Virgin Australia Holdings Limited

Appendix 4D and Interim Financial Report

For the half-year ended 31 December 2013

VIRGIN AUSTRALIA HOLDINGS LIMITED

ACN: 100 686 226

ASX CODE: VAH

Contents

ASX Appendix 4D

For the half-year ended 31 December 2013

1. Details of the reporting period and the prior corresponding period

Reporting period:	1 July 2013 to 31 December 2013
Previous corresponding period:	1 July 2012 to 31 December 2012

2. Results for announcement to the market

		%		$m
Revenue from ordinary activities	**Up**	**6.4**	**to**	**2,242.1**
Loss from ordinary activities after income tax attributable to members	**Down**	**463.9**	**to**	**(83.7)**
Net loss for the period attributable to members	**Down**	**463.9**	**to**	**(83.7)**

3. Dividends

31 December 2013	**Amount per security**	**Franked amount per security**
Final Dividend	**Nil**	**Nil**
Interim Dividend	**Nil**	**Nil**

4. Explanation of results

A commentary on the results for the half-year ended 31 December 2013 is contained in the attached Australian Stock Exchange (ASX) release.

5. Net tangible assets

	31 December 2013 $	**30 June 2013 $**
Net tangible assets per ordinary share*	**0.26**	**0.28**

*Derived by dividing the net assets attributable to equity holders less intangible assets, calculated on total issued shares of 3,503.3 million (2013: 2,567.5 million).

6. Details of associates and joint venture entities

	Percentage of ownership interest held:		**Contribution to net (loss)/profit:**	
Entity	**31 December 2013 %**	**31 December 2012 %**	**31 December 2013 $m**	**31 December 2012 $m**
Virgin Samoa Limited	**49**	49	**(0.9)**	0.7
Tiger Airways Australia Pty Limited[1]	**60**	-	**(18.4)**	-

[1]On 8 July 2013, a 60% shareholding in Tiger Airways Australia Pty Limited was acquired. Refer to note 7 of the consolidated interim financial statements, Acquisition of Interest in Joint Venture.

7. Control gained or lost over entities during the period, and those having material effect

(a) Name of entities where control was gained in the period

The following entities were incorporated during the period:

Entity	Place of Incorporation	Date of Incorporation
VA Hold Co Pty Ltd	Australia	27 August 2013
VA Lease Co Pty Ltd	Australia	27 August 2013
Virgin Australia 2013-1 Issuer Co Pty Ltd	Australia	27 August 2013

(b) Name of entities where control was lost in the period

No entities were disposed of due to loss of control during the period.

Virgin Australia Holdings Limited

Interim Financial Report

For the half-year ended 31 December 2013

Corporate directory

Company secretary

Mr Adam Thatcher

Principal administrative and registered office

Virgin Australia Holdings Limited
56 Edmondstone Road
Bowen Hills
QLD 4006
Australia
Telephone: (07) 3295 3000 (within Australia) or +61 7 3295 3000 (outside Australia)

Share registry

Computershare Investor Services Pty Limited
117 Victoria Street
West End
QLD 4101
Australia
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 Australia Holdings Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Directors' report

The directors present their report together with the consolidated interim financial statements of the Group comprising Virgin Australia Holdings Limited (VAH) (the Company) and its subsidiaries and the Group's interests in associates and joint ventures, for the half-year ended 31 December 2013 and the auditor's review report thereon.

1. Directors

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

Name	Position	Period of directorship
Mr Neil Chatfield	Independent Non-Executive Chairman	Current, appointed as a Director 11 May 2006
		Current, appointed as Chairman 14 June 2007
Ms Samantha Mostyn	Independent Non-Executive Director	Current, appointed 1 September 2010
Mr Robert Thomas	Independent Non-Executive Director	Current, appointed 8 September 2006
The Hon. Mark Vaile AO	Independent Non-Executive Director	Current, appointed 22 September 2008
Mr John Borghetti	Managing Director and Chief Executive Officer	Current, appointed 8 May 2010
Mr David Baxby	Independent Non-Executive Director	Current, appointed 30 September 2004
Mr Joshua Bayliss	Non-Executive Director	Current, appointed 6 April 2011
Mr Keith Roberts	Alternate Director	Current, appointed 17 May 2012 for Mr Joshua Bayliss;
		Ceased 20 July 2013 for Mr David Baxby (appointed 28 November 2008)

2. Review of operations

Net loss after income tax attributable to the owners of $83.7 million for the half-year ended 31 December 2013 represents a decrease in results from a $23.0 million net profit after income tax in the prior corresponding half-year ended 31 December 2012.

Revenue and income increased 6.4 per cent from $2,107.4 million in the prior corresponding half-year ended 31 December 2012 to $2,242.1 million for the half-year ended 31 December 2013.

Net operating expenses increased 10.9 per cent from $2,059.4 million in the prior corresponding half-year ended 31 December 2012 to $2,283.5 million for the half-year ended 31 December 2013.

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

The lead auditor's independence declaration is set out on page 6, and forms part of the Directors' report for the half-year ended 31 December 2013.

4. 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 condensed consolidated interim financial statements and directors' report have been rounded off to the nearest one hundred thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors:

Neil Chatfield
Director

Sydney

27 February 2014

John Borghetti
Director

Sydney

27 February 2014

KPMG

Lead Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001*

To: The directors of Virgin Australia Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2013 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

AWYoung

A W Young
Partner

Sydney

27 February 2014

Consolidated statement of profit or loss

For the half-year ended 31 December 2013

	Note	Half-year to 31 December 2013 $m	Half-year to 31 December 2012 $m
Revenue and income			
Revenue		**2,224.8**	2,106.0
Other income		**8.8**	1.3
Net foreign exchange gains		**8.5**	0.1
		2,242.1	2,107.4
Operating expenditure			
Aircraft operating lease expenses		**125.8**	120.3
Airport charges, navigation and station operations		**401.5**	363.0
Contract and other maintenance expenses		**139.4**	100.6
Commissions and other marketing and reservations expenses		**153.6**	147.1
Fuel and oil		**608.0**	576.0
Labour and staff related expenses		**517.0**	449.6
Other expenses from ordinary activities		**227.9**	193.5
Depreciation and amortisation		**128.3**	123.3
Ineffective cash flow hedges and non-designated derivatives (gains)/losses		**(18.0)**	(14.0)
Net operating expenses		**2,283.5**	2,059.4
Share of net (losses)/profits of equity accounted investees		**(19.3)**	0.7
(Loss)/profit before related income tax benefit/(expense) and net finance costs		**(60.7)**	48.7
Finance income		**5.1**	12.5
Finance costs		**(62.4)**	(33.0)
Net finance costs	6	**(57.3)**	(20.5)
(Loss)/profit before income tax benefit/(expense)		**(118.0)**	28.2
Income tax benefit/(expense)		**34.3**	(5.2)
Net (loss)/profit attributable to the owners of Virgin Australia Holdings Limited		**(83.7)**	23.0

Earnings per share for (loss)/profit attributable to the ordinary equity holders of the Company:	Cents	Cents
Basic earnings per share	**(3.1)**	1.0
Diluted earnings per share	**(3.1)**	1.0

The above consolidated statement of profit or loss is to be read in conjunction with the accompanying condensed notes to the consolidated interim financial statements.

Consolidated statement of comprehensive income

For the half-year ended 31 December 2013

	Half-year to 31 December 2013 $m	Half-year to 31 December 2012 $m
(Loss)/profit for the period	**(83.7)**	23.0
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**(56.7)**	4.9
Effective portion of changes in fair value of cash flow hedges	**22.6**	20.9
Net change in fair value of cash flow hedges transferred to profit or loss	**(20.0)**	10.7
Income tax (expense)/benefit on other comprehensive income	**(0.8)**	(9.5)
Other comprehensive (loss)/income for the period, net of income tax	**(54.9)**	27.0
Total comprehensive (loss)/income for the period attributable to owners of Virgin Australia Holdings Limited	**(138.6)**	50.0

The above consolidated statement of comprehensive income is to be read in conjunction with the accompanying condensed notes to the consolidated interim financial statements.

Consolidated statement of financial position

As at 31 December 2013

	Note	As at 31 December 2013 $m	As at 30 June 2013 $m
Current assets			
Cash and cash equivalents		**896.4**	580.5
Trade and other receivables		**304.9**	257.4
Inventories		**35.4**	29.8
Derivative financial instruments		**115.7**	96.8
Other financial assets		**9.5**	3.4
Other current assets		**6.3**	3.0
Assets classified as held for sale	8	**63.1**	-
Total current assets		**1,431.3**	970.9
Non-current assets			
Trade and other receivables		**22.8**	1.8
Derivative financial instruments		**10.3**	16.8
Other financial assets		**31.6**	42.6
Investments accounted for using the equity method	7	**23.5**	7.8
Deferred tax assets		**64.0**	32.6
Property, plant and equipment	8	**2,918.8**	3,005.2
Intangible assets	9	**350.5**	329.6
Other non-current assets		**24.9**	18.7
Total non-current assets		**3,446.4**	3,455.1
Total assets		**4,877.7**	4,426.0
Current liabilities			
Trade and other payables		**574.9**	580.4
Interest-bearing liabilities	11	**366.3**	373.5
Provisions		**94.1**	102.0
Unearned revenue		**720.7**	736.1
Other current liabilities		**0.4**	1.1
Current tax liabilities		**0.8**	-
Total current liabilities		**1,757.2**	1,793.1
Non-current liabilities			
Trade and other payables		**8.5**	6.6
Interest-bearing liabilities	11	**1,784.3**	1,516.4
Derivative financial instruments		**-**	9.3
Provisions		**66.9**	53.6
Other non-current liabilities		**7.2**	6.9
Total non-current liabilities		**1,866.9**	1,592.8
Total liabilities		**3,624.1**	3,385.9
Net assets		**1,253.6**	1,040.1
Equity			
Share capital	12	**1,147.4**	794.7
Reserves		**45.0**	100.5
Retained profits		**61.2**	144.9
Total equity		**1,253.6**	1,040.1

The above consolidated statement of financial position is to be read in conjunction with the accompanying condensed notes to the consolidated interim financial statements.

Consolidated statement of changes in equity

For the half-year ended 31 December 2013

	Attributable to owners of the Company					
	Share capital	Foreign currency translation reserve	Hedging reserve	Share-based payments reserve	Retained earnings	Total equity
	$m	$m	$m	$m	$m	$m
Balance at 1 July 2012	633.3	71.4	(34.7)	16.7	243.0	929.7
Total comprehensive income for the period						
(Loss)/profit for the period	-	-	-	-	23.0	23.0
Other comprehensive income*						
Foreign currency translation differences	-	4.9	-	-	-	4.9
Effective portion of changes in fair value of cash flow hedges	-	-	14.6	-	-	14.6
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	7.5	-	-	7.5
Total other comprehensive income/(loss)	-	4.9	22.1	-	-	27.0
Total comprehensive income/(loss) for the period	-	4.9	22.1	-	23.0	50.0
Transactions with owners, recorded directly in equity*						
Issue of ordinary shares for cash	105.3	-	-	-	-	105.3
Share-based payment transactions	2.2	-	-	(1.7)	-	0.5
Total transactions with owners	107.5	-	-	(1.7)	-	105.8
Balance at 31 December 2012	740.8	76.3	(12.6)	15.0	266.0	1,085.5

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

The above consolidated statement of changes in equity is to be read in conjunction with the accompanying condensed notes to the consolidated interim financial statements.

Consolidated statement of changes in equity (continued)

For the half-year ended 31 December 2013

	Note	Attributable to owners of the Company					
		Share capital	Foreign currency translation reserve	Hedging reserve	Share-based payments reserve	Retained earnings	Total equity
		$m	$m	$m	$m	$m	$m
Balance at 1 July 2013		794.7	42.7	40.9	16.9	144.9	1,040.1
Total comprehensive income for the period							
(Loss)/profit for the period		-	-	-	-	(83.7)	(83.7)
Other comprehensive income*							
Foreign currency translation differences		-	(56.7)	-	-	-	(56.7)
Effective portion of changes in fair value of cash flow hedges		-	-	15.8	-	-	15.8
Net change in fair value of cash flow hedges transferred to profit or loss		-	-	(14.0)	-	-	(14.0)
Total other comprehensive (loss)/income		-	(56.7)	1.8	-	-	(54.9)
Total comprehensive (loss)/income for the period		-	(56.7)	1.8	-	(83.7)	(138.6)
Transactions with owners, recorded directly in equity*							
Issue of ordinary shares for cash	12	349.8	-	-	-	-	349.8
Share-based payment transactions	15	2.9	-	-	(0.6)	-	2.3
Total transactions with owners		352.7	-	-	(0.6)	-	352.1
Balance at 31 December 2013		1,147.4	(14.0)	42.7	16.3	61.2	1,253.6

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

The above consolidated statement of changes in equity is to be read in conjunction with the accompanying condensed notes to the consolidated interim financial statements.

Consolidated statement of cash flows

For the half-year ended 31 December 2013

	Note	Half-year to 31 December 2013 $m	Half-year to 31 December 2012 $m
Cash flows from operating activities			
Cash receipts from customers		**2,405.7**	2,252.1
Cash paid to suppliers and employees		**(2,297.0)**	(2,169.3)
Cash generated from operating activities		**108.7**	82.8
Cash paid for business and capital restructure costs		**(36.4)**	(18.1)
Finance costs paid		**(29.0)**	(35.4)
Finance income received		**4.3**	13.3
Net cash from operating activities		**47.6**	42.6
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(306.7)**	(260.5)
Proceeds on disposal of property, plant and equipment		**140.5**	-
Acquisition of intangible assets		**(32.5)**	(55.1)
Acquisitions of interest in joint venture	7	**(35.0)**	-
Advances of loans to joint venture	17	**(55.8)**	-
Repayments of loans to joint venture	17	**24.2**	-
(Acquisition of)/proceeds from other deposits		**(0.5)**	2.7
Net cash used in investing activities		**(265.8)**	(312.9)
Cash flows from financing activities			
Proceeds from borrowings	11	**933.8**	196.5
Repayment of borrowings	11	**(726.6)**	(151.4)
Payments of transaction costs related to borrowings		**(25.3)**	(7.4)
Net proceeds from share issue	12	**349.1**	105.3
Loans from associate	17	**1.7**	8.7
Repayments of loans from associate	17	**(5.0)**	-
Net cash from financing activities		**527.7**	151.7
Net increase/(decrease) in cash and cash equivalents		**309.5**	(118.6)
Cash and cash equivalents at 1 July		**580.5**	802.6
Effect of exchange rate fluctuations on cash held		**6.4**	1.1
Cash and cash equivalents at 31 December		**896.4**	685.1

The above consolidated statement of cash flows is to be read in conjunction with the accompanying condensed notes to the consolidated interim financial statements.

Condensed notes to the consolidated interim financial statements

For the half-year ended 31 December 2013

1. Reporting entity

Virgin Australia Holdings Limited (VAH) (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, Queensland.

The condensed consolidated interim financial statements of the Company as at and for the half-year ended 31 December 2013 comprises: the Company and its subsidiaries (together referred to as the Group, and individually as Group entities), and the Group's interests in associates and joint ventures.

The Group is a for-profit entity and is primarily involved in the airline industry, both domestic and international.

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2013 is available upon request from the Company's registered office, or at www.virginaustralia.com.au.

2. Basis of preparation

(a) Statement of compliance

The condensed consolidated interim financial statements are general purpose financial statements which have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated annual financial statements of the Group as at and for the year ended 30 June 2013.

The condensed consolidated interim financial statements were approved by the Board of Directors on 27 February 2014.

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the condensed consolidated interim financial statements have been rounded off to the nearest one hundred thousand dollars, unless otherwise stated.

The Group's current liabilities exceed its current assets for the half-year ended 31 December 2013. The condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates the return to profitable trading and continuing positive cash flows from operations. A net improvement of $496.3 million in net current liabilities was achieved in the half-year ended 31 December 2013, mainly due to an increase in cash and cash equivalents primarily due to debt and equity funding raised during the half-year. The Group has a cash and cash equivalents balance at 31 December 2013 of $896.4 million (30 June 2013: $580.5 million) and has an unrestricted cash balance at 31 December 2013 of $665.4 million.

The condensed consolidated interim financial statements has been prepared on the basis of historical costs, except in accordance with relevant accounting policies where assets and liabilities are stated at fair value in accordance with relevant accounting policies.

(b) Use of estimates and judgements

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those applied to the annual consolidated financial statements as at and for the year ended 30 June 2013. The significant judgements and changes in estimates recognised in the half-year ended 31 December 2013 and the comparative half-year ended 31 December 2012 are detailed as follows:

2. Basis of preparation (continued)

(b) Use of estimates and judgements (continued)

(i) Maintenance provisions

The Group continually assesses maintenance obligations including those under leasing arrangements. The Group has an evolving lease portfolio with the addition of new aircraft types to the fleet. Aircraft leasing arrangements are increasingly on compensation arrangements which impact the determination of the future maintenance obligations for leased aircraft.

There were no changes in estimates relating to maintenance provisions for the half-year ended 31 December 2013.

In the half-year ended 31 December 2012, total contract and other maintenance expenses increased by 5.3% compared to the corresponding half-year ended 31 December 2011. Included in this increase were estimated changes relating to component overhauls on leased aircraft. This increase of 5.3% is inclusive of the impact relating to a reassessment of estimates for maintenance provisions as at 31 December 2012, which resulted in a decrease in maintenance expenses of $20.8 million.

(ii) Estimated useful lives of intangible assets

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

	31 December 2013	30 June 2013	31 December 2012
Software	8.3% - 33.3%	12.5% - 33.3%	10.0% - 33.3%
Patents and trademarks	33.3%	33.3%	33.3%
Customer contracts and relationships	10% - 100%	10% - 100%	n/a

During the half-year ended 31 December 2013 the Group identified a change in the useful lives of certain software assets based on the intended use of these items. The net impact of these changes in useful lives of assets resulted in a $2.8 million decrease to depreciation expense for the half-year ended 31 December 2013. The impact of this change on future financial years, based on the current cost, is expected to be a decrease in depreciation expense of $5.7 million per annum, for each full financial year until 12 January 2021, and an increase in depreciation expense thereafter, until the end of the useful life of the assets on 12 January 2025.

(iii) Estimation of unearned revenue redemption rates

There were no changes in estimates relating to unearned revenue redemption rates during the half-year ended 31 December 2013.

In the prior corresponding period, as a consequence of continuing system improvements and a review of issued and expired credit vouchers in the preceding twelve months, there was a reassessment of credit voucher redemption rates resulting in an increase in revenue of $11.3 million for the half-year ended 31 December 2012. The continuous assessment of unearned passenger revenue obligations and historical trends of non-attendance rates resulted in an increase in revenue of $8.0 million for the half-year ended 31 December 2012.

A review of the Velocity frequent flyer program occurred during the half-year ended 31 December 2012. In the prior corresponding period the unused points liability increased by $13.3 million. The closing unused points liability was after an increase in revenue of $6.7 million for the half-year ended 31 December 2012. This was based on a period of non-disrupted activity in the market and greater levels of program information.

(iv) Share of net (losses)/profits of equity accounted investees

In determining the Group's share of the equity accounted investment in Tiger Airways Australia Pty Limited (Tiger), the Group has not recognised tax benefits relating to its share of net losses for the half-year ended 31 December 2013. In accordance with accounting standards, at each subsequent reporting period, the Group will consider the impact of any previously unrecognised deferred tax assets of Tiger and will recognise such amounts to the extent that it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

2. Basis of preparation (continued)

(c) Comparatives

Where applicable, various comparative balances have been reclassified to align with current period presentation. These amendments have no material impact on the consolidated interim financial statements.

3. Significant accounting policies

Except as described below, the accounting policies applied by the Group in the consolidated interim financial statements are the same as those applied by the Group in its annual consolidated financial statements as at and for the year ended 30 June 2013. The following changes in accounting policies are also expected to be reflected in the Group's annual consolidated financial statements as at and for the year ended 30 June 2014.

(a) Impacts of new accounting standards and interpretations adopted from 1 July 2013

(i) Fair value measurement and presentation

From 1 July 2013 the Group applied AASB 13 *Fair Value Measurement* (AASB 13). AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other AASBs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required in interim financial statements for financial instruments. In accordance with the transitional provisions of AASB 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

(ii) Employee benefits measurement and presentation

From 1 July 2013, the Group applied amendments to AASB 119 *Employee Benefits* (AASB 119). The change in accounting policy impacts the Group's measurement of annual leave provisions as a result of the amended definitions of short-term and other long-term employee benefits. The change had no significant impacts for the Group.

(iii) Consolidated financial statements

AASB 10 *Consolidated Financial Statements*, supersedes AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 *Consolidation – Special Purpose Entities*. It introduces a new single control model to assess whether to consolidate an investee. The Group has adopted the standard effective 1 July 2013 and has assessed there are no significant impacts for the Group.

(iv) Joint arrangements

AASB 11 *Joint Arrangements* introduces a principles based approach to accounting for joint arrangements. If the parties have rights to and obligations for underlying assets and liabilities, the joint arrangement is considered a joint operation and the parties will account for their share of revenue, expenses, assets and liabilities. Otherwise the joint arrangement is considered a joint venture and the parties must use the equity method to account for their interest. The Group has adopted the standard effective 1 July 2013 and has assessed, other than the application of the standard on acquisition of Tiger Airways Australia Pty Limited, refer note 7, there are no significant impacts for the Group.

(v) Disclosure of interests in other entities

AASB 12 *Disclosure of Interests in Other Entities*, when it becomes mandatory for the Group's 30 June 2014 financial statements, sets out the required disclosures in annual financial statements for entities reporting under the two new standards AASB 10 and AASB 11. The Group has adopted the standard effective 1 July 2013 and has assessed there are no significant impacts for the Group.

4. Seasonality

As is normal in the airline industry, performance and capacity are seasonal throughout a 12 month period; therefore, the first half-year period may not be representative of the second half-year period of any given year.

5. Financial risk management

The Group's financial risk management objectives and policies are consistent with that disclosed in the annual consolidated financial statements as at and for the year ended 30 June 2013.

6. Operating segments

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

- Domestic operations: Operations using the fleet of Boeing B737 aircraft, Airbus A320 and A330 aircraft, ATR aircraft, Embraer E170 and E190 aircraft, and Fokker F50 and F100 aircraft. This comprises Australian domestic flying, including regional network operations. The Group's Velocity frequent flyer program is also reported within domestic operations.
- International operations: Operations using a mix of Boeing B777 aircraft and Boeing B737 aircraft. This comprises Trans-Pacific, Abu Dhabi, Trans-Tasman, Pacific Island and South East Asia flying.

Information regarding the results of each operating segment is detailed in the table which follows. Performance is measured based on EBIT (earnings before accelerated depreciation due to changes in useful life of assets; and net gain/(loss) on sale of assets, business and capital restructure costs and share of net (losses)/profits of equity accounted investees, net finance costs and income tax benefit/(expense)) as included in the internal management reports that are reviewed by the chief operating decision maker.

The 31 December 2012 comparative numbers have been restated to reflect the current definition of EBIT. In addition, Segment EBIT disclosed in the 30 June 2013 financial statements excluded gains of $37.6 million relating to unrealised ineffectiveness on cash flow hedges and non-designated derivatives as these amounts were not specifically allocated to segments. These amounts have now been allocated to Segment EBIT for the half-year ended 31 December 2013.

EBIT, as defined by the Group, 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 arms-length basis or a cost plus margin basis, depending on the nature of the revenue or expense and the financial impact on the segment of recognising the revenue or expense.

6. Operating segments (continued)

2013	Domestic $m	International $m	Eliminations $m	Consolidated $m
Revenue and other income				
External revenue and other income	1,652.4	589.7	-	2,242.1
Inter-segment revenues	41.7	-	(41.7)	-
Segment revenue	1,694.1	589.7	(41.7)	2,242.1
Segment EBITDAR	199.7	50.7	-	250.4
Aircraft rentals	(127.8)	(16.2)	-	(144.0)
Segment EBITDA	71.9	34.5	-	106.4
Depreciation and amortisation(1)	(58.6)	(69.6)	-	(128.2)
Segment EBIT excluding time value movement and unrealised ineffectiveness	13.3	(35.1)	-	(21.8)
Time value movement on cash flow hedges(2)(3)	(10.5)	(4.8)	-	(15.3)
Unrealised ineffectiveness on cash flow hedges and non-designated derivatives(2)	22.9	10.4	-	33.3
Segment EBIT	25.7	(29.5)	-	(3.8)
Accelerated depreciation due to changes in useful life of assets(1); and net gain/(loss) on sale of assets				(0.9)
Business and capital restructure costs				(36.7)
Share of net (losses)/profits of equity accounted investees:				
- Tiger Airways Australia				(18.4)
- Virgin Samoa				(0.9)
				(60.7)
Net finance costs:				
- Net finance costs excluding capital restructure costs				(36.6)
- Interest rate swap terminations associated with capital restructure				(8.4)
- Accelerated amortisation resulting from capital restructure				(12.3)
(Loss)/profit before related income tax benefit/(expense)				(118.0)
Income tax benefit/(expense)				34.3
(Loss)/profit for the period				(83.7)

(1) Accelerated depreciation due to the changes in useful lives of assets for the half-year ended 31 December 2013 was $0.1 million. The addition of accelerated depreciation and depreciation and amortisation above reconciles to total depreciation and amortisation expense included within operating expenditure as disclosed in the consolidated statement of profit or loss.

(2) The addition of these two items reconcile to total ineffective cash flow hedges and non-designated derivatives (gains)/losses included within operating expenditure as disclosed in the consolidated statement of profit or loss.

(3) Time value represents the risk premium payable on a purchased option over and above its current exercise value (intrinsic value) based on the probability it will increase in value before expiry.

6. Operating segments (continued)

2012	Domestic $m	International $m	Eliminations $m	Consolidated $m
Revenue and other income				
External revenue and other income	1,512.0	595.4	-	2,107.4
Inter-segment revenues	20.2	-	(20.2)	-
Segment revenue	1,532.2	595.4	(20.2)	2,107.4
Segment EBITDAR	238.1	66.4	-	304.5
Aircraft rentals	(108.9)	(7.2)	-	(116.1)
Segment EBITDA	129.2	59.2	-	188.4
Depreciation and amortisation(1)	(81.1)	(37.3)	-	(118.4)
Segment EBIT excluding time value movement and unrealised ineffectiveness	48.1	21.9	-	70.0
Time value movement on cash flow hedges(2)(3)	7.1	3.7	-	10.8
Unrealised ineffectiveness on cash flow hedges and non-designated derivatives(2)	2.2	1.0	-	3.2
Segment EBIT	57.4	26.6	-	84.0
Accelerated depreciation due to changes in useful life of assets (1); and net gain/(loss) on sale of assets				(7.5)
Business and capital restructure costs				(28.5)
Share of net (losses)/profits of equity accounted investees:				
- Tiger Airways Australia				-
- Virgin Samoa				0.7
				48.7
Net finance costs:				
- Net finance costs excluding capital restructure costs				(20.5)
- Interest rate swap terminations associated with capital restructure				-
- Accelerated amortisation resulting from capital restructure				-
(Loss)/profit before related income tax (expense)/benefit				28.2
Income tax (expense)/benefit				(5.2)
(Loss)/profit for the period				23.0

(1) Accelerated depreciation due to the changes in useful lives of assets for the half-year ended 31 December 2012 was $4.9 million. The addition of accelerated depreciation and depreciation and amortisation above reconciles to total depreciation and amortisation expense included within operating expenditure as disclosed in the consolidated statement of profit or loss.

(2) The addition of these two items reconcile to total ineffective cash flow hedges and non-designated derivatives (gains)/losses included within operating expenditure as disclosed in the consolidated statement of profit or loss.

(3) Time value represents the risk premium payable on a purchased option over and above its current exercise value (intrinsic value) based on the probability it will increase in value before expiry.

7. Acquisition of interest in joint venture

On 8 July 2013, the Group acquired 60% of the shareholding in Tiger Airways Australia Pty Limited (Tiger), a subsidiary of Tiger Airways Holdings Limited. Purchase consideration of $35.0 million was paid by the Group. In addition $5.0 million will be payable by Tiger to Tiger Airways Holdings Limited if performance targets are met within a 4.75 year period. After acquisition date, there is joint commitment by the Group and Tiger Airways Holdings Limited to invest up to $62.5 million (pro-rated based on the Group's 60% ownership interest) into the Tiger Airways Australia Pty Limited operation plus a commitment for further funding should Tiger so require.

As at 31 December 2013, the Group has provided various joint and several guarantees for Tiger aircraft and banking facilities of up to $305.9 million. Refer to note 17(a)(ii). Tiger Airways Holdings Limited has assumed 40% of these obligations under the Deed of Undertaking and Indemnity with the Group.

Although the Group has a 60% interest in Tiger Airways Australia Pty Limited, under a shareholders' agreement between the Group and Tiger Airways Holdings Limited (holder of the remaining 40% interest), the nature of the relationship between the shareholders is one of joint control and is classified as a joint venture in accordance with AASB 11 *Joint Arrangements*. The agreement between the shareholders sets out a number of key matters for which unanimity is necessary. Both shareholders must agree upon matters such as, inter alia, changes in governance or corporate structure, approvals for debt and equity funding, business plans and budgets, capital expenditure, major contracts and aircraft delivery schedules. As a consequence, the Group is not in a position to direct the relevant activities that significantly affect Tiger's returns. Accordingly, the Group applies the equity method, as described in AASB 128 *Investments in Associates,* for its investment in Tiger Airways Australia Pty Limited.

8. Property, plant and equipment

During the half-year ended 31 December 2013, the Group acquired assets with a cost of $150.3 million (30 June 2013: $426.8 million) primarily comprising aircraft and aeronautic related assets. Assets with a carrying amount of $93.8 million (30 June 2013: $55.1 million) were disposed of during the half-year ended 31 December 2013. Depreciation for the half-year ended 31 December 2013 was $115.1 million (31 December 2012: $111.4 million). The impact of foreign exchange revaluations on the Group's property, plant and equipment for the half-year ended 31 December 2013 was an increase of $35.3 million (30 June 2013: an increase of $50.2 million).

In July 2013 the Group issued a letter of intent for the sale of the Group's head office. Efforts to sell the head office are in the final stages of negotiation and a sale is expected prior to the end of the financial year ended 30 June 2014. As a result, the Group reclassified buildings with a net book value of $63.1 million from property, plant and equipment to assets classified as held for sale during the half-year ended 31 December 2013. It is the Group's intention to enter a leaseback arrangement immediately subsequent to the sale transaction.

9. Intangible assets

During the half-year ended 31 December 2013, the Group acquired assets with a cost of $34.1 million (30 June 2013: $127.1 million) consisting predominantly of capitalised software of $24.8 million (30 June 2013: $111.2 million), and capitalised contract intangibles relating to airport development project costs from which the Group will obtain future benefits of $9.3 million (30 June 2013: $15.9 million). Amortisation for the half-year ended 31 December 2013 was $13.2 million (31 December 2012: $11.9 million).

10. Dividends paid

No dividends were declared and paid by the Company during the half-year ended 31 December 2013 (2012: nil). No dividends have been declared subsequent to 31 December 2013.

11. Interest-bearing liabilities

	As at 31 December 2013 $m	As at 30 June 2013 $m
Current		
Loans (aeronautic finance facilities) – secured[(1)]	**293.2**	263.4
Loans (bank) – secured[(1)]	**65.0**	99.0
Loan from associate – unsecured	**6.4**	9.3
Finance lease liabilities	**1.7**	1.8
	366.3	373.5
Non-current		
Loans (aeronautic finance facilities) – secured[(1)]	**1,756.0**	1,493.1
Finance lease liabilities	**28.3**	23.3
	1,784.3	1,516.4

[(1)] These amounts are net of deferred borrowing costs in line with the Group's accounting policy.

(a) Loans (aeronautic finance facilities) - secured

During the half-year ended 31 December 2013, the Group refinanced a collateralised pool of aircraft within the Group's existing fleet through the use of an Enhanced Equipment Notes facility (EEN). The EEN's were issued in four classes (Class A to D), backed by an underlying collateral pool of Boeing B737 and B777 aircraft. Proceeds from the EEN issue were allocated to repay existing aeronautic financing facilities and for general financing purposes.

(b) Loans (bank) - secured

The bank loan of $99.0m held at 30 June 2013, secured over the Company's registered office, was repaid during the half-year ended 31 December 2013. During the same period the Group entered into two new bank loan facilities with carrying values of $25.0 million, secured over the Group's simulator training facility, and $40.0 million, secured over the Company's registered office with a carrying amount of $63.1 million. The weighted average interest rate on these facilities at 31 December 2013 is 4.49% (30 June 2013: n/a).

(c) Loans from associate - unsecured

Refer to note 17(b).

(d) Finance lease liabilities

During the half-year ended 31 December 2013, the Group entered into a finance lease for telecommunications infrastructure. The lease term is to 2018 with three additional one year options to extend the lease to 2021. This finance lease contains an option to purchase the assets at the end of the term of the lease.

(e) Total external borrowings

Proceeds from external borrowings for the half-year ended 31 December 2013 totalled $933.8 million (30 June 2013: $354.9 million), with repayment of borrowings totalling $726.6 million (30 June 2013: $267.9 million).

11. Interest-bearing liabilities (continued)

(f) Terms and debt repayment schedule

	Currency	Year of maturity(1)	Nominal interest rate 31 December 2013	Nominal interest rate 30 June 2013	Face value $m 31 December 2013	Face value $m 30 June 2013	Carrying amount $m 31 December 2013	Carrying amount $m 30 June 2013
Secured loans								
- Aircraft	AUD	2018 – 2020	**3.17%-3.27%**	3.37%-6.32%	**458.9**	700.7	**455.9**	696.0
- Aircraft	USD	2014 – 2024	**2.41%-8.50%**	0.70%-6.18%	**1,644.0**	1,096.8	**1,593.3**	1,060.5
- Other	AUD	2014	**4.37%-4.93%**	6.58%-6.60%	**65.0**	100.0	**65.0**	99.0
Loan from associate	NZD	2014	**6.01%**	6.03%	**6.4**	9.3	**6.4**	9.3
Finance leases	AUD	2014 - 2047	**5.00%-13.00%**	5.00%-10.45%	**30.0**	25.1	**30.0**	25.1
					2,204.3	1,931.9	**2,150.6**	1,889.9

(1) Based on the calendar year.

12. Share capital

The number of ordinary shares issued at 31 December 2013 was 3,503.3 million (30 June 2013: 2,567.5 million).

On 30 June 2013, the vesting conditions associated with Senior Executive Option Plan (SEOP) Issue 12, as detailed in the 30 June 2013 annual consolidated financial statements, were partially met resulting in the issue of 8.3 million shares on 20 September 2013 and an increase in share capital of $2.2 million. Refer to note 15(a)(i).

On 30 June 2013, the vesting conditions associated with Senior Executive Option Plan (SEOP) Issue 14, as detailed in the 30 June 2013 annual consolidated financial statements, were partially met resulting in the issue of 0.3 million shares on 20 September 2013 and an increase in share capital of $0.1 million. Refer to note 15(a)(iii).

On 1 July 2013, vesting conditions associated with Tranche 1 of Key Employee Performance Plan 2012 as detailed in the 30 June 2013 annual consolidated financial statements, were met resulting in the issue of 2.2 million performance rights and an increase in share capital of $0.6 million. Refer to note 15(b)(i).

The Group issued 925.0 million new shares during the half-year ended 31 December 2013, pursuant to the terms of the fully underwritten pro-rata, non-renounceable entitlement offer, comprising an institutional component (Institutional Entitlement Offer) and retail component (Retail Entitlement Offer), announced on 14 November 2013. On 29 November 2013, 740.6 million shares were issued under the Institutional Entitlement Offer at a price of $0.38 per share resulting in an increase in share capital of $281.4 million. On 17 December 2013, 184.4 million shares were issued under the Retail Entitlement Offer at a price of $0.38 per share, resulting in an increase in share capital of $70.1 million. Transaction costs associated with the capital raising were capitalised and offset against share capital.

13. Capital commitments

Commitments payable for the acquisition of property, plant and equipment, including aircraft and aeronautic related assets, contracted for at the reporting date but not recognised as liabilities, total $3,382.9 million as at 31 December 2013 (30 June 2013: $3,348.1 million).

14. Financial instruments

The net fair value of cash and 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 present value of the unrealised gain/(loss) at reporting date by reference to market exchange rates and fuel prices. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows. The net fair value of options is determined using standard valuation techniques.

The basis for determining fair values are consistent with the new fair value measurement guidance outlined in AASB 13 *Fair Value Measurement*. The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated statement of financial position, are as follows:

	Note	Carrying amount	Fair value
		31 December 2013 $m	31 December 2013 $m
Financial assets carried at fair value			
Fuel hedging contracts – cash flow hedges		71.1	71.1
Forward foreign exchange contracts - cash flow hedges		54.9	54.9
		126.0	126.0
Financial assets carried at amortised cost			
Cash and cash equivalents		896.4	896.4
Trade and other receivables		238.8	238.8
Other financial assets		41.1	41.1
		1,176.3	1,176.3
Financial liabilities carried at amortised cost			
Trade and other payables		583.4	583.4
Loans (aeronautic finance facilities)	11	2,049.2	2,116.4
Finance lease liabilities	11	30.0	30.0
Other interest-bearing liabilities	11	71.4	71.4
		2,734.0	2,801.2

14. Financial instruments (continued)

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); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Consistent with 30 June 2013, financial instruments held by the Group and carried at fair value are classified as Level 2 instruments.

	31 December 2013 $m
Derivative financial assets	**126.0**
Derivative financial liabilities	**-**
	126.0

15. Share-based payments

During the half-year ended 31 December 2013 the Group issued shares under existing option and share plans and one new option plan as follows:

(a) Senior executive option plans

(i) Senior Executive Option Plan (SEOP) Issue 12

On 30 June 2013 options issued under SEOP 12 partially vested. The vesting conditions associated with the plan, as detailed in the 30 June 2013 annual consolidated financial statements, were partially met resulting in the exercise of 8,313,430 options during the half-year ended 31 December 2013. In line with plan rules, to the extent that the vesting conditions were not met on the initial vesting date, unvested eligible options were re-tested on 31 December 2013, all of which lapsed as they did not meet the vesting conditions. Any vested options under this plan will lapse if they are not exercised within twelve months of the vesting date.

(ii) Senior Executive Option Plan (SEOP) Issue 13

During the year ended 30 June 2013 options issued under SEOP 13 reached the plan vesting date. The vesting conditions associated with the plan, as detailed in the 30 June 2013 annual consolidated financial statements, were not met on the vesting date of 7 May 2013. In line with plan rules, to the extent that the vesting conditions were not met on this initial vesting date, unvested eligible options were re-tested on 31 December 2013, all of which lapsed as they did not meet the vesting conditions.

(iii) Senior Executive Option Plan (SEOP) Issue 14

On 30 June 2013 options issued under SEOP 14 partially vested. The vesting conditions associated with the plan, as detailed in the 30 June 2013 annual consolidated financial statements, were partially met resulting in the exercise of 272,985 options during the half-year ended 31 December 2013. In line with plan rules, to the extent that the vesting conditions were not met on the initial vesting date, unvested eligible options were re-tested on 31 December 2013. 140,629 options lapsed at that date as they did not meet the vesting conditions. All vested options were exercised during the half-year ended 31 December 2013.

15. Share-based payments (continued)

(a) Senior executive option plans (continued)

(iv) Senior Executive Option Plan (SEOP) Issue 20

2,868,288 options were granted on 20 December 2013. 50% of the options are exercisable if the same performance hurdles as SEOP 19, as disclosed in the 30 June 2013 annual consolidated financial statements, are met. The remaining 50% of the options are exercisable if corporate performance measures determined by the Board are met. The performance period commences 1 July 2013 and ends on 30 June 2016. 60% of the options are eligible to vest on 30 June 2016 with the remaining 40% eligible to vest on 30 June 2017. Options that have vested will be exercisable no later than 12 months after vesting, after which they will lapse.

(b) Employee share plans

(i) Key Employee Performance Plan (KEPP) 2012

On 1 July 2013, vesting conditions associated with Tranche 1 of Key Employee Performance Plan 2012, as detailed in the 30 June 2013 annual consolidated financial statements, were met. The Group issued 2,163,942 performance rights increasing share capital by $0.6 million.

16. Contingent liabilities and contingent assets

At 31 December 2013, excluding those guarantees referred to in note 17(a)(ii), there were $78.1 million (30 June 2013: $61.0 million) bank guarantees and letters of credit outstanding. Other than those guarantees provided in note 17(a)(ii) there were no other material changes to contingent liabilities or assets disclosed in the 30 June 2013 annual consolidated financial statements.

17. Related parties

With the exception of those detailed below, all other arrangements with related parties continue to be in place. For details of these arrangements, refer to the 30 June 2013 annual consolidated financial statements.

(a) Tiger Airways Australia Pty Limited

(i) Loans

During the half-year ended 31 December 2013, the Group entered into two unsecured loan facilities with Tiger Airways Australia Pty Limited. Under one facility, the Group advanced $50.8 million (US$47.2 million) and, receives interest at a rate of LIBOR + 5%, which at 31 December 2013 is 5.24% (30 June 2013: n/a). The Group received repayments during the period on this facility of $24.2 million (US$22.5 million). Amounts are repayable on an amortising basis to May 2016. The other facility extended of $5.0 million attracts an interest rate of 2.50% (30 June 2013: n/a) and is repayable within a four year period.

As at 31 December 2013 the total loan balance repayable, including interest receivable, is $32.2 million (30 June 2013: n/a).

(ii) Guarantees

As at 31 December 2013, the Group has provided various joint and several guarantees for Tiger Airways Australia Pty Limited of $285.9 million for aircraft facilities and $20.0 million for banking facilities. Tiger Airways Holdings Limited has assumed 40% of these obligations under the Deed of Undertaking and Indemnity with the Group.

(iii) Shareholder services agreement

During the half-year ended 31 December 2013, the Group entered into a Shareholder Services Agreement with Tiger Airways Australia Pty Limited, whereby the Group will provide treasury, corporate governance and legal services for a total fee of $280,000 per annum.

17. Related parties (continued)

(b) Virgin Samoa Limited

(i) Loans

During the half-year ended 31 December 2013, the Group drew down additional funding on its revolving, unsecured loan facility with Virgin Samoa Limited, an associate of the Group totalling NZ$2.0 million, AU$1.7 million (30 June 2013: NZ$11.0 million, AU$8.7 million) and made repayments of NZ$6.0 million, AU$5.0 million (30 June 2013: nil). As at 31 December 2013 the loan balance repayable, including interest payable, is NZ$7.5 million, AU$6.4 million (30 June 2013: NZ$11.0 million, AU$9.3 million). The interest rate on the facility at 31 December 2013 is 6.01% (30 June 2013: 6.03%).

18. Shareholder transactions

(a) Subordinated term loan facilities

During the half-year ended 31 December 2013, the Group established new subordinated term loan facilities with Air New Zealand Limited, Etihad Airways P.J.S.C. and Singapore Airlines Limited as part of a program to further supplement and diversify the Group's funding sources. The facilities were for an amount of AUD $90.0 million in total, with pro-rata contributions from each shareholder based on their economic interest at the end of August 2013. The facilities were for a term of one year and were based on arms-length commercial terms. On 14 November 2013 the facilities were terminated.

(b) Shares issued

During the half-year ended 31 December 2013, the Group issued 633.8 million new shares to Air New Zealand Limited, Etihad Airways P.J.S.C. and Singapore Airlines Limited, pursuant to the terms of the fully underwritten pro-rata, non-renounceable entitlement offer announced on 14 November 2013.

Directors' declaration

In the opinion of the directors of Virgin Australia Holdings Limited (the Company):

(a) the condensed consolidated interim financial statements and notes, set out on pages 7 to 25, are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date; and

  (ii) complying with Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Neil Chatfield
Director

Sydney

27 February 2014

John Borghetti
Director

Sydney

27 February 2014

Independent auditor's review report to the members of Virgin Australia Holdings Limited

We have reviewed the accompanying condensed interim financial report of Virgin Australia Holdings Limited, which comprises the consolidated statement of financial position as at 31 December 2013, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, notes 1 to 18 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 half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the condensed interim 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 condensed interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the condensed interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the condensed interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2013 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Virgin Australia Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a condensed interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing 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. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Independent auditor’s review report to the members of Virgin Australia Holdings Limited (continued)

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the condensed interim financial report of Virgin Australia Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group’s financial position as at 31 December 2013 and of its performance for the interim period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

A W Young
Partner

Sydney

27 February 2014