





now you're flying

network key

Virgin Australia group of airlines ***

Etihad Airways

Singapore Airlines***
(Subject to regulatory approval)

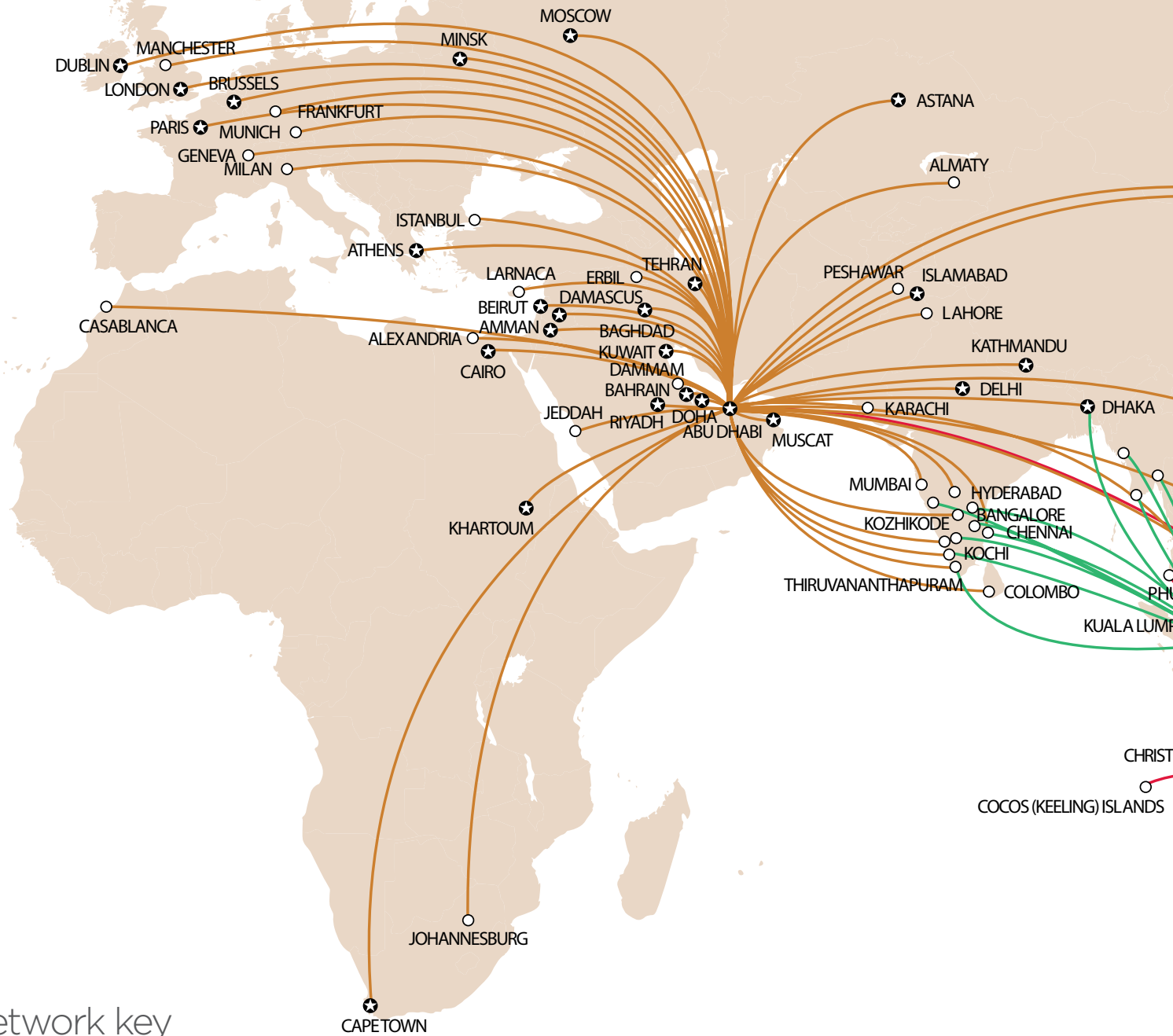
Air New Zealand*

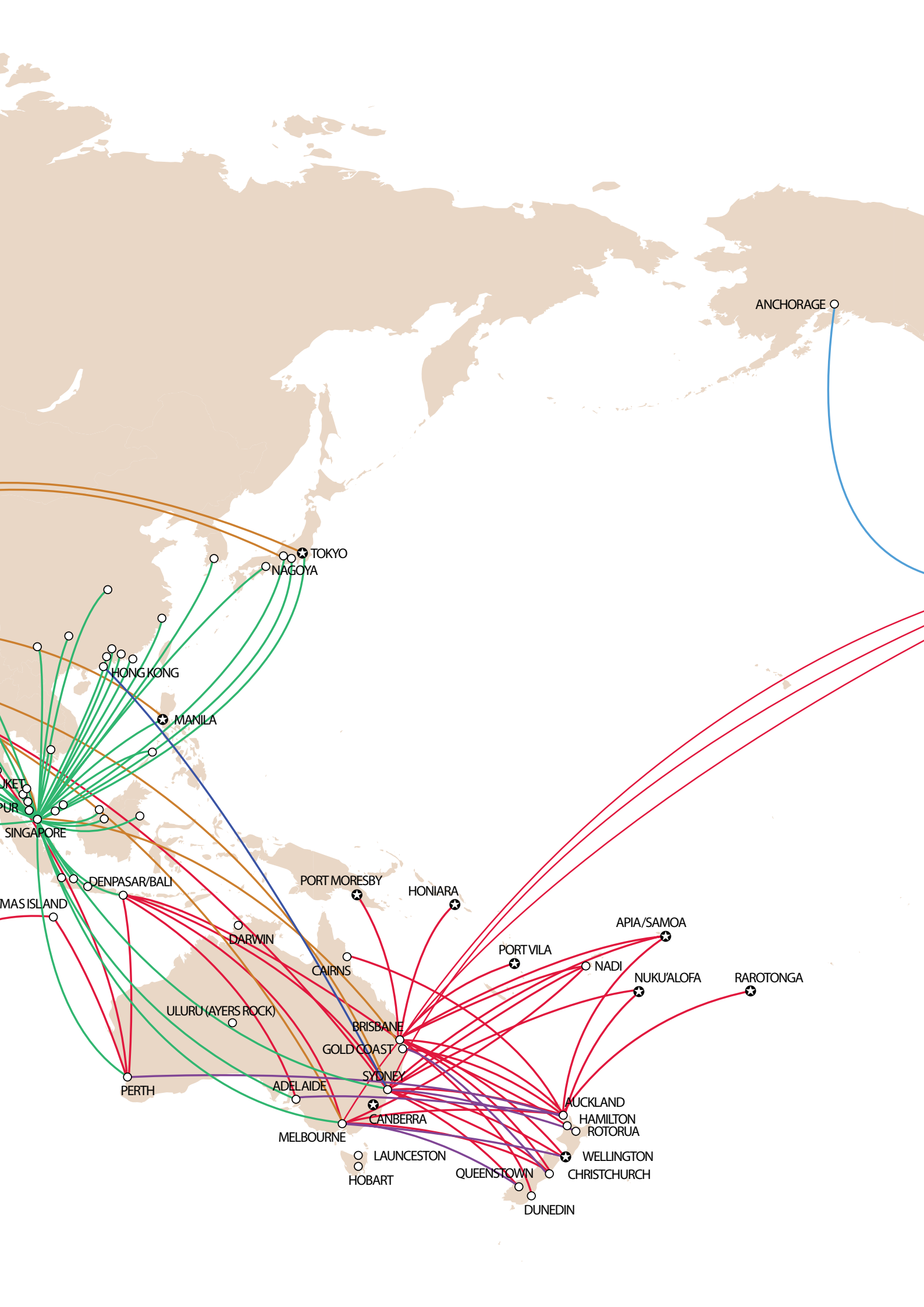
Virgin Atlantic

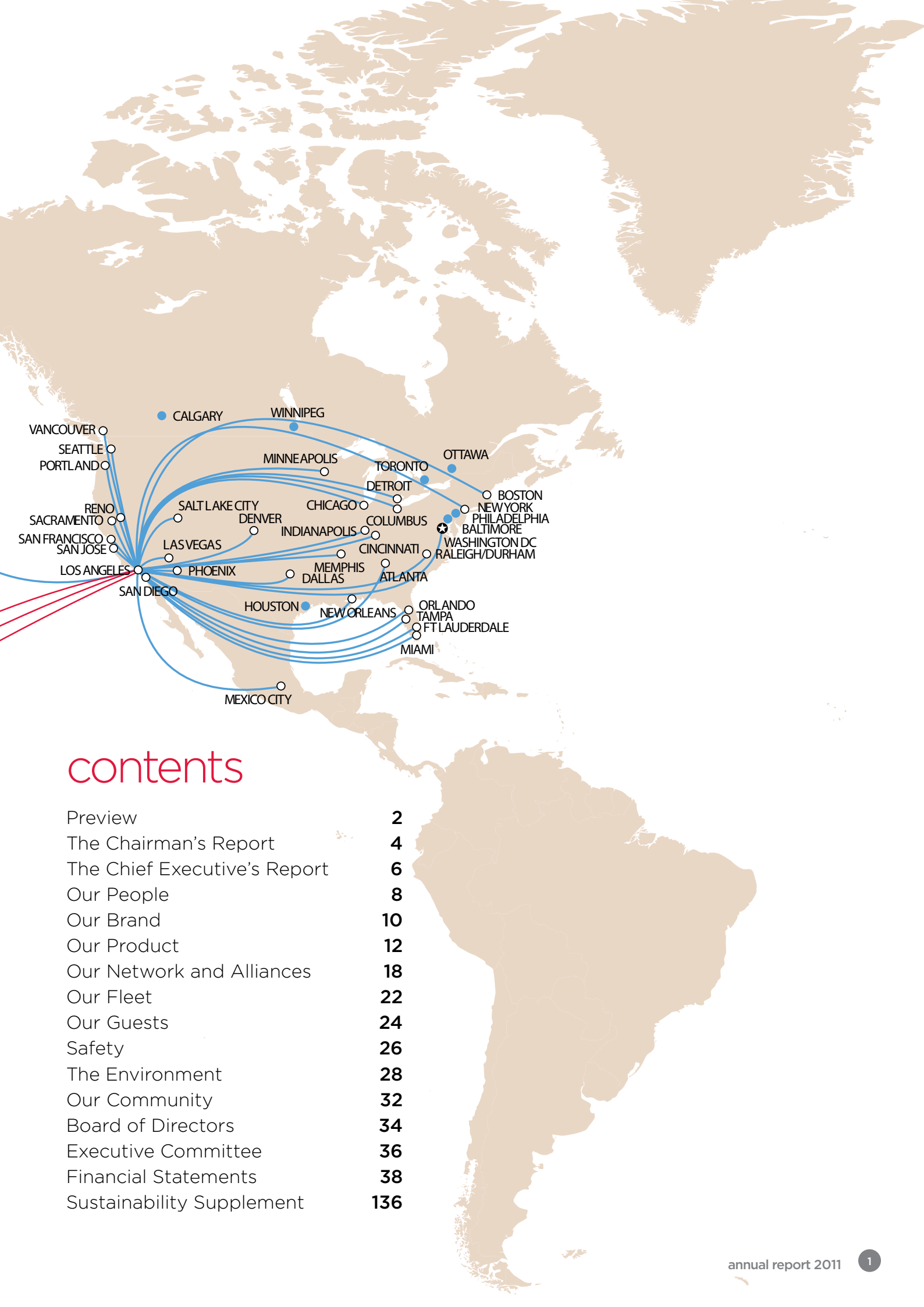
Delta Air Lines **

Destinations via connections

* Does not include all New Zealand domestic services; ** Does not include all Delta services; *** Awaiting regulatory approval; **** Does not include Australian domestic services







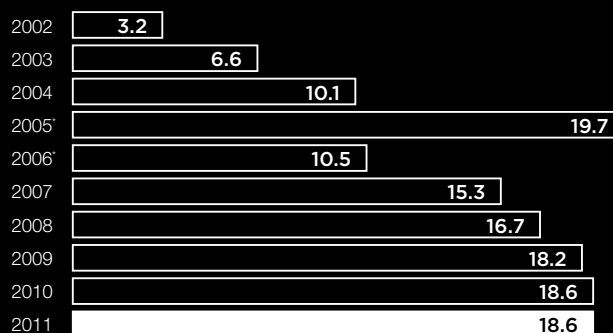
VANCOUVER
SEATTLE
PORTLAND
RENO
SACRAMENTO
SAN FRANCISCO
SAN JOSE
LOS ANGELES
SAN DIEGO
MEXICO CITY
CALGARY
WINNIPEG
MINNEAPOLIS
SALT LAKE CITY
DENVER
LAS VEGAS
PHOENIX
CHICAGO
INDIANAPOLIS
MEMPHIS
DALLAS
ATLANTA
HOUSTON
NEW ORLEANS
TORONTO
DETROIT
COLUMBUS
CINCINNATI
OTTAWA
BOSTON
NEW YORK
PHILADELPHIA
BALTIMORE
WASHINGTON DC
RALEIGH/DURHAM
ORLANDO
TAMPA
FT LAUDERDALE
MIAMI

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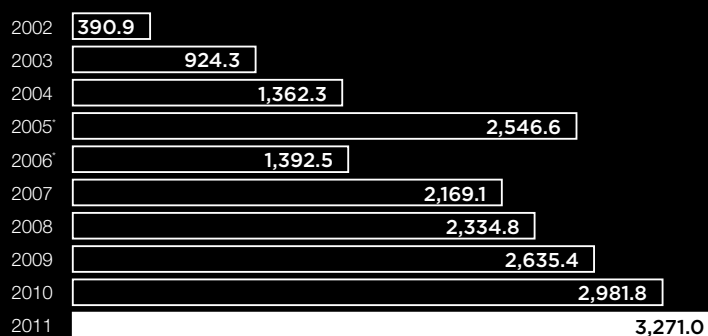
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preview

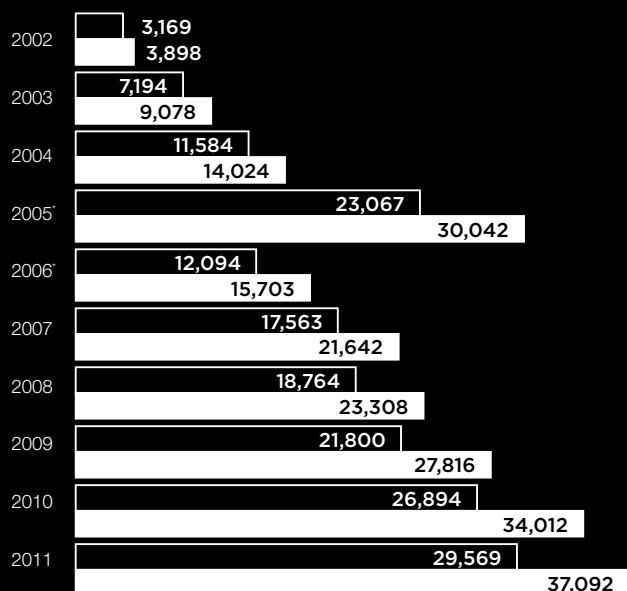
PASSENGERS CARRIED (millions)



TOTAL REVENUE (\$ millions)



RPKs/ASKs (millions)



- ☐ Revenue Passenger Kilometres (RPKs)
☐ Available Seat Kilometres (ASKs)

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

OPERATING STATISTICS

	2011	2010
Yield - Group	9.99¢	10.06¢
Underlying CASK (exc fuel, ineffectiveness & unrealised foreign exchange losses)	6.33¢	6.18¢
Available Seat Kilometres	37.1bn	34.0bn
Revenue Passenger Kilometres	29.6bn	26.9bn
Passenger Load Factor %	79.7%	79.8%

FINANCIAL HIGHLIGHTS \$ million

	2011	2010
Total Revenue	3,271	2,982
Operating Expenses	3,289	2,904
Underlying EBIT*	(18)	78
Net (loss) / profit before tax*	(67)	22

* (excludes - ineffective cash flow hedges and non designated derivatives).



“

Going forward the environment is still expected to be tough, but now we have the right strategy to drive growth

Neil Chatfield
Chairman



the chairman's report

The 2011 Financial Year marks the first full year of the transformation of Virgin Australia. The goal of establishing Virgin Australia as one integrated airline that serves multiple market segments is fast becoming a reality. This is no small feat, especially given the current economic environment.

Yet it is that same economic environment that underscores the importance of this goal of diversifying our revenue and strengthening our position in the domestic market. The Board has been extremely supportive of the strategy devised to achieve this goal, the Game Change Program that we announced last year.

Under the strong leadership and vision of our CEO John Borghetti and our talented management team and thanks to the commitment and dedication of our 7,000-strong staff, the company has made enormous progress on the program.



Our alliance strategy has gone from strength to strength, with the recently announced Singapore Airlines¹ partnership¹ representing the last part of our four-pronged strategy for global coverage. We have also significantly improved our own network, implementing the findings of our wide-ranging review that will maximise the performance of our routes both domestically and internationally.

At the same time John and the team have re-launched our brand, overhauled our products and services and driven increased yields through changing our fare mix. When we announced the Game Change Program last year, we predicted that the benefits of these changes would not be seen until the second half of Financial Year 2012, yet we have already seen an encouraging uplift in our corporate market share. For the first time in ten years, there is a genuine alternative for the domestic business traveller.

The key to this success is our talented and motivated employees. The Executive Committee has this year put a lot of effort into engaging our employees and ensuring they are on board with the strategy. Many of the improvements were suggested by staff and without them it would not have been so easily achieved.

I believe that despite ongoing industry volatility the company is now in a great position to consolidate the Game Change Program and from here we will be able to achieve long term sustainability across our business even in a high fuel cost and conservative consumer spending environment.

In closing, I would like to express my sincere thanks to my fellow Board members, John, the management team and all of our people, for their hard work and dedication over the past year. In a time of major transformation for our airline and the industry, they have strengthened our reputation for excellent service and our outstanding safety record.

Finally, we thank you for your continued loyalty as shareholders through this period of transformation and look forward to sharing the benefits of Virgin Australia's strategy in the years ahead.

Neil Chatfield
Chairman

¹ Subject to regulatory approval

the chief executive's report

Financial Year 2011 was a year of enormous challenge and significant change as we began repositioning the company to gain a larger share of the more resilient corporate and government market and thereby ensure a more stable financial future.

It was a difficult year for the airline industry, and particularly Virgin Australia, with an extraordinary series of natural disasters affecting our key markets. Events such as the Queensland floods and cyclone, earthquakes in Christchurch and the eruption of the Chilean and Indonesian volcanoes had a material impact on operations and revenues. Over half of Virgin Australia's domestic operations are to/from or within Queensland and our Pacific Blue operation is based in Christchurch, New Zealand. This also coincided with a spike in fuel prices which directly impacted our operating costs.

One particular challenge was the complete outage of our Navitaire reservation systems in October 2010. Despite the exceptional efforts of our staff, the outage had a severe impact on our operations and on the travel plans of our Guests. Accordingly, ensuring a stable flexible reservations system has been a major focus over the past months and the system has recently been upgraded in order to improve its performance.

That being said, thanks to the outstanding dedication and efforts of our staff and management, the company has achieved major transformation during this difficult year. We remain firmly on track with our strategy to become the airline of choice in Australia, underpinned by a

robust operating platform that is right for the times.

Game Change Program

During the year, we have secured one unified brand, relaunched our product and created a strong global network with four of the world's best airlines.

Through key alliances with Etihad Airways, Air New Zealand, Delta Air Lines and Singapore Airlines¹, we will be able to provide our Guests with access to over 400 destinations around the world. This strategy will also help us to support tourism in Australia. By enabling a seamless journey to ports throughout our domestic network, the alliances will drive more international traffic to cities around Australia, including regional centres. Virgin Australia will also promote Australia in the hundreds of cities around the world that are included in our codeshare arrangements.

Our progress in repositioning the airline has already seen us make significant gains in the high-yield corporate and government market. This important and more resilient segment now makes up 13% of our total revenue, up from 10% in the 2010 Financial Year. Much of this growth came through in the second half of the year following the introduction of some of our Game Change Program initiatives, and we are on track to make further gains in the 2012 Financial Year as we roll out more product and service changes across the network.

Throughout the year we have maintained a tight control on costs². This has been achieved through prudent budgeting of Game Change Program spend and a combination of network review, fleet realignment and operational integration initiatives.

Safety and Sustainability

Safety will always be our number one priority. We are focused on maintaining the highest possible standards and continuously improving our safety practices. During the 2011 Financial Year, the governance process supporting the Safety Management System was reviewed. As a result, in July 2011, we established a Safety and Operational Risk Review Committee that will oversee our performance in this area.

In positioning the company to be sustainable for the long term, we are acutely aware of the importance of operational efficiency and our own impact on the environment and the community. In December 2010, our Board of Directors formalised a vision for the airline to become a sustainability leader in the aviation industry and we have done considerable work this year on charting our current position and goals. We have a number of fuel and operational efficiency initiatives underway, including our investment



in a six year \$2.5 billion fleet renewal program which will see our average aircraft age reduce from 4.9 years to 4.1 years by the end of the 2012 Financial Year. We have also led industry efforts towards establishing a sustainable aviation biofuel industry in Australia, setting a target of sourcing 5% of jet fuel used in Australia and New Zealand from biological sources by 2020 and partnering with a variety of different universities and companies to help commercialise individual biofuel projects.

Our People

We now employ over 7,000 people and it would not have been possible for us to achieve such significant change this year without their hard work and dedication. Their desire to provide the very best level of customer service and make a real difference, sets Virgin Australia apart in the airline industry.

We are proud to be a home-grown Australian airline and we have confirmed our commitment to keeping

as many jobs in Australia as possible. Over the year we have announced that we will create more than 300 new jobs by building a maintenance hangar at Sydney airport. We are developing a cadet pilot training program in conjunction with Skywest Airlines which will commence in 2012 and we will continue to review our off-shore commercial operations with a view to bringing more work onshore.

We were particularly pleased that Virgin Australia was recently named Australia's most attractive employer at the inaugural 2011 Randstad Awards, which canvassed the opinions of 7,000 jobseekers across Australia. This is a great achievement, particularly in a time when our business is undergoing such significant change, and is a testament to our great team.

The Year Ahead

Going forward, we will continue to implement our Game Change Program strategy and maintain our focus on increasing our percentage of the

corporate and government market and capitalising on revenue improvements driven by inbound traffic from our new international alliances, as well as our expansion into new routes in regional Australia.

Despite the uncertain economic environment, we expect an improvement in underlying financial performance in Financial Year 2012.

On the broader operating environment, high fuel prices will continue to impact the operating costs of airlines worldwide. We believe Virgin Australia is now well-placed to manage in this environment, given our combination of fuel surcharges, more active hedging policies and a continued strong cost focus.

Thank you for your continued support.

John Borghetti
Chief Executive Officer



our people

At the end of Financial Year 2011 the Virgin Australia group of airlines (the Group) employed more than 7,000 team members in Australia and New Zealand.

We are a popular employer of choice in Australia and in April Virgin Australia won the Randstad Employer of Choice for 2011 which canvassed the opinions of 7,000 job seekers across Australia.

Our team members are our most important asset and we are committed to ensuring they remain our focus.

Gender equality

Women currently make up 48 per cent of the workforce and are expected to reach more than 50 per cent

representation over the next 12 months.

Virgin Australia has made significant progress in the number of women in leadership roles with 50 per cent of our Group Executives being women.

While Virgin Australia has made some great steps towards gender equity, we remain deeply committed to furthering our progress.

Indigenous employment

Virgin Australia is committed to

encouraging and growing our Indigenous workforce through our Indigenous Employment Strategy. We aim to foster a working environment that provides opportunities for all team members to be enriched by an understanding and respect for Aboriginal and Torres Strait Islander cultures and values.

Our strategy has been incredibly successful. Since 2009 the number of indigenous Australians employed by



Virgin Australia has increased from four to 38.

In June, Virgin Australia won the business category of the Queensland Reconciliation Awards 2011 which reflects the ongoing commitment of Virgin Australia to ensure that our Indigenous Employment Strategy is communicated across our teams and in the community.

Employee engagement

Virgin Australia launched an initial Engagement Survey through the Gallup Organisation in June 2010. In 2011 a follow-up Engagement Survey

was conducted, seeking feedback from team members on what Virgin Australia is doing well and what we could be doing differently.

The Engagement Survey provides all team members with an opportunity to give Virgin Australia feedback that can help shape our company in the future. The survey allowed us to better understand areas of importance to our team members. Feedback from our previous survey has helped us to develop better team member benefits.

Rehabilitation

Virgin Australia continues to provide

a high level of care to our team members and this is a reflection of our value of caring. Virgin Australia remains committed to achieving positive outcomes for team members including returning to the workplace at the earliest opportunity.

Virgin Australia was recognised as a Finalist in the 2010 Q-Comp Employer Achievement Awards for providing outstanding contributions to improve the return to work process for injured workers and ensuring successful outcomes for all.



virgin

our brand

In 2010 we set in motion the Game Change Program, a strategy to become the airline of choice for Australian corporate and leisure travellers. One of the most significant milestones for our Game Change Program was launching our new brand, Virgin Australia.

When Virgin Blue was launched in 2000, it changed the game in Australian aviation by bringing competition to domestic leisure travel. Virgin Blue successfully established itself as a low-cost carrier and the brand became synonymous with budget leisure travel.

As the company grew, it created more brands, including the Pacific Blue brand for short-haul international travel and the V Australia brand for long-haul international travel. Having three brands led to confusion for customers, made brand investment costly and prevented the company from fully leveraging the value of the powerful Virgin brand.



australia

In 2010, we appointed renowned brand designer Hans Hulsbosch, who worked closely with our marketing team to create one brand and identity that encapsulated the airline's new positioning in the market and could be used across all of our operations.

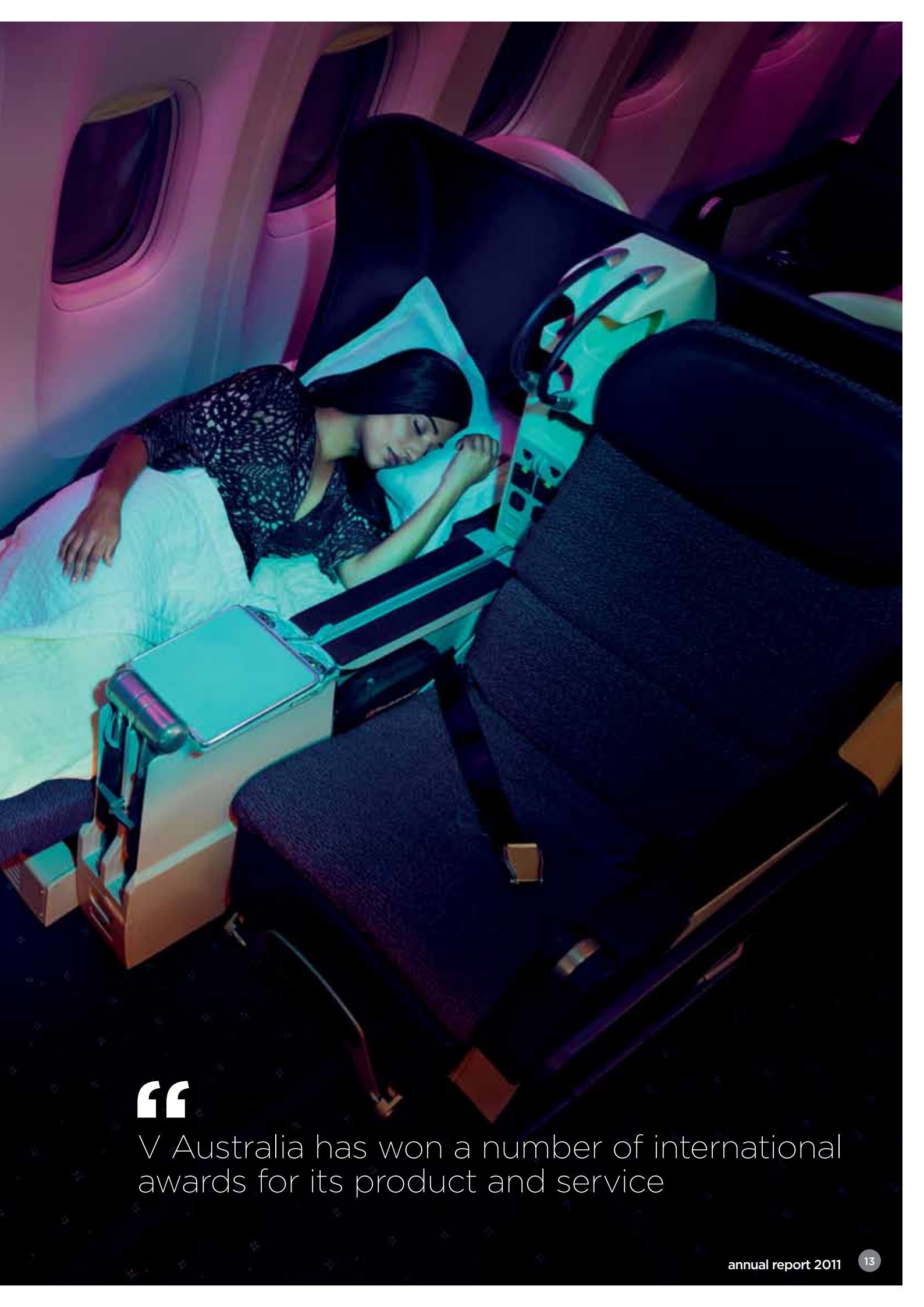
On 4 May 2011, Virgin Group Chairman Sir Richard Branson and our CEO John Borghetti launched the new Virgin Australia brand and identity at Sydney Airport. Using the Virgin Australia brand for both our domestic and international operations allows us to build a single, strong and globally recognised brand. It will also enable us to tap into the huge power of the Virgin brand around the world – a brand that signifies style, innovation, quality, value for money and the best service – all values that are central to Virgin Australia.

The new brand is designed to appeal to business and leisure travellers, supporting Virgin Australia's strategy to become Australia's domestic airline of choice. We have applied the contemporary look and feel of the new brand consistently in the air and on the ground. It is about providing a seamless first-rate travel experience with excellent service.

In the second half of the 2011 Financial Year, we announced and commenced the roll-out of our new aircraft interiors. The roll-out of these changes will continue during the 2012 Financial Year.

our product

International Business Class



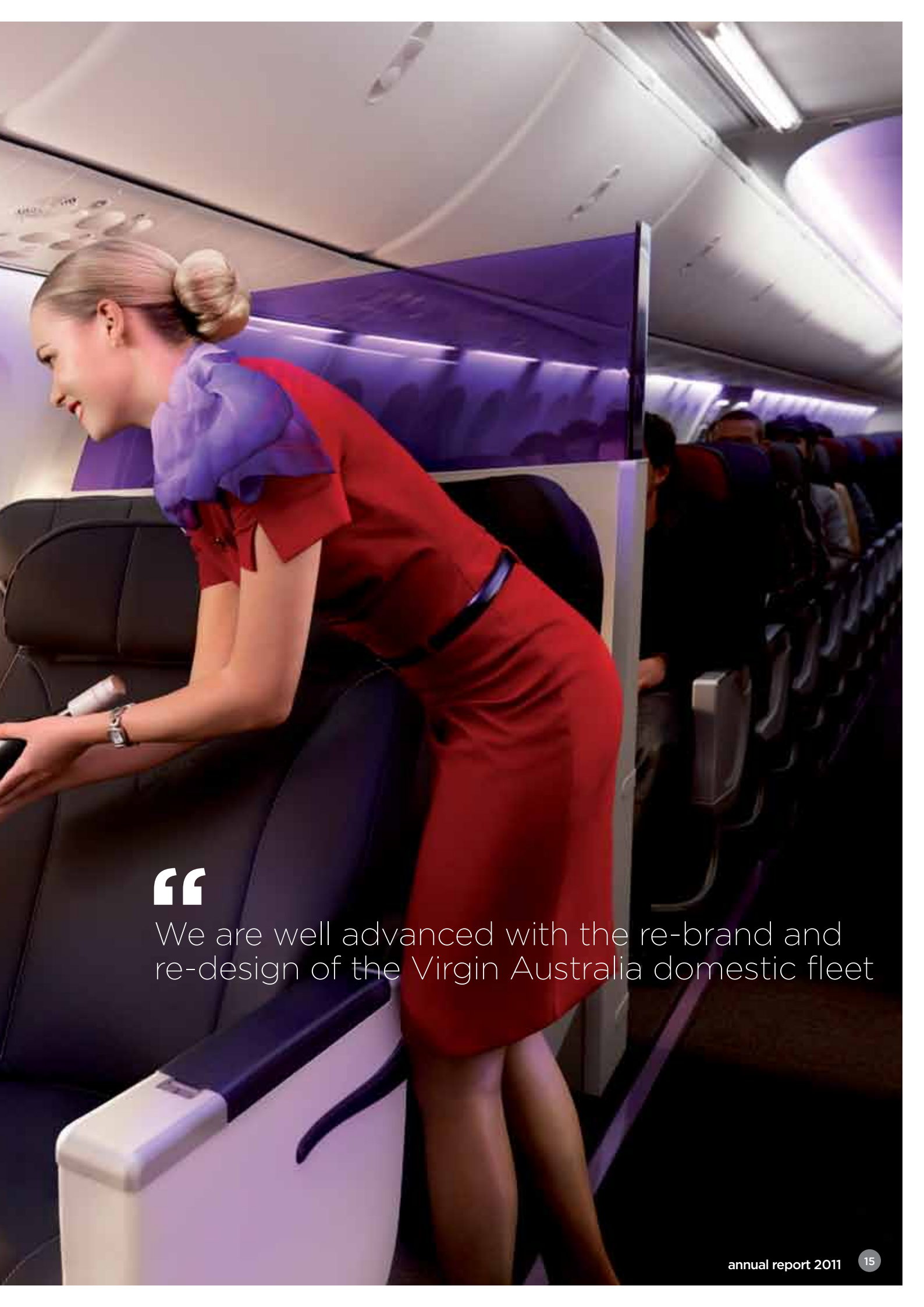
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V Australia has won a number of international awards for its product and service

our product

Domestic Business Class





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We are well advanced with the re-brand and re-design of the Virgin Australia domestic fleet



our product

Over the past 12 months, Virgin Australia has implemented an extensive program of work to create a seamless, first-rate experience for Guests. An integral part of repositioning the Virgin Australia brand has been redesigning our product in the air and on the ground.

We assembled a team of expert advisers to work closely with our own talented people to overhaul the entire travel experience, our staff uniforms, airport lounges and the look and feel of the aircraft.

During this period we announced and delivered:

- Wide-body Airbus A330 services between Sydney and Perth, featuring international-standard Business Class seating and service.



lounge

- A newly designed fleet of aircraft, with new livery and enhanced services and products.
- An exclusive new Luke Mangan menu and quality beverage list.
- New uniforms for our team members, created by fashion designer Juli Grbac.
- New Melbourne and Brisbane lounges designed by Tim Greer from Tonkin Zulaikha Greer Architects and a program to upgrade all our lounges.
- Australia's first premium valet airport entry service in our Sydney lounge, offering Guests a streamlined, hassle-free experience when arriving at and departing the airport.
- A Priority Boarding Program for premium Guests.

These innovations have drawn a great deal of praise from our Guests.

We are well advanced with the re-brand and re-design of the Virgin Australia domestic fleet, with the entire

fleet of Boeing 737-800s expected to be fitted with the new Business Class by the end of 2011. With our new frequent flyer program launched in August 2011, the next major milestone will be the roll-out of the Virgin Australia brand to our international V Australia and Pacific Blue services, which we plan to commence before the end of calendar year 2011.

Further product and service initiatives will be announced in the 2012 Financial Year.



our network and alliances

Network review

In 2010, we conducted a network-wide review in order to maximise the performance of our routes both domestically and internationally. This ultimately resulted in the decision to consolidate our long-haul international network to two strategic hubs in Abu Dhabi and Los Angeles, exit from our least profitable routes, embark on an international alliance strategy and expand our regional presence in Australia through our partnership with Skywest Airlines.

Internationally, the company withdrew its V Australia Boeing 777 aircraft from the unprofitable Johannesburg route to focus on the Trans Pacific Los Angeles route and to service our new gateway to Europe, Africa and the Middle East, Abu Dhabi. The two destinations of Abu Dhabi and Los Angeles enable us to service two of the most important outbound and inbound markets for Australia supported by our strategic alliances with Etihad Airways and Delta Air Lines.

During the year we have improved our schedule across the Trans Pacific, increasing services between Melbourne and Los Angeles to three per week, increasing services between Brisbane and Los Angeles to four per week and retimeing all our Trans-Pacific services to arrive into Los Angeles in the morning, enabling same day onward connections and enhancing our appeal to the corporate traveller.

We also exited from the New Zealand domestic market, enabling us to boost our Trans-Tasman capacity and to increase our Pacific Blue services to popular destinations in South East Asia and the Pacific Islands. Additionally, we have seen improved performance on our Phuket and Fiji services as a result of the change from the Boeing 777 to the Boeing 737 aircraft.

Within Australia, we implemented changes to our domestic network in early 2011, withdrawing from underperforming routes and adjusting



frequency and timing to better match customer demand while at the same time improving our aircraft utilisation. The addition of the Airbus A330 to our domestic fleet and the replacement of Embraer 170 aircraft with ATR 72-500 and 72-600 turboprop aircraft will also enhance our ability to align fit-for-purpose aircraft to each market.

The ATR aircraft will commence new services from Brisbane to Gladstone and Brisbane to Port Macquarie and add extra services between Canberra and Sydney from October 2011. We have also expanded our existing codeshare relationship with Skywest Airlines, resulting in the addition of six new destinations to Virgin Australia's domestic network from December 2010.

Alliances

An extensive international network is essential to support Virgin Australia's domestic network.

Through establishing strong, strategic bilateral partnerships with other airlines to complement our own international

network, we can provide our Guests with access to a global network without the capital requirements and lead times associated with purchasing new aircraft.

This strategy is also very important for tourism in Australia. By enabling a seamless journey to ports throughout our domestic network, the alliances will drive more international traffic to cities around Australia, including regional centres. They also provide a clear incentive for Virgin Australia to promote Australia in the hundreds of cities around the world that are included in our codeshare arrangements. Australia no longer has to rely on one Australian airline to promote our country abroad.

Over the past 12 months, we have established a global network through alliances with Etihad Airways, Air New Zealand, Delta Air Lines and Singapore Airlines¹.

These are four of the best airlines in the world and together they provide

access to over 400 destinations worldwide and cover Australia's key aviation markets: North America, Europe, Asia and New Zealand.

Through reciprocal codeshare, frequent flyer recognition and lounge access with each of our alliance partners, Virgin Australia will be able to offer Guests a first-rate travel experience that spans the globe.

Our domestic business is already seeing benefits from these new alliances, with interline and codeshare traffic onto the Virgin Australia domestic network significantly increasing year on year.

Further growth opportunities exist as our alliances come online during the course of Financial Year 2012.

¹ Subject to regulatory approval



our network and alliances

Etihad Airways

Our codeshare agreement with Etihad Airways commenced in October 2010, enabling Virgin Australia Guests to fly to more than 30 destinations in Europe and the Middle East with a quick one-stop service through Abu Dhabi. The alliance also provides Etihad customers with access to Virgin Australia's services throughout Australia and the Pacific, which has already significantly increased codeshare traffic onto the Virgin Australia domestic network.

The alliance integrates the Etihad Guest and Velocity Frequent Flyer programs, allowing members to earn status credits and frequent flyer points along with reciprocal service benefits and lounge access for top tier members of both programs.

As part of the alliance, Virgin Australia launched its inaugural V Australia flight to Abu Dhabi in February 2011, becoming the first Australian carrier to operate to the Middle East in 20 years. Together, Etihad and Virgin Australia now offer 24 weekly services between Abu Dhabi and Australia, providing Guests with a range of different departure times to choose from.

Air New Zealand

In December 2010, the Australian Competition and Consumer Commission (ACCC) approved our proposed Trans-Tasman alliance with Air New Zealand and we immediately established a joint team across both airlines to commence work on implementation.

Launched in July 2011, the alliance offers full reciprocal codeshare across the Tasman and on connecting domestic sectors in New Zealand and Australia as well as frequent flyer recognition and lounge access.

The alliance will transform our Trans-Tasman route into a profitable operation and offer significant benefits to our Guests. Velocity Frequent Flyer members now have around three times the number of Trans-Tasman services on which they can earn and redeem points and our corporate travellers will have access to Air New Zealand's wide-body business class product on key routes.



Delta Air Lines

The Delta Air Lines joint venture received regulatory approval from the United States Department of Transportation in June 2011 and we expect to expand our existing alliance and launch the joint venture by the end of the 2011 calendar year.

Regulatory approval enables us to work with Delta far more efficiently to achieve better schedules, connections and network coverage for our Guests.

Under the alliance, Virgin Australia and Delta will codeshare on each other's services to Los Angeles and beyond, giving Virgin Australia Guests access to over 250 destinations across the United States, Canada and Mexico with full frequent flyer and lounge reciprocity across both networks.

Singapore Airlines

Virgin Australia and Singapore Airlines announced in June 2011 a landmark agreement to establish a long-term alliance. The proposed alliance would connect Singapore Airlines' extensive international network with Virgin Australia's domestic and Pacific Islands destinations, providing Virgin Australia Guests with access to an additional 70 destinations.

We are currently awaiting regulatory approval from the ACCC and the Competition Commission of Singapore and we expect to receive a decision by the end of calendar year 2011.

In the meantime, Singapore Airlines has commenced interlining on Virgin Australia's domestic network, enabling Singapore Airlines customers to connect to and from our network with a single ticket. Each airline is also offering reciprocal lounge access to eligible frequent flyer members.

Skywest

In addition to the launch of ATR aircraft services in 2011, Virgin Australia commenced an expanded codeshare alliance in December 2010, adding six new destinations to Virgin Australia's domestic network.

By partnering with Australia's pre-eminent regional airline, we are investing in building substantial reach in regional Australia to strengthen our domestic network.

The partnership will see Virgin Australia expand its reach throughout regional Australia. It will allow us to access untapped opportunities in regional markets, in particular the booming fly-in, fly-out resources sector, and facilitate enhanced tourism to Australia's regions.

our fleet



EMBRAER 170



Wing span (with winglets) 26 metres. **Overall length** 29.9 metres.
Tail height 9.8 metres. **Interior cabin width** 2.7 metres.



EMBRAER 190



Wing span (with winglets) 28.7 metres. **Overall length** 36.3 metres.
Tail height 10.6 metres. **Interior cabin width** 2.7 metres.



BOEING 737-700



Wing span (with winglets) 34.3 metres. **Overall length** 33.6 metres.
Tail height 12.5 metres. **Interior cabin width** 3.4 metres.



BOEING 737-800



Wing span (with winglets) 34.3 metres. **Overall length** 39.5 metres.
Tail height 12.5 metres. **Interior cabin width** 3.4 metres.



AIRBUS A330



Wing span (with winglets) 60.3 metres. **Overall length** 58.8 metres.
Tail height 17.4 metres. **Interior cabin width** 5.3 metres.



BOEING 777-300ER



Wing span 64.8 metres. **Overall length** 73.9 metres.
Tail height 18.7 metres. **Interior cabin width** 5.9 metres.

FLEET STATISTICS



MAXIMUM GUESTS



MAXIMUM RANGE (kilometres)



MAXIMUM FUEL CAPACITY (litres)



MAXIMUM TAKE-OFF WEIGHT (kilograms)



TYPICAL CRUISING SPEED (km/h)







our guests

Since its launch in 2000, Virgin Australia has been renowned for the level of service that it provides.

This year, as part of the repositioning of the airline to capture a larger percentage of corporate and government travel, there has been a strong focus on further improving the Guest experience from the moment they arrive at the airport.

New services such as Australia's first premium valet airport entry, Priority Boarding and a premium telephone service have enabled us to provide premium Guests with a more seamless travel experience.

These new services have formed part of our improved offering to business travellers, which has seen us increase our share of the corporate and government markets. This important segment now makes up 13% of our total revenue, up from 10% in the 2010 Financial Year.

Becoming a more customer-centric organisation has been a focus this year and we have made a range of changes including improving our IT systems.

Key Figures for Financial Year 2011

- Carried **18,552,483** Guests on **235** city pairs to 54 destinations
- Operated **156,445** flights, bringing the company's total operated flights to over one million for the first time
- Over **2.5 million** Velocity Frequent Flyer members, up **20%** on Financial Year 2010



Over the year we have continued to receive accolades for our excellence in customer service. In April 2011, our two-year old long-haul international airline, V Australia, topped the Roy Morgan Airline Satisfaction Report ahead of all other international airlines servicing Australia, with 91 per cent of customers rating it the highest satisfaction level. In June, Virgin Australia group of airlines won the Skytrax Customer Service Award for the Australia Pacific region, recognising the Group's continued leadership in this area.

We have also expanded our own customer research processes to ensure that we have a better understanding of the experience of our Guests and how it could be improved.

In Financial Year 2012, providing more individualised and streamlined service to our Guests will continue to be a focus for the company, as we continue towards our goal of being the airline of choice for all travellers.

customer testimonials

“The service standards are second to none, proving why Virgin Australia are widely respected as leaders of their industry. The facilities on the A330 are sensational, with sharp attention to detail and clear consideration made to cater to the comfort of the business traveller. The catering is world class, offering a quality selection of dining options that would easily be found on the tables of good restaurants. I have no hesitation in stating that the flight I took on Virgin Australia's A330 is by far the best of my business travelling career. Hats off Virgin, you are miles ahead.”

Garth Graydon, Chief Executive Officer, The Reed Group

“It is refreshing to be engaged with an airline that is truly listening and acting on feedback and requirements of their clients. The new lounge facilities are modern, innovative and creative and Virgin Australia have ensured they really do meet the requirements of the corporate traveller. Staff are looking stylish, well-groomed and have an air of the former day cabin crew who acknowledge they are there to offer customer service to all travellers.”

Tracey Moore, National Procurement Manager, TENIX

“I am happy to confirm that based on the AFL's experience Virgin Australia as they are now called, are able to deliver an exceptional level of service to their customers and I have no hesitation in recommending them to any potential new customers.”

Ian Anderson, Chief Financial Officer, AFL

“I flew one of the new planes the other day in business class. It was fantastic – a gorgeous cabin with really comfortable seats. Thoroughly enjoyed myself and the crew were top notch. Keep up the great work.”

Gavin McDougal, Director, ISPHONE

“Your staff help at the airports in both Adelaide & Melbourne has been outstanding, to the ease of check in both outgoing and coming back and the ease of getting in the lounge both in Adelaide and Melbourne. Our club thinks going from Qantas to Virgin is one of the best ever moves by the AFL.”

Phil Harper, General Manager Football Operations, Adelaide Crows

“Virgin Australia has been the preferred domestic carrier for Unilever Australia for the past 9 years. We value this longstanding relationship. Virgin continually review their fare structures to allow for more flexibility for our business travellers. They have excellent account management with regular reviews and product updates. The standard of their ground staff and cabin crew is excellent and our travellers regularly comment on the friendly and approachable attitude of the Virgin staff.”

Unilever

safety

The safety of our Guests, team members, contractors and visitors is our highest priority. To this end, all activities including flight operations, engineering, ground handling and inflight service are conducted against a set of rigorous and continually monitored standards.

Virgin Australia is committed to the promotion and development of a positive safety culture, actively and systematically managing safety-related risks across our business and striving for continuous improvement in safety practices.

Virgin Australia's IATA Operations Safety Audit (IOSA) registration is a confirmation of the commitment of the airline to deliver a safe operation. To maintain IOSA registration Virgin Australia is audited every two years against this global standard by an accredited IOSA Audit Organisation.

Safety Management System

The Virgin Australia group of airlines manages airline safety through the proactive and systematic identification of risk. Our Safety Management System (SMS) is the primary means by which the Board of Directors, through the Chief Executive Officer, manages, controls and reduces operational and occupational safety risk within the airline. One role of the Virgin Australia Safety Management System is to continually monitor our operations to ensure they exceed Civil Aviation Safety Authority standards and those of international safety regulators where required.

During the 2011 Financial Year, the governance process supporting the Safety Management System was reviewed. As a result, in addition to the previous regular safety reporting to the Board, a Safety and Operational Risk Review Committee was created as one of a range of initiatives across the group implemented to ensure we continue to maintain the highest standards.

Safety Performance

The health, safety and wellbeing of employees and Guests is fundamental to the success of Virgin Australia and Financial Year 2011 saw increased efforts to raise awareness of workplace health and safety and the development of enhanced strategies to strive for the

prevention of injuries and effective management of safety risks for our team members and Guests.

Health and safety performance is monitored and reported regularly to the Board across a range of occupational health and safety indicators, including all injury rates, lost time injuries and work hours lost. Targets are set by the Board on an annual basis to ensure we progress on a journey towards a zero harm environment. In Financial Year 2011 our Lost Time Injury Frequency Rate (LTIFR), measured as the number of lost time injuries per million hours worked (resulting in the loss of at least one full shift), reduced by 7.5 per cent to 17.06.

While this is a step in the right direction, we acknowledge that a significant improvement is required with regard to injury prevention. To ensure we deliver on this commitment we are focusing our attention on three main areas being; safety leadership, staff training and incident management. This three-tiered program is designed to drive safety performance changes at all levels of the business.

Security

The Australian public rightly expects a high level of security from the aviation industry and we take this responsibility very seriously. It is vital that the travelling public has confidence in aviation security and specifically the confidence in Virgin Australia to ensure their safety and security.

Our management of security risks and potential threats is underpinned by our Transport Security Program, which is formally reviewed every five years and is subject to external and internal audits.

Importantly, we work with government agencies, regulators and airport operators in Australia and overseas to ensure we comply with all regulations and our operations are as secure as they can be at all times.







the environment

Aviation is crucial to the global economy and part of the way we live today – linking families, communities and businesses. The challenge for us is to manage and reduce the environmental impacts associated with air travel while maintaining this crucial function.

Greenhouse gas emissions are our most significant environmental impact. Due to the airline's growth, total emissions increased to 2,991,486 tonnes CO₂-e, an increase of 10.9 per cent on Financial Year 2010.

In the air

We are currently reviewing our own performance, future growth and abatement opportunities for the purpose of setting targets and we are committed to addressing our climate change impacts through a combination of fuel efficiency, sustainable biofuels and carbon offsetting.

Fuel efficiency

Fuel efficiency is critical to managing our carbon footprint in the short to medium term. Virgin Australia is already ahead of many of our industry peers in this regard as we operate a young and fuel efficient fleet, with

an average age of just 4.9 years. To ensure our fleet remains fuel efficient we have invested in a \$2.5 billion fleet renewal program over the next six years and by June 2012 our average aircraft age will be 4.1 years.

We also took a number of steps in Financial Year 2011 to improve our fuel efficiency, including:

- Commissioning a review of all major aspects of the business to identify fuel saving initiatives.
- Starting to divest our six Embraer 170 aircraft, which will be replaced with 18 leased ATR turboprops. Based on figures provided by the manufacturer, ATR turboprops are up to 40 per cent more fuel efficient (depending on sector length and measured in litres per 100 passenger kilometres).

- Continuing to work with industry and government on a range of measures to improve the efficiency of air traffic management, including participating in the Indian Ocean Strategic Partnership to Reduce Emissions (INSPIRE) by conducting a best practice demonstration flight from Abu Dhabi to Sydney this year.

Sustainable aviation biofuel

During the year we continued to lead industry efforts towards establishing a sustainable aviation biofuel industry in Australia through our role as a founding member of the Australasian chapter of the Sustainable Aviation Fuel Users Group (ASAFUG) and working with industry and government stakeholders on mechanisms to encourage commercialisation.

The group commissioned the CSIRO to develop a Sustainable Aviation Fuel Road Map study to identify



pathways to the commercialisation of a sustainable aviation biofuel industry in Australia and New Zealand. The Roadmap was launched in May 2011 and found that by 2020 a five per cent bio-derived jet fuel share could be possible in Australia and New Zealand, expanding to 40 per cent by 2050. A copy of the report can be downloaded from our website.

We are actively seeking to partner with biofuel companies to encourage the commercialisation of individual projects. In June, we signed a Memorandum of Understanding with a number of parties, including Renewable Oil Corporation, GE and Future Farm Industries Co-operative Research Centre, to develop a sustainable aviation biofuel that also has benefits for the Australian farming community and the environment. In a world first, the consortium plans

to use fast pyrolysis technology to process mallee, a eucalypt tree that is grown sustainably in many parts of Australia to help control salinity on farm land. The consortium is currently finalising plans for a demonstration unit that will produce biofuels for testing, certification and public trials. The demonstration unit is intended to be operational in 2012, followed by the construction of a commercial-scale plant, which could be operational as early as 2014.

We are also the sole airline participant in the Queensland Sustainable Jet Fuel Initiative; a University of Queensland-led project to undertake a multi-pathway techno-economic and lifecycle analysis of sustainable aviation fuel production from three feedstocks: sucrose, oilseeds and algae. The outcomes will include a publicly available online tool that will

assist project developers assess the technical and economic viability of new technologies. The tool will have an open access component and will be regularly updated.

This year we also joined the Biofuels Association of Australia to further support our sustainable aviation biofuel work and advocacy.

Carbon offsetting

In 2007 we launched the world's first government certified airline offset program, under the Australian Government's Greenhouse Friendly program. As of 1 July 2010 Greenhouse Friendly was replaced by the National Carbon Offset Standard Carbon Neutral program. Please refer to the carbon offset pages on our website for more information on the program including how emissions are calculated and the carbon credits we use.



On the ground

While our flight operations account for 99 per cent of our carbon footprint, minimising the environmental impacts of our ground-based operations is also an important part of our sustainability program.

Ground emissions

This year we undertook a \$3 million overhaul within our Brisbane data centre through the use of server virtualisation. In addition to significant financial savings and improved business continuity, the project reduced carbon emissions from our data centre by nearly 15

per cent, from approximately 2,240 tonnes to 1,920 tonnes per annum.

We will be investigating further ways to reduce our emissions from electricity and ground service equipment over the coming year.

Waste and resource efficiency

Waste and resource efficiency is another important focus for our sustainability program and over the coming year we will be reviewing our performance to identify opportunities where we can minimise our impact in this area.

The introduction of recycling in our Brisbane terminal in May 2010 helped reduce waste to landfill during the

2011 Financial Year. However, with the introduction of a new on-board menu and Business Class, our total waste footprint is expected to increase. To help offset this we are a signatory to the Australian Packaging Covenant (APC) to reduce the environmental impacts of our catering product and our APC Action Plan can be viewed on our website.

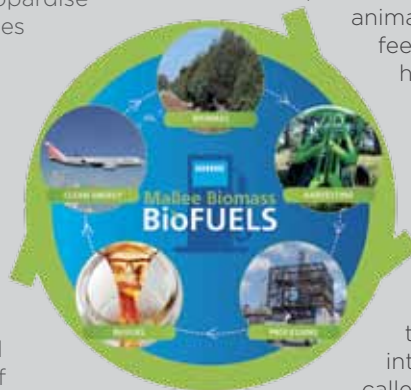
Each year since 2007 a Permagard treatment has been applied to our Boeing 737 aircraft and during the 2011 Financial Year this was extended to our Embraer 190 fleet. This coating reduces the frequency of aircraft washes, which saves a considerable amount of water (and

Aviation biofuel has to be sustainable

At Virgin Australia, we are only interested in developing and using bio-derived jet fuel that meets stringent sustainability criteria. As a founding member of the Australasian chapter of the Sustainable Aviation Fuel Users Group, we pledged to:

- Develop jet fuel plant sources in a manner that does not compete with food, does not jeopardise drinking-water supplies and minimises biodiversity impacts.
- Reduce total lifecycle greenhouse gas emissions from plant growth, harvesting, processing and end-use, compared to those associated with fossil fuels.
- Include provisions for development projects in developing economies to improve socio-economic conditions for small-scale farmers who rely on agriculture for food and to avoid involuntary displacement of local populations.
- Never use high-conservation-value areas or native ecosystems for jet fuel plant source development.

These are the criteria CSIRO used in producing the Sustainable Aviation Fuel Road Map. We are now working with industry and government to develop and apply appropriate sustainability standards for the certification of bio-derived jet fuels.



Our partnership with Renewable Oil Corporation, GE and Future Farm Industries Cooperative Research Centre is putting these sustainability criteria into practice. In addition to meeting the above criteria, biofuel produced from this project will support our efforts to reduce greenhouse gas emissions and achieve a number of important environmental and social outcomes.

Farmers grow mallee eucalyptus trees alongside commercial crops (notably in the West Australian wheat belt) to help prevent wind erosion and salinity and to provide shelter for livestock, native birds and animals. These trees are also an excellent feedstock for biofuel production. The harvesting process does not completely remove the trees, and once the root network is established the trees regrow relatively quickly.

The consortium expects to have a demonstration facility up and running in Western Australia by 2012, and a commercial-scale facility by 2014. The plant will use pyrolysis to turn the woody biomass from mallee trees into a biocrude oil and a by-product called biochar. The oil is then refined into aviation fuel and farmers can spread the biochar across farmland to improve soil quality and carbon sequestration.

This uniquely Australian project represents an exciting step towards a local aviation biofuel industry. It will directly support Australian jobs, farmers, rural communities, industry and our natural environment.

detergent). The treatment also provides an additional environmental benefit of reduced aircraft drag and fewer aircraft repaints.

We also took steps this year to reduce the amount of paper required to produce and update the 20,400 hard copy manuals used by our pilots, cabin crew and engineering team members. The use of electronic manuals has delivered a number of benefits to the airline, not least time and cost savings, but in particular this initiative has avoided the need to produce and update 10,500 hard copy manuals. Salary sacrifice arrangements for portable electronic devices have also been implemented

to encourage the uptake of electronic manuals so we can further reduce our paper consumption.

Energy and carbon accounting

In July 2011 the Australian Government released a proposed legislative framework for a price on carbon that commences with a fixed price of \$23 per tonne on 1 July 2012, before transitioning to a cap-and-trade emissions trading scheme in 2015. We have engaged with the Government during the development of the mechanism as part of the industry consultation process and have submitted information to the ASX on the expected financial impact on ticket prices.

For the past two years we have reported our domestic emissions under the National Greenhouse and Energy Reporting Act 2007. We also responded to the Carbon Disclosure Project and our 2011 response can be viewed on our website. Under the Energy Efficiency Opportunities Act 2006 we must also publicly report our energy use and the actions we are taking to address energy efficiency. Our first annual report on energy use will be released in late 2011.¹

¹ Virgin Australia previously reported as a subsidiary under Toll Holdings.



our community

The Virgin Australia group of airlines has an established program of community and philanthropic partnerships with a specific focus on Indigenous Australians and youth at risk.

Virgin Australia team members are actively involved in these partnerships, which include:

- Australian Indigenous Mentoring Experience (AIME) – a mentoring program that partners university students in one-to-one mentoring relationships with Indigenous Australian high school students.
- Starlight Foundation – as Wish-Granting Partner, Virgin Australia flies Starlight children and their families across our domestic network to many favoured tourist destinations.
- Foodbank – the largest hunger relief organisation in Australia, distributing donated food in all states, the Northern Territory and eight regions. Virgin Australia is supporting Foodbank nationally by helping to raise awareness of the charity and its aims and providing flights.
- The Australian Indigenous Leadership Centre – the AILC aims to foster new Indigenous leadership at all levels, capable of finding ways forward for all Australians. It is a not-for-profit company, owned and controlled by Indigenous Australians.
- Link-up (Qld) Aboriginal Corporation – an organisation that reunites members of the Stolen Generations with their families, culture and communities.
- Save the Tasmanian Devil Appeal – an initiative of the Federal and Tasmanian Governments to combat the facial tumour disease that is threatening the existence of this internationally recognised icon.
- Brisbane Youth Service – a community-based organisation that works with homeless or at-risk young people, providing long-term assistance to help them understand their situation and make more positive choices. Virgin Australia team members are actively involved in this partnership via a six-month leadership program known as the Business Champions.

Virgin Australia has also supported Surf Life Saving Australia, the St. Vincent de Paul's CEO Sleepout; The Indigenous Marathon Project; CARE Australia and The Victor Chang Cardiac Research Institute.

The airline's foundation, Red Jet, was established in 2006. Red Jet fundraises in times of crisis and this year supported the Premier's Disaster Relief Appeal for the Queensland floods and Cyclone Yasi, as well as those affected by the earthquake devastation in Christchurch, New Zealand in late February 2011. With



a large amount of our domestic flying departing or arriving in Queensland and the Virgin Australia and Pacific Blue head offices located in Brisbane and Christchurch, these natural disasters had an impact on many of our team members and our Guests. In response, Red Jet and the Virgin Australia team members and Guests provided more than \$1.75 million worth of cash and in-kind support, including:

- A \$250,000 donation from Virgin Australia to the Premier's Disaster Relief Appeal;
- A \$61,239 donation from Virgin Australia team members to the Premier's Disaster Relief Appeal, which was then matched dollar for dollar by Red Jet;
- \$637,881 raised through on-board donations from Virgin Australia Guests for the Premier's Disaster Relief Appeal;
- \$123,385 (NZD) raised through on-board donations from

Virgin Australia Guests for the Christchurch Mayoral Fund and the New Zealand Red Cross Earthquake Fund;

- \$684,175 worth of Velocity points donations by Guests for the Premier's Disaster Relief Appeal; and
- Crisis flights to the value of \$443,894 for the Premier's Disaster Relief Appeal utilised by St John's State Emergency Service, Salvation Army, Department of Community Safety, Department of Community Services and Standards and the Red Cross.

With the introduction of new uniforms this year for our flight crew, cabin crew and guest service team members, we also took the opportunity to donate our old uniforms to charity. Those that were still new have been sent to Ulusaba Community High School in South Africa where students will use them for school uniforms. Those that were worn by team members have gone to St Vincent de Paul outlets across Australia.

Aircraft Noise

We recognise the impact aircraft noise can have on sections of the community. We aim to minimise noise from our operations by maintaining a modern technically advanced fleet of aircraft that are compliant with the ICAO Chapter 4 noise standards. We work closely with air service navigation providers to design approach and departure paths which allow aircraft to utilise onboard equipment to fly high precision tracks that help to minimise the noise footprint over noise sensitive areas. We are also directly engaging with community groups affected by aircraft noise through the Community Aviation Consultation Groups and other forums at major Australian airports. Each group is independently chaired and provides an open discussion of airport operations and their impacts on nearby communities.



Mr Neil Chatfield

Independent Non-Executive Chairman;
Member, Audit and Risk Management Committee;
Chair, Nomination Committee;
Member, Remuneration Committee;
Member, Safety and Operational Risk Review Committee.

Appointed 11 May 2006.

Appointed Company Chairman 14 June 2007.



Mr John Borghetti

Managing Director and Chief Executive Officer;
Member, Safety and Operational Risk Review Committee.

Appointed 8 May 2010.

board of directors



Mr Robert Thomas

Independent Non-Executive Director;
Chair, Audit and Risk Management Committee;
Member, Nomination Committee;
Member, Remuneration Committee.

Appointed 8 September 2006.



Ms Sam Mostyn

Independent Non-Executive Director;
Member, Nomination Committee;
Chair, Remuneration Committee;
Member, Safety and Operational Risk Review
Committee.

Appointed 1 September 2010.



The Hon. Mark Vaile

Independent Non-Executive Director;
Member, Audit and Risk Management Committee;
Member, Nomination Committee;
Chair, Safety and Operational Risk Review
Committee.

Appointed 22 September 2008.



Mr David Baxby

Non-Executive Director;
Member, Nomination Committee;
Member, Remuneration Committee.

Appointed 30 September 2004.



Mr Joshua Bayliss

Non-Executive Director;
Member, Nomination Committee.

Appointed 6 April 2011.



Mr Martin Daley

Group Executive Product & Guest Services

Martin Daley is responsible for all aspects of customer service and product development across the Group including: Product, Service Development and Training, Guest Relations, Guest Contact Centres, Cabin Crew (Domestic and International) and Lounges.



Mr Sean Donohue

Group Executive Operations

Sean Donohue is responsible for Engineering Operations, Ground Operations, Flight Operations, Group Flight Standards, Operations Planning and Safety Systems for the Virgin Australia group of airlines. He is also responsible for the new Regional ATR Aircraft Operations, Corporate Facilities, Property and Group Sustainability.

executive committee



Mr Sankar Narayan

Chief Financial Officer

Sankar Narayan is responsible for Finance, Information Systems, Investor Relations, Procurement and Fleet.



Ms Danielle Keighery

Group Executive Corporate Communications

Danielle Keighery is responsible for the Group's Corporate Communications, including Public and Media Relations, Internal Communications, In-flight Media and Community Sponsorships.



Ms Merren McArthur

Group Executive Alliances, Network & Yield Management

Merren McArthur is responsible for Revenue Management, Network Planning, Scheduling and Alliances.



Ms Jane McKeon

Group Executive Government Relations

Jane McKeon is responsible for the Group's Government Affairs, International Relations and Industry Representation activities.



Ms Liz Savage

Group Executive Commercial

Liz Savage is responsible for Sales, Marketing and Sponsorships, Velocity Frequent Flyer, Customer Relationship Management, eCommerce and holiday arm Blue Holidays.



Mr Richard Tanner

Group Executive People

Richard Tanner is responsible for Leadership Development, Succession Planning, Talent Management, Workplace Relations, Remuneration, Recruitment and Staff Travel.



Mr Adam Thatcher

General Counsel / Company Secretary

Adam Thatcher is our General Counsel/ Company Secretary, responsible for Corporate Governance and Legal.

Virgin Blue Holdings Limited Financial Statements 2011

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This financial report covers the Virgin Blue Holdings Limited 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 page 76.

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.virginaustralia.com



Directors' report

The directors present their report together with the financial report of Virgin Blue Holdings Limited ("the Company") Group ("the Group"), being the Company, its controlled entities and the Group's interests in associates, for the financial year ended 30 June 2011 and the auditor's report thereon.

1. 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 Member, Audit and Risk Management Committee Chair, Nomination Committee Member, Remuneration Committee Member, Safety and Operational Risk Review Committee	Neil is an established executive and non-executive director with experience across a range of industries. He has extensive experience in financial management, capital markets, mergers and acquisitions and risk management, and was an Executive Director and Chief Financial Officer of Toll Holdings Limited for over 10 years. Neil has been a director of Seek Ltd since 2005, Whitehaven Coal Limited since 2007, and Transurban Group and Grange Resources Ltd since 2009.	Appointed 11 May 2006. Appointed Company Chairman 14 June 2007.
Mr John Borghetti Managing Director and Chief Executive Officer Member, Safety and Operational Risk Review Committee	John has more than 38 years experience in the aviation sector having previously held a number of senior positions at Qantas, including the role of Executive General Manager for six years prior to leaving the company in May 2009. He is a director of CARE Australia and The Australian Ballet and was previously a director of Piper Aircraft (USA) and Jetset Travelworld.	Appointed 8 May 2010.
Mr David Baxby B.Com (Acct), LLB (Hons.) Non-Executive Director Member, Nomination Committee Member, Remuneration Committee	David is Head of Aviation for Virgin Group and CEO of Virgin Management Asia-Pacific, positions he has held for the past seven years. He holds a number of other directorships within the Virgin Group including Virgin Atlantic Limited, Virgin Holidays Limited, Virgin America Inc, Virgin Active Australia and Air Asia X. Prior to Virgin, David was an investment banker for ten years with Goldman Sachs JBWere.	Appointed 30 September 2004.
Mr Joshua Bayliss LLB (Hons.), B.A. Non-Executive Director Member, Nomination Committee	Joshua is a senior executive with the Virgin Group based in Geneva and has been Virgin Group's General Counsel since he joined in 2005. He has extensive experience as a director of a large number of companies across the Virgin Group globally, combining investment holding and operational roles. He was previously Senior Associate at leading international law firm, Slaughter and May, based in London. Joshua was born in New Zealand.	Appointed 6 April 2011.

Name, qualifications and position	Experience	Appointment Date
Ms Samantha Mostyn Independent Non-Executive Director Member, Nomination Committee Chair, Remuneration Committee Member, Safety and Operational Risk Review Committee	Sam is a non-executive director and corporate Advisor and has previously held senior executive positions at IAG, Optus and Cable & Wireless Plc. Sam is Chair of the Stakeholder Advisory Council of the CSIRO's Climate Adaptation Flagship, President of the Australian Museum Trust, a community interest representative on the Board of the Australia Council for the Arts, a Board Member of Australian Volunteers International, the Sydney Theatre Company and the NSW Climate Change Council and is an AFL Commissioner. Sam became a director of the Transurban Group in December 2010 and Citibank Australia in July 2011.	Appointed 1 September 2010.
Mr Robert Thomas B.Econ, MSAA, SF Fin Independent Non-Executive Director Chair, Audit and Risk Management Committee Member, Nomination Committee Member, Remuneration Committee	Robert has more than 35 years experience in the securities industry. Robert is the Chairman of Tower Australia Ltd and the Stockbrokers Association of Australia, is a Director of Heartware International Ltd, O'Connell Street Associates Pty Ltd, Grahger Capital Securities and REVA Medical Limited, is the President of the Library Council of NSW and is a member of the Nomura Australia Advisory Board.	Appointed 8 September 2006.
The Hon. Mark Vaile Former Deputy Prime Minister of Australia Independent Non-Executive Director Member, Audit and Risk Management Committee Member, Nomination Committee Chair, Safety and Operational Risk Review Committee	Mark was a Member of the Australian Parliament from 1993 to 2008. He was Deputy Prime Minister (2005-2007), Minister for Trade (1999-2006), Minister for Transport and Aviation (1997-1998, 2006-2007) and Minister for Agriculture (1998-1999). Mark is Chairman of CBD Energy Limited, Aston Resources Limited and Palisade's Regional Infrastructure Fund, and a Director of Stamford Land Corporation Limited and Servcorp Limited.	Appointed 22 September 2008.
Mr Patrick McCall B.Sc Econ Non-Executive Director	Patrick is Virgin Group Managing Partner Health, Wellness, Space and Rail and holds a number of other directorships in the Virgin Group. He was previously an investment banker at SBC Warburg/SGWarburg.	Appointed 27 May 2002. Resigned 24 November 2010.
Mr Stephen Murphy Alternate Director	Stephen is Chief Executive Officer of Virgin Group, Chairman of Virgin Atlantic Limited, holds a number of other directorships in the Virgin Group and is a Director of Brussels Airlines SA. He previously held senior finance positions in Mars, Unilever and The Quaker Oats Company.	Appointed as alternate director for Mr David Baxby and Mr Patrick McCall on 30 September 2004. Ceased as alternate director for Mr Patrick McCall on 24 November 2010.
Mr Keith Roberts M. Com (Hons.) B. Bus. Alternate Director	Keith is Australian Country Head of Virgin Management Asia Pacific. Prior to joining Virgin in March 2008, he was a management consultant at Bain and Company for 9 years, which included working with airlines in South Africa and Latin America.	Appointed as alternate director for Mr David Baxby and Mr Patrick McCall on 28 November 2008. Ceased as alternate director for Mr Patrick McCall on 24 November 2010.

Former Managing Director and Chief Executive Officer Mr Brett Godfrey (appointed 27 May 2002) resigned from his position as Chief Executive Officer on 7 May 2010, and resigned from his position as Director on 6 July 2010.

Directors' report (continued)

2. Company Secretary

Ms Merren McArthur (BA LLB) was appointed Company Secretary on 25 July 2008 after having joined the Group 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. Following a realignment of executive team roles, Merren resigned as Company Secretary on 6 July 2011 in order to take up the newly created role of Group Executive Alliances, Network and Yield Management with the Group.

Mr Adam Thatcher (BCom LLB) was appointed as General Counsel and Company Secretary on 6 July 2011 after having been appointed as General Manager, Legal of the Group in November 2010. Adam is a corporate and commercial lawyer with over 25 years experience and was a partner at one of Australia's leading law firms, Allens Arthur Robinson, until the end of 2009. During his 20 years as a partner he specialised in finance, infrastructure and corporate recovery as well as general commercial law. He is currently a director of Redcape Property Fund and the Bluewater Property Trust.

3. 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 year are:

Director	Board Meetings		Audit and Risk Management Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
	A	B	A	B	A	B	A	B
Mr N Chatfield	14	14	4	4	3	3	1	1
Mr J Borghetti	14	14	–	–	–	–	–	–
Mr D Baxby	13	14	–	–	3	3	1	1
Mr J Bayliss [^]	1	1	–	–	–	–	–	–
Ms S Mostyn ^{^^}	11	11	–	–	1	1	1	1
Mr R Thomas	13	14	4	4	3	3	1	1
Mr M Vaile ^{^^^}	14	14	3	3	–	–	1	1
Mr P McCall ^{^^^^}	1	6	0	1	–	–	–	–
Mr S Murphy	1*	1	–	–	–	–	–	–
Mr K Roberts	5**	5	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.

[^]: Appointed 6 April 2011.

^{^^}: Appointed 1 September 2010. Appointed as a member of the Remuneration Committee on 15 December 2010.

^{^^^}: Appointed as a member of the Audit and Risk Management Committee on 15 December 2010.

^{^^^^}: Resigned 24 November 2010.

*: Attended one Board meeting as alternate for Patrick McCall.

**": Attended four Board meetings as alternate for Patrick McCall and one Board meeting as alternate for David Baxby.

***: Attended one Audit and Risk Management Committee meeting as alternate for Patrick McCall.

As the Safety and Operational Risk Review Committee was established in July 2011, no meetings were held during the year to 30 June 2011.

4. Corporate Governance Statement

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

4.1 Role and Structure of the Board

Role of the Board

The Board has a Charter which establishes its role and responsibilities and also sets out the responsibilities which have been delegated to senior management. A copy of the Board Charter is available on the Company's website.

The primary role of the Board is to provide strategic guidance for the Group and effective oversight of management. To assist in the performance of its role, the Board has established a number of Committees which have specific roles and responsibilities in key areas.

The Board has delegated to the Chief Executive Officer authority over the day to day management of the Group. Specific areas of responsibility which have been delegated to the Chief Executive Officer are set out in the Board Charter. The Chief Executive Officer is authorised to delegate the powers conferred on him as he deems appropriate.

The Board has seven directors, comprised as follows:

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

A majority of the Board is independent, the Chairman is an independent director and the roles of Chairman and Chief Executive Officer are not exercised by the same individual. Each of the directors is a senior and experienced executive with skills and experience necessary for the proper supervision and leadership of the Group. 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, risk management, sustainability, and public company affairs. Details regarding the Group's directors, including their relevant skills, experience, expertise and terms of office can be found at pages 40 to 41.

The Company believes that the current size and composition of the Board is conducive to making appropriate decisions and incorporates a variety of perspectives and skills in order to represent the best interests of the Company as a whole.

Director independence

All directors, whether independent or not, are required to bring an independent judgement to bear on Board decisions. 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 has 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.

Board committees

During the course of the year, the Board had three committees of directors: the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee. In December 2010, the Remuneration and Nomination Committee was separated into two committees. Whilst the Board has ultimate responsibility for safety and operational risk oversight and management, in July 2011, the Board established an additional committee, the Safety and Operational Risk Review Committee, as an efficient mechanism for focusing attention on this area. Each committee has a documented charter approved by the Board, copies of which can be found on the Company's website.

Directors' report (continued)

Committee composition as at the date of this report is as follows:

Committee	Members	Composition	Key Roles and Responsibilities
Audit and Risk Management Committee	Robert Thomas (Chair) Neil Chatfield Mark Vaile	Consists only of independent non-executive directors. Has an independent chair who is not chair of the Board. Has at least three members. All members are financially literate. Two members have relevant qualifications and experience.	Review and assessment of the integrity of financial reporting. Monitoring the performance internal and external audit, including oversight of qualifications, independence and fees of the external auditor. Review of risk management policies, processes and profile, including the adequacy of insurance cover. Review of the compliance framework and financial information required by regulators.
Remuneration Committee	Samantha Mostyn (Chair)* David Baxby Neil Chatfield Robert Thomas	Consists only of non-executive directors. Has a majority of independent directors. Has an independent chair. Has at least three members.	Remuneration of non-executive directors, the CEO and Group Executives. Review of performance assessment processes and results for the CEO and Group Executives. Policies for the recruitment, retention and termination of Group Executives. Policies for employee incentive schemes and superannuation.
Nomination Committee	Neil Chatfield (Chair) David Baxby Joshua Bayliss Samantha Mostyn Robert Thomas Mark Vaile	Has a majority of independent directors. Has an independent chair. Has at least three members.	Composition of the Board. Director and CEO succession planning. Induction and ongoing development of directors. Performance appraisal of the Board, its Committees, each director and the CEO.
Safety and Operational Risk Review Committee	Mark Vaile (Chair) John Borghetti Neil Chatfield Samantha Mostyn	Has an independent chair. Has at least three members.	Oversight of operational safety, health and security risks. Maintain best practice in operational safety management, including compliance with legal and regulatory obligations and internal systems of control. Review the establishment and operation of operational risk management systems. Monitoring operational risk management processes maintained by providers and codeshare partners. Monitoring serious investigations and remedial actions.

* Samantha Mostyn was appointed as Chair of the Remuneration Committee in July 2011. Neil Chatfield previously held the role of Chair of the Remuneration Committee.

Director selection

The Board has established a Nomination Committee which makes recommendations to the Board regarding the size and composition of the Board and the appointment and re-election of directors. A copy of the Charter of the Nomination Committee is available on the Company's website. The names of the members of the Nomination Committee and their attendance at meetings are disclosed at page 42.

The Nomination Committee is responsible for developing plans to identify the necessary and desirable competencies and skills of directors and succession plans to ensure there is an appropriate mix of skills, experience, expertise and diversity on the Board. The Nomination Committee has identified the need for additional gender diversity and marketing skills on the Board and these will be taken into consideration when the Company is next considering appointments to the Board.

Where necessary, the Company utilises the services of professional advisors to identify and assess potential Board candidates.

Director induction, development and access to information

The Nomination Committee has responsibility for developing systems for induction procedures and the ongoing training and development of directors.

The Company has in place inductions procedures which allow new directors to participate fully and actively in decision-making at the earliest opportunity. Directors are able to access continuing education to update and enhance their skills and knowledge and have the right of access to all relevant Company information and senior executives, including the Company Secretary, to provide them with information regarding key developments in the Company and the industry.

Board meetings are held on a regular basis, with briefing material being provided to each director at least seven days prior to each meeting. The Company Secretary is responsible for coordinating the timely completion and despatch of Board agenda and briefing material. Senior executives are invited to make presentations at Board meetings, which provides the ability for directors to engage in discussions and request additional information on relevant topics.

Subject to prior consultation with the Chairman, directors may seek independent professional advice (including legal advice) from a suitably qualified advisor 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 directors.

Performance evaluation

The Board conducts an annual self-assessment of the performance of the Board, its committees and individual directors. In addition, externally facilitated performance evaluations are undertaken on a regular basis, with the most recent externally facilitated performance evaluation being conducted during the 2010 financial year.

4.2 Remuneration

Remuneration structure

The Group's remuneration structures strive to fairly and responsibly reward employees, while complying with all relevant regulatory requirements. Remuneration for the Chief Executive Officer and senior executives consists of fixed remuneration and short-term and long-term incentive plans.

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 management personnel can be found in the Remuneration Report at page 48.

Remuneration Committee

The Board has established a Remuneration Committee to ensure there is an efficient mechanism for focussing the Company on setting and implementing appropriate remuneration policies. A copy of the Charter of the Remuneration Committee is available on the Company's website.

The Remuneration Committee has responsibility for making recommendations to the Board on policies for the remuneration of senior executives and non-executive directors, together with recommendations on employee incentive schemes and superannuation. The Committee may seek any information it requires from any employee in order to perform its duties and may appoint remuneration consultants or other advisors as appropriate at the Company's expense. The Committee ensures that no employee is directly involved in deciding their own remuneration.

The names of the members of the Remuneration Committee and their attendance at meetings are disclosed at page 42.

4.3 Ethical and responsible decision making

Ethics

The Group has adopted a number of policies which promote ethical and responsible decision making.

The Guide to Business Conduct applies to all directors, employees and contractors working for the Group and formalises the Group'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 the behaviour expected of employees and contractors in many key areas of business conduct.

The Code of Conduct applies to directors and senior executives and further reflects the commitment of the Group 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.

The Keeping Our Workplace Fair Policy makes employees accountable for creating an environment in which people, including employees, guests, customers and suppliers, are treated fairly and equitably and with dignity, courtesy and respect. This policy is supported by the A Fair Go Policy which aims to ensure that concerns within the workplace are resolved as quickly and effectively as possible.

The Group has also established an Ethics Hotline which can be used by employees to report any conduct which may be unethical or improper. All reports to the Ethics Hotline, which is provided by an external independent provider, are able to be made confidentially and anonymously and are thoroughly investigated.

Directors' report (continued)

Securities trading policy

The Company has implemented a policy on securities trading which binds all directors and employees of the Group. The policy ensures 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. Directors and senior executives are required to obtain written consent prior to dealing in the Company's securities.

Trading is not permitted in nominated blackout periods, which apply in the six weeks before, and one trading day after, the release of the Company's half year and full year results. Short term trading and hedging economic exposure to unvested options issued pursuant to an employee option plan is prohibited. Directors and the Chief Executive Officer are prohibited from obtaining margin loans using the Company's securities as security for loans.

A copy of the Securities Trading Policy is available on the Company's website.

Diversity

The Group is committed to providing a workplace and organisational culture that embraces diversity and inclusion across all levels of the business. Diversity recognises and values the contribution of people with differences in background, experience and perspectives, and encompasses but is not limited to gender, cultural background, ethnicity, disability and age. The Group fosters a culture in which all people treat each other with mutual respect and are recruited, developed and promoted on the basis of merit. To support its commitment, the Company has established a Diversity Policy. Under the policy, the Board is responsible for establishing measurable gender diversity objectives and reviewing progress in achieving the objectives on an annual basis.

Through targeted initiatives the Group has made significant progress towards improving outcomes for women over the past three years, including an increase of more than double the number of females holding Group Executive positions. At present, women represent 48% of the Group's workforce, 50% of Group Executive positions and 17% of non-executive directors. During the 2011 financial year:

- Female representation across the Group remained unchanged at 48%;
- The total percentage of women in leadership positions increased from 24% to 28%;
- Succession planning processes were launched to identify high potential leaders on the basis of merit and performance, including employees on parental leave and ongoing flexible working arrangements;
- Cultural awareness training was delivered to over 100 employees; and
- Targeted actions to address gender pay equity were implemented across several areas in the business.

The following diversity objectives have been established by the Board:

- Increase the number of women within the Group from 48% to 50% by December 2012;
- Incrementally grow the number of women performing senior roles, with a target of 25% female representation at Board level, and 35% female representation amongst all management positions by 2013;
- Create development opportunities for women that prepare them to take on senior positions;
- Continue to strengthen the Group's inclusive culture; and
- Continue to review gender pay gaps on an annual basis and implement actions to address any differences.

Progress against the achievement of these objectives will be reported in the 2012 Annual Report.

The Group also has an Indigenous Employment Strategy which supports the commitment to encouraging and growing the Indigenous workforce through our Indigenous Employment Strategy. Further details on the progress of this strategy are contained on page 8.

4.4 Integrity in financial reporting

The Board has established the Audit and Risk Management Committee whose role is to assist the Board to discharge its oversight responsibilities relating to:

- The preparation, integrity and reporting of the Company's financial statements;
- The external and internal audit functions;
- Internal controls, policies and procedures that the Company uses to identify and manage business risks;
- The risk policy and risk profile;
- The effectiveness of internal control systems; and
- Compliance with legal, accounting and regulatory requirements and policies.

The Audit and Risk Management Committee has authority to conduct or direct any investigation required to fulfil its responsibilities, may require the attendance of members of management at Committee meetings and has direct access to any employee or contractor, the external 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 declare in writing to the Board that the financial records of the Company for the financial year have been properly maintained, that the Company's financial reports for the financial year comply with Australian accounting standards and present a true and fair view of the Company's consolidated financial position and operational results. This statement is required annually and is made in accordance with section 295A of the *Corporations Act 2001*. The Audit and Risk Management

Committee reviews the half yearly and annual financial statements and narrative reporting prior to making recommendations to the Board and reviews with management the adequacy of accounting policies and any significant accounting and financial reporting issues raised by internal or external audit.

The Audit and Risk Management Committee recommends to the Board the appointment, rotation, evaluation and removal of the external auditors and reviews the external auditors' terms of engagement, audit fees and proposed audit plan. At least annually it reviews the external auditors' independence declaration.

The Committee also conducts a periodic assessment of the performance and independence of the internal audit function and reviews management action plans in response to internal audit findings.

Details of names and relevant qualifications of those directors appointed to the Audit and Risk Management Committee, the number of meetings the Audit and Risk Management Committee held during the financial year ended 30 June 2011, and the names of the attendees can be found on pages 40 to 42. The Charter of the Committee is available on the Company's website.

4.5 Disclosure and the rights of shareholders

The Company's commitment to providing the market with timely and balanced disclosure 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. The policy addresses the Company's responsibility to ensure its market announcements are made in a timely manner, are factual, do not omit material information and are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

The Company's full year and half year financial reports, annual report, notice of annual general meeting, announcements to the market, media releases and investor briefing presentations are available through the Company's website. Commentary on the Company's financial results are provided to enhance the clarity and balance of reporting and to ensure that investors are provided with information to assist them in making an informed assessment of the Company's activities and results.

Shareholders who request a hard copy of the annual report will have one provided to them, and shareholders may lodge their proxy votes online or by mail. The Company makes its annual general meeting available via webcast on its website. The Company's external auditor attends the annual general meeting and is 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.

4.6 Recognising and managing risk

Risk management system

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 through its Audit and Risk Management Committee and Safety and Operational Risk Review Committee continues to enhance systems of risk management and oversight that cover the key strategic, financial, commercial, operational and compliance risks of the Company.

The Risk Management Policy, standard and matrix are dynamic documents that evolve with the changes in strategic direction of the Company.

Risk management forms an integral part of all decision making and as such, is embedded into the Company's existing processes. The Company is continuously evaluating ways to improve its risk management practices, hazard management and the successful implementation and management of risk controls.

Awareness of, and compliance with, regulation and legislation is also critical to the ongoing sustainability of the business. To this end, teams have been established across the business to coordinate risk management within the Company and to assist each department in undertaking its own risk assessments, tracking and monitoring progress on the implementation of risk action plans, and the facilitation of risk reporting to the Executive Committee and the Board.

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.

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 periodically.

Directors' report (continued)

Internal audit

Internal audit assists the Board by providing independent and objective assurance and consulting services that are designed to improve the effectiveness of the Company's risk management, control and governance processes. It also partners with management to add value by assisting in the achievement of both strategic and operational objectives. The Audit and Risk Management Committee is responsible for approving the program of internal audits to be conducted each financial year and for the scope of the work to be performed. The Audit and Risk Management Committee is responsible for recommending to the Board the appointment and dismissal of the Internal Audit Manager.

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.

5. Remuneration Report – audited

The directors present the remuneration report for Virgin Blue Holdings Limited and its consolidated entities ("the Group") for the year ended 30 June 2011 in line with Section 300A of the *Corporations Act 2001*.

The report is structured into 9 sections:

1. Key highlights for the year ended 30 June 2011
2. Key Management Personnel
3. Remuneration governance
4. Remuneration strategy and structure
5. Link to 2011 financial year performance
6. Non-executive director fees
7. Remuneration disclosures for the year ended 30 June 2011
8. Service agreements
9. Additional information

5.1 Key highlights for the year ended 30 June 2011

The Group's remuneration structure is focused on attracting suitably qualified senior executives, rewarding the achievement of strategic objectives and achieving the broader outcome of creation of value for shareholders.

A summary of the key remuneration matters approved by the Board in the year ended 30 June 2011 is set out below.

Fixed remuneration

Following a three year freeze on annual fixed remuneration increases, senior executive fixed remuneration was increased effective July 2010. The fixed remuneration increases were based on business and individual performance, a restructuring of executive roles and alignment to market remuneration levels.

The Chief Executive Officer's ("CEO") fixed remuneration has remained unchanged during the 2011 financial year.

Incentive arrangements

Short-term incentives ("STI") may be awarded to the CEO and senior executives based on the Group's and individual annual performance. The STI considers performance metrics linked to measurable gains in the achievement of the Group's corporate objectives. The performance objectives comprise elements relating to individual performance, the performance of the relevant department and the performance of the Group. Refer to STI outcomes for the 2011 financial year at 5.5(c).

Long-term incentive ("LTI") grants made in the 2011 financial year were subject to a relative total shareholder return ("TSR") hurdle. Existing LTI grants are a mix of both cumulative earnings per share ("EPS") and TSR hurdles.

The medium term incentives ("MTI") ceased at the end of 2010 financial year.

Non-executive director fees

There were no increases to director fees in the 2011 financial year.

Termination benefits

Termination benefit payments were made to Brett Godfrey (former Chief Executive Officer), Scott Swift (former Executive General Manager V Australia), Andrew David (former Group Executive Operations) and Keith Neate (former Chief Financial Officer) in the 2011 financial year.

5.2 Key Management Personnel

This report covers the key management personnel (“KMP”) and other senior executives who are amongst the top five highest paid.

KMP are those people with authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. For the Group, the KMP are defined to be:

- Chief Executive Officer;
- Members of the Group Executive (“senior executives”); and
- Non-executive directors.

For the year ended 30 June 2011, the Group Executive comprised the:

- Chief Executive Officer – Mr J Borghetti
- Chief Financial Officer – Mr K Neate (Resigned 31 March 2011)
- Chief Financial Officer – Mr S Narayan (Appointed 11 April 2011)
- Group Executive Operations – Mr A David (Resigned 31 December 2010)
- Group Executive Operations – Mr S Donohue (Appointed 25 October 2010)
- Group Executive People – Mr R Tanner
- Group Executive Corporate Advisory and Company Secretary – Ms M McArthur
- Group Executive Commercial – Ms E Savage
- Group Executive Corporate Communications – Ms D Keighery
- Group Executive Product and Guest Services – Mr M Daley (Appointed 1 August 2010)
- Group Executive Government Relations – Ms J McKeon (Appointed 27 September 2010)
- Executive General Manager – V Australia – Mr S Swift (Resigned 16 July 2010)

5.3 Remuneration governance

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the directors and senior executives.

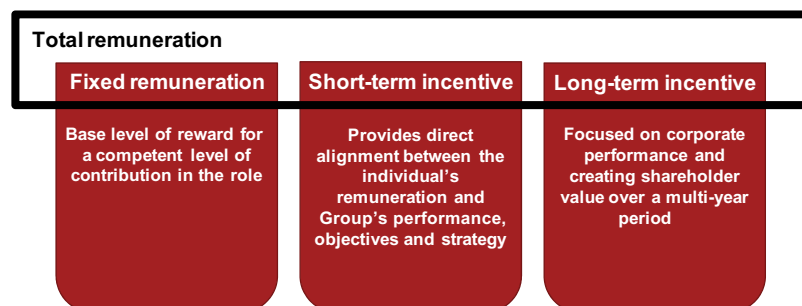
Remuneration levels are reviewed annually by the Remuneration Committee through a process that considers individual and overall performance of the Group. In addition, external consultants provide analysis and advice to ensure the directors’ and senior executives’ remuneration remains competitive in the market place.

The Board’s Remuneration Committee, consisting of at least three non-executive directors, is responsible for determining and agreeing with the Board a framework and broad policy for remuneration. It advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages, incentives and other terms of employment for non-executive and executive directors, and the other KMP.

5.4 Remuneration strategy and structure

a. Remuneration components

The Group’s remuneration structure rewards senior executives and complies with all relevant regulatory requirements. Senior executive remuneration consists of three components:



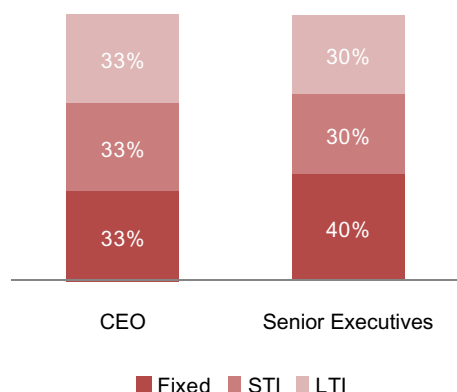
Directors' report (continued)

5.4 Remuneration strategy and structure (continued)

b. Remuneration mix

A significant portion of total remuneration for the CEO and senior executives is “at risk” if performance criteria are not met or exceeded each year. The proportion of at risk remuneration increases in line with seniority.

The average remuneration mix at maximum entitlements for the CEO and senior executives is shown below.



c. Fixed remuneration

Fixed remuneration is the base level reward for a competent level of contribution in the role. It includes cash, compulsory superannuation and any salary sacrifice items (including fringe-benefits tax).

The following factors are taken into account when setting fixed remuneration levels:

- The individual's skills and experience;
- The requirements of their role; and
- Remuneration levels in companies with similar market capitalisation and revenue to the Group's.

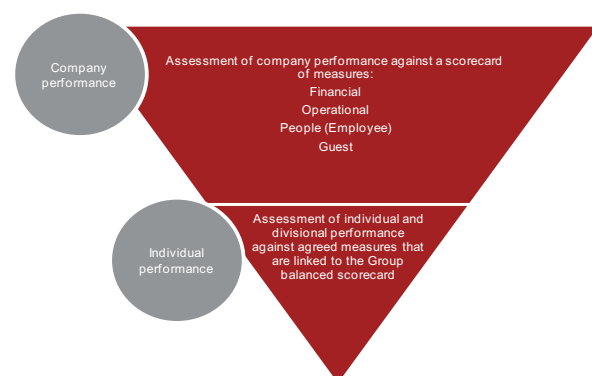
In setting fixed remuneration, the CEO's and senior executives' total potential remuneration is also taken into consideration when assessing an appropriate balance between fixed and at risk remuneration.

d. Short-term incentives (“STI”)

The purpose of STI is to provide direct alignment between senior executive remuneration and the Group's performance, objectives and strategy. STI is an annual incentive based on individual and divisional performance, and the Group's overall performance. Senior executives of the Group are eligible to participate in the STI plan based on their responsibility and impact on achievement of annual objectives. The STI for the 2011 financial year included both a cash and a deferred share-based incentive.

Specific STI measures and targets vary both in terms of their nature and weighting in accordance with the Group's priorities. Company measures relate to financial, people, guest, and operational (including cost management and safety) objectives approved by the Board. The measures are chosen as they directly align the individual's remuneration to the Group's objectives and to its strategy and performance.

Performance measures are cascaded from the Company level through to individuals:



At the beginning of each year, clear objectives are set for the CEO and senior executives to provide clarity and focus to the individual and organisation as to what is expected in the ensuing period.

At the end of the financial year, the Board assesses the performance of the Group, the relevant divisions, and the individuals (including the CEO) against the objectives set at the beginning of the financial year.

5.4 Remuneration strategy and structure (continued)

e. Medium-term incentives (“MTI”)

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

Two allocations of MTI were paid during the year for the two year performance periods ended 30 June 2009 and 30 June 2010. The MTI benefits were made in the form of share-based payments (except for Mr Brett Godfrey which was paid in cash).

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 a pre-determined volume weighted average price (“VWAP”) of shares of Virgin Blue Holdings Limited except for Mr Brett Godfrey who was paid in cash.
- The calculated amount represented the number of shares in Virgin Blue Holdings Limited allocated to each executive.

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

The MTI scheme did not continue beyond the performance period ended 30 June 2010.

f. Long-term incentives (“LTI”)

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

While STI 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.

Senior executives were issued zero exercise price options under the Senior Executive Option Plan (SEOP 12) in the 2011 financial year.

The performance hurdle for the grants made to senior executives is growth in TSR relative to the S&P/ASX 200 Index (excluding financial services and resource companies) over three years.

Previous SEOP as detailed in point (iii) have used TSR, EPS and Company share price as performance hurdles. 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. EPS 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.

On 25 August 2010 the Group introduced a policy prohibiting senior executives granted share-based payments as part of their remuneration from hedging economic exposure to unvested options that have been issued pursuant to a Group employee share or option plan.

i. Senior Executive Option Plan (SEOP 12)

Eligibility	Issued on 10 March 2011, SEOP 12 grants were restricted to the Group's executives (excluding the CEO) and senior management who are most able to influence shareholder value. Non-executive directors and the Executive Director were not eligible to participate in SEOP 12.	
Instrument	Grants under this plan were made in the form of zero exercise price options. Each zero exercise price option provides a right to acquire one fully paid ordinary share in the Company provided a specified performance hurdle is met.	
Performance hurdle	The performance hurdle for the grants made to executives and senior management during the 2011 financial year is growth in TSR relative to the median of the S&P/ASX 200 Index (excluding financial services and resource companies) over three years, and is based on the following vesting schedule:	
	The Group's relative TSR growth	% of options that vest
	Below 50th percentile	0%
	50th percentile	50%
	Between 51st and 74th percentile	2% (for each percentile ranking above 50th)
	75th percentile	100%
	Base TSR and TSR on the vesting date will be determined using the 30 day VWAP for Virgin Blue Holdings Limited shares.	
	For any unvested options remaining after testing on 30 June 2013, the Group's relative TSR is tested again after a further 6 months (being 31 December 2013).	

Directors' report (continued)

5.4 Remuneration strategy and structure (continued)

Vesting/Delivery	<p>The zero exercise price options offered under the plan can only be exercised if the performance hurdle is achieved at the conclusion of the three year performance period, or at the 3.5 year re-test. Exercised entitlements will be satisfied by either an allotment of new securities or by an on-market purchase of existing securities, at the Board's discretion.</p> <p>If the zero exercise price options do not vest they will lapse on 30 June 2014.</p> <p>Participants are prohibited from hedging their unvested zero exercise price options.</p>
Termination/ Forfeiture	<p>Upon termination of a participant's employment, all zero exercise priced options issued to that participant will lapse. In certain circumstances and at the discretion of the Board, a participant may retain their options after termination of employment, on the same terms under which the options were originally issued.</p> <p>Upon a change of control of the Group, the Board may resolve that all options will immediately become exercisable.</p>

ii. Number of issued options

At 30 June 2011, 16,239,071 zero exercise price options had been issued to participants under this plan. The number of issued zero exercise price options are net of adjustments due to forfeiture as a result of termination of employment. No zero exercise price options vested during the year ended 30 June 2011.

iii. Previous equity incentive plans

The Group's incentive plans have changed over time with changes in market practice. A summary of the historical plans is below.

Plan	Detail
Senior Executive Option Plan (SEOP) Issue 5	<p>Senior executives were granted options in the 2006 financial year under SEOP 5. The terms of the grants were:</p> <ul style="list-style-type: none">• SEOP 5 was issued in four tranches, vesting equally over four years. The performance period commenced on the issue date of 8 December 2005 and ended on the 12 month anniversary date for the following four years.• The performance hurdle was that TSR (growth plus dividend) of the Company over the performance period was equal to or better than the percentage increase of the S&P/ASX 200 Index.• SEOP 5 had an exercise price of \$1.55.• Options in a given tranche vested if the performance hurdle was met. If the hurdle was not met, the options would vest later if the hurdle is subsequently met for 30 continuous trading days at any time between the performance date and the expiry date of five years after the issue date.
Senior Executive Option Plan (SEOP) Issue 7	<p>Senior executives were granted options in the 2007 financial year under SEOP 7. The terms of the grants were:</p> <ul style="list-style-type: none">• SEOP 7 was issued in four tranches, vesting equally over four years. The performance period commenced on the issue date of 8 December 2006 and ends on the 12 month anniversary date for the following four years.• The performance hurdle was that TSR (growth plus dividend) of the Company over the performance period is equal to or better than the percentage increase of the S&P/ASX 200 Index.• SEOP 7 has an exercise price of \$2.19.• Options in a given tranche vest if the performance hurdle is met. If the hurdle is not met, the options can vest later if the hurdle is subsequently met for 30 continuous trading days at any time between the performance date and the expiry date of five years after issue date.
Senior Executive Option Plan (SEOP) Issue 10	<p>Senior executives and the former CEO were granted zero exercise price options in the 2009 financial year under SEOP 10. The terms of the grants were:</p> <ul style="list-style-type: none">• Issued on 22 April 2009, the performance period covers the three years from 1 July 2008 to 30 June 2011.• The performance hurdle was based on fully diluted EPS at 30 June 2011, as projected in the three year business plan approved by the Board in October 2008. The performance hurdle was amended on 26 November 2009 as described on page 64, to recognise the effect of the Company equity raising which occurred in September 2009.• The exercise period was from 28 November 2011 to 30 June 2012. These options expired immediately as they did not vest on the vesting date. The original expiry date was 30 June 2012.

5.4 Remuneration strategy and structure (continued)

Plan	Detail										
Senior Executive Option Plan (SEOP) Issue 11	<p>Senior executives were granted zero exercise price options in the 2010 financial year under SEOP 11. The terms of the grants were:</p> <ul style="list-style-type: none"> • Issued on 1 April 2010, the performance period covers the three years from 1 July 2009 to 30 June 2012. • 100% of the options will vest on 30 June 2012 if the cumulative increase in EPS of the Company for the three years ended 30 June 2012 is 20 cents per share or more. 50% to 99% of the options will vest, on a linear scale, if the increase in EPS over that three year period is between 12 cents and 19 cents. No options will vest if the increase in EPS over the performance period is less than 12 cents. • Subject to Board discretion, the participant must also be employed by the Group in a General Manager's role or higher throughout the performance period. • The exercise period is between the date on which the Group's 2012 results are announced and 30 June 2013. The options will expire immediately if they do not vest on the vesting date. The expiry date is 30 June 2013. 										
CEO Co-Investment Scheme (CEOCIS)	<p>The CEO was granted a one-off issue of \$400,000 of zero exercise price performance rights on commencement under the CEO Co-Investment Scheme in exchange for purchasing \$200,000 of the Company shares. Under the terms of the scheme Mr Borghetti is restricted from trading the purchased shares for two years from 8 May 2010.</p> <p>The number of performance rights issued was determined having regard to the 20 day weighted average share price of the Company's shares up to and including the date of announcement on 2 March 2010 of the CEO's appointment.</p> <p>The performance rights will vest and become exercisable on the achievement of a minimum share price hurdle to be achieved at the end of the performance period from 8 May 2010 to 30 June 2013. The performance hurdle will be met where the Company's 20 day weighted average share price at the end of the performance period is 25% higher than the 20 day weighted average share price at 8 May 2010.</p> <p>The exercise period is 30 June 2013 to 30 June 2014 and the performance rights will expire immediately if they do not vest on the vesting date. Any vested performance rights will expire on 30 June 2014.</p>										
CEO Commencement LTI (SEOP 13)	<p>The CEO was granted zero exercise price options on the date of the 2010 Annual General Meeting on 24 November 2010. These options are subject to a three year performance period to 7 May 2013.</p> <p>The performance hurdle is that growth in the Company's TSR over the performance period exceeds that of the median ASX 200 Index (excluding financial sector and resource companies). For testing purposes, both the base TSR on 8 May 2010 and TSR on the testing date will be determined using the 20 day VWAP of the Company's shares. Satisfaction of the performance hurdle will be tested at 7 May 2013 and in respect of any options that remain unvested at that time, again on 31 December 2013.</p> <p>The vesting outcome at the end of the performance period is to be based on the following TSR schedule:</p> <table> <tr> <th>The Group's relative TSR growth</th><th>% of options that vest</th></tr> <tr> <td>Below 50th percentile</td><td>0%</td></tr> <tr> <td>50th percentile</td><td>50%</td></tr> <tr> <td>Between 51st and 74th percentile</td><td>2% (for each percentile ranking above 50th)</td></tr> <tr> <td>75th percentile</td><td>100%</td></tr> </table> <p>The plan's exercise period is 8 May 2013 to 30 June 2014. The options will expire on 30 June 2014.</p>	The Group's relative TSR growth	% of options that vest	Below 50th percentile	0%	50th percentile	50%	Between 51st and 74th percentile	2% (for each percentile ranking above 50th)	75th percentile	100%
The Group's relative TSR growth	% of options that vest										
Below 50th percentile	0%										
50th percentile	50%										
Between 51st and 74th percentile	2% (for each percentile ranking above 50th)										
75th percentile	100%										

Directors' report (continued)

5.5 Link to 2011 financial year performance

a. Company performance

The table below provides summary information on the Company's earnings and shareholder wealth for the five years to June 2011:

	2011	2010	2009	2008	2007
Net profit / (loss) after tax (\$m)	(67.8)	21.3	(160.0)	97.7	215.8
Share Price (\$)	0.28	0.30	0.32	0.47	2.46
Change in share price (\$)	(0.02)	(0.02)	(0.15)	(1.99)	0.96
Dividends paid (\$m)	–	–	–	41.7	21.0
TSR	(5.1)%	(6.3)%	(33.0)%	(79.3)%	64.8%
EPS	(3.1) cents	1.0 cents	(11.6) cents	9.3 cents	20.6 cents

b. Relationship between remuneration and company performance

Net profit is considered one of the financial performance targets in setting the STI. 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 EPS, which again takes into account the Group's net profit.

c. STI outcomes

The Group's performance for the 2011 financial year resulted in a corporate scorecard outcome of 20% of the maximum available. When the corporate scorecard result was combined with individual performance assessment, an average 72% of maximum STI was paid to the Group's senior executives. The Group's corporate scorecard is based on the achievement of agreed upon targets relating to financial, operational performance, employee and guest satisfaction measures.

Scorecard Measure	Scorecard Weighting	2011 Outcome
Financial	30%	0%
Operational	50%	0%
People (Employee)	10%	10%
Guest Satisfaction	10%	10%
Total	100%	20%

d. LTI outcomes

During the year ended 30 June 2011, two SEOP grants were tested where KMP held options. None of the grants vested as the performance hurdles were not achieved. A summary of grants tested under the Group's LTI plan is shown in the following table:

Grant	Grant date	Performance hurdle	Test date	% Vested
SEOP Issue 10	22-Apr-09	EPS	30-Jun-11	Nil
SEOP Issue 7	8-Dec-06	Relative TSR	8-Dec-10	Nil

5.6 Non-executive directors' fees

Non-executive directors receive a base fee. Where non-executive directors participate in a Board committee, an additional fee is payable in recognition of the higher workloads and extra responsibilities. The fee for a committee chair is higher than that for a committee member reflecting the relative role responsibilities. The Chairman of the Board receives no extra remuneration for participating in or chairing committees.

Non-executive directors do not receive bonuses or any other incentive payments and are not eligible to participate in any of the executive or employee share acquisition plans established by the Group.

The maximum aggregate remuneration payable to non-executive directors is \$1,000,000 per annum, as approved by shareholders at the Group's Annual General Meeting in February 2006.

Non-executive directors' fees are determined by the Board based on advice from external advisors, which includes market comparison of remuneration paid to non-executive directors in a comparable group of similar sized companies.

5.6 Non-executive directors' fees (continued)

The fees paid to non-executive directors are set out in the table below and are annual fees unless otherwise stated:

	Board	Audit and Risk Management Committee	Remuneration Committee	Nomination Committee
Chairman	\$175,000	\$25,000	\$15,000	Nil
Members	\$85,000	\$10,000	\$10,000	Nil

Note: Fees are inclusive of superannuation

5.7 Remuneration disclosures for the year ended 30 June 2011

Details of the remuneration of the KMP (as defined in Australian Accounting Standards Board ("AASB") 124 *Related Party Disclosures*) and other executives who are amongst the top five highest paid are set out in this section.

	Year	Short-term benefits				Share-based payments						Total	
		Cash salary and fees ¹	STI ²	Other ³	Non-monetary	Equity-settled share-based payments			Cash-settled share-based payments ²	Other long-term benefits	Termination benefits ⁵		Post-employment
						STI/MTI ⁴	LTI ⁷						
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Current Non-Executive Directors													
Mr N Chatfield	2011	161	–	–	–	–	–	–	–	–	14	175	
	2010	135	–	–	–	–	–	–	–	–	12	147	
Mr D Baxby	2011	82	–	–	–	–	–	–	–	–	7	89	
	2010	76	–	–	–	–	–	–	–	–	7	83	
Mr R Thomas	2011	110	–	–	–	–	–	–	–	–	10	120	
	2010	89	–	–	–	–	–	–	–	–	8	97	
Mr M Vaile	2011	83	–	–	–	–	–	–	–	–	7	90	
	2010	70	–	–	–	–	–	–	–	–	6	76	
Ms S Mostyn	2011	70	–	–	–	–	–	–	–	–	6	76	
(Appointed 1 September 2010)	2010	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Mr J Bayliss	2011	18	–	–	–	–	–	–	–	–	2	20	
(Appointed 6 April 2011)	2010	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Alternative Directors													
Mr K Roberts	2011	26	–	–	–	–	–	–	–	–	2	28	
(Alternate for Mr D Baxby)	2010	24	–	–	–	–	–	–	–	–	2	26	
Mr S Murphy	2011	5	–	–	–	–	–	–	–	–	–	5	
(Alternate for Mr D Baxby)	2010	–	–	–	–	–	–	–	–	–	–	–	

Directors' report (continued)

5.7 Remuneration disclosures for the year ended 30 June 2011 (continued)

	Short-term benefits				
		Cash salary and fees ¹	STI ²	Other ³	Non-monetary
	Year	\$'000	\$'000	\$'000	\$'000
Former Non-Executive Director					
Mr P McCall	2011	9	–	–	–
(Resigned 24 November 2010)	2010	56	–	–	–
Executive Director					
*Mr J Borghetti	2011	1,033	880	–	35
	2010	140	148	–	–
Former Executive Director					
*Mr B Godfrey ⁶	2011	747	45	–	5
(Resigned as Director 6 July 2010)	2010	875	360	–	–
Current Executives					
*Ms M McArthur	2011	426	243	–	–
	2010	356	160	–	–
Ms E Savage	2011	588	191	–	–
	2010	152	77	–	–
Mr R Tanner	2011	376	198	–	2
	2010	275	160	–	–
Mr M Daley	2011	335	145	–	–
(Appointed 1 August 2010)	2010	n/a	n/a	n/a	n/a
Mr S Donohue	2011	366	295	–	53
(Appointed 25 October 2010)	2010	n/a	n/a	n/a	n/a
Ms D Keighery	2011	338	148	–	5
	2010	37	16	–	–
Ms J McKeon	2011	260	142	–	–
(Appointed 27 September 2010)	2010	n/a	n/a	n/a	n/a
Mr S Narayan	2011	164	101	–	27
(Appointed 11 April 2011)	2010	n/a	n/a	n/a	n/a
Former Executives					
*Mr A David	2011	431	200	248	–
(Resigned 31 December 2010)	2010	575	373	–	–
*Mr K Neate	2011	377	251	–	26
(Resigned 31 March 2011)	2010	425	240	–	–
Mr S Swift	2011	12	–	–	–
(Resigned 16 July 2010)	2010	275	175	–	–
Total	2011	6,017	2,839	248	153
	2010	3,560	1,709	–	–

*= Indicates top five remunerated executives.

- For the year ended 30 June 2011, annual leave entitlements are shown on an accruals basis as part of 'Cash, Salary and fees'. For previous reporting periods, annual leave benefits not taken were shown on termination. The movement in annual leave accruals from the date of becoming a KMP to 30 June 2010 are as follows: Mr B Godfrey (\$78,000), Mr J Borghetti (\$11,000), Ms M McArthur (\$38,000), Ms E Savage (\$12,000), Mr R Tanner (\$12,000), Mr M Daley (n/a), Mr S Donohue (n/a), Ms D Keighery (\$3,000), Ms J McKeon (n/a), Mr S Narayan (n/a), Mr A David (\$52,000), Mr K Neate (\$84,000) and Mr S Swift (\$40,000).
- The STI bonus and cash-settled share-based payment ("CSSBP") shown for each financial year relates to the performance of the KMP for the respective financial year. This is a change to the previous financial period where the STI bonus and CSSBP was disclosed in the financial year it was paid. The STI bonus and CSSBP disclosed in the 2010 financial year has been revised from the previous period remuneration report to reflect this change. The STI bonus, CSSBP and total remuneration disclosed in the previous period's remuneration report were as follows: Mr B Godfrey (STI \$Nil, CSSBP \$Nil, Total \$2,182,000), Mr J Borghetti (STI \$Nil, CSSBP \$Nil, Total \$256,000), Ms M McArthur (STI \$Nil, CSSBP \$Nil, Total \$704,000), Ms E Savage (STI \$Nil, CSSBP \$Nil, Total \$159,000), Mr R Tanner (STI \$Nil, CSSBP \$Nil, Total \$509,000), Mr M Daley (n/a), Mr S Donohue (n/a), Ms D Keighery (STI \$Nil, CSSBP \$Nil, Total \$40,000), Ms J McKeon (n/a), Mr S Narayan (n/a), Mr A David (STI \$Nil, CSSBP \$Nil, Total \$956,000), Mr K Neate (STI \$Nil, CSSBP \$Nil, Total \$748,000) and Mr S Swift (STI \$Nil, CSSBP \$Nil, Total \$519,000).

Share-based payments							Total \$'000
Equity-settled share-based payments		Cash-settled share-based payments ²	Other long-term benefits	Termination benefits ⁵	Post- employment		
STI/MTI ⁴	LTI ⁷						
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
–	–	–	–	–	1	10	
–	–	–	–	–	5	61	
–	819	–	5	–	41	2,813	
–	109	–	–	–	7	404	
–	(477)	360	1	1,178	25	1,884	
–	(518)	383	–	1,800	25	2,925	
87	232	–	6	–	25	1,019	
64	259	–	–	–	25	864	
21	91	–	3	–	25	919	
–	–	–	–	–	7	236	
82	222	–	9	–	25	914	
64	145	–	–	–	25	669	
16	150	–	27	–	38	711	
n/a	n/a	n/a	n/a	n/a	n/a	n/a	
33	70	–	1	–	17	835	
n/a	n/a	n/a	n/a	n/a	n/a	n/a	
16	53	–	2	–	27	589	
–	–	–	–	–	3	56	
16	46	–	1	–	19	484	
n/a	n/a	n/a	n/a	n/a	n/a	n/a	
11	–	–	–	–	14	317	
n/a	n/a	n/a	n/a	n/a	n/a	n/a	
80	271	–	–	1,002	52	2,284	
85	271	–	–	–	25	1,329	
80	291	–	–	266	26	1,317	
85	213	–	–	–	25	988	
–	(592)	–	–	582	2	4	
64	155	–	–	–	25	694	
442	1,176	360	55	3,028	385	14,703	
362	634	383	–	1,800	207	8,655	

3. Other payments include consultancy, allowances and retention payments.

4. The STI bonus for the 2011 financial year was made up of 90% cash and 10% deferred shares in the Group's Key Employment Performance Plan ("KEPP"), except for Mr J Borghetti, Mr A David, Mr K Neate and Mr B Godfrey which was made up of 100% cash (refer to next table). MTI have been recognised in the year of share issue. The MTI scheme did not continue beyond the performance period ended 30 June 2010.

5. Termination benefits include restraint and redundancy payments, and annual and long-service leave accrued prior to 30 June 2010. Refer to footnote 1 above for the allocation of annual and long service leave accruals after this date.

6. Mr B Godfrey remained employed with the Group for the whole year. He is employed in an advisory capacity from 1 January 2011 (refer to comments below).

7. Following the resignation of Mr S Swift, any share-based payment expense previously recognised was reversed in accordance with AASB 2.

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Directors' report (continued)

5.7 Remuneration disclosures for the year ended 30 June 2011 (continued)

All key management personnel are employed by Virgin Australia Airlines Pty Limited, with the exception of Mr S Swift, who was employed by Virgin Australia International Airlines Pty Limited. Mr B Godfrey has been employed by Virgin Australia International Airlines Pty Limited from 1 January 2011. Prior to 1 January 2011 Mr B Godfrey was employed by Virgin Australia Airlines Pty Limited. Mr Swift resigned effective 16 July 2010. In accordance with his termination agreement, from 17 July 2010 to 31 August 2010, Mr Swift took a period of leave where he was not required to perform any work functions, but remained bound by his duties of confidentiality and good faith to the Group. On cessation of his employment, Mr Swift was paid a redundancy payment of \$74,100 and a further \$80,275 in lieu of notice. In lieu of any entitlement to STI for the period 1 July 2008 to 30 June 2009, and MTI for the two years 1 July 2008 to 30 June 2010, Mr Swift was paid \$170,000 and \$120,000 respectively. Mr Swift's staff travel entitlements remain effective until 31 August 2012.

In accordance with contractual arrangements, Mr B Godfrey was employed by Virgin Australia International Airlines Pty Limited from 1 January 2011 in an advisory capacity with an annual salary of \$607,000. The role will conclude on 31 December 2011. Mr Godfrey is not eligible to participate in STI or MTI or receive any new grants of LTI during this period. However, it will constitute service with the Group for the purpose of any previously granted options made whilst Mr Godfrey was CEO. The service contract with the Company can be terminated by Mr Godfrey with one month's notice or by Virgin Australia International Airlines Pty Limited without notice with a payment in lieu of notice in the event of an act of serious misconduct. Virgin Australia International Airlines Pty Limited may in its absolute discretion require Mr Godfrey to take a period of leave during some or all of a period of notice given by Mr Godfrey or Virgin Australia International Airlines Pty Limited. In the prior year, Mr Godfrey was entitled to a termination payment of \$1.8 million if the Group achieved a performance of greater than 60% against its Corporate Scorecard for the year ended 30 June 2010, and the Board was satisfied that Mr Godfrey discharged his duties in providing an effective transition to his successor. This amount was paid to Mr Godfrey in the 2011 financial year. In addition, under the terms of the restraint clause in Mr Godfrey's CEO employment contract, 12 months salary was payable within two weeks of his CEO contract terminating. The \$900,000 benefit under this clause was paid in the 2011 financial year.

Mr A David remained employed in his position of Group Executive Operations until 31 December 2010 and in consideration of remaining in that position and for effecting a transfer of responsibilities to his successor he received a retention payment (in addition to his salary) of \$248,193 on 1 January 2011. Mr David was on a period of leave with the Company until 31 August 2011. Mr David received a STI payment for the period 1 July 2010 to 30 June 2011 of \$199,998 and was paid a STI for the 2012 financial year, which was pro-rated from 1 July 2011 to 31 August 2011 of \$33,334. Mr David remains entitled to participate in the LTI under SEOP Issue 11. In lieu of any entitlement to options under the LTI for the performance period 1 July 2010 to 30 June 2013, Mr David received a cash payment of \$250,000 on 31 August 2011. On Mr David's cessation of employment with the Company, he was entitled to a redundancy payment of \$148,077 under the Group's Redundancy Policy and his staff travel entitlements will remain in place until 31 August 2012.

Mr K Neate's resignation as Chief Financial Officer was effective from 31 March 2011. His employment will cease on 30 September 2011. In accordance with his termination agreement, from 1 April 2011 to 30 September 2011 Mr Neate will take a period of leave where he will not be required to perform any work functions, but will remain bound by his duties of confidentiality and good faith to the Group. During this period Mr Neate's and the Company's rights (including termination rights) continue as normal. Mr Neate will be paid his usual salary up to 30 September 2011. This includes a STI payment in respect of the 2011 financial year of \$251,250, which was paid in August 2011 and subject to the same conditions as applied to other employees. His STI payment was pro-rata on the basis of nine months to 31 March 2011. Mr Neate remains eligible for previously granted options under SEOP 11 and SEOP 12. His staff travel entitlements will remain in place until 31 March 2012.

Directors' report (continued)

5.7 Remuneration disclosures for the year ended 30 June 2011 (continued)

a. Remuneration related to performance

2011	Total \$'000	Cash-based STI' \$'000	Share-based STI' \$'000	MTI \$'000	LTI \$'000
Non-Executive Directors					
Mr N Chatfield	175	–	–	–	–
Mr D Baxby	89	–	–	–	–
Mr R Thomas	120	–	–	–	–
Mr M Vaile	90	–	–	–	–
Ms S Mostyn (Appointed 1 September 2010)	76	–	–	–	–
Mr J Bayliss (Appointed 6 April 2011)	20	–	–	–	–
Alternate Directors					
Mr K Roberts	28	–	–	–	–
Mr S Murphy	5	–	–	–	–
Former Non-Executive Directors					
Mr P McCall (Resigned 24 November 2010)	10	–	–	–	–
Executive Director					
Mr J Borghetti	2,813	880	–	–	819
Former Executive Director					
Mr B Godfrey (Resigned as director 6 July 2010)	1,884	45	–	360	(477)
Executives					
Ms M McArthur	1,019	243	27	60	232
Ms E Savage	919	191	21	–	91
Mr R Tanner	914	198	22	60	222
Mr M Daley (Appointed 1 August 2010)	711	145	16	–	150
Mr S Donohue (Appointed 25 October 2010)	835	295	33	–	70
Ms D Keighery	589	148	16	–	53
Ms J McKeon (Appointed 27 September 2010)	484	142	16	–	46
Mr S Narayan (Appointed 11 April 2011)	317	101	11	–	–
Former Executives					
Mr A David (Resigned 31 December 2010)	2,284	200	–	80	271
Mr K Neate (Resigned 31 March 2011)	1,317	251	–	80	291
Mr S Swift (Resigned 16 July 2010)	4	–	–	–	(592)
Total	14,703	2,839	162	640	1,176

1. STI bonus for the financial year 2011 was made up of 90% cash and 10% deferred shares in KEPP, except for Mr J Borghetti, Mr A David, Mr K Neate and Mr B Godfrey which received 100% of their STI in cash. The performance rights for the deferred shares in KEPP will vest after 12 months on 1 July 2012. For executives who are still employed by the Group on 30 June 2012 the number of shares to be allocated upon vesting determined will be by the VWAP of the shares during the 20 days following the Company's announcement of its 2011 financial results. KEPP is an employee share plan where directors may grant performance rights to eligible employees. The Company has appointed CPU Share Plans Pty Ltd as trustee to hold shares under the KEPP.

Cash-based STI vested %	Cash-based STI forfeited %	Share-based STI vested %	Share-based STI forfeited %	Share-based MTI vested %	Share-based MTI forfeited %	Performance related remuneration as % of total	Value of zero exercise price options as % of total
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
88	12	–	–	–	–	60	29
20	80	–	–	80	20	(4)	(25)
80	20	80	20	80	20	55	23
55	45	55	45	–	–	33	10
70	30	70	30	80	20	55	24
62	38	62	38	–	–	45	21
76	24	76	24	–	–	48	8
70	30	70	30	–	–	37	9
80	20	80	20	–	–	42	10
80	20	80	20	–	–	35	–
43	57	–	–	80	20	24	12
–	–	–	–	80	20	47	22
–	–	–	–	–	–	(14,917)	(14,917)

Directors' report (continued)

5.7 Remuneration disclosures for the year ended 30 June 2011 (continued)

b. 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 participate in LTI plans.

During the reporting period, no (2010: nil) options vested and no (2010: nil) shares were issued on the exercise of options previously granted as remuneration.

The expiry dates and expiry conditions of options are described on pages 51 to 53. In addition to these expiry conditions, the options will expire on termination of the participant's employment with the Group except where agreed at termination. Details of the performance criteria attached to each of the options are included in the LTI discussion above and in note 36 to the financial statements.

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

2011	Date Granted	Option plan	Number of options				Balance at end of year '000
			Balance at beginning of year '000	Granted in year '000	Forfeited in year '000	Lapsed in year '000	
Executive Director							
Mr J Borghetti	8-May-10	CEOCIS	659	–	–	–	659
	24-Nov-10	SEOP 13	–	4,116	–	–	4,116
Former Executive Director							
Mr B Godfrey	22-Apr-09	SEOP 10	1,669	–	–	(1,669)	–
Other key management personnel of the Company and Group							
Mr K Neate	8-Dec-05	SEOP 5	1,043	–	–	(1,043)	–
	22-Apr-09	SEOP 10	417	–	–	(417)	–
	1-Apr-10	SEOP 11	1,448	–	–	–	1,448
	10-Mar-11	SEOP 12	–	872	–	–	872
Mr A David	8-Dec-05	SEOP 5	776	–	–	(776)	–
	22-Apr-09	SEOP 10	464	–	–	(464)	–
	1-Apr-10	SEOP 11	1,766	–	–	–	1,766
Mr R Tanner	22-Apr-09	SEOP 10	287	–	–	(287)	–
	1-Apr-10	SEOP 11	1,025	–	–	–	1,025
	10-Mar-11	SEOP 12	–	772	–	–	772
Ms M McArthur	22-Apr-09	SEOP 10	287	–	–	(287)	–
	1-Apr-10	SEOP 11	1,025	–	–	–	1,025
	10-Mar-11	SEOP 12	–	880	–	–	880
Mr M Daley (D)	8-Dec-06	SEOP 7	319	–	–	–	319
	22-Apr-09	SEOP 10	227	–	–	(227)	–
	1-Apr-10	SEOP 11	661	–	–	–	661
	10-Mar-11	SEOP 12	–	659	–	–	659
Ms E Savage	10-Mar-11	SEOP 12	–	1,002	–	–	1,002
Ms D Keighery	10-Mar-11	SEOP 12	–	579	–	–	579
Mr S Donohue	10-Mar-11	SEOP 12	–	766	–	–	766
Ms J McKeon	10-Mar-11	SEOP 12	–	506	–	–	506
Mr S Swift	8-Dec-05	SEOP 5	675	–	(675)	–	–
	22-Apr-09	SEOP 10	287	–	(287)	–	–
	1-Apr-10	SEOP 11	1,025	–	(1,025)	–	–

- (A) The % forfeited and lapsed 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.
- (B) Fair value is independently determined utilising assumptions underlying the Black-Scholes methodology to produce a Monte-Carlo simulation model which allows for the incorporation of performance hurdles that must be met before the SEOP vests. The valuation is undertaken in a risk-neutral framework whilst allowing for variables such as volatility, dividends, the risk free rate, the withdrawal rate and performance hurdles along with constants such as the strike price, term and vesting periods.
- (C) The value of options that lapsed or were forfeited during the year represents the benefit forgone and was calculated as the number of options at the date the options lapsed or were forfeited multiplied by the fair value of the options calculated independently at the date the options lapsed or were forfeited but assuming the vesting conditions were satisfied.
- (D) Mr M Daley held options in SEOP 7, SEOP 10 and SEOP 11 when he became a KMP on 1 August 2010.

Fair value per option at grant date \$	Exercise price per option \$	% Vested in year	% Forfeited in year ^A	% Lapsed in year ^A	Value of options granted in year ^B \$'000	Value of options forfeited in year ^C \$'000	Value of options lapsed in year ^C \$'000	Financial year in which grant vests	Expiry Date
\$0.47	\$0.00	–	–	–	–	–	–	30-Jun-13	30-Jun-14
\$0.34	\$0.00	–	–	–	1,416	–	–	30-Jun-13	30-Jun-14
\$0.29	\$0.00	–	–	100%	–	(467)	–	30-Jun-11	30-Jun-12
\$0.40	\$1.55	–	–	100%	–	–	–	30-Jun-10	7-Dec-10
\$0.29	\$0.00	–	–	100%	–	(117)	–	30-Jun-11	30-Jun-12
\$0.69	\$0.00	–	–	–	–	–	–	30-Jun-12	30-Jun-13
\$0.27	\$0.00	–	–	–	238	–	–	30-Jun-13	30-Jun-14
\$0.40	\$1.55	–	–	75%	–	–	–	30-Jun-10	7-Dec-10
\$0.29	\$0.00	–	–	100%	–	(130)	–	30-Jun-11	30-Jun-12
\$0.69	\$0.00	–	–	–	–	–	–	30-Jun-12	30-Jun-13
\$0.29	\$0.00	–	–	100%	–	(80)	–	30-Jun-11	30-Jun-12
\$0.69	\$0.00	–	–	–	–	–	–	30-Jun-12	30-Jun-13
\$0.27	\$0.00	–	–	–	211	–	–	30-Jun-13	30-Jun-14
\$0.29	\$0.00	–	–	100%	–	(80)	–	30-Jun-11	30-Jun-12
\$0.69	\$0.00	–	–	–	–	–	–	30-Jun-12	30-Jun-13
\$0.27	\$0.00	–	–	–	240	–	–	30-Jun-13	30-Jun-14
\$0.50	\$2.19	–	–	–	–	–	–	30-Jun-11	7-Dec-11
\$0.29	\$0.00	–	–	100%	–	(64)	–	30-Jun-11	30-Jun-12
\$0.69	\$0.00	–	–	–	–	–	–	30-Jun-12	30-Jun-13
\$0.27	\$0.00	–	–	–	180	–	–	30-Jun-13	30-Jun-14
\$0.27	\$0.00	–	–	–	274	–	–	30-Jun-13	30-Jun-14
\$0.27	\$0.00	–	–	–	158	–	–	30-Jun-13	30-Jun-14
\$0.27	\$0.00	–	–	–	209	–	–	30-Jun-13	30-Jun-14
\$0.27	\$0.00	–	–	–	138	–	–	30-Jun-13	30-Jun-14
\$0.40	\$1.55	–	75%	–	–	–	–	30-Jun-10	7-Dec-10
\$0.29	\$0.00	–	100%	–	–	(91)	–	30-Jun-11	30-Jun-12
\$0.69	\$0.00	–	100%	–	–	(323)	–	30-Jun-12	30-Jun-13

Directors' report (continued)

5.7 Remuneration disclosures for the year ended 30 June 2011 (continued)

Modification of share-based payment terms

On 26 November 2009, performance conditions for SEOP 10 were amended to recognise the effect of the equity raising completed in September 2009 (see note 26 to the Financial Statements).

Prior to the amendment, the options would vest on 30 June 2011 if the fully diluted earnings per share of the Company at 30 June 2011 was as projected in the three year business plan approved by the Board in October 2008. There were 7,172,770 options issued under SEOP 10 available for vesting on the date of the modification. The options had no exercise price. The market price of the Company shares on the date of the modification was \$0.51. As a result of the amendment, the fully diluted earnings per share hurdle was revised downwards, proportionate with the number of new shares issued, and the expected interest earned on the cash received through the equity raising. The vesting date and the period remained unchanged. The fair value of the modified options was calculated using the same methodology as described above.

At 30 June 2011 the performance hurdle for SEOP 10 was not met and the options lapsed.

5.8 Service agreements

Each executive has a formal contract, or 'service agreement' that is of a continuing nature (subject to termination conditions). The terms of the service agreements for the CEO and senior executives are summarised below.

a. CEO notice and termination conditions

The Group may terminate Mr Borghetti's appointment:

- by giving him 12 months' notice in writing at any time (or payment in lieu of notice)
- or
- without notice in the event of any act which detrimentally affects the Group (such as dishonesty, fraud or serious or wilful misconduct in the discharge of his duties or unremedied, persistent, wilful or material breaches of the terms of his Service Agreement).

Mr Borghetti may terminate his appointment:

- by giving the Group 6 months' notice in writing at any time
- or
- by giving the Group 30 days' notice in writing on occurrence of a fundamental change (if the CEO ceases to be the most senior executive in the Company, there is substantial diminution in his role and responsibilities or the Company ceases to be listed on a recognised stock exchange), and receive payment equal to 12 months' fixed remuneration.

b. Senior executives' notice and termination conditions

The Group may terminate a senior executive's appointment:

- by giving six months' notice in writing at any time (or payment in lieu of notice)
- or
- without notice in the event of any act which detrimentally affects the Group (such as dishonesty, fraud or serious or wilful misconduct in the discharge of their duties or unremedied, persistent, wilful or material breaches of the terms of their Service Agreement).

5.9 Additional information

a. Equity instruments held by Executives

The relevant interests held in securities of the Virgin Blue Holdings Limited by the KMP are detailed in note 37 to the financial statements.

b. Insurance of Officers

During the financial year, the Group paid premiums of \$684,562 (2010: \$694,000) 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.

6. Principal activities

The principal activity of the Group during the course of the financial year was the continued strategic development and operation of its domestic and international airlines.

7. Review and results of operations

Net loss after income tax for the year ended 30 June 2011 was \$67.8 million compared with a \$21.3 million profit for the prior year ended 30 June 2010.

In the year to 30 June 2011, EBITDAR (earnings before interest, tax, depreciation, amortisation and aircraft rentals and ineffective cash flow hedges and non-designated derivatives) decreased to a profit of \$372.4 million, when compared to an EBITDAR of \$453.8 million for the year ended 30 June 2010. EBIT (earnings before interest and tax and ineffective cash flow hedges and non-designated derivatives) decreased from a profit of \$77.9 million for the year ended 30 June 2010 to a loss of \$18.4 million during the year ended 30 June 2011.

Revenue increased by 9.8% from \$2,976.1 million to \$3,268.3 million.

Operating expenses were \$3,289.4 million, up 13.2% on the prior year, against a 9.1% increase in production as measured by Available Seat Kilometres (ASKs), and underlying Cost per Available Seat Kilometres (CASK) excluding fuel increased by 2.4%.

- Fuel costs increased \$123.9 million, or 15.8%, reflecting the 9.1% increase in ASKs.
- Commissions and marketing costs were up 24.1% to \$242.4 million; due to a change in the mix of our distribution to the travel industry.
- Aircraft ownership costs (lease costs and depreciation) increased 3.4% to \$315.9 million. Increased depreciation charge of \$17.4 million is consistent with the net increase in owned aircraft and the revision of residual values of aircraft during 2011 Financial Year.
- Labour and staff related costs increased 16.0% to \$742.1 million compared to the 9.1% increase in production.
- Net financing costs decreased 14.2% to \$48.2 million in the year, reflecting lower interest costs and an increase in cash balances.

Basic earnings per share, as shown in the financial statements was a loss of 3.1 cents per share and on a fully diluted basis, as shown in the financial statements, was also a loss of 3.1 cents per share.

8. 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.

9. Dividends

No dividends were paid or declared by the Company since the end of the previous financial period. No final dividend has been declared or paid for 2011.

10. Likely developments and business strategies

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

Directors' report (continued)

11. 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 over ordinary shares
Mr J Borghetti	869,107	4,774,447
Mr N Chatfield	1,000,392	–
Mr D Baxby	40,000	–
Mr R Thomas	485,920	–
Mr M Vaile	30,000	–
Ms S Mostyn	100,000	–
Mr J Bayliss	–	–
Mr K Roberts (Alternate Director)	12,000	–
Mr S Murphy (Alternate Director)	222,222	–

12. 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 7	1,874,030	\$2.19	7 December 2011
– Issue 11	11,773,609	\$0.00	30 June 2013
– Issue 12	16,239,071	\$0.00	30 June 2014
	29,886,710		
CEO Co-Investment Scheme (CEOCIS)	658,544	\$0.00	30 June 2014
CEO Senior Executive Option Plan – Issue 13	4,115,903	\$0.00	30 June 2014
Total unissued ordinary shares under option	34,661,157		

13. 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.

14. 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 48.

15. 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 and Risk Management 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 below:

	Consolidated	
	2011 \$'000	2010 \$'000
Audit services:		
<i>KPMG Australia:</i>		
– Audit and review of financial reports	969	934
Services other than statutory audit:		
<i>KPMG Australia:</i>		
– Taxation services	40	32
– Other assurance, accounting assistance and other services	291	388
	331	420

Directors' report (continued)

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

The lead auditor's independence declaration is set out on page 69 and forms part of the Directors' Report for the financial year ended 30 June 2011.

17. Events subsequent to reporting date

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.

18. Rounding off

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, 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:



John Borghetti
Director

Dated at Brisbane this 29th day of September 2011.



Lead auditor's independence declaration under Section 307C 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 2011 there have been:

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

KPMG

A W Young
Partner
Brisbane
29 September 2011

Income Statement

For the year ended 30 June 2011

	Note	2011 \$m	2010 \$m
Revenue and income			
Revenue	6	3,268.3	2,976.1
Other income	7	2.5	5.1
Share of net profits of associate accounted for using the equity method		0.2	0.6
		3,271.0	2,981.8
Operating expenditure			
Aircraft operating costs		184.3	188.8
Airport charges, navigation and station operations		616.1	591.2
Contract and other maintenance costs		157.5	135.4
Commissions and other marketing and reservations costs		242.4	195.3
Fuel and oil		906.0	782.1
Labour and staff related costs		742.1	639.8
Other expenses from ordinary activities		182.1	145.9
Depreciation and amortisation		225.8	203.8
Foreign exchange losses		33.1	21.6
Total operating expenses		3,289.4	2,903.9
Profit / (loss) before tax expense, net finance costs, ineffective cash flow hedges and non-designated derivatives		(18.4)	77.9
Ineffective cash flow hedges and non-designated derivatives	8b	(28.2)	12.6
Profit / (loss) before related income tax expense and net finance costs		(46.6)	90.5
Finance costs	8a	(84.3)	(83.9)
Finance income		36.1	27.7
Net finance costs		(48.2)	(56.2)
Profit / (loss) before income tax expense / (benefit)		(94.8)	34.3
Income tax expense / (benefit)	9	(27.0)	13.0
Net profit / (loss) attributable to the owners of Virgin Blue Holdings Limited		(67.8)	21.3
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share – profit / (loss)	10	(3.1) cents	1.0 cents
Diluted earnings per share – profit / (loss)	10	(3.1) cents	1.0 cents

The above Income Statement is to be read in conjunction with the accompanying notes to the Financial Statements.

Statement of Comprehensive Income

For the year ended 30 June 2011

	2011 \$m	2010 \$m
Profit / (loss) for the period	(67.8)	21.3
Other comprehensive income		
Exchange differences on translation of foreign operations	77.7	26.9
Effective portion of changes in fair value of cash flow hedges	(88.1)	(23.3)
Net change in fair value of cash flow hedges transferred to profit or loss	56.7	111.9
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item	6.0	3.1
Income tax (expense) / benefit on other comprehensive income	7.6	(10.5)
Other comprehensive income for the period net of income tax	59.9	108.1
Total comprehensive income for the period attributable to owners of Virgin Blue Holdings Limited	(7.9)	129.4

The above Statement of Comprehensive Income is to be read in conjunction with the accompanying notes to the Financial Statements.

Statement of Financial Position

As at 30 June 2011

	Note	2011 \$m	2010 \$m Restated
Current assets			
Cash and cash equivalents	11	731.3	814.7
Trade and other receivables	12	199.5	141.1
Inventories	13	5.1	–
Derivative financial instruments	14	7.4	36.9
Other financial assets	17	5.5	–
Other current assets	16	0.8	–
Total current assets		949.6	992.7
Non-current assets			
Trade and other receivables	12	–	0.3
Investments accounted for using the equity method	15	7.5	7.3
Other financial assets	17	45.8	58.4
Property, plant and equipment	18	2,754.9	2,753.9
Intangible assets	19	69.1	53.3
Deferred tax assets	20	8.0	6.0
Other non-current assets	16	6.4	–
Total non-current assets		2,891.7	2,879.2
Total assets		3,841.3	3,871.9
Current liabilities			
Trade and other payables	21	395.9	323.8
Interest-bearing liabilities	22	227.3	251.5
Provisions	23	98.0	82.4
Derivative financial instruments	14	45.6	34.9
Unearned revenue	24	699.9	616.3
Total current liabilities		1,466.7	1,308.9
Non-current liabilities			
Trade and other payables	21	3.8	–
Interest-bearing liabilities	22	1,412.6	1,536.3
Provisions	23	24.6	49.9
Derivative financial instruments	14	4.1	8.3
Deferred tax liabilities	25	3.2	34.6
Unearned revenue	24	–	0.6
Total non-current liabilities		1,448.3	1,629.7
Total liabilities		2,915.0	2,938.6
Net assets		926.3	933.3
Equity			
Share capital	26	633.3	632.5
Reserves	27	72.8	12.8 ^a
Retained profits		220.2	288.0 ^a
Total equity		926.3	933.3

^a Refer to note 41.

The above Statement of Financial Position is to be read in conjunction with the accompanying notes to the Financial Statements.

Statement of Changes in Equity

For the year ended 30 June 2011

		Attributable to owners of the Company					
	Note	Share capital \$m	Foreign currency translation reserve \$m	Hedging reserve \$m Restated	Share-based payments reserve \$m	Retained earnings \$m Restated	Total Equity \$m Restated
Balance at 1 July 2009		407.7	(30.7)	(79.9) ^a	13.3	266.7 ^a	577.1
Total comprehensive income for the period							
Profit / (loss)		–	–	–	–	21.3	21.3
Other comprehensive income*							
Foreign currency translation differences		–	43.9	–	–	–	43.9
Effective portion of changes in fair value of cash flow hedges		–	–	(16.3)	–	–	(16.3)
Net change in fair value of cash flow hedges transferred to profit or loss		–	–	78.4	–	–	78.4
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item		–	–	2.1	–	–	2.1
Total other comprehensive income		–	43.9	64.2	–	–	108.1
Total comprehensive income for the period		–	43.9	64.2	–	21.3	129.4
Transactions with owners, recorded directly in equity*							
Issue of ordinary shares for cash		26	224.8	–	–	–	224.8
Share options exercised			–	–	(0.1)	–	(0.1)
Share-based payment transactions		36	–	–	2.1	–	2.1
Total transactions with owners			224.8	–	2.0	–	226.8
Balance at 30 June 2010			632.5	(15.7) ^a	15.3	288.0 ^a	933.3

^a Refer to note 41.

* Amounts recognised are disclosed net of income tax (where applicable)

Statement of Changes in Equity (continued)

For the year ended 30 June 2011

	Note	Attributable to owners of the Company					Total Equity \$m
		Share capital \$m	Foreign currency translation reserve \$m	Hedging reserve \$m	Share-based payments reserve \$m	Retained earnings \$m	
Balance at 1 July 2010		632.5	13.2	(15.7)^a	15.3	288.0^a	933.3
Total comprehensive income for the period							
Profit / (loss)		–	–	–	–	(67.8)	(67.8)
<i>Other comprehensive income*</i>							
Foreign currency translation differences		–	77.7	–	–	–	77.7
Effective portion of changes in fair value of cash flow hedges		–	–	(61.7)	–	–	(61.7)
Net change in fair value of cash flow hedges transferred to profit or loss		–	–	39.7	–	–	39.7
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item		–	–	4.2	–	–	4.2
Total other comprehensive income		–	77.7	(17.8)	–	–	59.9
Total comprehensive income for the period		–	77.7	(17.8)	–	(67.8)	(7.9)
Transactions with owners, recorded directly in equity*							
Issue of ordinary shares for cash	26	0.8	–	–	–	–	0.8
Share-based payment transactions	36	–	–	–	0.1	–	0.1
Total transactions with owners		0.8	–	–	0.1	–	0.9
Balance at 30 June 2011		633.3	90.9	(33.5)	15.4	220.2	926.3

^a Refer to note 41.

* Amounts recognised are disclosed net of income tax (where applicable)

The above Statement of Changes in Equity is to be read in conjunction with the accompanying notes to the Financial Statements.

Statement of Cash Flows

For the year ended 30 June 2011

	Note	2011 \$m	2010 \$ m
Cash flows from operating activities			
Cash receipts in the course of operations		3,646.1	3,371.9
Cash payments in the course of operations		(3,341.4)	(2,920.3)
Finance costs paid		(91.2)	(84.4)
Income taxes refunded		–	2.0
Net cash inflow from operating activities	34	213.5	369.2
Cash flows from investing activities			
Interest received		36.1	27.7
Dividends received		–	2.3
Payments for other deposits		(6.0)	(10.9)
Payments for intangible assets	19	(10.1)	(9.2)
Payments for property, plant and equipment	18	(507.6)	(550.8)
Proceeds from sale of property, plant and equipment		202.2	269.8
Net cash outflow from investing activities		(285.4)	(271.1)
Cash flows from financing activities			
Proceeds from borrowings		303.7	262.0
Repayment of borrowings		(300.7)	(244.5)
Proceeds from issue of shares		–	222.9
Loan from related party		–	1.5
Net cash inflow from financing activities		3.0	241.9
Net increase / (decrease) in cash and cash equivalents		(68.9)	340.0
Cash and cash equivalents at the beginning of the financial year		814.7	475.9
Effects of exchange rate changes on cash and cash equivalents		(14.5)	(1.2)
Cash and cash equivalents at the end of the financial year	11	731.3	814.7

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

Notes to the Financial Statements

For the year ended 30 June 2011

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 2011 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 consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (“AASBs”) adopted by the Australian Accounting Standards Board (“AASB”) and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (“IFRSs”) adopted by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were approved by the Board of Directors on 29 September 2011.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis with the exception of derivative instruments (financial assets and liabilities) which are measured at fair value.

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 entities.

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 the consolidated financial statements in conformity with IFRSs 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 applied consistently by Group entities.

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 transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

3. Significant accounting policies (continued)

a. Basis of consolidation (continued)

ii. *Special purpose entities*

The Group has established a special purpose entity ("SPE") for aircraft financing purposes. The Group does not have any direct or indirect shareholding in this entity. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

iii. *Investments in associates*

Associates are those entities in 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 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 reduce the carrying amount of the investment recorded in the consolidated financial statements.

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. 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 other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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 are translated at exchange rates at the reporting date;
- income and expenses 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 in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to 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 Statement 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

3. Significant accounting policies (continued)

c. Revenue and other income

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

Airline passenger revenue

Airline passenger revenue comprises revenue from passenger ticket sales. Revenue is recognised when carriage (uplift) is performed. Airline passenger revenue received in advance, together with any commission expense thereon, is carried forward in the Statement of Financial Position as unearned 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 profit or loss at the time the service is provided.

Deferred points revenue

As described in note 3(s), the Group defers revenue relating to participation by members in the Velocity Rewards Program. This revenue is deferred and recognised in profit and loss when points are redeemed. The amount of revenue deferred is calculated using assumptions regarding the fair value of reward points. The fair value of the reward points is reduced to reflect points that are expected to lapse under the rules of the Velocity Rewards Program.

Finance income

Finance income is recognised in profit or loss as it accrues on an effective interest rate basis.

Dividends

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

d. 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 profit or loss 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 profit or loss on a straight-line basis over the expected lives of the related assets.

e. 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.

f. Income tax

The income tax expense for the period comprises tax payable or receivable on the current period's taxable income or loss 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.

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.

3. Significant accounting policies (continued)

f. Income tax (continued)

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 or other comprehensive income are also recognised directly in equity or other comprehensive income.

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.

g. 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 Statement of Financial Position.

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

h. 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.

i. Financial instruments

i. Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

3. Significant accounting policies (continued)

i. Financial instruments (continued)

i. Non-derivative financial assets (continued)

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses.

Loans and receivables comprise trade and other receivables, cash and cash equivalents and other deposits (included in other financial assets).

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.

ii. Non-derivative financial liabilities

The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

iii. Share capital – Ordinary shares

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.

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.

iv. Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge (including economically hedge) its foreign currency, fuel price, interest rate risk exposures and specific asset purchases.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value of cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

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 other comprehensive income 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 other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. In other cases, the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

3. Significant accounting policies (continued)

i. Financial instruments (continued)

v. Financial assets 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 assets 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 assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

j. Inventories

Inventories are measured at the lower of cost and net realisable value. The costs of engineering consumables and uniforms are assigned to the individual items of inventory on the basis of weighted average costs.

k. 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 other comprehensive income 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 recognised in profit or loss as 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.

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. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. 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:

	2011	2010
Buildings	2.5% – 10%	2.5% – 10%
Aircraft and aeronautic related assets:		
– Modifications to leased aircraft	20%	20%
– Rotables and maintenance parts	7.25%	7.25%
– Airframe, engines and landing gear	5% – 25%*	10% – 25%
– Major cyclical maintenance	10% – 80%	10% – 80%
Plant and equipment	12.5% – 20%	20%
Computer equipment	33.3%	33.3%
Leasehold improvements	12.5% – 33.3%	20% – 33.3%

* Refer note 18(b) for details of change in depreciation.

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" or "other expenses" in profit or loss.

Repairs and maintenance – owned aircraft

Routine maintenance costs, including annual airframe checks, are written off to profit and loss 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

3. Significant accounting policies (continued)

k. Property, plant and equipment (continued)

Repairs and maintenance – operating leased aircraft

Routine maintenance costs including annual airframe checks are written off to profit and loss as incurred.

Provision is made for the estimated future costs of major maintenance of leased airframes, engines, landing gear and auxiliary power units by making charges to profit or loss, calculated by reference to the current rectification cost and the number of hours or cycles operated during the period. Provision is also made for end of lease obligations to return the aircraft in the condition specified by the lessor. The Group is presently obligated to these aircraft rectification requirements pursuant to the operating lease agreements. Provisions are recognised net of reserve payments made to the lessor which are drawdownable. The costs of major 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 8 years (2010: 3 to 5 years).

l. Intangibles

i. 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(n) 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 Domestic and International.

ii. 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 (2010: three years). Amortisation methods, useful lives and residual values are reviewed at each reporting date.

iii. 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.

m. 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.

i. Operating leases – as lessee

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.

ii. Operating leases – as lessor

Lease income from operating leases is recognised in other income on a straight-line basis over the lease term, unless another systematic basis is considered more representative of the time pattern in which benefit is derived from the leased asset is diminished.

3. Significant accounting policies (continued)

m. Leases (continued)

iii. 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.

n. Impairment

i. Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Individually significant financial assets are tested for impairment on an individual basis.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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 asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ii. Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-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 that cannot be tested individually 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").

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated have been aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

3. Significant accounting policies (continued)

o. 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 Statement 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.

p. Employee benefits

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 current other payables and provisions 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 Statement in the periods during which services are rendered by employees. 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 options.

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 service and non-market vesting conditions (for example, profitability and sales growth targets). Service and 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, such that the amount ultimately recognised as an expense is based on the number of options that do not meet the related service and non-market performance conditions at the vesting date.

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.

3. Significant accounting policies (continued)

p. Employee benefits (continued)

v. *Share-based payments (continued)*

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.

vi. *Termination benefits*

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

q. 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. The unwinding of the discount is recognised as a finance cost.

r. 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.

s. Loyalty program accounting

The Group receives revenue from the sale to third parties of rights to have Velocity reward points allocated to members of the Velocity Rewards Program. This revenue is deferred and recognised in profit or loss when the points are redeemed under the rules of the Velocity Rewards Program. Members of the Velocity Rewards 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 profit and loss when the points are redeemed.

t. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Refer to note 5 for a discussion on changes made to the definition of operating segments during the 2011 year.

u. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

i. *Derivatives*

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the reporting 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 reporting 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 reporting date.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

3. Significant accounting policies (continued)

u. Determination of fair values (continued)

ii. Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

iii. Non-derivative financial liabilities, including trade and other payables, and loans

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

iv. Share-based payment transactions

Refer to note 3(p) for discussion of fair value calculations of employee shares and share options.

v. Unearned revenue

Refer to note 3(s) for discussion of fair value calculations of Loyalty program reward points, which is recorded as unearned revenue.

v. 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 are effective for annual periods beginning after 1 July 2011, and have not been applied in preparing these consolidated financial statements:

- AASB 124 *Related Party Disclosures* (revised December 2009) and amendments in AASB 2009-12 Amendments to Australian Accounting Standards simplifies and clarifies the definition of a related party. The amendments, which will become mandatory for the Group's 2012 financial statements with retrospective application required, are not expected to have any material impact.
- AASB 119 Amended IAS 19 Employee Benefits (revised June 2011) will become mandatory for the Group's 2015 financial statements. This is not expected to have any material impact.
- Exposure Draft 2011/3 Amendments to IFRS 9 Financial Instruments (November 2009) and IFRS 9 Financial Instruments (October 2010): Mandatory Effective Date proposes to change the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015 rather than being applied for annual periods beginning on or after 1 January 2013 as currently required. Early application of IFRS 9 would continue to be permitted. Final amendments in relation to the proposed change in effective date have not yet been released.
- The following standards will be effective for the Group's 30 June 2014 financial statements: AASB 10 *Consolidated Financial Statements*; AASB 11 *Joint Arrangements*; AASB 12 *Disclosure of Interests in Other Entities*; AASB 127 *Separate Financial Statements*; AASB 128 *Investments in Associates and Joint Ventures*; and AASB 13 *Fair Value Measurement*. Any amendments are generally to be applied retrospectively however none of these are expected to have any significant impact on the Group.

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(l). The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Management are of the view that uncertainties remain as to the potential impact of the *Securing a Clean Energy Future – The Australian Government's Climate Change Plan* on the Group, in that the legislation has yet to be voted on and passed by both houses of Parliament at the date the impairment assessment was made. Refer to note 18(d) for details of these assumptions.

4. Critical accounting estimates and judgements (continued)

b. Maintenance provisions

As described in note 3(k), the Group provides for the estimated future costs of major 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. Provision is also made for end of lease obligations to return the aircraft in the condition specified by the lessor. 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 23 for further details regarding maintenance provisions.

c. Financial instruments

As detailed in note 3(i), 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 Group. 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 32 for further details regarding financial instruments.

d. Residual values and estimated useful lives

Determining the 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 movements in the US dollar against the Australian dollar.

Refer note 18(b) for discussion on the Group's re-assessment of the economic life of aircraft.

e. Deferred points revenue

As described in note 3(s), the Group defers revenue relating to participation by members in the Velocity Rewards Program. This revenue is deferred and recognised in profit and loss when points are redeemed. The amount of revenue deferred is calculated using assumptions regarding the fair value of reward points. The fair value of the reward points is reduced to reflect points that are expected to lapse under the rules of the Velocity Rewards Program. Assumptions are based on trends experienced within the Program.

5. Operating segments

During the 2011 financial year, the Board commenced a review of internal management reports on the basis of Domestic operations and International operations. These segments differ from those reported in the 2010 financial year and the half-year ended 31 December 2010. Previously the Group's reportable segments were Short haul operations and Long haul operations.

The following summary describes the operations in each of the Group's reportable segments:

- Domestic operations – Operations using the fleet of Boeing 737 aircraft, Airbus A330 aircraft and Embraer 170 and 190 aircraft. This comprises Australian domestic flying. The Group's Velocity Program is also reported within domestic operations.
- International operations – Operations using a mix of Boeing 777 aircraft and Boeing 737 aircraft. This comprises Trans-Pacific, Abu Dhabi, Trans-Tasman and Pacific Island flying.

Information regarding the results of each operating segment is included below. Performance is measured based on EBIT (earnings before interest, ineffective cash flow hedges and non-designated derivatives and income tax) as included in the internal management reports that are reviewed by the Board. EBIT is used to measure performance as management believes such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within the airline industry. Inter-segment pricing is 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.

Comparative segment information has been re-presented in conformity with the requirements of AASB 8 *Operating Segments*.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

5. Operating segments (continued)

2011	Domestic \$m	International \$m	Eliminations \$m	Consolidated \$m
Sales and other income				
External revenues and other income	2,317.0	953.8	–	3,270.8
Inter-segment revenues	85.0	–	(85.0)	–
Segment revenue	2,402.0	953.8	(85.0)	3,270.8
Share of net profit of associate	–	–	–	0.2
Segment EBITDAR	258.8	113.6	–	372.4
Non-cancellable operating lease rentals	(140.1)	(24.9)	–	(165.0)
Depreciation and amortisation	(159.5)	(66.3)	–	(225.8)
Segment EBIT	(40.8)	22.4	–	(18.4)
Net financing costs				(48.2)
				(66.6)
Ineffective cash flow hedges and non-designated derivatives				(28.2)
Loss before related income tax expense				(94.8)
Income tax (benefit)				(27.0)
Loss for the year				(67.8)
2010	Domestic \$m	International \$m	Eliminations \$m	Consolidated \$m
Sales and other income				
External revenues and other income	2,217.2	764.0	–	2,981.2
Inter-segment revenues	124.4	–	(124.4)	–
Segment revenue	2,341.6	764.0	(124.4)	2,981.2
Share of net profit of associate	–	–	–	0.6
Segment EBITDAR	402.7	51.1	–	453.8
Non-cancellable operating lease rentals	(152.2)	(19.9)	–	(172.1)
Depreciation and amortisation	(147.4)	(56.4)	–	(203.8)
Segment EBIT	103.1	(25.2)	–	77.9
Net financing costs				(56.2)
				21.7
Ineffective cash flow hedges and non-designated derivatives				12.6
Profit before related income tax expense				34.3
Income tax expense				13.0
Profit for the year				21.3

Geographical 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 point of sale occurs. Other operating income is not allocated to a geographical region as it is impractical to do so.

5. Operating segments (continued)

Geographical segments (continued)

	Australia \$m	New Zealand \$m	United States \$m	Other \$m	Unallocated \$m	Consolidated \$m
2011						
External revenues and other income	2,782.4	116.7	78.5	19.0	274.2	3,270.8
2010						
External revenues and other income	2,424.7	141.9	95.6	15.8	303.2	2,981.2

For the year ended 30 June 2011 and 30 June 2010, 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.

6. Revenue

	2011 \$m	2010 \$m
Airline passenger revenue	2,955.0	2,706.6
Other revenue	313.3	269.5
	3,268.3	2,976.1

7. Other income

	2011 \$m	2010 \$m
Government grants	2.5	2.8
Dividends received	–	2.3
	2.5	5.1

Government grants of \$2.5 million (2010: \$2.8 million) were recognised as other income by the Group during the financial period. Refer to note 31 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

Profit / (loss) before income tax expense includes the following specific expenses.

a. Finance costs

	2011 \$m	2010 \$m
Finance costs		
– interest and finance charges paid/payable	93.0	92.8
– less: capitalised finance charges	(8.7)	(8.9)
Finance costs expensed	84.3	83.9

Finance charges were capitalised to aircraft and aeronautic related assets at a weighted average rate of 2.44% (2010: 4.80%).

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

8. Expenses (continued)

b. Ineffective cash flow hedges and non-designated derivatives

	2011 \$m	2010 \$m
Net (loss) / gain on ineffective cash flow hedges and non-designated derivatives		
– realised	(6.4)	(21.2)
– unrealised	(21.8)	33.8
	(28.2)	12.6

c. Operating lease rentals

Aircraft operating lease rentals:		
– minimum lease payments	173.5	172.1
– maintenance reserves payments	49.0	52.9
Other operating lease rentals	42.6	67.1
Total operating lease rentals	265.1	292.1

d. Loss on disposal

Net loss on disposal of property, plant and equipment	4.4	9.3
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9. Income tax expense/(benefit)

a. Income tax expense/(benefit)

	Note	2011 \$m	2010 \$m
Current tax		–	–
Deferred tax		(25.8)	13.7
(Over) / under provided in prior years		(1.2)	(0.7)
Income tax expense / (benefit) attributable to continuing operations		(27.0)	13.0
Deferred income tax (revenue) / expense included in income tax expense comprises:			
(Increase) in deferred tax assets	20	(47.2)	(45.6)
Increase in deferred tax liabilities	25	21.4	59.3
		(25.8)	13.7

b. Reconciliation of income tax expense to pre-tax accounting profit/(loss)

	2011 \$m	2010 \$m
Profit / (loss) from continuing operations before income tax expense	(94.8)	34.3
Tax at the Australian tax rate of 30% (2010: 30%)	(28.4)	10.3
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Non-assessable income	(0.1)	(0.2)
Non-deductible expenditure	3.6	1.8
Tax losses not brought to account	(1.4)	1.4
Sundry items	0.5	0.4
	(25.8)	13.7
(Over) / under provision in prior years	(1.2)	(0.7)
Income tax (benefit) / expense	(27.0)	13.0

9. Income tax expense/(benefit) (continued)

c. Income tax recognised in other comprehensive income

	2011			2010		
	Before tax \$m	Tax (expense) benefit \$m	Net of tax \$m	Before tax \$m	Tax (expense) benefit \$m	Net of tax \$m
Foreign currency translation differences for foreign operations	77.7	–	77.7	26.9	17.0	43.9
Cash flow hedges	(25.4)	7.6	(17.8)	91.7	(27.5)	64.2
	52.3	7.6	59.9	118.6	(10.5)	108.1

10. Earnings per share

a. Reconciliation of earnings used in calculating earnings per share

	2011 \$m	2010 \$m
Profit / (loss) attributable to ordinary shareholders	(67.8)	21.3
Basic earnings	(67.8)	21.3
Diluted earnings	(67.8)	21.3

b. Reconciliation of weighted average number of shares

	2011 Number (m)	2010 Number (m)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	2,189.6	2,042.3
Adjustments for calculation of diluted earnings per share:		
Effect of share options on issue	–	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	2,189.6	2,042.3

c. Information concerning shares

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 2011, 34.6 million options (2010: 32.7 million) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

11. Cash and cash equivalents

	2011 \$m	2010 \$m
Cash at bank and in hand	247.9	216.7
Deposits at call	483.4	598.0
Cash and cash equivalents in the Statement of Cash Flows	731.3	814.7

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

11. Cash and cash equivalents (continued)

a. Restricted cash

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

	2011 \$m	2010 \$m
Restricted cash	356.6	355.4

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 32.

12. Trade and other receivables

	2011 \$m	2010 \$m
Current		
Trade receivables	102.7	87.5
Less: Provision for doubtful receivables	(0.1)	(0.1)
	102.6	87.4
Other receivables	62.6	37.6
Prepayments	34.3	16.1
	199.5	141.1
Non-current		
Trade receivables	–	0.3

The Group's exposure to credit and currency risk and impairment losses related to trade and other receivables are disclosed in note 32.

13. Inventories

	2011 \$m	2010 \$m
Inventories – engineering and uniforms	5.1	–

14. Derivative financial instruments

	2011 \$m	2010 \$m
Current assets		
Forward foreign exchange contracts – cash flow hedges	0.1	26.1
Fuel hedging contracts – cash flow hedges	7.3	10.8
	7.4	36.9
Current liabilities		
Forward foreign exchange contracts – cash flow hedges	41.9	–
Fuel hedging contracts – cash flow hedges	0.7	31.7
Interest rate swap contracts – cash flow hedges	3.0	3.2
	45.6	34.9
Non-current liabilities		
Interest rate swap contracts – cash flow hedges	4.1	8.3
	4.1	8.3

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	
	2011 %	2010 %	2011 \$m	2010 \$m
<i>Unlisted</i>				
Polynesian Blue Limited	49%	49%	7.5	7.3

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.

During the year ended 30 June 2011, the Group received no dividend (2010: \$2.3 million) from its investment in Polynesian Blue Limited.

b. Summarised financial information of associate, not adjusted for percentage ownership held by the Group

	100%			
	Assets \$m	Liabilities \$m	Revenues \$m	Profit \$m
2011				
Polynesian Blue Limited	22.4	13.0	35.0	0.5
2010				
Polynesian Blue Limited	20.1	10.8	33.6	0.9

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

16. Other assets

	2011 \$m	2010 \$m
Current		
Future lease payments	0.8	–
Non-current		
Future lease payments	6.4	–

During 2011 a number of sale and leaseback transactions occurred which resulted in losses on sale being deferred against future lease payments. See note 3(m)(iii) which discusses the Group's accounting policy on these transactions.

17. Other financial assets

	2011 \$m	2010 \$m
Current deposits	5.5	–
Non-current deposits	45.8	58.4

18. Property, plant and equipment

	2011 \$m	2010 \$m
Buildings – at cost	117.1	116.4
Accumulated depreciation and impairment	(21.9)	(16.5)
	95.2	99.9
Aircraft and aeronautic related assets – at cost*	3,297.4	3,162.3
Accumulated depreciation and impairment	(734.3)	(593.6)
	2,563.1	2,568.7
Plant and equipment – at cost	146.9	136.0
Accumulated depreciation and impairment	(91.4)	(77.7)
	55.5	58.3
Computer equipment – at cost	38.3	43.4
Accumulated depreciation and impairment	(34.3)	(35.2)
	4.0	8.2
Work in progress	37.1	18.8
Total property, plant and equipment – net book value	2,754.9	2,753.9

* As at 30 June 2011, 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 \$254.1 million (2010: \$271.9 million).

18. Property, plant and equipment (continued)

a. Reconciliations

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

	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
2011							
Buildings	99.9	0.7	–	(5.4)	–	–	95.2
Aircraft and aeronautic related assets	2,568.7	456.2	(210.0)	(190.4)	–	(61.4)	2,563.1
Plant and equipment	58.3	14.1	(1.0)	(15.9)	–	–	55.5
Computer equipment	8.2	4.2	(2.1)	(6.3)	–	–	4.0
Work in progress	18.8	32.4	–	–	(14.1)*	–	37.1
Total	2,753.9	507.6	(213.1)	(218.0)	(14.1)	(61.4)	2,754.9
2010							
Buildings	104.5	0.4	–	(5.0)	–	–	99.9
Aircraft and aeronautic related assets	2,451.3	531.3	(279.1)	(168.1)	–	33.3	2,568.7
Plant and equipment	74.4	1.3	–	(17.4)	–	–	58.3
Computer equipment	9.6	4.9	–	(6.3)	–	–	8.2
Work in progress	5.9	12.9	–	–	–	–	18.8
Total	2,645.7	550.8	(279.1)	(196.8)	–	33.3	2,753.9

* Transfers relate to amounts which were disclosed within Work In Progress at 30 June 2010 which were reclassified to software during the 2011 year.

b. Changes in residual values/useful lives of aircraft

As the market residual values of aircraft are denominated in US dollars, the significant strengthening of the Australian dollar relative to the US dollar during the 2011 financial year has required management to re-assess the residual value of the aircraft fleet during the year ended 30 June 2011.

Management have also undertaken a review of the useful lives of aircraft in order to ensure that their depreciable amount is in accordance with the intended actual usage of those assets. This has resulted in the economic useful lives of these assets being revised from the previously stated 10 years to a range of 9-20 years depending on the class of aircraft. These revisions were effective 1 January 2011 and have resulted in an increase in depreciation expense of \$1.6 million for the year ended 30 June 2011.

c. Non-current assets pledged as security

Refer to note 22 for information on non-current assets pledged as security by the Group.

d. Impairment testing

As per note 5, the Group has changed the classification of operating segments during the 2011 financial year. The Group's cash-generating units ("CGU") are identified according to operating segments.

Given the pre-tax loss incurred by the Group in the 2011 financial year and the historical EBIT losses of the previous Long haul operating segment, management have tested the identified CGUs for impairment at 30 June 2011. Further, the Group has goodwill with a carrying value of \$43.8 million (2010: \$43.8 million) as per note 19. Goodwill is allocated entirely to the Domestic CGU.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

18. Property, plant and equipment (continued)

d. Impairment testing (continued)

The recoverable amount is determined based on value-in-use calculations. The following key assumptions were used in determining the value-in-use:

CGU	Growth rate ⁱ		Discount rate ⁱⁱ	
	2011 %	2010 %	2011 %	2010 %
Domestic operations	4.0	–	9.51	–
International operations	4.0	–	11.51	–
Short haul operations	–	2.0	–	10.6
Long haul operations	–	2.0	–	13.1

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

ii. Post-tax discount rate applied to the cash flow projections. The equivalent pre-tax rates were for 2011: Domestic 11.51% and International 14.9% and for 2010: Short haul 11.5% and Long haul 15.8%

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 method used to determine the discount rate was the weighted average cost of capital based on the risk-free rate for ten-year Australian government bonds adjusted for a risk premium to reflect the risk of the specific CGU.

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

- The fuel price has been set with regard to the Brent forward curve adjusted for refining margins;
- The AUD/USD exchange rate is set with regard to the spot and forward levels prevailing when the budget was prepared; 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.

No impairment losses were identified (2010: nil) as a result of the impairment testing performed.

19. Intangible assets

	2011 \$m	2010 \$m
Goodwill – at cost	43.8	43.8
Accumulated impairment	–	–
	43.8	43.8
Software – at cost	58.2	34.2
Accumulated amortisation and impairment	(33.6)	(25.8)
	24.6	8.4
Patents and trademarks – at cost	1.3	1.7
Accumulated amortisation and impairment	(0.6)	(0.6)
	0.7	1.1
Total intangible assets – net book value	69.1	53.3

19. Intangible assets (continued)

a. Reconciliations

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

	Carrying amount at beginning of year \$m	Additions \$m	Disposals \$m	Transfers \$m	Amortisation \$m	Carrying amount at end of year \$m
2011						
Goodwill	43.8	–	–	–	–	43.8
Software	8.4	9.9	–	14.1	(7.8)	24.6
Patents and trademarks	1.1	0.2	(0.6)	–	–	0.7
TOTAL	53.3	10.1	(0.6)	14.1	(7.8)	69.1
2010						
Goodwill	43.8	–	–	–	–	43.8
Software	6.4	9.0	–	–	(7.0)	8.4
Patents and trademarks	0.9	0.2	–	–	–	1.1
TOTAL	51.1	9.2	–	–	(7.0)	53.3

As stated in note 18(d) there was no impairment loss recognised on intangible assets during the year ended 30 June 2011 (2010: nil).

There was \$9.5 million of internally developed software capitalised during the year ended 30 June 2011 (2010: \$5.5 million). Further, there was an amount of \$14.1 million which was recognised as property, plant and equipment at 30 June 2010 which was transferred to software during the 2011 financial year (2010: nil). These amounts transferred were all internally developed.

The amortisation charge is recognised in "Depreciation and amortisation expense" in the Income Statement.

20. Deferred tax assets

The balance comprises temporary differences attributable to:

	2011 \$m	2010 \$m
Amounts recognised in profit or loss		
Employee benefits	24.6	21.1
General accruals	21.2	33.4
Tax loss carried forward	161.0	93.8
Other	9.0	20.3*
	215.8	168.6
Amounts recognised directly in equity and other comprehensive income		
Equity raising costs	1.5	1.9
Cash flow hedges	14.7	6.7*
	232.0	177.2
Set-off of deferred tax liabilities pursuant to set-off provisions	(224.0)	(171.2)
Net deferred tax assets	8.0	6.0

* Refer note 41 for details of a prior period restatement between reserves and retained earnings at 1 July 2009. This had no impact on income tax expense for the 2010 financial year. However, this did result in a classification adjustment in amounts recognised in profit or loss and amounts recognised directly in equity and other comprehensive income.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

20. Deferred tax assets (continued)

	2011 \$m	2010 \$m
Movements:		
Opening balance	177.2	157.2
Recognised in profit or loss	47.2	45.6
Recognised in equity and other comprehensive income	7.6	(25.6)
Closing balance	232.0	177.2

See note 3(f) for details of the Group's accounting policy on the recognition of deferred tax assets on deductible temporary differences and income tax losses.

21. Trade and other payables

	2011 \$m	2010 \$m
Current		
Trade payables and accruals	388.0	318.6
Other payables	7.9	5.2
	395.9	323.8
Non current		
Other payables	3.8	–

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 32.

The Company has entered into a Deed of Cross Guarantee with certain subsidiaries as described in note 39. 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 39.

22. Interest-bearing liabilities

	2011 \$m	2010 \$m
Current		
Loans (Aeronautic Finance Facilities) – secured	227.3	251.5
Non current		
Loans (Aeronautic Finance Facilities) – secured	1,412.6	1,536.3

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		Face Value \$m		Carrying Amount \$m	
			2011	2010	2011	2010	2011	2010
Aircraft	AUD	2016 - 2021	5.59% – 6.32%	4.45% - 6.32%	977.4	1,196.5	970.2	1,196.5
Aircraft	USD	2012 - 2023	0.68% – 4.47%	0.65% - 4.47%	687.0	614.6	669.7	614.6
					1,664.4	1,811.1	1,639.9	1,811.1

For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 32.

22. Interest-bearing liabilities (continued)

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;
- VB LH No. 2 Pty Limited;
- VB 700 2009 Pty Limited;
- VB E190 No. 2 Pty Limited;
- VB LH 2010-11 No. 2 Pty Limited; and
- VB Leaseco No. 3 Pty Limited.

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

	2011 \$m	2010 \$m
Non-current		
<i>Floating charge</i>		
Aircraft and aeronautic related assets	2,150.3	2,228.5

c. Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

	2011 \$m	2010 \$m
Total facilities available:		
Standby letters of credit	17.5	4.0
Bank guarantees	17.5	7.9
Aeronautic finance facilities	1,738.8	2,155.3
	1,773.8	2,167.2
Facilities utilised at balance date:		
Standby letters of credit	6.8	4.0
Bank guarantees	5.0	7.9
Aeronautic finance facilities	1,664.4	1,811.1
	1,676.2	1,823.0
Facilities not utilised at balance date:		
Standby letters of credit	10.7	–
Bank guarantees	12.5	–
Aeronautic finance facilities	74.4	344.2
	97.6	344.2

Standby letters of credit

The standby letter of credit facility is a committed facility, available to be drawn down over the next year (2010: over the next year).

The standby letters of credit are secured over at-call deposits of an equivalent amount. The interest rate on the facility at 30 June 2011 is 3.34% (2010: 4.40%).

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

22. Interest-bearing liabilities (continued)

c. Financing arrangements (continued)

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 interest rate on the facility at 30 June 2011 is 3.34% (2010: 4.40%).

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 22(b). The weighted average interest rate on these facilities is 4.54% (2010: 4.80%).

23. Provisions

	Note	2011 \$m	2010 \$m
Current			
Employee benefits	35	72.9	62.0
Maintenance		25.1	20.3
Other		–	0.1
		98.0	82.4
Non-current			
Employee benefits	35	9.3	8.5
Maintenance		15.3	41.4
		24.6	49.9

a. Movements in provisions

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

	Opening carrying value \$m	Provision made \$m	Payments made \$m	Closing carrying value \$m
2011				
Maintenance	61.7	15.2	(36.5)	40.4
Other	0.1	–	(0.1)	–
2010				
Maintenance	62.2	50.7	(51.2)	61.7
Other	1.0	–	(0.9)	0.1

b. Provision for maintenance

As disclosed in note 3(k), provision is made for the estimated future costs of major maintenance of leased airframes, engines, landing gear and auxiliary power units of operating leased aircraft. The Group expects to incur the liability over the lease. Provision is also made for end of lease obligations to return the aircraft in the condition specified by the lessor. Assumptions for the provision includes expected use of the aircraft during the lease term and forecasted contractual maintenance rates. CPI was applied to current labour and market costs and the provisions are discounted as specified in note 3 (q).

c. Other provisions

This relates to stamp duty and operational levies of which the Group expect to settle the liability over the 12 months from reporting date.

24. Unearned revenue

	2011 \$m	2010 \$m
Current		
Unearned passenger revenue	539.2	475.2
Other unearned revenue	160.7	141.1
	699.9	616.3
Non-current		
Other unearned revenue	–	0.6

25. Deferred tax liabilities

The balance comprises temporary differences attributable to:

Amounts recognised in profit or loss

	2011 \$m	2010 \$m
Depreciation	189.3	171.9
Other	37.9	33.9
	227.2	205.8
Set-off of deferred tax liabilities pursuant to set-off provisions	(224.0)	(171.2)
Net deferred tax liabilities	3.2	34.6
Movements		
Balance at beginning of year	205.8	161.6
Recognised in profit or loss	21.4	59.3
Recognised in equity and other comprehensive income	–	(15.1)
Closing balance	227.2	205.8

26. Share capital

	2011 \$m	2010 \$m
Ordinary shares, fully paid	655.6	654.9
Treasury shares held by the KEPP Trust	(22.3)	(22.4)
	633.3	632.5

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

26. Share capital (continued)

a. Movements in ordinary share capital

	Note	Number of Shares (m)
Balance at 1 July 2009		1,042.9
Issue of shares by KEPP	i	0.1
Issue of shares – executives' remuneration	ii	–
Issue of shares for cash	iii	1,145.9
Balance at 30 June 2010		2,188.9
Balance at 1 July 2010		2,188.9
Issue of shares by KEPP	i	–
Issue of shares – executives' remuneration	ii	1.1
Balance at 30 June 2011		2,190.0

- i. The trustee for the Key Employee Performance Plan ("KEPP") 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 KEPP are offset against contributed equity. During the 12 months to 30 June 2011, there was no transfer of KEPP shares (2010: 0.1 million) to employees.
- ii. Note 36 provides details of shares issued on exercise of options.
- iii. In September 2009 the Company completed an equity raising of \$231.4 million (proceeds received net of transaction costs totalled \$222.9 million before tax). The total number of shares issued was 1,145.9 million.

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 2011, the trustee for the Key Employee Performance Plan holds 20.2 million (2010: 20.2 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 36.

27. Reserves

Nature and purpose of reserves

i. Foreign currency translation reserve

Exchange differences arising on translation of foreign operations are taken to the foreign currency translation reserve, as described in note 3(b). 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 is recognised directly in equity, as described in note 3(i). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss, or recognised as part of the acquisition price of property, plant and equipment.

iii. Share-based payments reserve

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

28. Dividends

a. Dividends

No dividends were recognised in the current or prior year by the Group.

b. Franked dividends

	The Company	
	2011 \$m	2010 \$m
Dividend franking account		
Franking credits available for subsequent financial years based on a tax rate of 30% (2010: 30%)	76.4	76.4

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

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

29. Capital expenditure commitments

	2011 \$m	2010 \$m
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	489.9	391.9
One year or later and no later than five years	1,573.3	2,387.2
Later than five years	474.1	889.8
	2,537.3	3,668.9

30. Operating leases

a. Operating leases as lessee

	2011 \$m	2010 \$m
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	187.9	163.0
One year or later and no later than five years	754.8	348.2
Later than five years	798.9	258.3
	1,741.6	769.5

The Group leases property and equipment, principally aircraft, under non-cancellable operating leases expiring from one to 12 years from 30 June 2011. 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

30. Operating leases (continued)

b. Operating leases as lessor

During the 2011 financial year, the Group commenced leasing certain aircraft to other parties. These leases are for a period of 5 years with an option to extend for a further 12 months. There is a second option to extend for a further 12 months, post the initial option period and a third option to extend for a further 12 months post the initial two option periods. The lease payments are receivable monthly in US dollars. The future minimum lease payments receivable under these non-cancellable leases are as follows:

	2011 \$m	2010 \$m
Within one year	11.2	–
One year or later and no later than five years	52.5	–
Later than five years	2.2	–
	65.9	–

31. Contingent liabilities and contingent assets

Details of contingent liabilities and contingent assets where the possibility 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 \$11.8 million (2010: \$17.6 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.

32. Financial instruments

The Group has 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 hedging limits for financial risks and these are documented in the Treasury Risk Management Policy. Transactions entered into are to be 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 tolerances.

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.

32. Financial instruments (continued)

a. Market risk (continued)

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 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, the forward rates of the derivative contracts and the cost of option premiums paid.

During the year, the net loss arising from fuel hedging activities for the Group was \$19.8 million (2010: loss of \$54.3 million). Of this net amount, a gain of \$5.1 million (2010: loss of \$63.2 million) represents the effective portion of the hedges which has been recognised in fuel expense, and a loss of \$24.9 million (2010: gain of \$8.9 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.

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 / AUD 30 (2010: USD 30) per barrel ("bbl") increase / decrease in the price of fuel (with no change in refining margin) would have increased / (decreased) equity and profit and loss (before tax) by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2010.

	Carrying amount \$m	USD / AUD 30 / bbl increase		USD / AUD 30 / bbl increase	
		Profit \$m	Equity \$m	Profit \$m	Equity \$m
2011					
Net financial assets					
– Derivative asset	6.6	(12.1)	103.5	(11.6)	(67.2)
2010					
Net financial liabilities					
– Derivative liability	(20.9)	(3.3)	88.6	9.2	(29.4)

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.

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

	30 June 2011			30 June 2010		
	AUD \$m	USD \$m	NZD \$m	AUD \$m	USD \$m	NZD \$m
Cash and cash equivalents	0.8	82.4	40.5	–	78.8	39.7
Trade receivables	–	12.5	1.9	0.4	5.0	4.1
Other receivables	0.4	52.8	–	–	20.5	–
Other financial assets	–	50.9	–	–	57.5	–
Trade and other payables	(11.3)	(67.1)	(5.7)	(3.0)	(72.9)	(10.2)
Interest-bearing liabilities	–	–	–	–	(38.5)	–
Gross statement of financial position exposure	(10.1)	131.5	36.7	(2.6)	50.4	33.6
Forward exchange contracts*	–	762.9	–	–	492.8	–

*Relates to forecast cash flow exposure pertaining to operating expenses principally fuel and aircraft lease rentals.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

32. Financial instruments (continued)

a. Market risk (continued)

ii. Foreign exchange risk (continued)

Exposure to foreign exchange risk (continued)

The following significant exchange rates applied during the year:

AUD	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
USD	0.9723	0.8782	1.0739	0.8523
NZD	1.2996	1.2575	1.2953	1.2308

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, the forward rates of the derivative contracts and the cost of option premiums paid.

During the year, the net loss arising from foreign exchange hedging activities for the Group was \$60.7 million (2010: loss of \$35.5 million) as a result of the Australian dollar appreciating above the average hedged price. Of this net amount, a loss of \$57.4 million (2010: loss of \$39.2 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 \$3.3 million (2010: gain of \$3.7 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.

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% (2010:10%) appreciation/depreciation of the AUD against the USD would have increased/(decreased) equity and profit and loss (before tax) by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2010.

	USD 10% increase in AUD		USD 10% decrease in AUD	
	Profit \$m	Equity \$m	Profit \$m	Equity \$m
2011				
Financial assets				
– Non-derivative financial asset	(18.1)	–	22.1	–
Financial liabilities				
– Non-derivative liability	6.1	61.1	(7.5)	(74.7)
– Derivative financial liability	(1.9)	(32.2)	2.3	38.0
	(13.9)	28.9	16.9	(36.7)
2010				
Financial assets				
– Non-derivative financial asset	(14.7)	–	18.0	–
– Derivative financial asset	0.1	(43.8)	0.5	54.2
Financial liabilities				
– Non-derivative liability	8.8	52.4	(10.7)	(64.0)
	(5.8)	8.6	7.8	(9.8)

32. Financial instruments (continued)

a. Market risk (continued)

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:

	Carrying amount	
	2011 \$m	2010 \$m
Fixed rate instruments		
Financial assets	518.8	458.6
Financial liabilities	(301.8)	(410.5)
	217.0	48.1
Variable rate instruments		
Financial assets	153.2	356.1
Financial liabilities	(1,362.6)	(1,400.5)
	(1,209.4)	(1,044.4)

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 \$4.4 million (2010: loss of \$9.5 million), as a result of actual interest rates sitting lower than the average hedged rates. Of this net amount, \$4.4 million (loss) represents the effective portion of the hedges which has been recognised in finance costs – interest and finance charges paid/payable (2010: loss of \$9.5 million). There was no ineffective portion of interest rate hedges (2010: nil).

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 and financial liabilities at amortised cost using the effective interest method.

A 100 (2010: 100) basis point increase / (decrease) in interest rates would have increased / (decreased) equity and profit and loss (before tax) by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

32. Financial instruments (continued)

a. Market risk (continued)

iii. Interest rate risk (continued)

2011	Carrying amount \$m	100 bp increase		100 bp decrease	
		Profit \$m	Equity \$m	Profit \$m	Equity \$m
Fixed rate instruments					
Interest rate swaps	(7.1)	–	7.2	–	(7.5)
Variable rate instruments					
Financial assets	153.2	1.5	–	(1.5)	–
Financial liabilities	(1,362.6)	(13.6)	–	13.6	–
		(12.1)	7.2	12.1	(7.5)

On maturity, any gains or losses deferred in equity in respect of effective hedges are recycled to the income statement to match against the underlying gain or loss on the variable rate instrument.

2010	Carrying amount \$m	100 bp increase		100 bp decrease	
		Profit \$m	Equity \$m	Profit \$m	Equity \$m
Fixed rate instruments					
Interest rate swaps	(11.5)	–	10.3	–	(10.7)
Variable rate instruments					
Financial assets	356.1	3.6	–	(3.6)	–
Financial liabilities	(1,400.5)	(14.0)	–	14.0	–
		(10.4)	10.3	10.4	(10.7)

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 trade debtor counterparties (travel agents, industry settlement organisations and credit provided direct to customers), deposits and unrealised gains on derivative financial instruments.

Trade and other receivables

The 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 trade debtor counterparty is analysed individually for creditworthiness before the Group's standard payment terms are offered. Purchase limits are established for each counterparty and reviewed on a regular basis to ensure that sales made on credit terms are made to counterparties 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.

Deposits

The Group limits its exposure to credit risk by restricting its dealings to counterparties that have acceptable credit ratings.

32. Financial instruments (continued)

b. Credit risk (continued)

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	
		2011 \$m	2010 \$m
Cash and cash equivalents	11	731.3	814.7
Trade and other receivables	12	165.2	125.0
Commodity contracts used for hedging: Assets	14	7.3	10.8
Forward exchange contracts used for hedging: Assets	14	0.1	26.1
Other financial assets	17	51.3	58.4
		955.2	1,035.0

Impairment losses

The ageing of the Group's trade receivables at the reporting date was:

	Gross 2011 \$m	Impairment 2011 \$m	Gross 2010 \$m	Impairment 2010 \$m
Not past due	90.8	–	73.9	–
Past due 1-30 days	6.9	–	9.9	–
Past due 31-60 days	2.3	–	0.1	–
61+ days	2.7	(0.1)	3.6	(0.1)
	102.7	(0.1)	87.5	(0.1)

The Group has established a provision for doubtful debts for trade receivables that represents its estimate of incurred losses. The main components of this provision are a specific loss component that relates to individually significant exposures.

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

	2011 \$m	2010 \$m
Balance at 1 July	0.1	0.9
Impairment loss recognised	0.1	0.1
Write-off of bad debts	(0.1)	(0.9)
Balance at 30 June	0.1	0.1

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

The impairment loss at 30 June 2011 of \$0.1 million (2010: loss of \$0.1 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. At 30 June 2011 the Group does not have any collective impairment on its trade receivables (2010: no collective impairment).

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

32. Financial instruments (continued)

c. Liquidity risk

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.

The Group aims to ensure 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 22.

Aircraft financing

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

- Sale and leaseback of four Boeing 737-800 aircraft and two Embraer E-190 aircraft; and
- Mortgaging of two owned Boeing 737-800 aircraft and one Boeing 777-800 aircraft.

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

- Sale and leaseback of three Boeing 737-800 aircraft;
- Sale and leaseback of 8 spare engines;
- Mortgaging of two owned Boeing 737-700 aircraft, one Boeing 777-800 aircraft and two owned Embraer E-190 aircraft; and
- Deferral of the delivery of two Boeing 777-300ER aircraft.

Exposure to liquidity risk

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

2011	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
Non-derivative financial liabilities						
Secured loans	(1,664.4)	(1,999.0)	(301.3)	(293.1)	(724.7)	(679.9)
Trade and other payables	(399.7)	(399.7)	(395.9)	(3.8)	–	–
Derivative financial liabilities						
Commodity contracts used for hedging:						
Outflow	(0.7)	(0.7)	(0.7)	–	–	–
Forward exchange contracts used for hedging:						
Outflow	(41.9)	(41.9)	(41.9)	–	–	–
Interest rate swaps used for hedging:						
Inflow	–	47.0	15.9	12.9	18.0	0.2
Outflow	(7.1)	(54.1)	(18.9)	(15.3)	(19.7)	(0.2)
	(2,113.8)	(2,448.4)	(742.8)	(299.3)	(726.4)	(679.9)

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

32. Financial instruments (continued)

c. Liquidity risk (continued)

Exposure to liquidity risk (continued)

2010	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
Non-derivative financial liabilities						
Secured loans	(1,811.1)	(2,251.4)	(334.9)	(264.0)	(784.4)	(868.1)
Trade and other payables	(323.8)	(323.8)	(323.8)	–	–	–
Derivative financial liabilities						
Commodity contracts used for hedging:						
Outflow	(31.7)	(31.7)	(31.7)	–	–	–
Interest rate swaps used for hedging:						
Inflow	–	65.5	18.0	15.4	29.7	2.4
Outflow	(11.5)	(77.0)	(22.8)	(18.8)	(33.0)	(2.4)
	(2,178.1)	(2,618.4)	(695.2)	(267.4)	(787.7)	(868.1)

At 30 June 2011, 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 and option contracts.

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

2011	Carrying amount \$m	Expected cash flows				Total \$m
		Less than 1 year \$m	1-2 years \$m	2-5 years \$m	More than 5 years \$m	
Interest rate swaps:						
Liabilities	(7.1)	(3.0)	(2.4)	(1.7)	–	(7.1)
Commodity contracts used for hedging:						
Liabilities	(0.7)	(0.7)	–	–	–	(0.7)
Assets	7.3	7.3	–	–	–	7.3
Forward exchange contracts used for hedging:						
Liabilities	(41.9)	(41.9)	–	–	–	(41.9)
Assets	0.1	0.1	–	–	–	0.1
	(42.3)	(38.2)	(2.4)	(1.7)	–	(42.3)

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

32. Financial instruments (continued)

c. Liquidity risk (continued)

Exposure to liquidity risk (continued)

2010	Carrying amount \$m	Expected cash flows				Total \$m
		Less than 1 year \$m	1-2 years \$m	2-5 years \$m	More than 5 years \$m	
Interest rate swaps:						
Liabilities	(11.5)	(4.8)	(3.4)	(3.3)	–	(11.5)
Commodity contracts used for hedging:						
Liabilities	(31.7)	(31.7)	–	–	–	(31.7)
Assets	10.8	10.8	–	–	–	10.8
Forward exchange contracts used for hedging:						
Assets	26.1	26.1	–	–	–	26.1
	(6.3)	0.4	(3.4)	(3.3)	–	(6.3)

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.

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. There were no changes in the Group's approach to capital management during the year.

In September 2009 the Group completed a fully underwritten equity raising of approximately \$231.4 million. Refer to note 26 for further information.

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, including Black-Scholes, Monte Carlo and binomial models.

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

32. Financial instruments (continued)

e. Net fair value (continued)

	Note	Carrying Amount		Fair Value	
		2011 \$m	2010 \$m	2011 \$m	2010 \$m
Financial assets carried at fair value					
Fuel hedging contracts – cash flow hedges	14	7.3	10.8	7.3	10.8
Forward foreign exchange contracts – cash flow hedges	14	0.1	26.1	0.1	26.1
		7.4	36.9	7.4	36.9
Financial assets carried at amortised cost					
Trade and other receivables	12	165.2	125.0	165.2	125.0
Cash and cash equivalents	11	731.3	814.7	731.3	814.7
Other financial assets	17	51.3	58.4	51.3	58.4
		947.8	998.1	947.8	998.1
Financial liabilities carried at fair value					
Fuel hedging contracts – cash flow hedges	14	0.7	31.7	0.7	31.7
Interest rate swap contracts – cash flow hedges	14	7.1	11.5	7.1	11.5
Forward exchange contracts – cash flow hedges	14	41.9	–	41.9	–
		49.7	43.2	49.7	43.2
Financial liabilities carried at amortised cost					
Trade and other payables	21	399.7	323.8	399.7	323.8
Loans (Aeronautic Finance Facilities)	22	1,639.9	1,811.1	1,674.2	1,811.1
		2,039.6	2,134.9	2,073.9	2,134.9

The basis for determining fair values is discussed in note 3(u).

Fair value hierarchy

Financial instruments carried at fair value can be classified according to their valuation method. The different methods are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. as derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments carried at fair value of the Group are classified as Level 2 instruments, namely:

	Level 2	
	2011 \$m	2010 \$m
Derivative financial assets	7.4	36.9
Derivative financial liabilities	(49.7)	(43.2)
	(42.3)	(6.3)

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

33. 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 2011 %	30 June 2010 %
Virgin Australia Holdings Pty Limited ⁽²⁾	100%	100%
Virgin Australia Pty Ltd*	100%	100%
Virgin Tech Pty Ltd ⁽²⁾	100%	100%
VB Investco Pty Ltd	100%	100%
Pacific Blue Holdings Pty Ltd ⁽²⁾	100%	100%
Pacific Blue Airlines (NZ) Ltd	100%	100%
Pacific Blue Employment and Crewing Ltd	100%	100%
Pacific Blue Airlines (Aust) Pty Ltd ⁽²⁾	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 Australia International (Holdings) Pty Ltd**	100%	100%
Virgin Australia International Airlines Pty Ltd***	100%	100%
Virgin Australia Airlines Pty Ltd**** ⁽²⁾	100%	100%
VBIANC1 Pty Ltd	100%	100%
VB Training Pty Ltd	100%	100%
VB Leaseco Pty Ltd	100%	100%
VB LH 2008 No. 1 Pty Ltd	100%	100%
VB LH 2008 No. 2 Pty Ltd	100%	100%
VB 800 2009 Pty Ltd	100%	100%
VB 700 2009 Pty Ltd	100%	100%
VB E190 2009 Pty Ltd	100%	100%
VB E190 2009 No.2 Pty Ltd	100%	100%
VB PDP 2010-11 Pty Ltd	100%	100%
VB LH 2010-11 No.1 Pty Ltd	100%	100%
VB LH 2010-11 No.2 Pty Ltd	100%	100%
VB Leaseco No.2 Pty Ltd	100%	100%

33. Subsidiaries (continued)

Name	Equity Holding	
	30 June 2011 %	30 June 2010 %
VB Leaseco No.3 Pty Ltd*****	100%	—
VH-ZHA: MSN 17000180 Owner Trust*****	—	—
VH-ZHB: MSN 17000187 Owner Trust*****	—	—
VH-ZHC: MSN 17000191 Owner Trust*****	—	—
Key Employee Performance Plan ⁽¹⁾	—	—
The Loyalty Trust ⁽¹⁾	—	—
Red Jet Foundation Charitable Trust ⁽¹⁾	—	—

* This entity has changed its name during the 2011 financial year from Virgin Australia Airlines Pty Ltd to Virgin Australia Pty Ltd.

** This entity has changed its name during the 2011 financial year from Virgin Blue International (Holdings) Pty Ltd to Virgin Australia International (Holdings) Pty Ltd.

*** This entity has changed its name during the 2011 financial year from Virgin Blue International Airlines Pty Ltd to Virgin Australia International Airlines Pty Ltd.

**** This entity has changed its name during the 2011 financial year from Virgin Blue Airlines Pty Ltd to Virgin Australia Airlines Pty Ltd.

***** This entity was incorporated on 16 December 2010.

***** These entities were incorporated on 19 May 2011.

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

2. Pursuant to ASIC Class Order 98/1418 (as amended), these controlled entities are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports. Refer note 39 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

34. Reconciliation of (loss) / profit after income tax to net cash from operating activities

	2011 \$m	2010 \$m
Profit / (loss) for the financial year	(67.8)	21.3
Adjustments for:		
Depreciation	218.0	196.7
Amortisation	7.8	7.1
Dividends from associate	-	(2.3)
Share of profit of associate	(0.2)	(0.6)
Loss on disposal of property, plant and equipment	4.4	9.3
Interest received	(36.1)	(27.7)
Equity-settled share-based payment expenses	0.1	2.1
Movement in hedge balances	(17.8)	64.2
Unrealised foreign exchange movements – non-operating activities	10.6	7.7
	119.0	277.8
<i>Changes in operating assets and liabilities:</i>		
(Increase) / decrease in trade and other receivables	(58.4)	(20.6)
(Increase) / decrease in inventories	(5.1)	-
(Increase) / decrease in other financial assets	8.1	1.1
(Increase) / decrease in other liabilities	(1.8)	(4.0)
(Increase) / decrease in deferred tax assets	(2.0)	(2.5)
(Decrease) / increase in trade and other payables	75.9	55.1
(Decrease) / increase in provisions	(9.7)	14.7
(Decrease) / increase in derivatives	35.9	(104.6)
(Decrease) / increase in unearned revenue	83.0	122.6
(Decrease) / increase in deferred tax liabilities	(31.4)	29.6
Net cash inflow from operating activities	213.5	369.2

35. Employee benefits

	2011 \$m	2010 \$m
Current		
Salaries and wages accrued	7.0	4.2
Provision for employee bonus	6.1	10.2
Provision for annual leave	42.5	37.4
Provision for long service leave	24.3	14.4
	79.9	66.2
Non-current		
Provision for long service leave	9.3	8.5

35. Employee benefits (continued)

a. Superannuation plans

The Group contributes to several defined contribution superannuation plans. The amount recognised as expense for the year ended 30 June 2011 was \$44.0 million (2010: \$37.5 million).

b. Share-based payments

Details of share-based payments made to employees are disclosed in note 36.

36. Share-based payments

a. Executive option plans

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

Plan	Vesting Periods and Conditions
Senior Executive Option Plan (SEOP) Issue 5	<p>Senior executives were granted options in the 2006 financial year under SEOP 5. The terms of the grants were:</p> <ul style="list-style-type: none">• SEOP 5 was issued in four tranches, vesting equally over four years. The performance period commenced on the issue date of 8 December 2005 and ended on the 12 month anniversary date for the following four years.• The performance hurdle was that TSR (growth plus dividend) of the Company over the performance period was equal to or better than the percentage increase of the S&P/ASX 200 Index.• SEOP 5 had an exercise price of \$1.55.• Options in a given tranche vested if the performance hurdle was met. If the hurdle was not met, the options would vest later if the hurdle is subsequently met for 30 continuous trading days at any time between the performance date and the expiry date of five years after the issue date.
Senior Executive Option Plan (SEOP) Issue 7	<p>Senior executives were granted options in the 2007 financial year under SEOP 7. The terms of the grants were:</p> <ul style="list-style-type: none">• SEOP 7 was issued in four tranches, vesting equally over four years. The performance period commenced on the issue date of 8 December 2006 and ends on the 12 month anniversary date for the following four years.• The performance hurdle was that TSR (growth plus dividend) of the Company over the performance period is equal to or better than the percentage increase of the S&P/ASX 200 Index.• SEOP 7 has an exercise price of \$2.19.• Options in a given tranche vest if the performance hurdle is met. If the hurdle is not met, the options can vest later if the hurdle is subsequently met for 30 continuous trading days at any time between the performance date and the expiry date of five years after issue date.
Senior Executive Option Plan (SEOP) Issue 10	<p>Senior executives and the former CEO were granted zero exercise price options in the 2009 financial year under SEOP 10. The terms of the grants were:</p> <ul style="list-style-type: none">• Issued on 22 April 2009, the performance period covers the three years from 1 July 2008 to 30 June 2011.• The performance hurdle was based on fully diluted EPS at 30 June 2011, as projected in the three year business plan approved by the Board in October 2008. The performance hurdle was amended on 26 November 2009, as described on page 121, to recognise the effect of the Company equity raising which occurred in September 2009.• The exercise period was from 28 November 2011 to 30 June 2012. These options expired immediately as they did not vest on the vesting date. The original expiry date was 30 June 2012.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

36. Share-based payments (continued)

a. Executive option plans (continued)

Plan	Vesting Periods and Conditions										
Senior Executive Option Plan (SEOP) Issue 11	<p>Senior executives were granted zero exercise price options in the 2010 financial year under SEOP 11. The terms of the grants were:</p> <ul style="list-style-type: none"> • Issued on 1 April 2010, the performance period covers the three years from 1 July 2009 to 30 June 2012. • 100% of the options will vest on 30 June 2012 if the cumulative increase in EPS of the Company for the three years ended 30 June 2012 is 20 cents per share or more. 50% to 99% of the options will vest, on a linear scale, if the increase in EPS over that three year period is between 12 cents and 19 cents. No options will vest if the increase in EPS over the performance period is less than 12 cents. • Subject to Board discretion, the participant must also be employed by the Group in a General Manager's role or higher throughout the performance period. • The exercise period is between the date on which the Group's 2012 results are announced and 30 June 2013. The options will expire immediately if they do not vest on the vesting date. The expiry date is 30 June 2013. 										
CEO Co-Investment Scheme (CEOCIS)	<p>The CEO was granted a one-off issue of \$400,000 of zero exercise price performance rights on commencement under the CEO Co-Investment Scheme in exchange for purchasing \$200,000 of the Company shares. Under the terms of the scheme Mr Borghetti is restricted from trading the purchased shares for two years from 8 May 2010.</p> <p>The number of performance rights issued was determined having regard to the 20 day weighted average share price of the Company's shares up to and including the date of announcement on 2 March 2010 of the CEO's appointment.</p> <p>The performance rights will vest and become exercisable on the achievement of a minimum share price hurdle to be achieved at the end of the performance period from 8 May 2010 to 30 June 2013. The performance hurdle will be met where the Company's 20 day weighted average share price at the end of the performance period is 25% higher than the 20 day weighted average share price at 8 May 2010.</p> <p>The exercise period is 30 June 2013 to 30 June 2014 and the performance rights will expire immediately if they do not vest on the vesting date. Any vested performance rights will expire on 30 June 2014.</p>										
CEO Commencement LTI (SEOP 13)	<p>The CEO was granted zero exercise price options on the date of the 2010 Annual General Meeting on 24 November 2010. These options are subject to a three year performance period to 7 May 2013.</p> <p>The performance hurdle is that growth in the Company's TSR over the performance period exceeds that of the median ASX 200 Index (excluding financial sector and resource companies). For testing purposes, both the base TSR on 8 May 2010 and TSR on the testing date will be determined using the 20 day VWAP of the Company's shares. Satisfaction of the performance hurdle will be tested at 7 May 2013 and in respect of any options that remain unvested at that time, again on 31 December 2013.</p> <p>The vesting outcome at the end of the performance period is based on the following TSR schedule:</p> <table> <tr> <th>The Group's relative TSR growth</th><th>% of options that vest</th></tr> <tr> <td>Below 50th percentile</td><td>0%</td></tr> <tr> <td>50th percentile</td><td>50%</td></tr> <tr> <td>Between 51st and 74th percentile</td><td>2% (for each percentile ranking above 50th)</td></tr> <tr> <td>75th percentile</td><td>100%</td></tr> </table> <p>The plans exercise period is 8 May 2013 to 30 June 2014. The options expire on 30 June 2014.</p>	The Group's relative TSR growth	% of options that vest	Below 50 th percentile	0%	50 th percentile	50%	Between 51 st and 74 th percentile	2% (for each percentile ranking above 50 th)	75 th percentile	100%
The Group's relative TSR growth	% of options that vest										
Below 50 th percentile	0%										
50 th percentile	50%										
Between 51 st and 74 th percentile	2% (for each percentile ranking above 50 th)										
75 th percentile	100%										

36. Share-based payments (continued)

a. Executive option plans (continued)

Plan	Vesting Periods and Conditions										
Senior Executive Option Plan (SEOP) Issue 12	<p>Issued on 10 March 2011, the performance hurdle for the zero exercise price options granted to senior executives and managers is growth in total shareholder return (TSR) relative to the S&P/ASX 200 Index (excluding financial services and resource companies) over three years, and is based on the following vesting schedule:</p> <table> <tr> <th>The Group's relative TSR growth</th><th>% of options that vest</th></tr> <tr> <td>Below 50th percentile</td><td>0%</td></tr> <tr> <td>50th percentile</td><td>50%</td></tr> <tr> <td>Between 51st and 74th percentile</td><td>2% (for each percentile ranking above 50th)</td></tr> <tr> <td>75th percentile</td><td>100%</td></tr> </table> <p>If relative TSR is below the 50th percentile at the end of the three year performance period, the Group's relative TSR is tested again after a further 6 months (being 31 December 2013). If the zero price options do not vest they will lapse on 30 June 2014.</p>	The Group's relative TSR growth	% of options that vest	Below 50 th percentile	0%	50 th percentile	50%	Between 51 st and 74 th percentile	2% (for each percentile ranking above 50 th)	75 th percentile	100%
The Group's relative TSR growth	% of options that vest										
Below 50 th percentile	0%										
50 th percentile	50%										
Between 51 st and 74 th percentile	2% (for each percentile ranking above 50 th)										
75 th percentile	100%										

The following executive option plans were active during 2010, but had expired by 30 June 2010:

Plan	Vesting Periods and Conditions
Senior Executive Option Plan (SEOP) 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 (SEOP) Issue 9	<p>Three years from 1 July 2007 to 30 June 2010.</p> <p>Options will vest on 30 June 2010 if the increase in earnings per share of the Company for the three years ended 30 June 2010 is greater than 20.9% for an exercise price of nil.</p>
Senior Executive Option Plan (SEOP) Issue 6	<p>Senior executives were granted options in the 2006 financial year under SEOP 6. The terms of the grants were:</p> <p>The performance period of four tranches, vesting equally over four years. Performance period commences on issue date and ends on the 12 month anniversary date for the next four years.</p> <p>The performance hurdle of TSR (growth plus dividend) of the Company over the performance period equal to or better than the percentage increase of the median S&P/ASX 200 Index at an exercise price of \$1.77.</p> <p>Options in a given tranche vest if the performance hurdle is met. If the hurdle is not met, the options can vest later if the hurdle is subsequently met for 30 continuous trading days at any time between the performance date and the expiry date of five years after issue date.</p>

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

36. Share-based payments (continued)

a. Executive option plans (continued)

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

Option Plan	Grant date	Number of options at beginning of year (m)	During the year				Number of options at year end on issue (m)	Number of options vested and exercisable at year end (m)	Exercise Price	Expiry Date
			Options granted (m)	Options forfeited (m)	Options lapsed (m)	Options exercised (m)				
2011										
SEOP – Issue 5 ¹	8 Dec 2005	5.0	–	(1.2)	(3.8)	–	–	–	\$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	3.2	–	(1.3)	–	–	1.9	–	\$2.19	7 Dec 2011
SEOP – Issue 10 ¹	22 Apr 2009	7.0	–	(1.8)	(5.2)	–	–	–	\$0.00	30 Jun 2012
SEOP – Issue 11 ¹	1 Apr 2010	16.9	–	(5.1)	–	–	11.8	–	\$0.00	30 Jun 2013
CEOCIS ²	8 May 2010	0.6	–	–	–	–	0.6	–	\$0.00	30 Jun 2014
CEO SEOP 13 ¹	24 Nov 2010	–	4.1	–	–	–	4.1	–	\$0.00	30 Jun 2014
SEOP 12 ¹	10 Mar 2011	–	17.5	(1.3)	–	–	16.2	–	\$0.00	30 Jun 2014
Total		33.0	21.6	(10.7)	(9.3)	–	34.6	–		
Weighted average exercise price		\$0.46	\$0.00	\$0.44	\$0.70	–	\$0.12	–		
2010										
SEOP – Issue 4 ¹	31 Jan 2005	0.2	–	–	(0.2)	–	–	–	\$1.96	30 Jan 2010
SEOP – Issue 5 ¹	8 Dec 2005	5.5	–	(0.5)	–	–	5.0	0.4	\$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	–	(0.6)	–	–	3.2	–	\$2.19	7 Dec 2011
SEOP – Issue 9 ¹	21 Nov 2007	1.5	–	(0.2)	(1.3)	–	–	–	\$0.00	30 Jun 2011
SEOP – Issue 10 ¹	22 Apr 2009	7.7	–	(0.7)	–	–	7.0	–	\$0.00	30 Jun 2012
SEOP – Issue 11 ¹	1 Apr 2010	–	17.5	(0.6)	–	–	16.9	–	\$0.00	30 Jun 2013
CEOCIS ²	8 May 2010	–	0.6	–	–	–	0.6	–	\$0.00	30 Jun 2014
Total		19.0	18.1	(2.6)	(1.5)	–	33.0	0.4		
Weighted average exercise price		\$0.93	\$0.00	\$0.78	\$0.23	–	\$0.46	\$1.55		

Notes to Employee Option Plans

- SEOP is the Senior Executive Option Plan
- CEOCIS is the CEO Co-Investment Scheme

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 3 (2010: 2) years.

36. Share-based payments (continued)

a. Executive option plans (continued)

Fair value of options granted

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

Plan	Grant Date	2011 (\$)	2010 (\$)
CEO SEOP 13	24 November 2010	0.34	–
SEOP 12	10 March 2011	0.27	–
SEOP 11	1 April 2010	–	0.69
CEOCIS	8 May 2010	–	0.47

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 utilising assumptions underlying the Black-Scholes methodology to produce a Monte-Carlo simulation model which allows for the incorporation of performance hurdles that must be met before the SEOP vests. The valuation is undertaken in a risk-neutral framework whilst allowing for variables such as volatility, dividends, the risk free rate, the withdrawal rate and performance hurdles along with constants such as the strike price, term and vesting periods.
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. Expected volatility is estimated by considering historic average share price volatility.

The model inputs for options granted during the period include:

	2011		2010	
	CEO SEOP 13	SEOP 12	SEOP 11	CEOCIS
a. Exercise price	\$0.00	\$0.00	\$0.00	\$0.00
b. Grant date	24 November 2010	10 March 2011	1 April 2010	2 March 2010
c. Expiry date	30 June 2014	30 June 2014	30 June 2013	30 June 2014
d. Share price at grant date	\$0.445	\$0.345	\$0.72	\$0.47
e. Expected volatility of the Company's shares	78%	77.5%	–	–
f. Expected dividend yield	–	–	0% for 18 months, then 5% for the remaining period	–
g. Risk-free rate	Australian Government Bond Yields	Australian Government Bond Yields	–	–

Modification of share-based payment terms

On 26 November 2009, performance conditions for SEOP 10 were amended to recognise the effect of the equity raising completed in September 2009 (see note 26). Prior to the amendment, the options would vest on 30 June 2011 if the fully diluted earnings per share of the Company at 30 June 2011 was as projected in the three year business plan approved by the Board in October 2008. There were 7,172,770 options issued under SEOP 10 available for vesting on the date of the modification. The options had no exercise price. The market price of the Company shares on the date of the modification was \$0.51. As a result of the amendment, the fully diluted earnings per share hurdle was revised downwards, proportionate with the number of new shares issued, and the expected interest earned on the cash received through the equity raising. The vesting date and the period remained unchanged.

The fair value of the modified options was calculated using the same methodology as described above.

At 30 June 2011 the performance hurdle for SEOP 10 was not met and the options lapsed.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

36. Share-based payments (continued)

b. Employee share plans

The Group has established the following employee share plan:

Share Plan	Date Established	Details	Restrictions
Key Employee Performance Plan ("KEPP")	8 December 2003	<p>Directors may grant performance rights to eligible full-time or permanent part-time employees of the Group, other than a non-executive director of a member of the 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.</p> <p>The Company provides all monies required by the trustee to acquire shares for the purposes of the KEPP, including costs and duties.</p>	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 an employee throughout the period.

Set out below are summaries of performance rights granted in the Key Employee Performance Plan by the 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)
2011	–	–	–	–	–	–
2010	0.1	–	(0.1)	–	–	–

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)	Acquired by the Plan during the period		Distribution during the period Number (m)	Shares at the end of the period Number (m)
		Number (m)	Fair value per share \$		
2011	20.2	–	–	–	20.2
2010	9.0	11.3	0.37	(0.1)	20.2

Shares from the KEPP Trust were distributed as follows:

	Number (m)	Weighted average fair value per share (\$)
2011		
1 July 2010 to 30 June 2011	–	–
2010		
1 July 2009 to 30 June 2010	0.1	0.49

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.

36. Share-based payments (continued)

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:

	2011 \$m	2010 \$m
Options issued under employee option plans	1.1	2.1
Shares issued under employee share plans	–	0.1
	1.1	2.2

37. Related parties

a. Key management personnel disclosures

Key management personnel compensation

The key management personnel compensation included in “Labour and staff related costs” are as follows:

	2011 \$'000	2010 \$'000
Short-term employee benefits	9,104	3,563
Long term benefits	55	–
Post-employment benefits	385	208
Share-based payments	1,978	996
Termination benefits	2,698	1,800
	14,220	6,567

All key management personnel are employed by Virgin Australia Airlines Pty Limited with the exception of Mr S Swift and Mr B Godfrey, who were employed by Virgin Australia International Airlines Pty Limited from 1 July 2010 and 1 January 2011 respectively. Prior to 1 January 2011 Mr B Godfrey was employed by Virgin Australia Airlines Pty Limited. 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 48 to 64.

Apart from the details disclosed in this note, no director has entered into a material contract with 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 (2010: nil).

Other transactions with key management personnel

A number of key management personnel hold positions in other subsidiaries of the parent entity that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Group 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 37(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 2011

37. 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:

	Held at 1 July 2010 '000	Commenced as a KMP '000	Granted '000	Exercised '000	Other changes* '000	Ceased as a KMP '000	Held at 30 June 2011 '000	Vested during the year '000	Vested and exercisable at 30 June 2011 '000
2011									
Directors									
Mr J Borghetti	659	–	4,116	–	–	–	4,775	–	–
Mr B Godfrey	1,669	–	–	–	(1,669)	–	–	–	–
Other key management personnel of the Group									
Mr K Neate	2,907	–	872	–	(1,043)	(2,736)	–	–	–
Mr A David	3,006	–	–	–	(776)	(2,230)	–	–	–
Mr R Tanner	1,312	–	772	–	(287)	–	1,797	–	–
Mr S Swift	1,986	–	–	–	(1,986)	–	–	–	–
Mr M Daley	–	1,207	659	–	(227)	–	1,639	–	–
Ms M McArthur	1,312	–	880	–	(287)	–	1,905	–	–
Ms E Savage	–	–	1,002	–	–	–	1,002	–	–
Ms D Keighery	–	–	579	–	–	–	579	–	–
Mr S Donohue	–	–	766	–	–	–	766	–	–
Ms J McKeon	–	–	506	–	–	–	506	–	–
Mr S Narayan	–	–	–	–	–	–	–	–	–

	Held at 1 July 2009 '000	Commenced as a KMP '000	Granted '000	Exercised '000	Other changes* '000	Ceased as a KMP '000	Held at 30 June 2010 '000	Vested during the year '000	Vested and exercisable at 30 June 2010 '000
2010									
Directors									
Mr J Borghetti	–	–	659	–	–	–	659	–	–
Mr B Godfrey	2,077	–	–	–	(408)	–	1,669	–	–
Other key management personnel of the Group									
Mr K Neate	1,561	–	1,448	–	(102)	–	2,907	–	261
Mr A David	1,542	–	1,766	–	(302)	–	3,006	–	–
Mr R Tanner	357	–	1,025	–	(70)	–	1,312	–	–
Mr S Swift	1,031	–	1,025	–	(70)	–	1,986	–	–
Ms M McArthur	287	–	1,025	–	–	–	1,312	–	–
Ms E Savage	–	–	–	–	–	–	–	–	–
Ms D Keighery	–	–	–	–	–	–	–	–	–

* Other changes represent options that lapsed or were forfeited during the year.

No options have been granted since the end of the financial year. Options are 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.

37. Related parties (continued)

a. Key management personnel disclosures (continued)

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:

2011	Balance at 1 July 2010 '000	Commenced as a KMP '000	Granted '000	Purchases '000	Sales '000	Ceased as a KMP '000	Balance at 30 June 2011 '000
Directors of Virgin Blue Holdings Limited							
Mr J Borghetti	744	–	–	125	–	–	869
Mr B Godfrey	58,648	–	–	–	–	(58,648)	–
Mr N Chatfield	878	–	–	122	–	–	1,000
Mr P McCall	–	–	–	–	–	–	–
Mr D Baxby	40	–	–	–	–	–	40
Mr R Thomas	306	–	–	180	–	–	486
Mr M Vaile	–	–	–	30	–	–	30
Mr J Bayliss	–	–	–	–	–	–	–
Mr K Roberts	12	–	–	–	–	–	12
Mr S Murphy	222	–	–	–	–	–	222
Ms S Mostyn	–	–	–	–	–	–	–
Other key management personnel of the Group							
Mr K Neate	1,094	–	306	–	–	(1,400)	–
Mr A David	146	–	306	–	–	(452)	–
Mr R Tanner	55	–	230	–	(280)	–	5
Mr S Swift	465	–	–	–	–	(465)	–
Ms M McArthur	200	–	230	–	–	–	430
Ms E Savage	–	–	–	–	–	–	–
Ms D Keighery	–	–	–	–	–	–	–
Mr M Daley	–	3	–	46	–	–	49
Mr S Narayan	–	–	–	–	–	–	–
Mr S Donohue	–	–	–	–	–	–	–
Ms J McKeon	–	70	–	–	–	–	70

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

37. Related parties (continued)

a. Key management personnel disclosures (continued)

Movements in shares (continued)

2010	Balance at 1 July 2009 '000	Commenced as a KMP '000	Granted '000	Purchases '000	Sales '000	Ceased as a KMP '000	Balance at 30 June 2010 '000
Directors of Virgin Blue Holdings Limited							
Mr J Borghetti	–	744	–	–	–	–	744
Mr B Godfrey	29,324	–	–	29,324	–	–	58,648
Mr N Chatfield	439	–	–	439	–	–	878
Mr P McCall	–	–	–	–	–	–	–
Mr D Baxby	20	–	–	20	–	–	40
Mr R Thomas	153	–	–	153	–	–	306
Mr M Vaile	–	–	–	–	–	–	–
Mr S Murphy	111	–	–	111	–	–	222
Mr K Roberts	6	–	–	6	–	–	12
Other key management personnel of the Group							
Mr K Neate	547	–	–	547	–	–	1,094
Mr A David	73	–	–	73	–	–	146
Mr R Tanner	20	–	–	35	–	–	55
Mr S Swift	397	–	–	397	(329)	–	465
Ms M McArthur	–	–	–	200	–	–	200
Ms E Savage	–	–	–	–	–	–	–
Ms D Keighery	–	–	–	–	–	–	–

b. Non-key management personnel disclosures

The Group has a related party relationship with its subsidiaries (see note 33), 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:

	2011 \$'000	2010 \$'000
Purchase of goods and services – Non-key management personnel related entities		
“Virgin”, “Virgin Australia” and “Virgin Blue” brand name royalty paid to other related party*	9,665	10,265
Airline service revenue		
Revenue for airline services to associate	14,448	14,133
Dividend revenue		
From associates	–	2,281

* Royalties are payable to Virgin Enterprises Ltd (VEL). VEL are controlled by Virgin Group International Ltd, an entity which has significant influence over the Group. At 30 June 2011, the Group had a current payable of \$2.7 million (2010: \$2.5 million) owed to VEL.

37. Related parties (continued)

b. Non-key management personnel disclosures (continued)

Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with Polynesian Blue Limited (associate):

	2011 \$'000	2010 \$'000
Key management personnel and key management personnel related entities		
<i>Current receivables (sales of goods and services)</i>		
Polynesian Blue Limited	5,627	2,826
<i>Current payables (purchases of goods and services)</i>		
Polynesian Blue Limited	7,257	7,868

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

	2011 \$'000	2010 \$'000
Loans to associates		
Beginning of the year	–	1,533.3
Loan repayments received	–	(1,496.0)
Foreign exchange loss	–	(37.3)
End of the year	–	–

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

All transactions were made on normal terms and conditions and at market rates.

Loans to associates bore a floating interest rate, equal to the New Zealand Reserve Bank Bill Rate. The loan was fully repaid during 2010.

38. 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:

	2011 \$'000	2010 \$'000
Statutory audit		
<i>KPMG Australia:</i>		
– Audit and review of financial reports	969	934
Other services		
<i>KPMG Australia:</i>		
– Taxation services	40	32
– Other assurance, accounting assistance and other services	291	388
	331	420

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

39. Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries identified in note 33 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 *Corporations Act 2001*, 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, consolidated Statement of Comprehensive Income and consolidated Statement of Financial Position, 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 is set out as follows:

	2011 \$m	2010 \$m
Income Statement		
Revenue and income	2,719.1	2,537.2
Operating expenses	(2,777.7)	(2,423.8)
(Loss)/ profit before tax expense, net finance costs, ineffective cash flow hedges and non-designated derivatives	(58.6)	113.4
Ineffective cash flow hedges and non-designated derivatives	(33.4)	12.6
Profit/(loss) before income tax expense and net finance costs	(92.0)	126.0
Finance costs	(67.0)	(65.5)
Finance income	43.2	32.7
Profit/(loss) before income tax expense	(115.8)	93.2
Income tax expense/(benefit)	(22.1)	30.8
Net profit/(loss)	(93.7)	62.4
Statement of Comprehensive Income and Retained Profits		
Profit/(loss) for the period	(93.7)	62.4
Other comprehensive income	(17.7)	64.2
Total comprehensive income for the period	(111.4)	126.6
Transfers to/(from) reserves	17.7	(64.2)
Retained profits at the beginning of the year (restated)	404.5*	342.1*
Retained profits at the end of the year	310.8	404.5*

39. Deed of Cross Guarantee (continued)

	2011 \$m	2010 \$m Restated
Statement of Financial Position		
Current assets		
Cash and cash equivalents	528.3	595.6
Trade and other receivables	345.3	316.5
Inventories	4.7	–
Derivative financial instruments	7.4	26.1
Other financial assets	3.6	–
Other current assets	0.8	6.9
Total current assets	890.1	945.1
Non-current assets		
Other financial assets	34.5	31.4
Property, plant and equipment	1,736.7	1,938.2
Deferred tax assets	30.3	–
Intangible assets	67.7	50.1
Other non-current assets	6.4	–
Total non-current assets	1,875.6	2,019.7
Total assets	2,765.7	2,964.8
Current liabilities		
Trade and other payables	303.0	234.8
Interest-bearing liabilities	135.3	138.6
Provisions	91.1	76.1
Derivative financial instruments	45.6	24.1
Unearned revenue	380.4	325.6
Total current liabilities	955.4	799.2
Non-current liabilities		
Trade and other payables	3.8	–
Derivative financial instruments	4.1	8.3
Interest-bearing liabilities	835.5	1,020.5
Provisions	49.2	75.9
Deferred tax liabilities	–	31.3
Unearned revenue	–	0.5
Total non-current liabilities	892.6	1,136.5
Total liabilities	1,848.0	1,935.7
Net assets	917.7	1,029.1
Equity		
Share capital	624.9	624.9
Reserves	(18.0)	(0.3)*
Retained profits	310.8	404.5*
Total equity	917.7	1,029.1

* See note 41 for details of a prior period restatement between reserves and retained earnings at 1 July 2009. This had no impact on profit for either the 2010 or the 2011 financial years.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

40. Parent entity disclosures

As at, and throughout the financial year ended 30 June 2011 the parent company of the Group was Virgin Blue Holdings Limited.

a. Financial results and position of the parent entity

	The Company	
	2011 \$m	2010 \$m
Result of the parent entity		
Profit/(loss) for the period	13.1	7.8
Total comprehensive income for the period	13.1	7.8
Financial position of the parent entity at year end		
Current assets	724.5	582.0
Total assets	963.1	749.5
Current liabilities	261.8	62.2
Total liabilities	261.8	62.2
Total equity of the parent comprising of:		
Share capital	655.6	655.0
Share-based payments reserve	15.6	15.3
Retained earnings	30.1	17.0
Total equity	701.3	687.3

b. Parent entity contingencies

The Company does not have any contingent assets or contingent liabilities at 30 June 2011 (2010: nil).

c. Parent entity capital commitments for acquisition of property, plant and equipment

The Company does not have any capital commitments at 30 June 2011 (2010: nil).

d. Parent entity guarantees in respect of debts of its subsidiaries

The Company has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of a number of its subsidiaries.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the Deed, are disclosed in note 39.

41. Restatement of prior period comparative information

There was a restatement of the valuation of the USD denominated hedge reserve at 1 July 2009 due to a change in the translation of hedge balances within the hedge reserve.

The impact of the change in valuation of the hedge reserve was corrected by restating the comparative line items within equity that were affected as set out below:

	As Previously Stated 2010 \$m	Adjustment 2010 \$m	Restated 2010 \$m
Hedge Reserve – 1 July 2009	(96.5)	16.6	(79.9)
Hedge Reserve – 30 June 2010	(32.3)	16.6	(15.7)
Retained Earnings – 1 July 2009	283.3	(16.6)	266.7
Retained Earnings – 30 June 2010	304.6	(16.6)	288.0

There was no impact on profit or loss for the year ended 30 June 2010, and no impact on basic or diluted earnings per share.

Directors' declaration

1. In the opinion of the directors of Virgin Blue Holdings Limited ("the Company"):
 - a. the consolidated financial statements and notes that are set out on pages 70 to 130 and 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 Group's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
 - 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.
2. There are reasonable grounds to believe that the Company and the group entities identified in note 39 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 2011.
4. The directors draw attention to note 2(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:



John Borghetti
Director

Dated at Brisbane this 29th day of September 2011



Independent audit 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 consolidated statement of financial position as at 30 June 2011, and consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 41 comprising a summary of significant accounting policies and other explanatory information 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply 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 of the financial report that gives a true and fair view 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, a true and fair view which is consistent with our understanding of the Group's financial position and of its 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 the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report 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 48 to 64 of the directors' report for the year ended 30 June 2011. 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 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Brisbane
29 September 2011

A W Young
Partner

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Liability limited by a scheme approved under Professional Standards Legislation.

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 13 September 2011)

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 26.

Options and rights

Refer to note 36.

Distribution of equity security holders

Category	Number of equity security holders	
	Ordinary shares	Options
1 – 1,000	21,543	–
1,001 – 5,000	19,967	–
5,001 – 10,000	5,682	–
10,001 – 100,000	8,342	88
100,001 and over	929	35
	56,463	123

27,353 shareholders hold less than a marketable parcel of ordinary shares.

On-market buy-back

There is no current on-market buy-back.

ASX Additional Information (continued)

Twenty largest shareholders Name	Number of ordinary shares held	Capital held %
Vieco 2 Limited	573,015,919	25.93
Air New Zealand Associated Companies Limited	265,609,129	12.02
Citicorp Nominees Pty Limited	125,512,696	5.68
National Nominees Limited	117,786,457	5.33
J P Morgan Nominees Australia Limited	107,194,405	4.85
HSBC Custody Nominees (Australia) Limited	74,014,452	3.35
Air New Zealand Associated Companies Limited ANZACL A/C	65,650,728	2.97
CU Nominees Pty Limited	56,294,826	2.55
Cogent Nominees Pty Limited	24,289,536	1.10
Queensland Investment Corporation	23,971,926	1.08
CPU Share Plans Pty Limited, Virgin Blue KEPP	20,159,744	0.91
PGA (Investments) Pty Limited	20,000,000	0.90
Cogent Nominees Pty Limited <SMP	16,964,607	0.77
AMP Life Limited	12,011,607	0.54
Woodross Nominees Pty Limited	10,003,404	0.45
Bond Street Custodians Limited, Macquarie Smaller Co's A/C	7,123,635	0.32
Just Super Co Pty Limited, Super Fund A/C	5,930,580	0.27
Bond Street Custodians Limited <MACQ	5,502,051	0.25
Chesters Nominee Pty Limited	5,000,000	0.23
Vieco 3 Limited	4,500,000	0.20
	1,540,535,702	69.70

Corporate Directory

COMPANY SECRETARY

Mr Adam Thatcher

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

117 Victoria Street

West End QLD 4101

Telephone: 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia)

SECURITIES EXCHANGE

The Company is listed on the Australian Securities 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.

sustainability supplement

The 2011 Annual Report represents the first year Virgin Australia group of airlines has reported comprehensively on a range of sustainable development topics and performance indicators. The sustainability content of this report has been developed according to the Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines, using Application Level C criteria. The GRI is the world's most widely used sustainability reporting framework, which sets out the principles and performance indicators that organisations can use to measure and report their economic, environmental, and social performance.

This report presents a summary of the Virgin Australia group of airlines' corporate sustainability performance

and activities for the period 1 July 2010 through to 30 June 2011 and future reports will be provided annually on a Financial Year basis. Financial Year 2010 figures have also been provided for comparison.

This report encompasses the domestic and international operations of the Virgin Australia group of airlines, which includes Virgin Australia, V Australia, Pacific Blue and Polynesian Blue. Our alliance partnerships are not included in the scope of this report. The activities of other Virgin Group businesses are also excluded from the scope of this report. Please refer to the notes section following the performance indicators for further definition in relation to the scope of specific indicators.

We have attempted to develop the content of this report according to the GRI principles of materiality, stakeholder inclusiveness, sustainability context and completeness. Based on internal and external factors including company strategy, stakeholder interest and broader social expectations we have identified a range of material topics relevant to our operations. Each topic was prioritised according to the level of stakeholder interest and the potential current or future impact on the business.

For more information or to provide feedback on the sustainability content of this report please email sustainability@virginaustralia.com.

Sustaining our Future

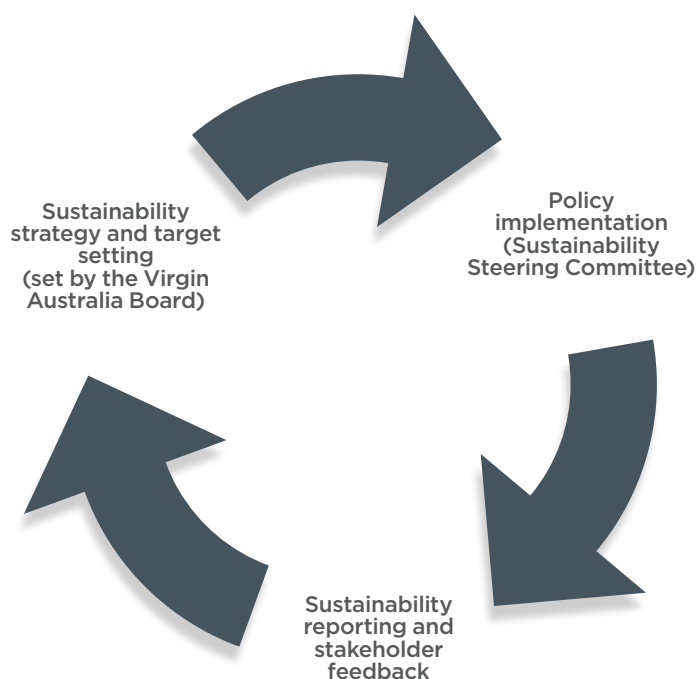
Virgin Australia group of airlines is committed to positioning the company for the long term and operating responsibly by developing strategies and practices to holistically manage our economic, social and environmental risks and opportunities now and into the future.

A key part of our Game Change Program is our commitment to becoming a more sustainable business. In December 2010, our Board of Directors formalised a vision for the airline to become a sustainability leader in the aviation industry. The vision and sustainability objectives for the airline were articulated in a formal sustainability strategy and policy for the airline. A senior cross-divisional sustainability steering committee is responsible for implementation to ensure the intent of the strategy is delivered with practical and tangible actions on the ground. We have made a commitment to reporting annually to stakeholders to ensure transparency and support a cycle of improvement with regard to our own performance.

A copy of Virgin Australia's sustainability policy can be downloaded from our website and all our sustainability performance data can be found at the back of this report.

Further information on our corporate governance processes and ethical business practices can be found in the Directors' Report.

Sustainability improvement cycle



Stakeholder group	Our engagement
Employees	Virgin Australia engages with staff through direct staff communications (email and intranet), an annual staff engagement survey, quarterly employee road shows, internal team meetings and internal training and development.
Guests	Virgin Australia engages with Guests in a number of ways including through our Guest Relations team, websites, Velocity Frequent Flyer, social media, market based research and focus groups, the in-flight magazine, touch points throughout a Guest's journey and the Guest Contact Centre.
Shareholders and investor groups	Virgin Australia engages with investors through investor briefings, annual general meetings, annual reports, sustainability reporting, and responding to investor group initiatives such as the Carbon Disclosure Project.
Governments and regulators	Virgin Australia's engagement with governments and regulators is coordinated through the Group Executive, Government Relations. This includes direct engagement as well as participation in consultation processes, policy forums and advisory groups.
Community groups	Virgin Australia engages with the broader community through Red Jet (our official charitable foundation), Virgin Unite, annual reports, our websites, the mass media, social media and our Guest Contact Centre. We also directly engage with Non-Government Organisations and community groups on specific partnerships and programs. Virgin Australia also directly engages with representatives from communities that surround airports through the Community Aviation Consultation Groups and other forums.
Unions	Virgin Australia engages directly with Union leaders on a regular basis on a range of topics, including health and safety and the negotiation of awards and EBAs.
Suppliers	Suppliers are engaged directly by Virgin Australia from procurement, contract execution and ongoing contract management.

Our Stakeholders

Virgin Australia engages with a range of stakeholders on a regular basis. We have identified our key stakeholders by analysing those groups that are intrinsically linked to, are affected by, or could have an effect on, Virgin Australia's operations. Our key stakeholders include our employees, shareholders, Guests, community groups, governments and regulators, unions and our major suppliers. A summary of our stakeholders and our present process of engagement is provided below.

While we engage regularly with all our key stakeholders, over the coming year we will be implementing measures to strengthen our stakeholder engagement processes to solicit feedback and input on issues specific to sustainability.

GRI reference	Topic	Page
1.1	Strategy and analysis	6
2.1 – 2.10	Organisational profile	1, 2, 10, 18 & 135
3.1 – 3.8	Report parameters	136
4.1 – 4.4 & 4.14 – 4.16	Governance, commitments and engagement	43 & 137
EC1	Direct economic value generated and distributed	138
EN3	Direct energy consumption	138
EN4	Indirect energy consumption	138
EN6 (partial)	Energy efficiency and renewable energy initiatives	28 & 31
EN16	Direct and indirect greenhouse gas emissions	138
EN18 (partial)	Initiatives to reduce greenhouse gas emissions	30
EN22 (partial)	Total waste generated	138
EN23	Number and volume of spills	138
EN28	Value and number of fines	138
LA1	Total workforce breakdown	139
LA7	Occupational health and safety	26 & 139
LA13	Workforce diversity	8, 46 & 139
PR5	Customer satisfaction	24 & 139

GRI Index

The following table indicates the location of the GRI standard disclosures and sustainability performance indicators included within this report. The indicators that have been reported were selected from the GRI G3 Sustainability Reporting Guidelines on the basis of their materiality to our stakeholders and the business. The majority of indicators can be found in the following data tables.

GRI performance indicators

Environment

Performance Indicator	GRI reference	Unit	2011	2010	Notes
1. Energy					
Aviation fuel	EN3	000 Litres	1,161,232*	1,047,718	1
Electricity (Australia only)	EN4	kWh	15,838,394*	15,334,721	2
Direct energy use	EN3	Gj	42,766,927*	38,575,899	3
In-direct energy use (Australia only)	EN4	Gj	57,018*	55,205	3
Total energy use	EN4	Gj	42,823,945*	38,631,104	3
2. Emissions (CO ₂ -e)					
Total CO ₂ -e emissions	EN16	Tonnes CO ₂ -e	2,991,486*	2,697,950	4
Scope 1 emissions	EN16	Tonnes CO ₂ -e	2,976,751*	2,683,694	
Scope 2 emissions (Australia only)	EN16	Tonnes CO ₂ -e	14,735*	14,256	
Emissions offset by Guests		Tonnes CO ₂ -e	65,491	74,073	
3. Waste					
Waste to landfill (Australia only)	EN22	Tonnes	1,960	2,062	6
Waste diverted from landfill (Australia only)	EN22	Tonnes	102	60	7
Printer cartridges recycled (Australia only)	EN22	#	1,212	1,186	8
4. Other environmental					
Fuel jettison events	EN23	#	1	3	9
Fuel jettison volume	EN23	000 Litres	16.67	138.46	9
Number of fines	EN28	#	0	–	10
Value of fines	EN28	AUS \$	0	–	10
Non-monetary sanctions	EN28	#	0	–	10
5. Efficiency measures					
Carbon efficiency		Grams CO ₂ -e / RPK	99.83	98.91	11
Fuel efficiency		Litres / 100 RPK	3.88	3.79	11

* Limited assurance obtained on EN3, EN4 and EN16 for 2011 figures. Refer to the independent limited assurance report on page 141.

Economic

Performance Indicator	GRI reference	Unit	2011	2010	Notes
1. Financial					
Revenue	EC1		See Financial Statements		
Operating costs	EC1		See Financial Statements		
Labour and staff costs	EC1		See Financial Statements		
Payments to providers of capital	EC1		See Financial Statements		
Payments to governments (tax)	EC1		See Financial Statements		
Economic value retained (profit)	EC1		See Financial Statements		
2. Community					
Red Jet cash donations and sponsorships	EC1	AUS \$	361,239	–	12
Red Jet funds raised for charity	EC1	AUS \$	1,478,238	–	13

Social

Performance Indicator	GRI reference	Unit	2011	2010	Notes
1. People					14
Full time employees	LA1	#	6,159	5,569	15
Part time employees	LA1	#	1,104	907	15
Australian based	LA1	#	6,735	6,013	16
New Zealand based	LA1	#	528	463	16
Total employees	LA1	#	7,263	6,476	17
% part time	LA1	%	15.20	14.01	
2. Health and safety					18
Lost Time Injury Frequency Rate (LTIFR)	LA7	Rate	17.06	18.45	19
Occupational disease	LA7	#	3	3	20
Absentee rate	LA7	%	3.84	3.79	21
3. Employee diversity					
Female employees	LA13	#	3519	3108	
Female employees	LA13	%	48	48	
Indigenous employees	LA13	#	38	13	
Indigenous employees	LA13	%	0.52	0.20	
Females in senior positions	LA13	%	28	24	22
Females on the Board	LA13	#	1	1	
Employees by age group					
16-24 years	LA13	%	10.71	10.92	
25-34 years	LA13	%	43.22	44.39	
35-44 years	LA13	%	30.07	29.29	
45-54 years	LA13	%	12.28	11.83	
55-64 years	LA13	%	3.46	3.32	
Over 65 years	LA13	%	0.26	0.25	
4. Guest satisfaction					
On Time Performance - Departures	PR5	%	79.9	85.3	23
On Time Performance - Arrivals	PR5	%	78.7	85.0	23
Cancellations	PR5	%	2.0	1.6	24

Footnotes to sustainability performance indicators

Footnotes and Definitions

1. Total volume of aviation fuel used by Virgin Australia, V Australia, Pacific Blue and Polynesian Blue for domestic and international operations, based on fuel uplifted for each flight. 100 per cent of Polynesian Blue fuel use has been included in the scope. Engine oil figures for 2010 were limited to domestic operations, while 2011 figures have been updated to capture oil used across the whole fleet.
2. Electricity consumption from facilities in Australia where it is metered separately and Virgin Australia is billed separately (i.e. excludes electricity incorporated in overheads in lease agreements). For future reporting Virgin Australia will endeavour to expand the scope of reported electricity use to include international ports where it is metered and billed separately.
3. Direct and indirect energy is calculated based on the energy content of aviation fuel, ground fuel (unleaded petrol and diesel) and electricity purchased by the Virgin Australia group of airlines. EN3 and EN4 have been developed in accordance with the GRI G3 Guidelines, using the energy content factors published in the Australian Government's NGER Technical Guidelines (June 2010).
4. Scope 1 emissions include those from aviation fuel and aircraft engine oil from international and domestic operations as well as ground fuel from airport operations in Australia. Scope 2 emissions include electricity use from Australian facilities where it is billed and metered separately. EN16 has been developed in accordance with the GRI G3 Guidelines, using the Australian Government's NGER Technical Guidelines (June 2010).
5. Total emissions voluntarily offset by Virgin Australia Guests using the Virgin Australia Carbon Offset Program. Carbon offset values (measured in kgs of CO₂-e per passenger per sector) are based on an extensive life cycle assessment, which is updated annually using actual fuel burn data from the previous 12 months. Virgin Australia's Carbon Offset Program is certified under the Australian Government's National Carbon Offset Standard Carbon Neutral program.
6. Total waste sent to land fill in Australia from Virgin Australia facilities where Virgin Australia is billed separately (i.e. it is not included in overheads in lease agreements or waste disposed of using shared waste facilities on airports), including aircraft waste at Sydney, Brisbane, Adelaide and Perth, our Brisbane head office and domestic terminal building and our maintenance facilities in Brisbane and Melbourne.
7. Total waste diverted from landfill (recycled), from Virgin Australia facilities where Virgin Australia is billed separately (i.e. it is not included in overheads in lease agreements or waste disposed of using shared waste facilities on airports), including our Brisbane head office and domestic terminal building.
8. Total number of toner bottles, cartridges and drums collected and recycled by Close the Loop from Virgin Australia facilities in Australia.
9. Total number of fuel jettison events and volume of fuel dumped from our Boeing 777 fleet. All were due to aircraft diversions. Boeing 737 and Embraer E170/190 do not have capability.
10. Fines and sanctions for failure to comply with Australian environmental laws and regulations.
11. Efficiency Measures: Carbon efficiency measured in grams of CO₂-e per revenue passenger kilometre (Total greenhouse gas emissions have been used to calculate carbon efficiency). Fuel efficiency measured in litres of aviation fuel per 100 revenue passenger kilometres (RPKs).
12. Total value of sponsorships and donations made by Red Jet on behalf of Virgin Australia in Financial Year 2011 (FY11). Please refer to the Our Community section of this report for more information on Virgin Australia's community sponsorships and donations.
13. Total value of funds raised by Red Jet and Virgin Australia in FY11 in response to crisis events, where all proceeds went direct to charity, e.g. Queensland Floods and Christchurch Earthquake. Please refer to the Our Community section of this report for more detail on our crisis response.
14. Does not include casual employees of which there were 27 in FY11.
15. Total number of full time and part time team members in Australia and New Zealand as at 30 June 2011.
16. Total number of team members (full time and part time) based in Australia and New Zealand as at 30 June 2011.
17. Total number of Virgin Australia team members as at 30 June 2011 (full time and part time combined).
18. Virgin Australia had no employee fatalities in FY11.
19. Lost Time Injury Frequency Rate: Lost time injuries per million hours worked, where lost time was greater than four hours. Full time team members only.
20. Total number of accepted workers compensation claims related to mental health including stress, anxiety, depression and post traumatic stress disorder.
21. Absentee Rate: Unscheduled absences include the number of hours taken as sick, unpaid sick, URTI, carer's, leave without pay, non-contactable, unauthorised leave, bereavement leave and unpaid special circumstances leave types. Unscheduled absences of twelve weeks or more are excluded. Calculation: total unscheduled absence hours / total available hours less annual leave taken.
22. Senior positions are defined as Chief Executive Officer, Group Executive, General Manager and Manager.
23. On Time Performance as measured by the percentage of flights departing or arriving within 15 minutes of scheduled departure or arrival time.
24. Cancellations - The percentage of flights cancelled relative to total flights.

Independent limited assurance report to Virgin Blue Holdings Limited

Our conclusion:

Based on the procedures performed, as described below, nothing has come to our attention that causes us to believe that the total amounts reported for the three GRI performance indicators of EN3, EN4 and EN16 for the year ended 30 June 2011 identified below, have not, in all material respects, been prepared in accordance with the applicable elements of the GRI G3 Guidelines.

We have been engaged by Virgin Blue Holdings Limited to perform an engagement to provide limited assurance in respect of the Assured Sustainability Parameters identified below, which have been included in the Sustainability Supplement of Virgin Blue Holdings Limited's Annual Report (the "Sustainability Supplement") for the year ended 30 June 2011.

Management's and directors' responsibility for the Assured Sustainability Parameters

The directors and management of Virgin Blue Holdings Limited are responsible for the preparation of the Assured Sustainability Parameters in accordance with the GRI G3 Guidelines as stated in the indicators protocols applicable to EN3, EN4 and EN16. This responsibility includes establishing and maintaining internal control systems relevant to the preparation of the Assured Sustainability Parameters that are free from material misstatement whether due to fraud or error.

The Assured Sustainability Parameters

The Assured Sustainability Parameters covered by our limited assurance engagement are:

Assured Sustainability Parameters	Sustainability Section
Direct energy consumption by primary energy source (EN3)	Page 138
Indirect energy consumption (EN4)	Page 138
Total direct and indirect greenhouse gas emissions by weight (EN16)	Page 138

We have not been engaged to and therefore did not provide assurance over comparative data for the year ended 30 June 2010 reported for EN3, EN4 and EN16.

Our responsibility

Our responsibility is to express a limited assurance conclusion to the directors and management on the preparation and presentation of the Assured Sustainability Parameters included in the Sustainability Supplement of the Annual Report for the year ended 30 June 2011.

We conducted our limited assurance engagement in accordance with the Standard on Assurance Engagements ASAE 3000 *Assurance Engagements other than Audits and Reviews of Historical Financial Information* and other relevant Auditing and Assurance Standards, in order to state whether we have become aware of any matter that would lead us to believe that the Assured Sustainability Parameters contained in the Sustainability Supplement for the year ended 30 June 2011 have not, in all material respects, been prepared in accordance with the applicable elements of the GRI G3 Guidelines.

ASAE 3000 requires us to comply with the requirements of the Code of Ethics for Professional Accountants as issued by the Accounting Professionals and Ethical Standards Board and plan and perform the engagement to obtain limited assurance about whether the Assured Sustainability Parameters are free from material misstatement.

A limited assurance engagement on sustainability information consists of making enquiries, primarily of persons responsible for the management, monitoring and preparation of the Assured Sustainability Parameters, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included the following:

- Interviews with and enquiries of relevant staff responsible for the preparation of the Assured Sustainability Parameters including obtaining an understanding of the design and implementation of the systems and methods used to collect and process the Assured Sustainability Parameters, including the aggregation of the reported information;
- Interviews and enquiries with senior management and relevant staff at corporate and selected business unit level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- Interviews and enquiries with senior management to gain an understanding of Virgin Blue Holdings Limited's processes for determining material issues for Virgin Blue Holdings Limited's key stakeholder groups;
- Performing analytical procedures to determine whether the Assured Sustainability Parameters are in line with our overall knowledge of, and experience with, the sustainability performance of Virgin Blue Holdings Limited; and
- Comparing the Assured Sustainability Parameters to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Sustainability Supplement.



Independent limited assurance report to Virgin Blue Holdings Limited (continued)

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement or an audit conducted in accordance with Australian Auditing and Assurance Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit or a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance or audit opinion.

This report has been prepared for Virgin Blue Holdings Limited. We disclaim any assumption of responsibility for any reliance on this report, or the Assured Sustainability Parameters to which it relates, to any person other than Virgin Blue Holdings Limited, or for any purpose other than that for which it was prepared.

Independence

In conducting our engagement, we have complied with the applicable ethical requirements, including independence requirements of the Code of Ethics for Professional Accountants issued by the Australian Accounting Professional and Ethical Standards Board.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

Brisbane
29 September 2011