total	46.7	7.8	(3.4)	–	51.1
2008					
Goodwill	43.8	–	–	–	43.8
Software	3.4	1.4	(2.4)	–	2.4
Patents and trademarks	0.1	0.5	(0.1)	–	0.5
Total	47.3	1.9	(2.5)	–	46.7

There was no impairment loss recognised on intangible assets during the year ended 30 June 2009 (2008: nil). There were no internally developed additions during the current or prior period. The amortisation charge is recognised in "Depreciation and amortisation expense" in the Income Statements.

(b) Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's CGUs identified according to business segment and country of operation. Goodwill is allocated entirely to the Short haul CGU.

Key assumptions used for value-in-use calculations

CGU	GROWTH RATE ⁽ⁱ⁾		DISCOUNT RATE ⁽ⁱⁱ⁾	
	2009 %	2008 %	2009 %	2008 %
Short haul operations	2.0	4.7	11.88	12.93

(i) Weighted average growth rate used to extrapolate cash flows beyond the budget period.

(ii) Pre-tax discount rate applied to the cash flow projections.

The recoverable amount is determined based on value-in-use calculations. These calculations use cash flow projections based upon financial budgets covering a three-year period. Cash flows beyond a three year period are calculated using the estimated growth rates stated above. The cash flows are based on management's expectations regarding the market including guest numbers, revenue yield and associated operating costs. The weighted average growth rates used are consistent with forecasts included in industry forecasts. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments and the countries in which they operate. The method used to determine the discount rate was the weighted average cost of capital method.

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M

19 Deferred tax assets

The balance comprises temporary differences attributable to:

Amounts recognised in profit or loss

Employee benefits	14.3	15.7	–	–
General accruals	12.3	13.6	–	–
Tax loss carried forward	78.8	10.0	78.7	10.0
Other	10.5	5.4	–	–
	115.9	44.7	78.7	10.0

Amounts recognised directly in equity

Equity raising costs	–	0.2	–	–
Cash flow hedges	41.3	–	–	–
	157.2	44.9	78.7	10.0
Set-off of deferred tax liabilities pursuant to set-off provisions	(156.5)	(44.2)	–	–
Net deferred tax assets	0.7	0.7	78.7	10.0

Movements:

Opening balance	44.9	56.5	10.0	1.4
Credited/(charged) to the income statement	43.4	13.6	(3.8)	0.4
Credited/(charged) to equity	68.9	(25.2)	–	–
Tax losses assumed from subsidiaries	–	–	72.5	8.2
Closing balance	157.2	44.9	78.7	10.0

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
20 Trade and other payables				
Current				
Trade payables and accruals	254.7	212.4	-	-
Other payables	14.0	12.0	-	-
	268.7	224.4	-	-
Non-current				
Other payables	0.1	0.3	-	-

Trade and other payables are non-interest bearing.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 31.

The Company has entered into a Deed of Cross Guarantee with certain subsidiaries as described in note 38. Under the terms of the Deed, the Company has guaranteed the repayment of all current and future creditors in the event any of the entities party to the Deed are wound up. Details of the consolidated financial position of the Deed are set out in note 38.

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
21 Interest-bearing liabilities				
Current				
Loans (Aeronautic Finance Facilities) – secured	233.3	303.7	-	-
Non-current				
Loans (Aeronautic Finance Facilities) – secured	1,546.1	1,182.5	-	-

(a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

SECURED BANK LOANS	CURRENCY	YEAR OF MATURITY	NOMINAL INTEREST RATE		CONSOLIDATED FACE VALUE \$M		CARRYING AMOUNT \$M	
			2009	2008	2009	2008	2009	2008
Aircraft	AUD	2009-2019	3.13%-6.12%	6.12%-9.63%	1,366.8	1,339.2	1,366.8	1,339.2
Aircraft	USD	2010-2021	1.72%-4.37%	2.48%	432.0	145.5	432.0	145.5
Spare engines	AUD	2009	-	9.58%	-	1.5	-	1.5
					1,798.8	1,486.2	1,798.8	1,486.2

The Company has no interest-bearing liabilities.

For more information about the Company's and Group's exposure to interest rate, foreign currency and liquidity risk, see note 31.

(b) Assets pledged as security

The interest-bearing loans are secured over assets purchased and issued capital of the following Group subsidiaries:

- VBNC1 Pty Limited;
- VBNC2 Pty Limited;
- VBNC3 Pty Limited;
- VBNC4 Pty Limited;
- VBNC5 Pty Limited;
- VBNC9 Pty Limited;
- VBIANC1 Pty Limited;
- VB LH No. 2 Pty Limited; and
- VB 700 2009 Pty Ltd.

The carrying amounts of assets pledged as security for current and non-current interest bearing liabilities are:

NOTE	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
Non-current				
Floating charge				
Aircraft and aeronautic related assets	1,777.9	1,542.5	-	-
Fixed charge				
Aircraft and aeronautic related assets	324.4	-	-	-
(c) Financing arrangements				
Unrestricted access was available at balance date to the following lines of credit:				
Total facilities available:				
Standby letters of credit	5.4	4.2	-	-
Bank guarantees	16.5	22.7	-	-
Aeronautic finance facilities	1,954.2	1,500.9	-	-
	1,976.1	1,527.8	-	-
Facilities utilised at balance date:				
Standby letters of credit	5.4	4.2	-	-
Bank guarantees	16.5	22.7	-	-
Aeronautic finance facilities	1,798.8	1,500.9	-	-
	1,820.7	1,527.8	-	-
Facilities not utilised at balance date:				
Standby letters of credit	-	-	-	-
Bank guarantees	-	-	-	-
Aeronautic finance facilities	155.4	-	-	-
	155.4	-	-	-
Standby letters of credit				
The standby letter of credit facility is a committed facility, available to be drawn down over the next year. The standby letters of credit are secured over at-call deposits of an equivalent amount. The current interest rate on the facility is 2.95% (2008: 7.20%).				
Bank guarantees				
The guarantees are secured over at-call deposits of an equivalent amount. The amount of the standby letters of credit and bank guarantee facilities can be increased by the provision of additional security. The current interest rate on the facility is 2.95% (2008: 7.20%).				
Aeronautic finance facilities				
These facilities are available to assist the Group to finance purchases of aeronautical assets. The facilities are secured over assets purchased and issued capital of the subsidiaries listed in note 21(b). The weighted average interest rate on these facilities is 4.43% (2008: 7.12%).				
22 Provisions				
Current				
Employee benefits	34	51.8	36.2	-
Maintenance		22.3	5.7	-
Other		1.0	1.5	0.2
		75.1	43.4	0.2
Non-current				
Employee benefits	34	2.6	13.1	-
Maintenance		39.9	33.9	-
		42.5	47.0	-

(a) Movements in provisions

Movements in each class of provision during the financial period, except for employee benefits are set out below:

	CARRYING AMOUNT AT BEGINNING OF THE YEAR \$M	PROVISION MADE DURING THE YEAR \$M	PAYMENTS MADE DURING THE YEAR \$M	CARRYING AMOUNT AT END OF THE YEAR \$M
2009				
Consolidated				
Maintenance – current	5.7	97.4	(80.8)	22.3
Maintenance – non-current	33.9	40.4	(34.4)	39.9
Other – current	1.5	0.9	(1.4)	1.0
Company				
Other – current	0.2	-	0.2	-

(b) Provision for maintenance

As disclosed in note 3(q), provision is made for the estimated future costs of major cyclical maintenance of airframes, engines, landing gear and auxiliary power units of operating leased aircraft. The Group expects to incur the liability over the life of the aircraft.

(c) Other provisions

This relates to stamp duty and operational levies of which the Company and Group expect to settle the liability over the next 12 months.

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M

23 Deferred tax liabilities

The balance comprises temporary differences attributable to:

Amounts recognised in profit or loss

Depreciation	149.4	122.9	-	-
Other	(3.7)	19.0	-	-
	145.7	141.9	-	-

Amounts recognised directly in equity

Other	15.8	-	-	-
Cash flow hedges	-	27.6	-	-
	161.5	169.5	-	-

Set-off of deferred tax liabilities

of parent entity pursuant to set-off provisions	(156.5)	(44.2)	-	-
Net deferred tax liabilities	5.0	125.3	-	-

Movements

Balance at beginning of year	169.5	85.7	-	-
(Credit)/charged to the income statement	(23.0)	56.2	-	-
Charged to equity	15.1	27.6	-	-
Closing balance	161.6	169.5	-	-

24 Unearned revenue

Current

Unearned passenger revenue	375.1	313.6	-	-
Other unearned revenue	118.1	94.6	-	-
	493.2	408.2	-	-

Non-current

Other unearned revenue	1.1	1.8	-	-
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Notes to the Financial Statements (continued)

For the year ended 30 June 2009

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M

25 Contributed equity

Share capital

Ordinary shares, fully paid	428.0	427.1	428.0	427.1
Treasury shares held by the KEPP Trust	(20.3)	(20.9)	-	-
	407.7	406.2	428.0	427.1

The Company does not have authorised capital or par value in respect of its issued shares.

(a) Movements in ordinary share capital

		CONSOLIDATED		THE COMPANY	
	NOTE	NUMBER OF SHARES M	\$M	NUMBER OF SHARES M	\$M
Balance at 1 July 2007		1,041.7	405.3	1,051.2	426.8
Issue of shares by KEPP	(i)	0.3	0.6	-	-
Exercise of SEOP – Issue 6 options	(ii)	0.1	0.3	0.1	0.3
Balance at 30 June 2008		1,042.1	406.2	1,051.3	427.1
Balance at 30 June 2008		1,042.1	406.2	1,051.3	427.1
Issue of shares by KEPP	(i)	0.2	0.6	-	-
Issue of shares – executives' remuneration	(ii)	0.6	0.9	0.6	0.9
Balance at 30 June 2009		1,042.9	407.7	1,051.9	428.0

(i) The trustee for the Key Employee Performance Plan holds a number of shares in Virgin Blue Holdings Limited, which may be transferred to employees of the Group in accordance with the rules of the Plan. On consolidation, shares held for the Key Employee Performance Plan ("KEPP") are offset against contributed equity. During the 12 months to 30 June 2009, KEPP transferred 0.2 million (2008: 0.3 million) shares valued at \$0.6 million (2008: \$0.6 million) to employees of the Group for nil consideration.

(ii) Note 35 provides details of shares issued on exercise of options.

(b) Terms and conditions of ordinary shares

With the exception of shares held in trust under the Key Employee Performance Plan, holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

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

At 30 June 2009, the trustee for the Key Employee Performance Plan holds 9.0 million (2008: 9.2 million) shares. A participating employee is not entitled to any income or other rights (including voting rights) derived from any shares acquired by the trustee under KEPP unless and until the shares are transferred to the employee for nil consideration, following satisfaction of any vesting conditions – refer to note 35.

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M

26 Reserves

Foreign currency translation reserve	(30.7)	(2.8)	-	-
Hedging reserve – cash flow hedges	(96.5)	64.3	-	-
Share-based payments reserve	13.3	14.3	13.3	14.3
	(113.9)	75.8	13.3	14.3

(a) Movements

Foreign currency translation reserve

Balance at beginning of year	(2.8)	(0.5)	-	-
Currency translation difference arising during the year	(12.8)	(2.3)	-	-
Deferred tax (notes 19 and 23)	(15.1)	-	-	-
Balance at end of year	(30.7)	(2.8)	-	-

Hedging reserve – cash flow hedges

Balance at beginning of year	64.3	(58.8)	-	-
Revaluation – gross	(259.5)	234.3	-	-
Deferred tax (notes 19 and 23)	68.9	(52.8)	-	-
Transfer to net profit	29.8	(59.6)	-	-
Transfer to fixed assets	-	1.2	-	-
Balance at end of year	(96.5)	64.3	-	-

Share-based payments reserve

Balance at beginning of year	14.3	10.2	14.3	10.2
Options expense	0.6	4.7	-	-
Options exercised	-	(0.6)	-	(0.6)
Shares issued	(1.6)	-	(1.6)	-
Investment in subsidiary	-	-	0.6	4.7
Balance at end of year	13.3	14.3	13.3	14.3

(b) Nature and purpose of reserves

(i) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 3(e). The reserve is recognised in profit and loss when the net investment is disposed of.

(ii) Hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 3(l). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

(iii) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

		CONSOLIDATED		THE COMPANY	
	NOTE	2009 \$M	2008 \$M	2009 \$M	2008 \$M

27 Retained profits

Retained profits at beginning of year		443.3	387.3	0.3	0.7
Net (loss)/profit for the year		(160.0)	97.7	8.9	41.6
Dividends	28	-	(41.7)	-	(42.0)
Retained profits at end of year		283.3	443.3	9.2	0.3

28 Dividends

(a) Dividends

No dividends were recognised in the current year by the Group. Dividends recognised by the Group in the prior year are:

		CONSOLIDATED	THE COMPANY		
	CENTS PER SHARE	TOTAL AMOUNT \$M	TOTAL AMOUNT \$M	FRANKED/ UNFRANKED	DATE OF PAYMENT
2008					
Final 2007 ordinary	2	20.8	21.0	Franked	21 September 2007
Interim 2008 ordinary	2	20.9	21.0	Franked	28 March 2008

Franked dividends declared or paid during the prior period were franked at the tax rate of 30%.

(b) Franked dividends

	THE COMPANY	
	2009 \$M	2008 \$M
Dividend franking account		
Franking credits available for subsequent financial years based on a tax rate of 30% (2008: 30%)	76.8	78.9

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

- franking credits that will arise from the payment of the amount of the provision for income tax;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date
- franking credits that the entity may be prevented from distributing in subsequent years.

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M

29 Commitments

Capital expenditure commitments

Commitments for the acquisition of property, plant and equipment, including aircraft and aeronautic assets, contracted for at the reporting date but not recognised as liabilities, payable:

Within one year	500.7	765.4	-	-
One year or later and no later than five years	1,679.6	1,468.6	-	-
Later than five years	59.7	-	-	-
	2,240.0	2,234.0	-	-

Non-cancellable operating lease expense commitments

Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities, payable:

Within one year	172.9	153.0	-	-
One year or later and no later than five years	367.9	396.5	-	-
Later than five years	286.8	307.7	-	-
	827.6	857.2	-	-

The Group leases property and equipment, principally aircraft, under non-cancellable operating leases expiring from one to 12 years from 30 June 2009. Aircraft lease payments are payable in US dollars. Leases of property and equipment generally provide the Group with a right of renewal at which time all terms are renegotiated or the asset is returned to the lessor.

30 Contingent liabilities and contingent assets

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

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Contingent liabilities not considered remote

The Group has provided bank guarantees and standby letters of credit to third parties as guarantees of payment for fuel and fulfilment of obligations under government assistance agreements.

The value of bank guarantees and standby letters of credit issued as at the end of the financial period was \$21.9 million (2008: \$26.9 million).

Contingent liabilities considered remote

Government assistance

Some government assistance received may be refundable if agreed performance criteria are not achieved. The performance periods of the grants are six years from 1 June 2004, five years from 1 October 2008, and five years from 1 January 2009. The directors are of the opinion that no amounts will be refundable under these grants and hence no provision for refund has been raised.

31 Financial instruments

The Company and Group have exposure to a variety of financial risks, including market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group manages these risk exposures using various financial instruments. The Board has determined appropriate hedging limits for financial risks and these are documented in the Financial Risk Management Policy. All transactions entered into are carried out within these guidelines approved by the Board. Implementation of this Policy is delegated to management, who have flexibility to act within the bounds of the authorised policy limits. Group policy is to not enter, issue or hold derivative financial instruments for speculative trading purposes. Compliance with the policy is monitored on an ongoing basis through regular reporting to the Board.

(a) Market risk

Market risk is the risk that changes in market prices, such as fuel prices, foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market exposures, within acceptable parameters, while optimising the return.

The Group enters into derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board in the Treasury Risk Management Policy. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

(i) Fuel price risk

Price risk arises on the Group's exposure to jet fuel prices. The Group's fuel price risk management strategy aims to provide the airline with protection against sudden and significant increases in oil prices while ensuring that the airline is not competitively disadvantaged in a serious way in the event of a substantial impact on the price of fuel.

Risk management

Group Treasury is responsible for managing this exposure by using swap contracts and option contracts. These contracts are designated at Group level as hedges of price risk on specific volumes of future jet fuel consumption. The Group's risk management policy is to hedge, subject to limits determined by the Board, anticipated jet fuel consumption for subsequent financial periods. Realised gains or losses on these contracts arise due to differences between the actual fuel prices on settlement and the forward rates of the derivative contracts.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

31 Financial instruments (continued)

(a) Market risk (continued)

(i) Fuel price risk (continued)

Risk management (continued)

During the year, the net loss arising from fuel hedging activities for the Group was \$250.4 million (2008: gain of \$93.2 million) as a result of actual fuel prices moving lower than the average hedged price. Of this net amount, a loss of \$147.9 million (2008: gain of \$74.1 million) represents the effective portion of the hedges which has been recognised in fuel expense, and a loss of \$102.5 million (2008: gain of \$19.1 million) represents the ineffective portion of the hedges (including changes in option time value) which has been recognised in ineffective and non-designated derivatives expense.

The Company did not enter into any fuel price derivatives in the current or prior period.

Sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and liabilities to a possible change in fuel prices. A USD 30 per barrel ("bbl") increase/decrease in the price of fuel would have increased/(decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant.

		USD 30/BBL INCREASE		USD 30/BBL DECREASE	
	CARRYING AMOUNT \$M	PROFIT \$M	EQUITY \$M	PROFIT \$M	EQUITY \$M
2009					
Financial liabilities					
- Derivative liability	(111.6)	6.6	85.3	9.4	(128.7)
2008					
Financial assets					
- Derivative asset	161.2	17.8	114.3	(16.8)	(100.8)

The Company is not exposed to any significant external financial risks and therefore no sensitivity analysis has been presented for financial years ended 2008 and 2009.

(ii) Foreign exchange risk

Exposure to foreign exchange risk

The Group undertakes transactions in US dollars, including the cost of purchasing fuel, aircraft, lease payments and the sale of airline passenger revenue. The Group also undertakes transactions in New Zealand dollars, largely arising from the Group's New Zealand based subsidiary.

The Company had no exposure to foreign exchange risk at 30 June 2009 or 30 June 2008.

The Group's exposure to foreign exchange risk at balance date was as follows, based on notional amounts (presented in AUD):

	30 JUNE 2009			30 JUNE 2008		
	AUD \$M	USD \$M	NZD \$M	AUD \$M	USD \$M	NZD \$M
Cash and cash equivalents	-	82.9	13.4	10.6	41.1	28.3
Trade receivables	-	2.9	1.6	0.1	0.5	1.7
Financial assets at fair value through profit or loss	-	46.3	-	-	24.0	-
Trade payables	(12.4)	(50.7)	(6.4)	(1.6)	(17.6)	(4.4)
Interest bearing liabilities	-	(432.0)	-	-	(145.5)	-
Gross balance sheet exposure	(12.4)	(350.6)	8.6	9.1	(97.5)	25.6
Forward exchange contracts	-	435.0	-	-	(76.0)	-
Net exposure	(12.4)	84.4	8.6	9.1	(173.5)	25.6

The following significant exchange rates applied during the year:

	AVERAGE RATE		REPORTING DATE SPOT RATE	
AUD	2009	2008	2009	2008
USD	0.7580	0.8875	0.8114	0.9626
NZD	1.2284	1.1566	1.2428	1.2609

Risk management

In order to protect against exchange rate movements, the Group enters into forward exchange contracts and option contracts to purchase US dollars. These contracts are hedging highly probable forecasted purchases for the ensuing financial periods. The contracts are timed to mature when the operating expenses or capital expenditure are expected to be incurred. Realised gains or losses on these contracts arise due to differences between the actual spot rates on settlement and the forward rates of the derivative contracts.

During the year, the net gain arising from foreign exchange hedging activities for the Group was \$89.6 million (2008: loss of \$90.4 million) as a result of the Australian dollar depreciating below the average hedged price. Of this net amount, a gain of \$120.2 million (2008: loss of \$88.1 million) represents the effective portion of the hedges which has been recognised in the relevant expenditure category which the contract was hedging, and a loss of \$30.7 million (2008: loss of \$2.3 million) represents the ineffective portion of hedges and non-designated derivatives (including changes in option time value) which has been recognised in ineffective and non-designated derivatives expense.

The Company did not enter into any foreign exchange derivatives in the current or prior period.

Sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and liabilities to a reasonably possible change in the US dollar. A 10% appreciation/depreciation of the AUD against the USD would have increased/(decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	USD 10% INCREASE		USD 10% DECREASE	
	PROFIT \$M	EQUITY \$M	PROFIT \$M	EQUITY \$M
2009				
Financial assets				
- Non-derivative financial asset	(12.0)	-	14.7	-
- Derivative financial asset	5.5	(41.8)	(5.6)	50.2
Financial liabilities				
- Non-derivative liability	43.9	-	(53.6)	-
- Derivative liability	-	-	-	-
	37.4	(41.8)	(44.5)	50.2

2008

Financial assets				
- Non-derivative financial asset	(5.9)	-	7.3	-
Financial liabilities				
- Derivative liability	-	(78.8)	-	92.0
- Non-derivative liability	14.8	-	(18.1)	-
	8.9	(78.8)	(10.8)	92.0

The Company is not exposed to any significant external financial risks and therefore no sensitivity analysis has been presented for financial years ended 2008 and 2009.

(iii) Interest rate risk

Exposure to interest rate risk

The Group holds both interest bearing assets and interest bearing liabilities, and therefore the Group's income and operating cash flows are subject to changes in market interest rates.

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

	CONSOLIDATED CARRYING AMOUNT		THE COMPANY CARRYING AMOUNT	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
Fixed rate instruments				
Financial assets	113.5	26.5	-	-
Financial liabilities	(316.9)	-	-	-
	(203.4)	26.5	-	-
Variable rate instruments				
Financial assets	362.4	603.9	0.1	0.3
Financial liabilities	(1,495.1)	(1,486.2)	-	-
	(1,132.7)	(882.3)	0.1	0.3

Risk management

The Group manages its cash flow interest-rate risk by using floating-to-fixed interest rate swaps to hedge part of this exposure. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. The maturity profiles and settlement dates of the swaps exactly match the amortisation profile and repayment dates on the underlying loans.

During the year, the net loss arising from interest rate hedging activities for the Group was \$2.2 million (2008: gain of \$31.2 million), as a result of actual interest rates moving lower than the average hedged rates. Of this net amount, \$2.2 million (loss) represents the effective portion of the hedges which has been recognised in interest expense (2008: gain of \$31.2 million). There was no ineffective portion of interest rate hedges (2008: nil).

The Company did not enter into any interest rate derivatives in the current or prior period.

Sensitivity analysis

An analysis demonstrating the sensitivity of financial instruments to a reasonably possible change in interest rates is provided in the table below.

Fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Variable rate instruments

The Group accounts for variable rate financial assets at fair value through profit or loss, and financial liabilities at amortised cost using the effective interest method.

A 100 basis point increase/(decrease) in interest rates would have increased/(decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	100 BP INCREASE			100 BP DECREASE	
	CARRYING AMOUNT \$M	PROFIT \$M	EQUITY \$M	PROFIT \$M	EQUITY \$M
2009					
Fixed rate instruments					
Interest rate swaps	(13.1)	-	13.6	-	(14.3)
Variable rate instruments					
Financial assets	362.4	3.6	-	(3.6)	-
Financial liabilities	(1,495.1)	(15.0)	-	15.0	-
		(11.4)	13.6	11.4	(14.3)

2008

Fixed rate instruments					
Interest rate swaps	26.5	-	2.6	-	(2.7)
Variable rate instruments					
Financial assets	603.9	6.0	-	(6.0)	-
Financial liabilities	(1,486.2)	(14.9)	-	14.9	-
		(8.9)	2.6	8.9	(2.7)

The Company is not exposed to any significant external financial risks and therefore no sensitivity analysis has been presented for financial years ended 2008 and 2009.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

31 Financial instruments (continued)

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, deposits and unrealised gains on derivative financial instruments. For the Company it arises from receivables due from subsidiaries.

Trade receivables

The Company and Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including default risk of the industry, has less of an influence on credit risk. A significant proportion of the Group's revenue is derived from credit cards, however there are no significant concentrations of credit risk.

The Group has credit policies in place under which each new customer is analysed individually for creditworthiness before the Group's standard payment terms are offered. Purchase limits are established for each customer and reviewed on a regular basis to ensure that sales made on credit terms are made to customers with appropriate credit history. The Group continuously monitors counterparty credit limits on defaults, incorporating this information into credit risk controls.

Investments

The Group limits its exposure to credit risk by only investing in liquid securities, and only with counterparties that have an investment grade credit rating.

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	NOTE	CARRYING AMOUNT	
		2009 \$M	2008 \$M
Cash and cash equivalents	11	475.9	603.9
Trade and other receivables	12	100.4	79.5
Commodity contracts used for hedging: Assets	14	-	161.2
Interest rate swaps used for hedging: Assets	14	-	26.5
Forward exchange contracts used for hedging: Assets	14	13.8	-
Other financial assets	16	49.0	24.0
		639.1	895.1

The Company's maximum exposure to credit risk at the reporting date was \$0.1 million (2008: \$0.3 million) for cash and cash equivalents and \$289.8 million (2008: \$330.7 million) for receivables from controlled entities, totalling \$289.9 million (2008: \$331.0 million).

Impairment losses

None of the Company's receivables are past due (2008: nil). The ageing of the Group's trade receivables at the reporting date was:

	GROSS IMPAIRMENT 2009 \$M	GROSS IMPAIRMENT 2009 \$M	GROSS IMPAIRMENT 2008 \$M	GROSS IMPAIRMENT 2008 \$M
Not past due	55.1	-	47.4	-
Past due 1-30 days	5.5	-	0.6	-
Past due 31-60 days	3.0	-	0.7	-
61+ days	3.0	(0.9)	2.8	(1.0)
	66.6	(0.9)	51.5	(1.0)

The movement in the Group's provision for doubtful debts in respect of trade receivables during the year was as follows:

	2009 \$M	2008 \$M
Balance at 1 July	1.0	0.8
Impairment loss recognised	0.8	0.6
Write-off of bad debts	(0.9)	(0.4)
Balance at 30 June	0.9	1.0

Impairment losses/gains are included in "other expenses" in the Income Statement.

The impairment loss at 30 June 2009 of \$0.8 million (2008: loss of \$0.6 million) relates to specific receivables that were considered doubtful.

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due, or past due by up to 30 days.

The provision for doubtful debts account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

(c) Liquidity risk and capital management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Risk management

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding as required and the ability to close-out market positions if necessary. Due to the dynamic nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping adequate liquidity available.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot be predicted, such as natural disasters.

The Group also maintains various lines of credit, which are detailed in note 21.

Subsequent to 30 June 2009, the Group announced a fully underwritten equity raising of approximately \$231.4 million. Refer to note 39 for further information.

Aircraft financing

During the year, the Group undertook a number of aircraft financing transactions. These transactions included:

- sale and leaseback of one Boeing 737-800 and two Embraer E-190 aircraft;
- mortgaging of two owned Boeing 737-700 aircraft; and
- deferral of the delivery of two Boeing 777-300ER aircraft, from 2010 to delivery in 2011 and 2012.

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities, excluding the impact of netting agreements.

CONSOLIDATED	CARRYING AMOUNT \$M	CONTRACTUAL CASH FLOWS \$M	LESS THAN 1 YEAR \$M	1-2 YEARS \$M	2-5 YEARS \$M	MORE THAN 5 YEARS \$M
2009						
Non-derivative financial liabilities						
Secured bank loans	(1,798.8)	(2,300.5)	(320.1)	(307.6)	(740.6)	(932.2)
Trade and other payables	(268.8)	(268.8)	(268.7)	(0.1)	-	-
Derivative financial liabilities						
Commodity contracts used for hedging:						
- Outflow	(111.6)	(0.8)	(0.8)	-	-	-
Interest rate swaps used for hedging:						
- Inflow	-	91.7	15.6	18.0	48.2	9.9
- Outflow	(13.1)	(103.4)	(26.4)	(22.8)	(45.3)	(8.9)
	(2,192.3)	(2,581.8)	(600.4)	(312.5)	(737.7)	(931.2)
2008						
Non-derivative financial liabilities						
Secured bank loans	(1,486.2)	(1,955.6)	(396.6)	(301.2)	(567.7)	(690.1)
Trade and other payables	(224.7)	(224.7)	(224.4)	(0.3)	-	-
Derivative financial liabilities						
Forward exchange contracts used for hedging:						
- Outflow	(76.0)	(1,017.3)	(779.2)	(237.3)	(0.8)	-
- Inflow	-	915.5	696.3	216.7	2.5	-
	(1,786.9)	(2,282.1)	(703.9)	(322.1)	(566.0)	(690.1)

The Company did not have any financial liabilities for the years ended 30 June 2008 or 30 June 2009.

At 30 June 2009, the Group held various types of derivative instruments that were designated as cash flow hedges of future forecast transactions.

These were:

- hedging of future jet fuel purchases by commodity contracts;
- hedging of future interest payments by interest rate swap contracts; and
- hedging of future foreign currency payments by forward exchange contracts.

The Company did not hold any derivative instruments that were designated as cash flow hedges at 30 June 2008 or 2009.

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur:

CONSOLIDATED	EXPECTED CASH FLOWS					TOTAL \$M
	CARRYING AMOUNT \$M	LESS THAN 1 YEAR \$M	1-2 YEARS \$M	2-5 YEARS \$M	MORE THAN 5 YEARS \$M	
30 June 2009						
Interest rate swaps:						
- Liabilities	(13.1)	(12.4)	(5.5)	3.5	1.3	(13.1)
Commodity contracts used for hedging:						
- Liabilities	(111.6)	(76.3)	(35.3)	-	-	(111.6)
Forward exchange contracts used for hedging:						
- Assets	13.8	11.9	1.9	-	-	13.8
		(76.8)	(38.9)	3.5	1.3	(110.9)
30 June 2008						
Interest rate swaps:						
- Assets	26.5	3.5	3.5	10.4	9.1	26.5
Commodity contracts used for hedging:						
- Assets	161.2	123.1	30.1	8.0	-	161.2
Forward exchange contracts used for hedging:						
- Liabilities	(76.0)	(72.3)	(5.3)	1.6	-	(76.0)
		54.3	28.3	20.0	9.1	111.7

The cash flows outlined above are expected to impact profit and loss in the same periods in which the cash flows are expected to occur.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

31 Financial instruments (continued)

(d) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity.

The Group's target is to achieve a return on capital of greater than 15%. The weighted average cost of capital of the Group is calculated as 6.04% (post tax) (2008: 9.06%). The return on capital for the year ended 30 June 2009 was (14.2)% (2008: 10.6%). There were no changes in the Group's approach to capital management during the year.

Subsequent to 30 June 2009, the Group announced a fully underwritten equity raising of approximately \$231.4 million. Refer to note 39 for further information.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(e) Net fair value

The net fair value of cash, cash equivalents and non-interest bearing financial assets and liabilities approximates their carrying value due to their short maturity. The net fair value of other financial assets and liabilities is determined by valuing them at the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows.

The net fair value of forward foreign exchange and fuel contracts is determined as the unrealised gain/loss at balance date by reference to market exchange rates and fuel prices. The net fair value of interest rate swaps is determined as the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows. The net fair value of options is determined using standard valuation techniques.

The interest rates used to discount estimated cash flows, where applicable, are based upon rates determined from the Weighted Average Cost of Capital calculation, as disclosed in note 18.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	CARRYING AMOUNT		FAIR VALUE	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
Consolidated				
Financial assets				
Cash and cash equivalents	475.9	603.9	475.9	603.9
Trade receivables	65.7	50.5	65.7	50.5
Other current receivables	34.7	29.0	34.7	29.0
Current derivative assets	11.9	126.8	11.9	126.8
Non-current derivative assets	1.9	60.9	1.9	60.9
Other non-current financial assets	49.0	24.0	49.0	24.0
Financial liabilities				
Trade payables and accruals	254.7	212.4	254.7	212.4
Other payables – current	14.0	12.0	14.0	12.0
Current derivative liabilities	88.6	72.3	88.6	72.3
Other payables – non-current	0.1	0.3	0.1	0.3
Bank loans – secured	1,798.8	1,486.2	1,798.8	1,486.2
Non-current derivative liabilities	36.1	3.7	36.1	3.7

Company

Financial assets

Cash and cash equivalents	0.1	0.3	0.1	0.3
Other current receivables	289.8	330.7	289.8	330.7
Other non-current financial assets	79.8	79.3	79.8	79.3

32 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 3(a):

NAME	EQUITY HOLDING	
	30 JUNE 2009 %	30 JUNE 2008 %
Virgin Australia Holdings Pty Limited ⁽³⁾	100%	100%
Virgin Blue Airlines Pty Limited ⁽³⁾	100%	100%
Virgin Tech Pty Ltd ⁽³⁾	100%	100%
VB Investco Pty Ltd	100%	100%
Pacific Blue Holdings Pty Ltd ⁽³⁾	100%	100%
Pacific Blue Airlines (NZ) Ltd	100%	100%
Pacific Blue Airlines (Aust) Pty Ltd ⁽³⁾	100%	100%
VBNC1 Pty Ltd	100%	100%
VBNC2 Pty Ltd	100%	100%
VBNC3 Pty Ltd	100%	100%
VBNC4 Pty Ltd	100%	100%
VBNC5 Pty Ltd	100%	100%
V Australia Airlines Pty Ltd	100%	100%
VBNC8 Pty Ltd	100%	100%
VBNC9 Pty Ltd	100%	100%
VBNC10 Pty Ltd	100%	100%
Velocity Rewards Pty Ltd	100%	100%
Blue Holidays Pty Ltd	100%	100%
Red Jet Foundation Pty Ltd	100%	100%
VB Ventures Pty Ltd	100%	100%
Virgin Blue International (Holdings) Pty Ltd	100%	100%
Virgin Blue International Airlines Pty Ltd	100%	100%
Virgin Australia Airlines Pty Ltd	100%	100%
VBANC1 Pty Ltd	100%	100%
VB Training Pty Ltd	100%	100%
VB Leaseco Pty Ltd	100%	–
VB LH No. 1 Pty Ltd	100%	–
VB LH No. 2 Pty Ltd	100%	–
VB 800 2009 Pty Ltd	100%	–
VB 700 2009 Pty Ltd	100%	–
VB E190 2009 Pty Ltd	100%	–
Key Employee Performance Plan ⁽¹⁾	–	–
The Loyalty Trust ⁽¹⁾	–	–
Red Jet Foundation Charitable Trust ⁽¹⁾	–	–
Express Blue Air Freight Pty Ltd ⁽²⁾	–	–

(1) The Company administers the Key Employee Performance Plan, The Loyalty Trust and Red Jet Foundation Charitable Trust through appointed Trustees.

(2) The Company controls Express Blue Air Freight Pty Ltd ("EBAF") despite holding no issued capital, as the Company has the power to govern the financial and operating policies of EBAF so as to obtain benefits from its activities. EBAF is no longer operating, and is in the process of being liquidated.

(3) Pursuant to ASIC Class Order 98/1418 (as amended), these controlled entities are relieved from the Corporations Act requirements for preparation, audit and lodgement of financial reports. Refer note 38 for further information.

All entities with the exception of Pacific Blue Airlines (NZ) Ltd were incorporated in Australia. Pacific Blue Airlines (NZ) Ltd was incorporated in New Zealand. The proportion of ownership interest is equal to the proportion of voting power held.

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
33 Reconciliation of (loss)/profit after income tax to net cash from operating activities				
(Loss)/profit for the financial year	(160.0)	97.7	8.9	41.6
Adjustments for:				
Depreciation	180.3	121.2	-	-
Amortisation	3.4	2.5	-	-
Dividends from controlled entities	-	-	-	(42.0)
Share of profit of associate	(0.4)	(3.5)	-	-
Deferred government grant	-	(0.6)	-	-
(Gain)/loss on disposal of fixed assets	(30.6)	1.4	-	-
Interest received	(26.6)	(41.9)	(0.1)	-
Equity-settled share-based payment expenses	0.6	4.7	-	-
Unrealised foreign exchange movements	32.2	-	-	-
	(1.1)	181.5	8.8	(0.4)
Changes in working capital and provisions:				
Increase in trade and other receivables	(19.3)	(24.3)	(8.7)	-
Decrease/(increase) in inventories	0.6	(0.2)	-	-
Decrease in other financial assets	2.0	3.2	-	-
Increase in other operating assets	(12.1)	(13.1)	-	-
Decrease/(increase) in deferred tax assets	-	55.8	(68.7)	(8.6)
Decrease/(increase) in derivatives	61.7	(67.2)	-	-
Decrease/(increase) in current tax asset	21.8	(23.6)	19.5	(22.6)
Increase in trade creditors and accruals	43.4	59.3	-	-
(Decrease)/increase in deferred tax liability	(120.2)	39.5	-	-
Increase/(decrease) in provisions	27.9	7.8	(0.2)	-
Increase in unearned income	96.4	74.9	-	-
Net cash inflow/(outflow) from operating activities	101.1	293.6	(49.3)	(31.6)

34 Employee benefits

Current

Salaries and wages accrued	3.7	1.9	-	-
Provision for employee bonus	3.0	3.8	-	-
Provision for annual leave	32.7	32.4	-	-
Provision for long service leave	12.4	-	-	-
	51.8	38.1	-	-

Non-current

Provision for long service leave	2.6	13.1	-	-
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(a) Superannuation plans

The Group contributes to several defined contribution superannuation plans. The amount recognised as expense for the year ended 30 June 2009 was \$35.3 million (2008: \$29.8 million).

(b) Share-based payments

Details of share-based payments made to employees are disclosed in note 35.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

35 Share-based payments

(a) Employee option plans

The Group has established the following employee option plans. The options have been granted to senior executives of the Group.

PLAN	VESTING PERIODS AND CONDITIONS
Senior Executive Option Plan – Issue 1	Vest in equal proportions over a four year period with a first anniversary date of 8 December 2004. The options will vest on the first anniversary if the Company share price is 10% or more above \$2.25 and on each anniversary after that if the share price of the company is 10% or more above the targeted share price for the previous year. The options will lapse on each anniversary date if they do not vest.
Senior Executive Option Plan – Issue 3	Vest in equal proportions over a four year period with a first anniversary date of 4 October 2005. The options will vest on the first anniversary if the Company share price is 10% or more above \$1.78 and on each anniversary after that if the Company share price is 10% or more above the targeted share price for the previous year. The options will lapse on each anniversary date if they do not vest.
Senior Executive Option Plan – Issue 4	Vest in equal proportions over a four year period with a first anniversary date of 31 January 2006. The options will vest on the first anniversary if the Company share price is 10% or more above \$1.963 and on each anniversary after that if the share price is 10% or more above the targeted share price for the previous year. The options will lapse on each anniversary date if they do not vest.
Senior Executive Option Plan – Issue 5	Vest in equal proportions over a four year period with a first anniversary date of 8 December 2005. The options will vest on each anniversary date if the total shareholder return (growth plus dividend) of Virgin Blue Holdings Limited over the vesting period is equal to or better than the percentage increase of the ASX 200 index. Options that do not meet the performance hurdle in any one year will not immediately expire, rather, they will be carried over each year until the performance hurdle is met for a continuous period of 30 trading days, until the expiry date of the options.
Senior Executive Option Plan – Issue 6	As for the Senior Executive Option Plan – Issue 5, with a first anniversary date of 1 May 2006.
Senior Executive Option Plan – Issue 7	As for the Senior Executive Option Plan – Issue 5, with a first anniversary date of 8 December 2007.
Senior Executive Option Plan – Issue 8	As for the Senior Executive Option Plan – Issue 5, with a first anniversary date of 15 January 2008.
Senior Executive Option Plan – Issue 9	Options will vest on 30 June 2010 if the increase in earnings per share of Virgin Blue Holdings Limited for the three years ended 30 June 2010 is greater than 20.9%.
Senior Executive Option Plan – Issue 10	Options will vest on 30 June 2011 if the fully diluted earnings per share of Virgin Blue Holdings Limited at 30 June 2011 are as projected in the three year business plan approved by the Board in October 2008.
Executive Performance Rights Plan – Issue 1	Performance rights will vest on 30 June 2009 if the increase in earnings per share of Virgin Blue Holdings Limited for the three years ended 30 June 2009 is greater than 62.5%.

All options are granted for no consideration. When exercisable, each option is convertible into one ordinary share.

Set out below are summaries of options granted under the plans by the Company and Group:

DURING THE YEAR (NUMBER)									
OPTION PLAN	GRANT DATE	NUMBER OF OPTIONS AT BEGINNING OF YEAR M	OPTIONS GRANTED M	OPTIONS FORFEITED OR LAPSED M	OPTIONS EXERCISED M	NUMBER OF OPTIONS AT YEAR END ON ISSUE M	NUMBER OF OPTIONS VESTED AND EXERCISABLE AT YEAR END M	EXERCISE PRICE \$	EXPIRY DATE
2009									
SEOP – Issue 3 ⁽¹⁾	4 Oct 2004	0.3	–	(0.3)	–	–	–	\$1.78	3 Oct 2009
SEOP – Issue 4 ⁽¹⁾	31 Jan 2005	0.4	–	(0.2)	–	0.2	0.2	\$1.963	30 Jan 2010
SEOP – Issue 5 ⁽¹⁾	8 Dec 2005	6.3	–	(0.8)	–	5.5	0.5	\$1.55	7 Dec 2010
SEOP – Issue 6 ⁽¹⁾	1 May 2006	0.3	–	–	–	0.3	–	\$1.77	30 Apr 2011
SEOP – Issue 7 ⁽¹⁾	8 Dec 2006	3.8	–	–	–	3.8	–	\$2.19	7 Dec 2011
SEOP – Issue 8 ⁽¹⁾	15 Jan 2007	0.2	–	(0.2)	–	–	–	\$2.37	14 Jan 2012
SEOP – Issue 9 ⁽¹⁾	21 Nov 2007	1.8	–	(0.3)	–	1.5	–	\$0.00	30 Jun 2011
EPRP – Issue 1 ⁽²⁾	27 Dec 2006	1.1	–	(1.1)	–	–	–	\$0.00	30 Jun 2010
SEOP – Issue 10 ⁽¹⁾	22 Apr 2009	–	7.7	–	–	7.7	–	\$0.00	30 Jun 2012
Total		14.2	7.7	(2.9)	–	19.0	0.7		
Weighted average exercise price		\$1.42	\$0.00	\$0.88	–	\$0.93	\$1.67		

DURING THE YEAR (NUMBER)									
OPTION PLAN	GRANT DATE	NUMBER OF OPTIONS AT BEGINNING OF YEAR M	OPTIONS GRANTED M	OPTIONS FORFEITED OR LAPSED M	OPTIONS EXERCISED M	NUMBER OF OPTIONS AT YEAR END ON ISSUE M	NUMBER OF OPTIONS VESTED AND EXERCISABLE AT YEAR END M	EXERCISE PRICE \$	EXPIRY DATE
2008									
SEOP – Issue 1 ⁽¹⁾	8 Dec 2003	0.6	–	(0.6)	–	–	–	\$2.25	7 Dec 2008
SEOP – Issue 3 ⁽¹⁾	4 Oct 2004	0.5	–	(0.2)	–	0.3	–	\$1.78	3 Oct 2009
SEOP – Issue 4 ⁽¹⁾	31 Jan 2005	0.6	–	(0.2)	–	0.4	0.2	\$1.963	30 Jan 2010
SEOP – Issue 5 ⁽¹⁾	8 Dec 2005	6.3	–	–	–	6.3	0.5	\$1.55	7 Dec 2010
SEOP – Issue 6 ⁽¹⁾	1 May 2006	0.4	–	–	(0.1) ⁽³⁾	0.3	–	\$1.77	30 Apr 2011
SEOP – Issue 7 ⁽¹⁾	8 Dec 2006	3.8	–	–	–	3.8	–	\$2.19	7 Dec 2011
SEOP – Issue 8 ⁽¹⁾	15 Jan 2007	0.2	–	–	–	0.2	–	\$2.37	14 Jan 2012
SEOP – Issue 9 ⁽¹⁾	21 Nov 2007	–	1.8	–	–	1.8	–	\$0.00	30 Jun 2011
EPRP – Issue 1 ⁽²⁾	27 Dec 2006	1.1	–	–	–	1.1	–	\$0.00	30 Jun 2010
Total		13.5	1.8	(1.0)	(0.1)	14.2	0.7		
Weighted average exercise price		\$1.67	\$0.00	\$2.08	\$1.77	\$1.42	\$1.67		

Notes to Employee Option Plans

(1) SEOP is the Senior Executive Option Plan.

(2) EPRP is the Executive Performance Rights Plan

(3) The weighted average share price at the date of exercise was \$2.07

The weighted average remaining contractual life of share options and rights outstanding at the end of the financial year was 2 (2008: 4) years.

Fair value of options/rights granted

The assessed fair value at grant date of options and rights granted during the period are:

PLAN	GRANT DATE	2009 \$	2008 \$
SEOP – Issue 10	22 April 2009	0.29	–
SEOP – Issue 9	21 November 2007	–	2.16

The fair value of options at grant date is determined in one of two ways, depending on the terms of the options:

- (1) Fair value is independently determined using a binomial or Monte Carlo option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option and the probability of any market performance conditions being met.
- (2) Fair value is determined as the value of the shares at grant date less the value of the dividends forgone over the vesting period.

The model inputs/rights for options granted during the period include:

	2009	2008
	SEOP – ISSUE 10	SEOP – ISSUE 9
(a) Exercise price	\$0.00	\$0.00
(b) Grant date	22 April 2009	21 November 2007
(c) Expiry date	30 June 2012	30 June 2011
(d) Share price at grant date	\$0.30	\$2.27
(e) Expected volatility of the company's shares	–	–
(f) Expected dividend yield	0% for 18 months, then 5% for the remaining period	0% for 18 months, then 5% for the remaining period
(g) Risk-free interest rate	–	–

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

35 Share-based payments (continued)

(b) Employee share plans

The Group has established the following employee share plans.

SHARE PLAN	DATE ESTABLISHED	DETAILS	RESTRICTIONS
Key Employee Performance Plan ("KEPP")	8 December 2003	Directors may grant performance rights to eligible full-time or permanent part-time employees of the Virgin Blue Group, other than a non-executive director of a member of the Virgin Blue Group. The Company has appointed CPU Share Plans Pty Limited as Trustee to acquire and hold shares under the KEPP. The Trustee will transfer shares held by it to a participating employee when the vesting conditions in relation to a performance right have been satisfied or have been waived by the Board. The Company provides all monies required by the trustee to acquire shares for the purposes of the KEPP, including costs and duties.	A participating employee is not entitled to any income or other rights (including voting rights) derived from any shares acquired by the Trustee under the KEPP unless and until the shares are transferred to the employee, following satisfaction of any vesting conditions. The vesting conditions require employees to hold and not sell any of their initial purchase of shares and to remain a Virgin Blue employee throughout the period.

Set out below are summaries of performance rights granted in the Key Employee Performance Plan by the Company and Group:

	NUMBER OF PERFORMANCE RIGHTS AT THE BEGINNING OF THE YEAR M	NUMBER OF PERFORMANCE RIGHTS GRANTED DURING THE YEAR M	NUMBER OF PERFORMANCE RIGHTS VESTED AND EXERCISED DURING THE YEAR M	NUMBER OF PERFORMANCE RIGHTS FORFEITED DURING THE YEAR M	NUMBER OF PERFORMANCE RIGHTS AT THE END OF THE YEAR M	NUMBER OF PERFORMANCE RIGHTS VESTED AND EXERCISABLE AT THE END OF THE YEAR M
2009	0.3	–	(0.2)	–	0.1	–
2008	0.6	–	(0.3)	–	0.3	–

Set out below are summaries of shares in Virgin Blue Holdings Limited held within the Key Employee Performance Plan:

	SHARES AT THE BEGINNING OF THE PERIOD NUMBER M	GRANTED AND VESTED TO THE PLAN DURING THE PERIOD NUMBER M	FAIR VALUE PER SHARE \$	DISTRIBUTION DURING THE PERIOD NUMBER M	SHARES AT THE END OF THE PERIOD NUMBER M
2009	9.2	–	–	(0.2)	9.0
2008	9.5	–	–	(0.3)	9.2

Shares from the KEPP Trust were distributed as follows:

DATE	NUMBER M	WEIGHTED AVERAGE FAIR VALUE PER SHARE \$
2009		
1 July 2008 to 30 June 2009	0.2	0.33
2008		
24 September 2007 to 30 June 2008	0.3	1.84

The fair value of shares granted and distributed during the period is the market price of shares of the Company on the Australian Securities Exchange as at close of trading on each of the issue dates. The fair value is allocated over the vesting period evenly.

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefit expense were as follows:

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
Options issued under employee option plans	0.3	4.5	–	–
Shares issued under employee share plans	0.2	0.2	–	–
	0.5	4.7	–	–

36 Related Parties

(a) Key management personnel disclosures

Key management personnel

The following persons were key management personnel of the Group at any time during the financial year and unless otherwise indicated were key management personnel for the entire year:

		KEY MANAGEMENT PERSONNEL DURING:	
NAME	PERIOD/POSITION	2009	2008
Non-executive directors			
Mr N Chatfield		Yes	Yes
Mr P McCall		Yes	Yes
Mr D Baxby		Yes	Yes
Mr R Thomas		Yes	Yes
Mr M Vaile	Appointed 22 September 2008	Yes	No
Mr R Watson	Resigned 11 July 2008	Yes	Yes
Mr B McInerney	Resigned 22 August 2008	Yes	Yes
Mr T Mallon	Resigned 22 August 2008	Yes	Yes
Mr J Ludeke	Resigned 22 August 2008	Yes	Yes
Mr P Little	Resigned 22 August 2008	Yes	Yes
Alternate Directors			
Mr S Murphy		Yes	Yes
Mr K Roberts	Appointed 30 September 2008	Yes	No
Executive Director			
Mr B Godfrey		Yes	Yes
Executives			
Mr K Neate	Chief Financial Officer	Yes	Yes
Mr S Pichler	Chief Commercial Officer	To 31 March 2009	Yes
Mr A David	Chief Operating Officer	Yes	Yes
Mr R Tanner	General Manager of People	Yes	Yes
Mr S Swift	Executive General Manager – V Australia	Yes	Yes
Ms M McArthur	General Counsel and Company Secretary	Yes	From 19 May 2008

Key management personnel compensation

The key management personnel compensation included in “Labour and staff related costs” are as follows:

	CONSOLIDATED		THE COMPANY	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Short-term employee benefits	4,953	5,444	4,953	5,444
Post-employment benefits	430	422	430	422
Share-based payments	1,400	2,344	1,400	2,344
	6,783	8,210	6,783	8,210

The compensation of key management personnel, other than Mr S Swift, is paid by Virgin Blue Airlines Pty Limited on behalf of the Group. The compensation of Mr S Swift is paid by Virgin Blue International Airlines Pty Limited on behalf of the Group. It has been determined that it is not practicable to split the benefits between entities in the Group.

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration Report section of the Directors' Report on pages 5 to 11.

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

Loans to key management personnel

There were no loans made, guaranteed, secured or outstanding during the year to key management personnel or their related parties (2008: nil).

Other transactions with key management personnel

A number of directors, or their personally related entities, hold positions in other subsidiaries of the ultimate parent entity.

A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis. The details of these transactions are disclosed in note 36(b). Personal travel by key management personnel and their related parties is undertaken on terms no more favourable than those of employees, as per Group policy.

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

36 Related Parties (continued)

(a) Key management personnel disclosures (continued)

Options over equity instruments

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2009	HELD AT 1 JULY 2008 '000	GRANTED AS COMPENSATION '000	EXERCISED '000	OTHER CHANGES* '000	HELD AT 30 JUNE 2009 '000	VESTED DURING THE YEAR '000	VESTED AND EXERCISABLE AT 30 JUNE 2009 '000
Directors							
Mr B Godfrey	974	1,669	–	(566)	2,077	–	–
Other key management personnel of the Group							
Mr K Neate	1,286	417	–	(142)	1,561	–	–
Mr S Pichler	1,364	–	–	(1,364)	–	–	–
Mr A David	1,424	464	–	(346)	1,542	–	189
Mr R Tanner	70	287	–	–	357	–	–
Mr S Swift	842	287	–	(98)	1,031	–	–
Ms M McArthur	–	287	–	–	287	–	–
2008	HELD AT 1 JULY 2007 '000	GRANTED AS COMPENSATION '000	EXERCISED '000	OTHER CHANGES* '000	HELD AT 30 JUNE 2008 '000	VESTED DURING THE YEAR '000	VESTED AND EXERCISABLE AT 30 JUNE 2008 '000
Directors							
Mr B Godfrey	566	408	–	–	974	–	–
Other key management personnel of the Group							
Mr K Neate	1,332	102	–	(148)	1,286	–	–
Mr S Pichler	1,501	113	–	(250)	1,364	–	–
Mr A David	1,500	113	–	(189)	1,424	–	189
Mr R Tanner	–	70	–	–	70	–	–
Mr S Swift	907	70	–	(135)	842	–	–
Ms M McArthur	–	–	–	–	–	–	–

* Other changes represent options that lapsed or were forfeited during the year.

No options have been granted since the end of the financial year. The options were provided at no cost to the recipients. No options held by key management personnel are vested but not exercisable. No options were held by key management personnel related parties.

Movements in shares

The movement during the year in the number of ordinary shares in the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2009	BALANCE AT 1 JULY 2008 '000	GRANTED DURING THE YEAR AS COMPENSATION '000	PURCHASES '000	IN-SPECIE DIVIDEND ^(A) '000	SALES '000	COMMENCED AS A KEY MANAGEMENT PERSON '000	RETIRED AS A KEY MANAGEMENT PERSON '000	BALANCE AT 30 JUNE 2008 '000
Directors of Virgin Blue Holdings Limited								
Mr B Godfrey	28,492	332	500	-	-	-	-	29,324
Mr N Chatfield	55	-	-	402	(18)	-	-	439
Mr P McCall	-	-	-	-	-	-	-	-
Mr D Baxby	20	-	-	-	-	-	-	20
Mr R Thomas	85	-	-	68	-	-	-	153
Mr M Vaile	-	-	-	-	-	-	-	-
Mr P Little	-	-	-	36,071	-	-	(36,071)	-
Mr R Watson	-	-	-	-	-	-	-	-
Mr B McInerney	15	-	-	360	-	-	(375)	-
Mr T Mallon	5	-	-	8	-	-	(13)	-
Mr J Ludeke	-	-	-	328	-	-	(328)	-
Mr S Murphy	111	-	-	-	-	-	-	111
Mr K Roberts	-	-	-	-	-	6	-	6

Other key management personnel of the Group

Mr K Neate	472	75	-	-	-	-	-	547
Mr S Pichler	-	-	-	-	-	-	-	-
Mr A David	-	73	-	-	-	-	-	73
Mr R Tanner	-	20	-	-	-	-	-	20
Mr S Swift	341	56	-	-	-	-	-	397
Ms M McArthur	-	-	-	-	-	-	-	-

(A) On 22 August 2008, Toll Holdings Limited ("Toll") distributed 98.3% of its 62.7% shareholding in the Company to Toll shareholders by way of an in-specie dividend.

2008	BALANCE AT 1 JULY 2007 '000	GRANTED DURING THE YEAR AS COMPENSATION '000	PURCHASES '000	SALES '000	BALANCE AT 30 JUNE 2008 '000
Directors of Virgin Blue Holdings Limited					
Mr B Godfrey	28,147	-	345	-	28,492
Mr N Chatfield	20	-	35	-	55
Mr P McCall	-	-	-	-	-
Mr D Baxby	20	-	-	-	20
Mr R Thomas	50	-	35	-	85
Mr P Little	-	-	-	-	-
Mr R Watson	-	-	-	-	-
Mr B McInerney	15	-	-	-	15
Mr T Mallon	5	-	-	-	5
Mr J Ludeke	-	-	-	-	-
Mr S Murphy	111	-	-	-	111
Other key management personnel of the Group					
Mr K Neate	472	-	-	-	472
Mr S Pichler	-	-	-	-	-
Mr A David	-	-	-	-	-
Mr B Highfield	-	-	-	-	-
Mr S Swift	341	-	-	-	341

Notes to the Financial Statements (continued)

For the year ended 30 June 2009

36 Related Parties (continued)

(b) Non-key management personnel disclosures

The Group has a related party relationship with its subsidiaries (see note 32), its associate (see note 15) and with its key management personnel (refer to disclosures for key management personnel on preceding pages).

Controlling entity

The ultimate parent entity in the Group is Virgin Blue Holdings Limited.

Transactions with related parties

The following transactions occurred with related parties:

	CONSOLIDATED		THE COMPANY	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
Purchases of goods and services – Key management personnel related entities				
Purchase of maintenance services from other related parties	-	10.6	-	-
Purchase of freight services from other related parties	-	1.1	-	-
Purchase of goods and services – Non-key management personnel related entities				
“Virgin” and “Virgin Blue” brand name royalty paid to other related party	16.9	7.1	-	-
Airline service revenue				
Revenue for airline services to associate	15.7	11.7	-	-
Freight revenue				
Revenue for freight from related party	-	22.9	-	-
Dividend revenue				
From subsidiaries	-	-	-	42.0
Other revenue				
From subsidiaries	-	-	12.7	-
Tax consolidation legislation				
Current tax payable assumed from wholly-owned tax consolidated entities	-	-	3.2	31.7
Tax losses assumed from wholly-owned consolidated entities	-	-	(69.6)	(64.4)

Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

Key management personnel and key management personnel related entities

Current receivables (sales of goods and services)

- Associates	4.8	3.1	-	-
- Other related parties	-	0.9	-	-

Current payables (purchases of goods and services)

- Associates	8.5	8.7	-	-
- Other related parties	-	0.2	-	-

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

Loans to/from related parties

Loans to subsidiaries

Beginning of the year	-	-	340.8	362.7
Loans advanced	-	-	49.2	47.9
Loan repayments received	-	-	(95.8)	(69.8)
End of the year	-	-	294.2	340.8

Loans to associates

Beginning of the year	2.3	2.6	-	-
Loan repayments received	(0.8)	-	-	-
Foreign exchange loss	-	(0.3)	-	-
End of the year	1.5	2.3	-	-

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

Terms and conditions

Transactions relating to dividends were on the same terms and conditions that applied to other shareholders.

All transactions were made on normal terms and conditions and at market rates, except that the loans to subsidiaries are interest-free, and are repayable at call.

Loans to associates bear a floating interest rate, equal to the New Zealand Reserve Bank Bill Rate. The interest rate on these loans at 30 June 2009 was 3.12% (2008: 8.88%).

Outstanding balances are unsecured and are repayable in cash.

37 Auditors' remuneration

Details of amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below.

	CONSOLIDATED		THE COMPANY	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Statutory audit				
KPMG Australia:				
– Audit and review of financial reports	652	496	5	5
KPMG New Zealand:				
– Audit and review of financial reports	–	51	–	–
Other services				
KPMG Australia:				
– Taxation services	84	95	–	–
– Other assurance, accounting assistance and other services	291	159	–	–
Total audit fees	1,027	801	5	5

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

38 Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries identified in note 32 are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and Directors' Report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up. The Deed came into effect on 18 June 2007.

A consolidated income statement and consolidated balance sheet, comprising the Company and controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, as at 30 June 2009 is set out as follows:

Income Statement

	CONSOLIDATED	
	2009 \$M	2008 \$M
(Loss)/profit before tax	(99.6)	137.1
Income tax benefit/(expense)	32.3	(44.1)
(Loss)/profit after tax – attributable to equity holders of the Company	(67.3)	93.0
Retained profits at beginning of year	426.0	373.4
Dividends recognised during the year	–	(40.4)
Retained profits at the end of year – attributable to equity holders of the Company	358.7	426.0

Balance Sheet

	CONSOLIDATED	
	2009 \$M	2008 \$M
Current assets		
Cash and cash equivalents	293.4	424.3
Trade and other receivables	302.1	196.5
Inventories	–	0.6
Derivative financial instruments	11.9	126.8
Current tax assets	1.7	21.5
Total current assets	609.1	769.7
Non-current assets		
Derivative financial instruments	1.9	60.9
Other financial assets	18.5	25.7
Property, plant and equipment	2,062.8	1,959.8
Deferred tax assets	0.9	–
Intangible assets	47.7	46.5
Total non-current assets	2,131.8	2,092.9
Total assets	2,740.9	2,862.6
Current liabilities		
Trade and other payables	217.4	209.3
Interest-bearing liabilities	141.1	123.2
Provisions	53.5	42.0
Derivative financial instruments	88.6	72.3
Unearned revenue	316.3	292.3
Total current liabilities	816.9	739.1
Non-current liabilities		
Payables	0.1	0.3
Derivative financial instruments	36.1	3.7
Interest-bearing liabilities	1,159.1	1,047.9
Provisions	54.3	46.9
Deferred tax liabilities	–	121.4
Unearned revenue	1.1	1.7
Total non-current liabilities	1,250.7	1,221.9
Total liabilities	2,067.6	1,961.0
Net assets	673.3	901.6
Equity		
Contributed equity	397.7	395.6
Reserves	(83.1)	80.0
Retained profits	358.7	426.0
Total equity	673.3	901.6

39 Subsequent events

On 27 July 2009, the Group announced a fully underwritten equity raising of approximately \$231.4 million, consisting of:

- an institutional placement of 105.2 million shares to raise approximately \$21.0 million; and
- a 1 for 1 non-renounceable pro-rata entitlement of 560.4 million shares to raise approximately \$210.4 million.

The offer was fully subscribed, and the full amount of \$231.4 million was raised. All new shares were issued by 8 September 2009.

Directors' Declaration

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

- (a) the financial statements and notes, set out on pages 14 to 49, and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2009 and of their performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a);
- (c) the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and
- (d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. There are reasonable grounds to believe that the Company and the group entities identified in note 38 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 98/1418.

3. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2009.

Signed in accordance with a resolution of the directors:



Brett Godfrey
Director

Dated at Brisbane this 30th day of September 2009

Independent Auditor's Report

To the members of Virgin Blue Holdings Limited



Report on the financial report

We have audited the accompanying financial report of Virgin Blue Holdings Limited (the "Company") which comprises the balance sheets as at 30 June 2009, and the income statements, statements of recognised income and expense and statements of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 39, and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Virgin Blue Holdings Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2009 and of their performance for the year ended on that date, and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 5 to 11 of the directors' report for the year ended 30 June 2009. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Virgin Blue Holdings Limited for the year ended 30 June 2009, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Robert S Jones
Partner

Brisbane, 30 September 2009.

ASX Additional Information

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

Shareholdings (as at 14 September 2009)

Substantial shareholders

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

SHAREHOLDER	NUMBER OF ORDINARY SHARES
Virgin Group	573,015,919

Voting rights

Ordinary shares

Refer to note 25.

Options and rights

Refer to note 35.

Distribution of equity security holders

CATEGORY	NUMBER OF EQUITY SECURITY HOLDERS	
	ORDINARY SHARES	OPTIONS AND RIGHTS
1 – 1,000	12,270,758	–
1,001 – 5,000	69,813,110	–
5,001 – 10,000	54,747,823	–
10,001 – 100,000	258,473,714	7
100,001 and over	821,581,057	16
	1,216,886,462	23

No shareholders hold less than a marketable parcel of ordinary shares.

On-market buy-back

There is no current on-market buy-back.

Twenty largest shareholders

NAME	NUMBER OF ORDINARY SHARES HELD	CAPITAL HELD %
Vieco 2 Limited	573,015,919	25.94
National Nominees Limited	225,184,544	10.19
J P Morgan Nominees Australia Limited	200,327,416	9.07
Citicorp Nominees Pty Ltd	88,836,839	4.02
CU Nominees Pty Ltd	56,294,826	2.55
HSBC Custody Nominees (Aust) Ltd	55,979,298	2.53
ANZ Nominees Ltd	43,378,458	1.96
UBS Nominees Pty Ltd	38,961,112	1.76
Queensland Investment Corporation	31,390,711	1.42
Cogent Nominees Pty Ltd – SMP Accounts	21,516,881	0.97
CPU Share Plans Pty Ltd	20,210,183	0.91
P G A (Investments) Pty Ltd	20,000,000	0.91
AMP Life Ltd	13,339,738	0.60
Comsec Nominees Pty Ltd	12,773,902	0.58
Cogent Nominees Pty Ltd	12,316,672	0.56
Merrill Lynch (Aust) Nominees Pty Ltd	11,459,548	0.52
Citicorp Nominees Pty Ltd – CFSIL CFS WS Small Comp	10,552,856	0.48
Neweconomy.com.au Nominees Pty Ltd	10,331,798	0.47
HSBC Custody Nominees (Aust) Ltd	9,179,548	0.42
Bond Street Custodians Ltd – Macquarie Alpha Opport	8,904,280	0.40
	1,463,954,529	66.26

Corporate Directory

COMPANY SECRETARY

Ms Merren McArthur

PRINCIPAL ADMINISTRATIVE AND REGISTERED OFFICE

Virgin Blue Holdings Limited
56 Edmondstone Road
Bowen Hills QLD 4006
Australia
Telephone: (07) 3295 3000

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 19
307 Queen Street
Brisbane QLD 4000

STOCK EXCHANGE

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

OTHER INFORMATION

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

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