

17 November 2004



Company Announcements Office
Australian Stock Exchange, Brisbane

By E-lodgement

Half Year Report

This release contains an announcement to the ASX regarding Virgin Blue Holdings Ltd's half year results for the period ending 30 September 2004, in accordance with the requirements set out in Appendix 4D of the ASX Listing Rules.

Scott Swift
Company Secretary

**Virgin Blue Holdings Limited
ACN 100 686 226
and its Controlled Entities**

**Additional Information Required by
ASX Appendix 4D**

**Financial Statements for the
Half-Year Ended 30 September 2004**

ASX Appendix 4D

Half Year Report

| | |
|-------------------------------|-------------------------------------|
| Name of Entity | Virgin Blue Holdings Limited |
| ACN | 100 686 226 |
| Reporting Period | Half-year ended 30 September 2004 |
| Previous corresponding period | Half-year ended 30 September 2003 |

RESULTS FOR ANNOUNCEMENT TO THE MARKET

| | | |
|---|------|------------------------|
| Revenue from ordinary activities | up | 27.6% to 786.9 million |
| Profit from ordinary activities after tax attributable to members | down | 1.8% to 63.0million |
| Net profit for the period attributable to members | down | 1.8% to 63.0million |

DIVIDENDS (cents per share)

| | Amount | Franked Amount |
|------------------|--------|----------------|
| Final Dividend | Nil | Nil |
| Interim Dividend | Nil | Nil |

Net tangible asset backing per ordinary share is \$0.58 (2003: \$0.23, adjusted 1:120 share split).

This report includes financial statements which have been reviewed.

RELEASE

Virgin Blue Holdings Limited Half-Year Results

- Net Profit After Tax of \$63 million
- Cost Base Continues to be Lowest in Country
- New Product and Cost Saving Initiatives Launched
- Revenue Outlook Remains Challenging

The summary financial results for the six month period to 30 September 2004 were:

| | | | | <u>2004</u> | | <u>2003</u> |
|-----------------------------|------|-----|----|---------------|------|---------------|
| Revenues | Up | 28% | to | \$787 million | from | \$617 million |
| EBITDAR | Up | 10% | to | \$191 million | from | \$174 million |
| EBIT | Up | 5% | to | \$90 million | from | \$86 million |
| Profit before Tax (PBT) | Down | 2% | to | \$90 million | from | \$92 million |
| Net Profit after Tax (NPAT) | Down | 2% | to | \$63 million | from | \$64 million |

Basic earnings per share for the 6 months to 30 September 2004 were 6.1 cents per share

OPERATING PERFORMANCE HIGHLIGHTS

Virgin Blue Holdings Limited has today reported a Net Profit After Tax of \$63 million for the six months to 30 September 2004. Despite the introduction of significant capacity, an environment of weakened yields, continuing record high fuel prices and increased domestic competition, the Company's reported NPAT is in line with the previous year's result of \$64 million.

During the six months to September 2004, Virgin Blue carried more than 6 million passengers, an increase of 39% compared to the previous corresponding period. Revenue Passenger Kilometres (RPKs) were 7.4 billion and Available Seat Kilometres (ASKs) were 9.6 billion, up 44% and 58% respectively from the previous corresponding period. Load factor declined 7.3 pts to 77% as the market absorbed much of the new capacity.

Yields were down 12% primarily as a result of the Company making an investment in the long term future of the airline by growing ASK production by 58% compared to the same period last year. This capacity increase, coupled with the highly competitive environment, drove the yield decline.

Virgin Blue's cost per ASK for the six months to September 2004 was 7.26 cents, a 17% reduction compared to the same period last year. "Despite a tough revenue environment, Virgin Blue's cost base continues to be the lowest in the country. Our 7.26 cents per ASK includes the increasingly high fuel costs we have borne for the past six months and reflects the company-wide commitment to keeping our cost base low" said Virgin Blue's Chief Executive Officer, Brett Godfrey.

Virgin Blue's EBITDAR (earnings before interest, tax, depreciation, amortisation and aircraft rentals) and PBT margins were 24.3% and 11.4% respectively.

Domestic Operations

Virgin Blue's domestic operations continue to grow. The airline's 45 domestic aircraft now fly 47 routes to 21 destinations around the country. Virgin Blue's market share remains around a third of the Australian Domestic Market and continues to exceed its capacity share. The Blue Room lounges located in Sydney, Melbourne and Brisbane airports are now stand-alone profitable, inside the 12 month target set last year.

The new capacity has been allocated in a number of areas:

- Key business routes (Sydney-Melbourne-Brisbane) increased 23% compared to the previous corresponding period.
- Other capital city routes (such as Melbourne-Hobart) increased 39% compared to the previous corresponding period
- Regional routes (such as Brisbane-Mackay) increased 85% compared to the previous corresponding period.

The Company's continued focus on pursuing profitable growth has resulted in some services being suspended or frequencies reduced on routes that were unable to generate adequate returns, including Sydney-Canberra and Sydney-Alice Springs. These aircraft were reallocated to other routes including Adelaide-Alice Springs and Brisbane-Canberra.

International Operations

Pacific Blue's operations continue to grow. Three Pacific Blue aircraft now operate 10 routes between eight destinations. Flights to Fiji and Vanuatu commenced in September and initial results are meeting expectations. The Company is encouraged by the performance of Pacific Blue, despite continuing strong Trans-Tasman competition with a number of international long-haul carriers adding considerable capacity on these routes.

New Product and Cost Saving Initiatives

Virgin Blue continues to be the leader in innovation for the Australian aviation industry, announcing two exciting new initiatives – Live2Air and Self Check-In Kiosks.

Live2Air

Live2Air will offer 24 channels of live and real-time in-flight entertainment, provided by Foxtel and Austar, which will be available to all Virgin Blue guests. Individual back-of-seat screens will be installed in all Virgin Blue aircraft, with the initial phase-in to commence by June 2005.

"Live2Air is a generational improvement in on-board entertainment. This is a dynamic and exciting technology and service breakthrough for Virgin Blue and yet another example of our determination to pave the way in terms of offering a quality product, at a price that sets us apart from the competition," said Mr Godfrey. "This seatback entertainment initiative will position Virgin Blue as the market leader for in-flight entertainment and we are committed to ensuring we continue to provide our guests with more options to maximise their flying pleasure."

As with all of the Company's value-added services, Live2Air will be implemented on a user-pays basis so as not to impact Virgin Blue's cost base. The launch price for the new service will be no more \$5 per sector and the product is expected to be cost neutral once fully operational across the Company's fleet. Virgin Blue also expects Live2Air to be yield enhancing by attracting passengers looking to experience the latest in-flight entertainment technology. Virgin Blue is the only airline in the Southern Hemisphere to have secured this new technology.

Self Check-In Kiosks

Kiosks allowing guests to check themselves in, thereby avoiding check-in queues, will be introduced in key ports around the country in coming months. Trial kiosks are already operating in Brisbane, with Sydney, Melbourne, Adelaide and Perth to follow shortly. Our kiosks will initially allow guests with hand luggage to check themselves in. The ability to check in your own luggage is expected to become available in a subsequent enhancement.

FINANCIAL RESULTS HIGHLIGHTS

Revenue

Total revenue increased by 28% to \$787 million. Scheduled revenue was up 26%, while other revenue was up 71%.

Virgin Blue recently announced it was undertaking a fare review across the entire network as it believed a combination of the existing fuel surcharges and a fare review will be a better solution to mitigate the impact of the substantial increase in fuel costs, rather than impose a further across-the-board fuel surcharge. This route-by-route analysis is expected to help minimize the impact on the airline's key demand sensitive markets.

Expenditure

Total operating expenses were \$697 million, up 31% from the previous corresponding period. Cost per ASK fell 1.46 cents to 7.26 cents, largely driven by a strengthening Australian dollar, scale and productivity. This result represents a further 0.47 cent reduction from the 7.73 cents cost per ASK reported for the six months to March 2004.

The average cost per barrel for Jet fuel has increased 46% compared to September last year. The Company reconfirms it has limited hedging in place for the remainder of its 2005 financial year fuel requirements at around US\$30 per barrel and has no fuel hedging cover in place beyond the 2005 financial year.

Other key cost increases were in airport charges, navigation and station operations as well as labour and staff costs.

Approximately 35% of the Virgin Blue's costs are in US dollars. The Company reconfirms it has hedged all of its 2005 financial year exposure, thereby eliminating downside risk arising from any potential currency depreciation for the remainder of the 2005 financial year.

Balance sheet and cash flow

Cash balances as at 30 September 2003 were \$261 million compared to \$520 million as at 30 September 2004, increasing Virgin Blue's operating cash reserves from 90 days to 136 days. This continues to demonstrate the Company's strong cash flow growth from operations.

Key capital expenditure items during the period related to the acquisition of aircraft.

The Company's net debt to net debt plus equity ratio, adjusted for off balance sheet aircraft leases, was 63% compared to 82% as at 30 September 2003.

SENIOR MANAGEMENT CHANGES

The Company recently announced two new senior management appointments. Stefan Pichler has joined as Chief Commercial Officer, responsible for Virgin Blue's network management, sales, product and services, marketing and brand management. Andrew David was recently appointed Chief Operations Officer and will be responsible for the airline's operational businesses including safety systems, ground services, engineering, flight and network operations.

OUTLOOK

The outlook remains uncertain. Yield is expected to remain under pressure and below last year's levels. While fuel continues to be volatile and at record prices, Virgin Blue remains exposed to further increases in fuel prices that may not be recoverable through fare increases.

The Board reviews the Company's dividend policy on a six monthly basis and has decided not to declare a dividend for the six months to September 2004.

For further information:

| | | |
|----------------------|--|---------------------|
| Keith Neate | Chief Financial Officer | 07 3295 5046 |
| David Huttner | Head of Strategy and Communications | 07 3295 3121 |
| Carolyn Neck | Investor Relations | 07 3295 3978 |

**Virgin Blue Holdings Limited
ACN 100 686 226
and its Controlled Entities**

**Financial Report For the Half-Year Ended
30 September 2004**

Virgin Blue Holdings Limited and its Controlled Entities

Half-Year Financial Report

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Virgin Blue Holdings Limited and its Controlled Entities

Corporate Directory

COMPANY SECRETARY

Mr Scott Swift

PRINCIPAL ADMINISTRATIVE OFFICE

Virgin Blue Holdings Limited

131 Barry Parade

Spring Hill QLD 4006

Australia

Telephone: (07) 3295 3000

REGISTERED OFFICE

Virgin Blue Holdings Limited

Level 26

215 Adelaide Street

Brisbane QLD 4001

SHARE REGISTRY

Computershare Investor Services Pty Limited

Level 3

60 Carrington Street

Sydney NSW 2000

STOCK EXCHANGE

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

OTHER INFORMATION

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

Virgin Blue Holdings Limited and its Controlled Entities

Directors' report

The directors present their report together with the consolidated financial report of Virgin Blue Holdings Limited for the half-year ended 30 September 2004 and the review report thereon.

Directors

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

| Name | Position | Period of directorship |
|-------------------|--|---|
| Mr Chris Corrigan | Non Executive Chairman | Appointed 27 May 2002 – appointed Chairman 6 November 2003. |
| Mr Brett Godfrey | Managing Director Chief Executive Officer | Appointed 27 May 2002. |
| Mr William Hara | Non Executive Director | Appointed 27 May 2002. |
| Mr David Knight | Non Executive Director | Appointed 6 November 2003. |
| Mr Patrick McCall | Non Executive Director | Appointed 27 May 2002. |
| Mr David Mortimer | Independent Non Executive Director | Appointed 6 November 2003. |
| Mr Stephen Murphy | Non Executive Director | Appointed 27 May 2002, retired 30 September 2004. Alternate director for Mr David Baxby and Mr Patrick McCall. |
| Mr David Ryan, AO | Independent Non Executive Director | Appointed 6 November 2003. |
| Mr David Baxby | Non Executive Director | Appointed 30 September 2004 |

Review and results of operations

Net profit after income tax for the half-year ended 30 September 2004 was \$63,031,000 which reflects a 1.8% decrease compared with the prior half-year ended 30 September 2003.

In the 6 months to 30 September 2004, EBIT (earnings before interest and tax) increased by 4.7% to \$90.1 million.

Basic earnings per share, as shown in the financial statements was 6.1 cents per share and on a diluted basis, as shown in the financial statements was 6.0 cents per shares.

Rounding off

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

Dated at Brisbane this 16th day of November 2004

Signed in accordance with a resolution of the directors:



Brett Godfrey
Director

Virgin Blue Holdings Limited and its Controlled Entities
Statement of Financial Performance
For the half-year ended 30 September 2004

| | Consolidated | |
|---|------------------------------------|------------------------------------|
| | 30 Sept 2004 \$'000 | 30 Sept 2003 \$'000 |
| Operating revenue | | |
| Airline passenger ticket revenue | 745,788 | 592,540 |
| Other revenue | 41,140 | 24,129 |
| | 786,928 | 616,669 |
| Operating expenditure | | |
| Aircraft operating costs | 83,823 | 88,732 |
| Airport charges, navigation and station operations | 157,054 | 105,533 |
| Contract and other maintenance costs | 66,344 | 61,676 |
| Commissions and other marketing and reservations costs | 50,965 | 52,131 |
| Fuel and oil | 120,815 | 78,152 |
| Labour and staff related costs | 164,762 | 107,459 |
| Other expenses from ordinary activities | 24,306 | 26,748 |
| Depreciation and amortisation | 28,796 | 10,242 |
| | 696,865 | 530,672 |
| Earnings before interest and tax | 90,063 | 85,997 |
| Borrowing costs | 15,675 | 550 |
| Interest revenue | 15,676 | 6,547 |
| Profit from ordinary activities before income tax expense | 90,064 | 91,994 |
| Income tax expense | 27,033 | 27,819 |
| Net profit attributable to the members of Virgin Blue Holdings Limited | 63,031 | 64,175 |
| Basic earnings per share: | 6.1 cents | - |
| Diluted earnings per share: | 6.0 cents | - |

The Statement of Financial Performance is to be read in conjunction with the notes to the financial statements set out on pages 8 to 12.

Virgin Blue Holdings Limited and its Controlled Entities
Statement of Financial Position
As at 30 September 2004

| | Note | Consolidated | |
|--------------------------------------|------|---------------------------|--------------------------|
| | | 30 Sept 2004 \$'000 | 31 Mar 2004 \$'000 |
| Current assets | | | |
| Cash assets | | 125,580 | 114,495 |
| Receivables | | 61,190 | 56,405 |
| Inventories | | 1,307 | 1,688 |
| Current tax assets | | 14,935 | - |
| Other financial assets | | 573,651 | 519,918 |
| Other assets | | 10,406 | 9,742 |
| Total current assets | | <u>787,069</u> | <u>702,248</u> |
| Non-current assets | | | |
| Other financial assets | | 8,150 | 7,676 |
| Other assets | | 6,418 | 4,456 |
| Property, plant and equipment | | 906,838 | 678,886 |
| Deferred tax assets | | 21,674 | 19,839 |
| Intangible assets | | 42,568 | 43,810 |
| Total non-current assets | | <u>985,648</u> | <u>754,667</u> |
| Total assets | | <u>1,772,717</u> | <u>1,456,915</u> |
| Current liabilities | | | |
| Payables | | 176,739 | 111,098 |
| Interest-bearing liabilities | | 70,237 | 112,661 |
| Provisions | | 41,269 | 37,409 |
| Current tax liabilities | | - | 11,225 |
| Revenue received in advance | | 197,470 | 161,709 |
| Total current liabilities | | <u>485,715</u> | <u>434,102</u> |
| Non-current liabilities | | | |
| Payables | | 1,782 | 2,219 |
| Interest-bearing liabilities | | 580,285 | 393,653 |
| Provisions | | 16,380 | 13,462 |
| Deferred tax liabilities | | 24,260 | 12,009 |
| Total non-current liabilities | | <u>622,707</u> | <u>421,343</u> |
| Total liabilities | | <u>1,108,422</u> | <u>855,445</u> |
| Net assets | | <u>664,295</u> | <u>601,470</u> |
| Equity | | | |
| Contributed equity | 3 | 393,005 | 393,005 |
| Reserves | | (206) | - |
| Retained profits | 4 | 271,496 | 208,465 |
| Total equity | 6 | <u>664,295</u> | <u>601,470</u> |

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements set out on pages 8 to 12.

Virgin Blue Holdings Limited and its Controlled Entities
Statement of Cash Flows
For the half-year ended 30 September 2004

| | Consolidated | |
|--|------------------------------------|------------------------------------|
| | 30 Sept 2004 \$'000 | 30 Sept 2003 \$'000 |
| Cash flows from operating activities | | |
| Cash receipts in the course of operations | 885,804 | 706,719 |
| Cash payments in the course of operations | (674,868) | (556,455) |
| Borrowing costs paid | (17,831) | (6,689) |
| Income taxes paid | (42,777) | (70,392) |
| Net cash provided by operating activities | 150,328 | 73,183 |
| Cash flows from investing activities | | |
| Interest received | 15,319 | 6,547 |
| Payments for term deposits | (52,186) | (29,195) |
| Receipts from term deposits | 50,149 | 3,012 |
| Payments for property, plant and equipment | (250,271) | (266,077) |
| Net cash (used in) investing activities | (236,989) | (285,715) |
| Cash flows from financing activities | | |
| Proceeds from borrowings | 138,972 | 206,375 |
| Net cash provided by financing activities | 138,972 | 206,375 |
| Net increase/(decrease) in cash held | 52,311 | (6,157) |
| Cash at the beginning of the financial period | 469,299 | 126,878 |
| Effects of exchange rate fluctuations on the balances of cash held in foreign currencies | (2,051) | (2,013) |
| Cash at the end of the financial period | 519,559 | 118,708 |

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 8 to 12.

Virgin Blue Holdings Limited and its Controlled Entities
Notes to the financial statements
For the half-year ended 30 September 2004

1 Statement of significant accounting policies

(a) Basis of preparation

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting", the recognition and measurement requirements of applicable AASB standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. This half-year financial report is to be read in conjunction with the 31 March 2004 Annual Financial Report and any public announcements by Virgin Blue Holdings Limited and its Controlled Entities during the half-year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those applied in the 31 March 2004 Annual Financial Report.

The half-year report does not include full note disclosures of the type normally included in an annual financial report.

(b) Reclassification of comparative information

Items of operating expenditure for the half-year ended 30 September 2003 have been reclassified to ensure consistency with current year disclosures.

2 Segment reporting

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

Virgin Blue Holdings Limited and its Controlled Entities
Notes to the financial statements
For the half-year ended 30 September 2004

| | Consolidated | |
|---|------------------------------------|-----------------------------------|
| | 30 Sept 2004 \$'000 | 31 Mar 2004 \$'000 |
| 3 Contributed equity | | |
| Share capital | | |
| 1,027,885,916 (31 March 2004: 1,027,885,916) ordinary shares, fully paid | 393,005 | 393,005 |

| | Consolidated | |
|---|------------------------------------|------------------------------------|
| | 30 Sept 2004 \$'000 | 30 Sept 2003 \$'000 |
| 4 Retained profits | | |
| Retained profits at beginning of the half- year | 208,465 | 138,229 |
| Net profit attributable to members of the parent entity | 63,031 | 64,175 |
| Retained profits at end of the half-year | <u>271,496</u> | <u>202,404</u> |

5 Dividends

No dividends have been recognised by the consolidated entity in the half-year ended 30 September 2004 or 30 September 2003.

| | Consolidated | |
|---|------------------------------------|------------------------------------|
| | 30 Sept 2004 \$'000 | 30 Sept 2003 \$'000 |
| 6 Total equity reconciliation | | |
| Total equity at beginning of the half-year | 601,470 | 184,018 |
| Total changes in parent entity interest in equity recognised in statement of financial performance | 63,031 | 64,175 |
| Changes in reserves | (206) | - |
| Total equity at end of the half-year | <u>664,295</u> | <u>248,193</u> |

7 Contingent liabilities and contingent assets

There were no material changes in contingent liabilities or contingent assets since 31 March 2004.

8 Subsequent Events

International Financial Reporting Standards

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

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. This summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future. The potential impacts on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 April 2004 due to the short timeframe between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The key potential implications of the conversion to IFRS on the consolidated entity are as follows:

- Financial instruments must be recognised in the statement of financial position and all derivatives, including embedded derivatives, and most financial assets must be carried at fair value.
- Income tax will be calculated based on the "balance sheet" approach, which will result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity.
- Goodwill will be tested for impairment annually and will not be amortised.
- Impairment of assets will be determined on a discounted basis, with strict tests for determining whether goodwill and cash-generating units have been impaired.
- Equity-based compensation in the form of shares and options will be recognised as expenses in the periods during which the employee provides related services.
- The consolidated entity may elect to expense or capitalise borrowing costs on qualifying assets.

8 Subsequent Events (continued)

International Financial Reporting Standards (continued)

- Some leases currently classified as operating, may require recognition in the Statement of Financial Position if the leases are subsequently reclassified as finance leases.
- Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

The Board has established a formal project, monitored by the Audit Committee, to achieve transition to IFRS reporting, beginning with the half-year ended 30 September 2005. The consolidated entity's implementation project consists of three phases as described below.

Assessment and planning phase

The assessment and planning phase aims to produce a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

This phase includes:

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

The consolidated entity considers the assessment and planning phase to be largely complete in most respects as at 30 September 2004.

Design phase

The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to IFRS. The design phase will incorporate:

- formulating revised accounting policies and procedures for compliance with IFRS requirements;
- identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of IFRS;
- developing revised IFRS disclosures;
- designing accounting and business processes to support IFRS reporting obligations;
- identifying and planning required changes to financial reporting and business source systems;
- developing training programs for staff.

The consolidated entity has commenced its design phase, with work progressing in each of the areas described above. The design phase is expected to be completed during the upcoming financial year.

8 Subsequent Events (continued)

International Financial Reporting Standards (continued)

Implementation phase

The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the consolidated entity to generate the required disclosures of AASB 1 *First-time Adoption of Australian International Financial Reporting Standards* as it progresses through its transition to IFRS.

Except for certain training that has been given to operational staff, the consolidated entity has not yet commenced the implementation phase. However, the consolidated entity expects this phase to be substantially completed by 31 March 2005.

Virgin Blue Holdings Limited

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 5 to 12, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity as at 30 September 2004 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Brisbane this 16th day of November 2004.

Signed in accordance with a resolution of the directors:


Brett Godfrey
Director

Independent review report to the members of Virgin Blue Holdings Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements notes 1 to 8 and the directors' declaration for the Virgin Blue Holdings Limited Consolidated Entity (the "Consolidated Entity"), for the half-year ended 30 September 2004. The Consolidated Entity comprises Virgin Blue Holdings Limited ("the Company") and the entities it controlled during that half-year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review in order for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.

Independence

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

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half-year financial report of Virgin Blue Holdings Limited is not in accordance with:

- a) the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Consolidated Entity's financial position as at 30 September 2004 and of their performance for the half-year ended on that date; and
 - ii. complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.



KPMG

A handwritten signature in black ink, which appears to read 'M. Petrie'.

Mitchell Petrie
Partner

Brisbane
16 November 2004