Virgin Blue Group Half year results
6 months ended 31 December 2010

“Advancing the Game Change Program”

John Borghetti, CEO
23 February 2011

Overview

- Underlying Net Profit Before Tax within guidance range
- Stable short haul performance
  - Subdued consumer confidence and discretionary spending under pressure in the leisure sector
  - Increased industry capacity driving discounting at the leisure end
- Significant improvement to long haul business
- Underlying cost base under control
- Yield improvement in both businesses
- First year of transformational change
  - Benefits of Game Change Program start in FY12
- Game Change Program – advancing well with key milestones being achieved
  - Network review already having impact on long haul
  - New alliances with Etihad and Air New Zealand approved; Delta pending
  - Branding, product, fleet and network initiatives imminent
  - Phase 1 announced today

Financial highlights

- Underlying PBT $72 million
- Yield improvement in both short haul and long haul
  - Long haul up 15%
  - Short haul up 1%
- Total revenue increased by 12%
- Underlying Group CASK (total) reduced by 0.4%
- Operating cash flow $136 million
- Maintained a strong cash balance $772 million after Game Change and aircraft investment

Underlying PBT excludes non recurring items and ineffective and non designated derivatives

Income Statement Summary

Six months ended 31 December	2010 $m	2009 $m	VLY	Comment
Revenue	1,695	1,516	+12%	
Underlying EBIT	97	106	-8%	Network strategy benefits expected in 2H11
Net financing costs	(25)	(30)	+15%	Lower financing costs and higher cash balances
Underlying PBT	**72**	**76**	**-5%**	
Navitaire outage	(18)	-	-	
Ineffective and non designated derivatives	(17)	23	-	Non-cash items
Statutory Profit before Tax	**37**	**99**	**-63%**	

Underlying PBT excludes non recurring items and ineffective and non designated derivatives

Segment Results

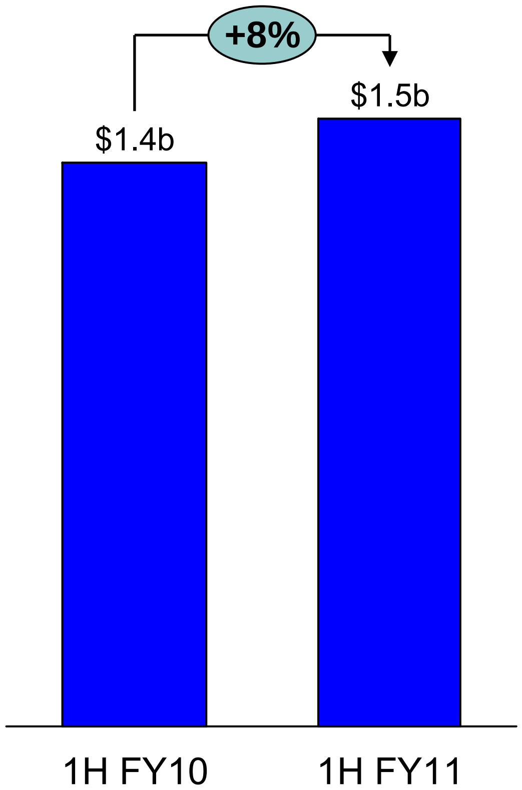
Six months ended 31 December	2010 $m	2009 $m	VLY	
Underlying EBIT				
Short Haul	102	103	-1%	Capacity up 7.9%, offset by marginal increase in underlying CASK
Long Haul	(7)	(24)	+71%	Strong improvement in RASK (yield and loads up)
Corporate/eliminations	2	27	-	
Underlying EBIT	**97**	**106**	**-8%**	

Underlying EBIT excludes non recurring items and ineffective and non designated derivatives

Short haul – stable profitability in challenging market environment

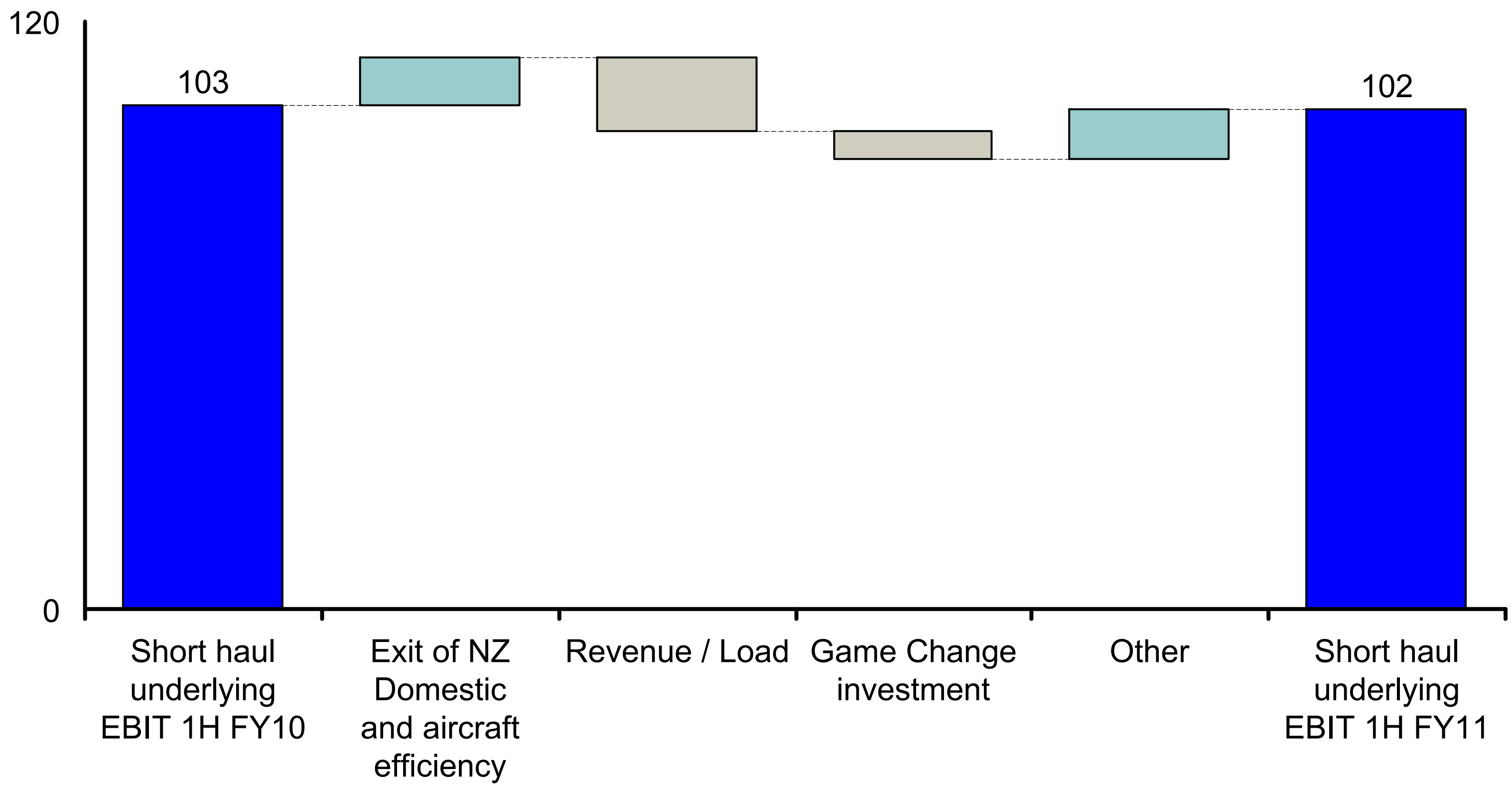
- Includes all Boeing 737 and Embraer flying
- Underlying EBIT $102 million
  - Improved trading in early months offset by weaker demand in November/December
- Yield up 1%, despite competitive domestic market impacting yields in the leisure sector
- Capacity up 7.9%, in line with full year expectations
- Underlying CASK (total) – domestic down 1.5%, international up 4%
  - Incremental costs on NZ Domestic exit and network changes
  - Airport charges up more than 8% on average
  - Investment in Game Change Program

Short haul revenue



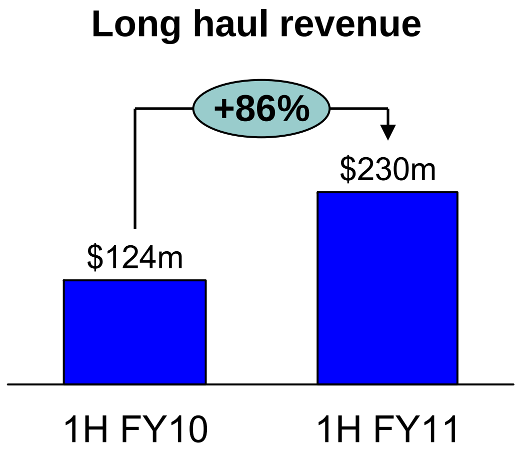
Short haul performance

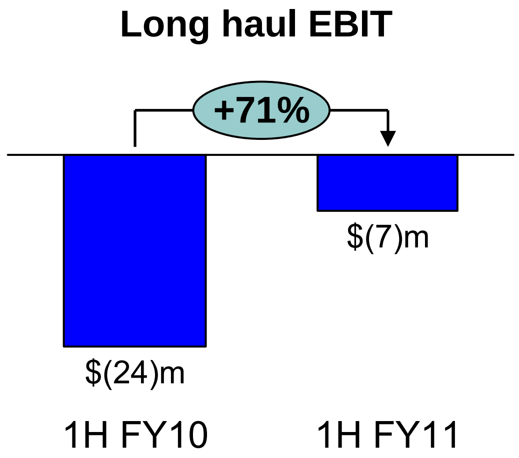
Short haul underlying EBIT performance: 1H FY10 to 1H FY11



Long haul – operation showing significant profitability improvement

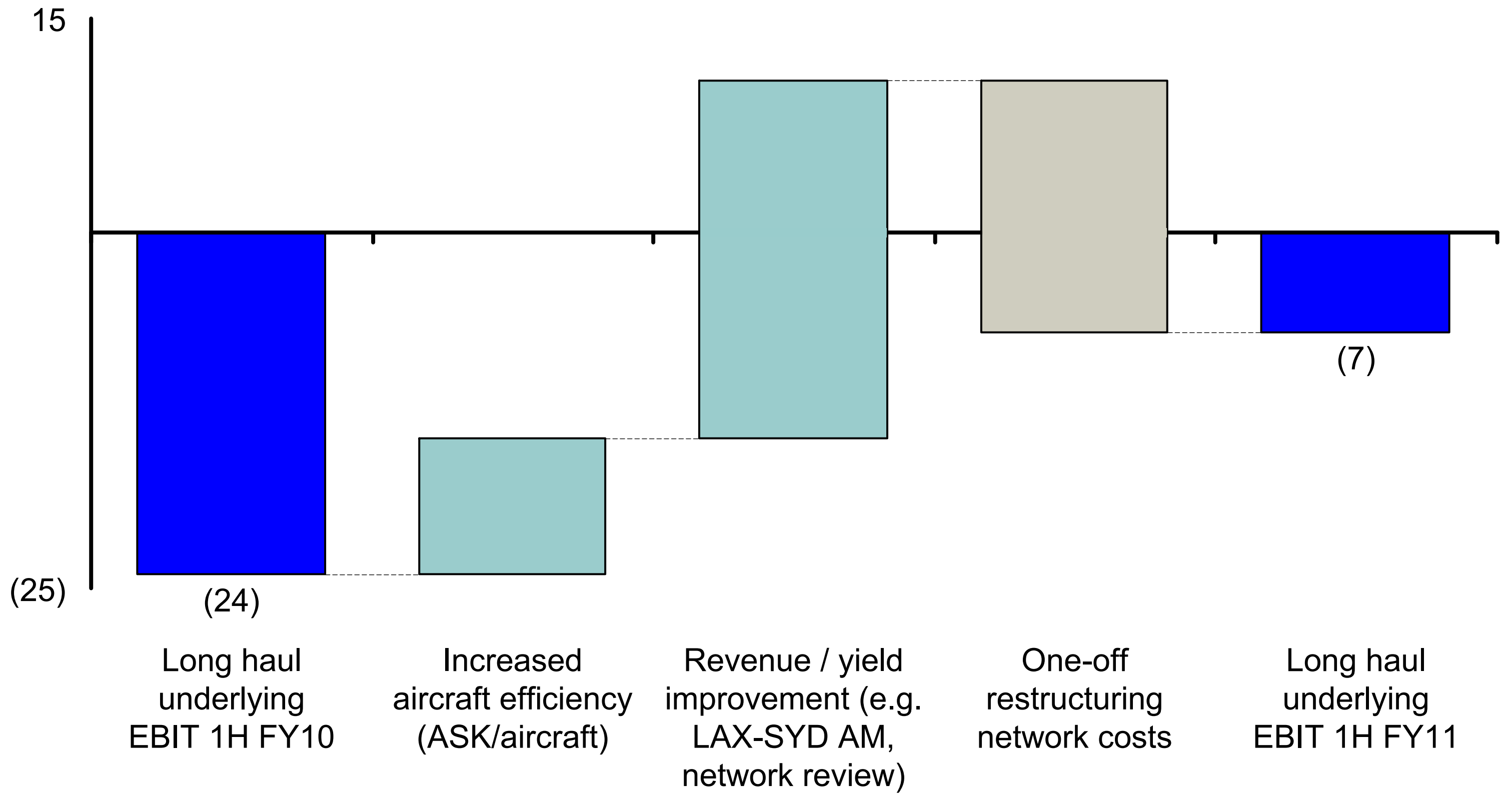
- Includes all Boeing 777 flying
- Underlying EBIT $(7) million, up from $(24) million
- V Australia re-focused on international long haul markets
- Expanding international network – focused on creating key global hubs through alliances
  - Trans Pacific remains core market (daily SYD-LAX service from December 2010)
  - Capacity redeployment and timing changes on sub optimal routes
  - Operational efficiency by consolidating to 2 strategic international hubs: Abu Dhabi and Los Angeles
- RASK up 26%
  - Sustainable strong improvement in both yield, up 15%, and load, up 9.5%
- Underlying CASK (total) up 8.7%
  - Driven by sub-optimal flying





Long haul performance

Long haul underlying EBIT performance: 1H FY10 to 1H FY11



Fleet summary – average age of fleet 4.7 years

	Dec 2010	June 2010	VLY	Future deliveries	
B737NG	63	62	+1	70	4 deliveries, 3 lease returns
B777-300ER	5	4	+1	-	
E-170/190	21	21	-	-3	3 E190 deliveries and planned exit of 6 E170s
A330-200	-	-	-	4	2 A330 deliveries Q3 FY11 and 2 Q3 FY12
ATR-500/600	-	-	-	18	Up to 18 units, wet lease from Skywest commencing mid 2011
	89	**87**	**+2**	**89**	
Leased	35	36			
Owned	54	51			

- Taking delivery of 10 new aircraft in remainder of FY11 – 5xB737, 3xE190 and 2xA330
- Exiting E-170s during FY11 and FY12 (3 in 2H FY11 and 3 in FY12)
- Seven lease return B737s confirmed, with flexibility to hold up to one more in 2H FY11

Cash flow summary

Six months ended 31 December	2010 $m	2009 $m	VLY	
Operating	**136**	**203**	**-33%**	
Investing	(281)	(86)	-226%	5 new aircraft, progress payments and infrastructure
Financing	109	253	-57%	Funding for new aircraft. 1H FY10 includes capital raising proceeds $223m
Net cash inflow/(outflow)	(36)	370	-110%	
Cash at end of period	**772**	**842**	**-8%**	Cash at 30 June 2010 $815 million

Capital and Risk management

- Dividend position unchanged – reassessment at end of FY2011
- Strong cash management position
  - No refinancing obligations
  - No cash collateral for hedge book
  - No covenants on debt facilities
- Funding secured for 90% of all aircraft deliveries to end of FY12
- 2HFY11 Hedging position reduces exposure with strong upside participation

FY11	Foreign exchange	Fuel
Operating requirements hedged	50%	64%
Worst case rate	0.88	USD96/bbl
Participation in rate/price movements	56%	88%

FY12	Foreign exchange	Fuel
Operating requirements hedged	24%	20%
Worst case rate	0.88	USD103/bbl
Participation in rate/price movements	88%	100%

Strategic repositioning

<u>What are we wanting to achieve?</u>

1. Hedging of revenue line exposure
   - Maintaining our strong leisure presence but lessening our reliance on this market
   - Modest increase in our penetration of the higher yielding Corporate and Government traffic from ≈10% to ≈15 – 20%

2. Improved return, not fixated on market share

3. Access growth markets without the burden of substantial capital requirements
   - Internationally through consolidation of our operations and creating a virtual network through strong strategic alliances
   - Regional Australia – suitable aircraft and not operating entity

4. No desire to be the biggest but want to be the domestic airline of choice

Validation of strategy

1 Economy and history	• Last 12 months, and the past 3 months in particular, have shown us: - Floods, cyclones, economic downturns, and interest rate rises all have major impacts on the leisure end of the market; almost 90% of our business
2 From competitors	• Strong corporate yields providing our competitor with good results (87% of domestic Corporate market) • Strong reaction from our competitor in anticipation of our repositioning
3 From customers	• Feedback on desire for competition • V Australia customer service was awarded the winner of two categories for best in-flight experience at the 2010 Passenger Choice Awards by the Airline Passenger Experience Association (APEX)

Timing is perfect to jump on the Corporate market wave

Game Change Program advancing well

Progress to date

- ☑ Exit loss making routes and maximise profitability of current routes
- ☑ Strengthen domestic and international network
- ☑ Fleet optimisation
- ☑ Develop comprehensive virtual international network complementing domestic business
- ☑ Redefine product offering and brand to deliver enhanced guest experience
- ☑ Enhance team skills
- ☑ Invest in our team and staff engagement

☑ Route and Fleet Optimisation

International	Domestic	Regional
• Exited heavy loss making routes - Africa, NZ domestic - Discontinue Boeing 777 flying to Phuket and Fiji • Consolidated long haul network to 2 hubs - Operational efficiency - Spoke to multiple destinations	• Change fleet mix • Widebody capacity - 2 x Airbus A330-200 May 2011 - 2 x Airbus A330-200 early 2012 • Exiting Embraer E170 fleet	• Skywest alliance - Codeshare in WA • Introduction of ATR turbo props - Wet lease Skywest operation - 4 in service mid 2011 - Capability of up to 18 aircraft • ATR will replace E170 flying - Operate new regional network • ATR will provide - Operational flexibility - Superior economics - Maintain competitive customer experience

ATR – superior economics

	E170	ATR72
Seat capacity	78	68
Capital cost[1] (USD million)	37	23
Fuel burn[2] (kg)	1,350	525
Fuel cost[3] per ASK[2] (cents)	4.1	1.8
CO_2 emissions[2] (tonnes)	3.3	1.7
Fuel efficiency[4] (litres of fuel / pax / 100km)	4.1	2.4
Flight time[2] (hr)	0:55	0:55

Note: [1] List or published prices; [2] 150 nautical mile flight; [3] $80/brl with no handling charge; [4] Typical cruise, 97% MTOW
Source: ATR data

ATR72 – competitive customer experience

- Wider aisle
- Wider cabin
- Wider overhead lockers

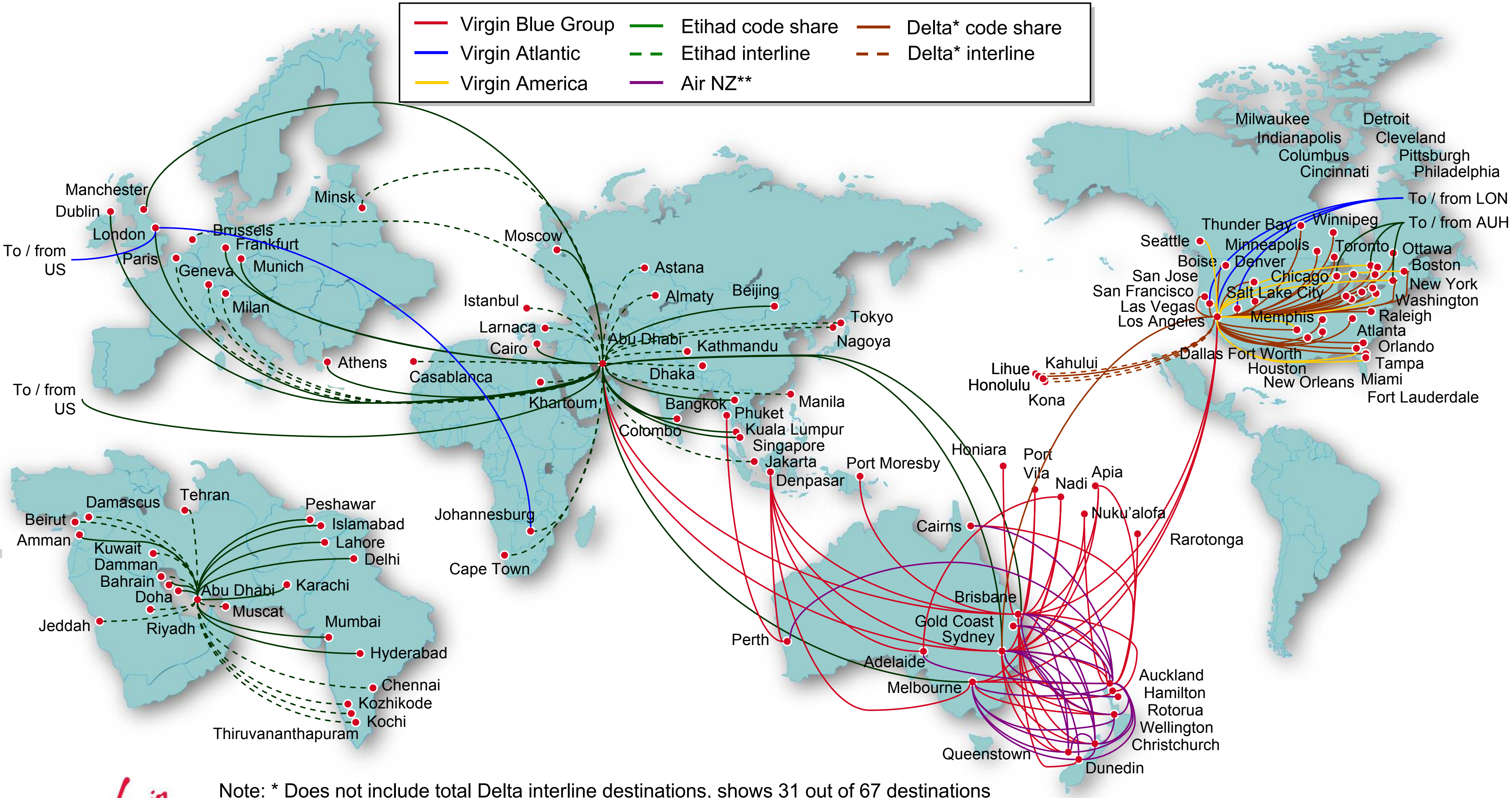
vs Q400

☑ Develop comprehensive virtual international network complementing domestic business

Critical for - corporate market penetration
- inbound opportunities
- Velocity program

- Etihad Alliance in operation; Air New Zealand full code share by mid 2011; Delta pending
- Virtual network serves 2 key hubs: Abu Dhabi and Los Angeles
  - IATA forecasts the top regional international passenger demand growth area as the Middle East (9.4%)
  - The United States will remain the single largest country for domestic and international passenger demand
- Contrary to belief, virtual network is the right choice for V Australia
  - Not part of an alliance, can join with the ‘right-fit’ partners
  - Not a competitor to key airlines in growth markets, and can provide strategic distribution from Australia to partners
  - Operations are nimble / flexible to execute this strategy

Global alliance network already over 150 destinations (pending Delta alliance)



Note: * Does not include total Delta interline destinations, shows 31 out of 67 destinations
** Only includes Air New Zealand's National domestic network, excludes the Link network

☑ Redefine product offering and brand to deliver enhanced guest experience

- Phase 1 – announced today
  - ☑ Airbus A330 business class cabin – best domestic business class product in the market
  - ☑ Sydney direct lounge entry and valet – providing the only direct premium lounge entry and kerbside valet in the market
  - ☑ New uniforms – new "style"
  - ☑ Commenced - major upgrade / improvements to Brisbane Airport, Brisbane and Melbourne Lounges

    - new Lounge openings - Coolangatta in 4Q 2011
    - 2 additional Lounges by end of 2011
- Announcement of Phase 2 prior to June 30 2011

Airbus A330 between Sydney and Perth – May 2011

Airbus A330 between Sydney and Perth – May 2011

CONFIDENTIAL

Airbus A330 between Sydney and Perth – May 2011

Sydney direct premium lounge entry and valet – April 2011

New uniforms – from today

CONFIDENTIAL

☑ Enhance team skills

- Yield Management
- Network Management
- Operations
- Media Relations
- Government Relations
- Sales Teams
- Customer Service and Guest Experience

- Engage workforce to elevate Virgin Blue's:
  - Service promise
  - Service skills
  - Service delivery

☑ Invest in our team and staff engagement

- Investing in a staff engagement and empowerment program
- Continuing to provide specialist capability development within our management team
- Providing leadership in developing women in management roles
  - Executive Committee 50% female
  - Senior Management Team* 30% female
- Integration of the organisation into one cohesive unit
- Virgin Blue cabin crew cultural swap programs with Virgin America and Virgin Atlantic – more to come with other partners

Note: * Executive Committee and their direct reports

Commercial activity – the story so far …

- New business deals signed – example NBN, AFL, and Tenix
- Whole of Government[1] market share increased from 5% in 1H FY10 to 11% in 1H FY11

Achieved prior to launching major brand and product offerings

Note: [1] Government is WoAG only - does not include state governments or federal government business not currently participating in WoAG

Velocity – continued growth in our frequent flyer program

Velocity program expansion

- Undergoing a strategic review, with a Velocity re-launch prior to 31 December 2011
- Fully integrated frequent flyer program in place with Etihad with reciprocal benefits for members of both airline programs, and roll-out with Air New Zealand by mid 2011

Growing Velocity membership

- Membership base of 2.4 million
- Approximately 1,100 new members joining Velocity every day

New Velocity partners

- Launched the Virgin High Flyer Credit Card in partnership with Virgin Money in July 2010
- Teamed up with other award winning Virgin Airlines (Virgin Atlantic and Virgin America) to offer earn and redeem rights on all flights operated by a Virgin Airline
- Now has the largest worldwide network of preferred car hire partners, combined partnerships with Hertz, Thrifty and Europcar
- Launched partnership with Virgin Wines in December 2010

Timing of Phase 2 – on track

• Unveiling of new brand	Prior to 30 June 2011
• Unveiling of new product across the fleet	Prior to 30 June 2011
• Unveiling of revamped Lounges	Prior to 30 June 2011
• New marketing campaign	Prior to 30 June 2011
• Roll out of domestic business class on Boeing 737 fleet	Prior to 31 December 2011
• Launch of a new loyalty program	Prior to 31 December 2011
• Ongoing product improvements on the ground	Prior to 31 December 2011

Phase 3

• V Australia product enhancement	2012

FY11 – first year of Game Change

FY11	FY12	FY13
Plan & implement	**Reposition**	**Lead & leverage**
• Strengthen team with specialised expertise • Formulate the “Game Change” strategy and commence implementation	• Conclude roll out of re-positioning strategy • Begin to realise benefits in 2H from re-positioning	• Strengthened position in domestic market • Build upon strategic positioning in the global airline market

Summary

- Stable short haul profitability, experienced yield improvement
- Long haul showing significant profitability improvement – on track to reach close to breakeven for full financial year
- Initiatives in place to strengthen business continuity processes
- Network changes and fleet optimisation strategy positively impacting profitability
- Growing virtual international strategy successful, now provides global coverage to over 150 destinations
- Advanced the Game Change Program – substantial progress achieved
- Further product offering launches and brand re-launch still to come
- On track to realise benefits from the Game Change Program in FY12

Outlook

- Outlook for the second half is expected to be challenging
  - Further strengthening is expected in the business sector, both domestic and international, where confidence is returning and leading the economic recover
  - However, in the domestic leisure market, flat consumer confidence, forecast industry capacity growth and flow-on impacts from recent weather events will impact domestic demand
- Rebuilding Queensland tourism after the recent floods and cyclone Yasi will take some time; estimated impact of the floods $40m and cyclone Yasi $10m
- Solid momentum emerging on international alliances
- Domestic capacity growth under review – flexibility to reduce below full year forecast of 6-8%
- Industry is facing the challenge of rising fuel prices
- Current industry outlook underscores importance of Game Change Program to manage VBA's response to changing future market conditions

Q&A

Virgin Blue Holdings Limited

Half Year Results 2011