Virgin Australia Holdings Limited

Preliminary Final Report
For the year ended 30 June 2014

VIRGIN AUSTRALIA HOLDINGS LIMITED
ACN: 100 686 226
ASX CODE: VAH

Contents

Preliminary Final Report

Results for announcement to the market and other information 1

Consolidated statement of profit or loss 3

Consolidated statement of profit or loss and other comprehensive income 4

Consolidated statement of financial position 5

Consolidated statement of changes in equity 6

Consolidated statement of cash flows 8

Condensed notes to the preliminary final report 9

1. Reporting entity 9

2. Basis of preparation 9

3. Significant accounting policies 10

4. Financial risk management 12

5. Operating segments 13

6. Acquisition of subsidary 14

7. Acquisition of interest in joint venture 16

8. Assets classified as held for sale 16

9. Property, plant and equipment 17

10. Intangible assets 17

11. Interest-bearing liabilities 17

12. Share capital 19

13. Capital commitments 19

14. Financial instruments 19

15. Share-based payments 21

16. Contingent liabilities and contingent assets 22

17. Related parties 23

18. Shareholder transactions 23

19. Dividends paid 23

20. Subsequent events 24

Results for announcement to the market and other information

For the year ended 30 June 2014

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

Reporting period:	12 months ended 30 June 2014
Previous corresponding period:	12 months ended 30 June 2013

2. Results for announcement to the market

		%		$m
Revenue from ordinary activities	**Increased**	**7.1**	**to**	**4,306.6**
Loss from ordinary activities after income tax attributable to members	**Increased**	**262.5**	**to**	**(355.6)**
Net loss for the period attributable to members	**Increased**	**262.5**	**to**	**(355.6)**

3. Dividends

30 June 2014	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 year ended 30 June 2014 is contained in the attached Australian Stock Exchange (ASX) release.

5. Net tangible assets

	30 June 2014 $	Restated[(1)] 30 June 2013 $
Net tangible assets per ordinary share[(2)]	**0.20**	0.30

(1) Refer to notes 3(b) and 6 of the condensed notes to the preliminary final report for discussion on the restatement of the previous corresponding period disclosures.

(2) 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	30 June 2014 %	30 June 2013 %	30 June 2014 $m	30 June 2013 $m
Virgin Samoa Limited	**49**	49	**(2.6)**	0.1
Tiger Airways Australia Pty Limited[(1)]	**60**	–	**(46.1)**	n/a

(1) On 8 July 2013, the Group acquired a 60% shareholding in Tiger Airways Australia Pty Limited. Refer to note 7 of the condensed notes to the preliminary final report.

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
Velocity Frequent Flyer Pty Ltd	Australia	22 May 2014

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

During the year the Group voluntarily entered into liquidation process for the following subsidiaries:

Entity	Place of Incorporation	Date of Liquidation
V Australia Airlines Pty Ltd	Australia	18 March 2014
VB 700 2009 Pty Ltd	Australia	18 March 2014
VB LeaseCo No.3 Pty Ltd	Australia	18 March 2014
VB LH 2010-11 No.1 Pty Ltd	Australia	18 March 2014
VB LH 2010-11 No.2 Pty Ltd	Australia	18 March 2014
VBIANC1 Pty Ltd	Australia	18 March 2014
VBNC 1 Pty Ltd	Australia	18 March 2014
VBNC 2 Pty Ltd	Australia	18 March 2014
VBNC 3 Pty Ltd	Australia	18 March 2014
VBNC 4 Pty Ltd	Australia	18 March 2014
VBNC 8 Pty Ltd	Australia	18 March 2014
VBNC 10 Pty Ltd	Australia	18 March 2014
Virgin Australia Pty Ltd	Australia	18 March 2014
Virgin Australia Airlines Services Pty Ltd	Australia	18 March 2014
Virgin Australia (NZ) Holdings Pty Ltd	Australia	18 March 2014

These entities were placed into voluntary (solvent) liquidation on 18 March 2014, as they were no longer required in the Group's corporate structure. As at 30 June 2014 these entities are under the control of the liquidators. These entities will be deregistered at the end of the liquidation process which is expected to occur by the end of September 2014. These entities hold no assets nor have any liabilities. Control was transferred to the liquidator as part of the liquidation process and as a result the Group no longer consolidates these entities in its consolidated financial statements.

Consolidated statement of profit or loss

For the year ended 30 June 2014

	2014 $m	Restated[1] 2013 $m
Revenue and income		
Revenue	**4,286.8**	3,987.8
Other income	**16.4**	16.8
Net foreign exchange gains	**3.4**	15.7
	4,306.6	4,020.3
Operating expenditure		
Aircraft operating lease expenses	**(274.2)**	(246.3)
Airport charges, navigation and station operations	**(792.3)**	(710.0)
Contract and other maintenance expenses	**(189.0)**	(189.9)
Commissions and other marketing and reservations expenses	**(330.6)**	(256.5)
Fuel and oil	**(1,208.7)**	(1,125.9)
Labour and staff related expenses	**(1,041.4)**	(976.1)
Impairment loss[2]	**(56.9)**	–
Other expenses from ordinary activities	**(433.6)**	(391.7)
Depreciation and amortisation	**(267.8)**	(272.1)
Ineffective cash flow hedges and non-designated derivatives (losses)/gains	**(41.1)**	49.1
Net operating expenses	**(4,635.6)**	(4,119.4)
Share of net (losses)/profits of equity accounted investees	**(48.7)**	0.1
Loss before related income tax benefit and net finance costs	**(377.7)**	(99.0)
Finance income	**13.3**	20.0
Finance costs	**(119.7)**	(70.7)
Net finance costs	**(106.4)**	(50.7)
Loss before income tax benefit	**(484.1)**	(149.7)
Income tax benefit	**128.5**	51.6
Net loss for the year attributable to the owners of Virgin Australia Holdings Limited	**(355.6)**	(98.1)

Earnings per share for loss attributable to the ordinary equity holders of the Company:	Cents	Cents
Basic earnings per share	**(11.4)**	(4.1)
Diluted earnings per share	**(11.4)**	(4.1)

(1) Refer to note 3(b).

(2) Refer to notes 8 and 9(a).

The above consolidated statement of profit or loss is to be read in conjunction with the accompanying condensed notes to the preliminary final report.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2014

	2014 $m	Restated[(1)] 2013 $m
Loss for the year	**(355.6)**	(98.1)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(0.1)**	(34.7)
Effective portion of changes in fair value of cash flow hedges	**(37.3)**	89.3
Net change in fair value of cash flow hedges transferred to profit or loss	**(38.0)**	18.7
Income tax expense/(benefit) on other comprehensive income	**22.6**	(32.4)
Other comprehensive (loss)/income for the year, net of income tax	**(52.8)**	40.9
Total comprehensive loss for the year attributable to owners of Virgin Australia Holdings Limited	**(408.4)**	(57.2)

(1) Refer to notes 3(b) and 6(b).

The above consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying condensed notes to the preliminary final report.

Consolidated statement of financial position

As at 30 June 2014

	Note	2014 $m	Restated[1] 2013 $m	Restated[1] 1 July 2012 $m
Current assets				
Cash and cash equivalents		**783.8**	580.5	802.6
Trade and other receivables		**302.9**	257.4	202.8
Inventories		**36.1**	29.8	14.9
Derivative financial instruments		**17.3**	96.8	0.6
Other financial assets		**29.0**	12.7	28.3
Other current assets		**4.7**	3.0	2.6
Current tax assets		**–**	1.5	0.4
Assets classified as held for sale	8	**61.1**	–	–
Total current assets		**1,234.9**	981.7	1,052.2
Non-current assets				
Trade and other receivables		**23.6**	1.8	8.0
Derivative financial instruments		**2.0**	16.8	0.1
Other financial assets		**171.4**	136.3	110.5
Investments accounted for using the equity method		**5.2**	7.8	7.7
Deferred tax assets		**146.9**	–	–
Property, plant and equipment	9	**2,702.4**	3,065.4	2,811.3
Intangible assets	10	**362.3**	318.6	101.0
Other non-current assets		**30.6**	18.7	18.8
Total non-current assets		**3,444.4**	3,565.4	3,057.4
Total assets		**4,679.3**	4,547.1	4,109.6
Current liabilities				
Trade and other payables		**620.3**	580.4	505.5
Interest-bearing liabilities	11	**360.2**	373.5	254.0
Derivative financial instruments		**11.7**	–	36.1
Provisions		**120.4**	123.3	109.1
Unearned revenue		**807.7**	736.1	691.9
Other current liabilities		**0.3**	1.1	–
Total current liabilities		**1,920.6**	1,814.4	1,596.6
Non-current liabilities				
Trade and other payables		**7.4**	6.6	2.8
Interest-bearing liabilities	11	**1,590.5**	1,516.4	1,420.1
Derivative financial instruments		**3.7**	9.3	16.4
Provisions		**102.5**	85.2	50.2
Other non-current liabilities		**6.5**	6.9	–
Deferred tax liabilities		**–**	7.0	26.6
Total non-current liabilities		**1,710.6**	1,631.4	1,516.1
Total liabilities		**3,631.2**	3,445.8	3,112.7
Net assets		**1,048.1**	1,101.3	996.9
Equity				
Share capital	12	**1,147.3**	794.7	633.3
Reserves		**44.3**	94.5	53.4
Retained (losses)/profits		**(143.5)**	212.1	310.2
Total equity		**1,048.1**	1,101.3	996.9

(1) Refer to notes 3(b) and 6(b).

The above consolidated statement of financial position is to be read in conjunction with the accompanying condensed notes to the preliminary final report.

Consolidated statement of changes in equity

For the year ended 30 June 2014

	Note	Attributable to owners of the Company					
		Share capital $m	Foreign currency translation reserve $m	Hedging reserve $m	Share-based payments reserve $m	Retained (losses)/ profits $m	Total equity $m
Balance at 1 July 2013 (restated)[1]		**794.7**	**36.7**	**40.9**	**16.9**	**212.1**	**1,101.3**
Total comprehensive income for the year							
Loss for the year		–	–	–	–	**(355.6)**	**(355.6)**
Other comprehensive income[2]							
Foreign currency translation differences		–	**(0.1)**	–	–	–	**(0.1)**
Effective portion of changes in fair value of cash flow hedges		–	–	**(26.1)**	–	–	**(26.1)**
Net change in fair value of cash flow hedges transferred to profit or loss		–	–	**(26.6)**	–	–	**(26.6)**
Total other comprehensive (loss)/income		–	**(0.1)**	**(52.7)**	–	–	**(52.8)**
Total comprehensive (loss)/income for the year		–	**(0.1)**	**(52.7)**	–	**(355.6)**	**(408.4)**
Transactions with owners, recorded directly in equity[2]							
Issue of ordinary shares for cash	12	**349.7**	–	–	–	–	**349.7**
Issue of ordinary shares related to business combinations	12	–	–	–	–	–	–
Share-based payment transactions	12	**2.9**	–	–	**2.6**	–	**5.5**
Total transactions with owners		**352.6**	–	–	**2.6**	–	**355.2**
Balance at 30 June 2014		**1,147.3**	**36.6**	**(11.8)**	**19.5**	**(143.5)**	**1,048.1**

(1) Refer to notes 3(b) and 6(b).

(2) 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 preliminary final report.

Consolidated statement of changes in equity (continued)

For the year ended 30 June 2014

	Note	Attributable to owners of the Company					
	Note	Share capital $m	Foreign currency translation reserve $m	Hedging reserve $m	Share-based payments reserve $m	Retained (losses)/ profits $m	Total equity $m
Balance at 1 July 2012		633.3	71.4	(34.7)	16.7	243.0	929.7
Impact of changes in accounting policy	3(b)	–	–	–	–	67.2	67.2
Restated balance 1 July 2012		633.3	71.4	(34.7)	16.7	310.2	996.9
Loss for the year		–	–	–	–	(98.1)	(98.1)
Other comprehensive income (restated)[1][2]							
Foreign currency translation differences (restated)		–	(34.7)	–	–	–	(34.7)
Effective portion of changes in fair value of cash flow hedges		–	–	62.5	–	–	62.5
Net change in fair value of cash flow hedges transferred to profit or loss		–	–	13.1	–	–	13.1
Total other comprehensive (loss)/income (restated)[1]		–	(34.7)	75.6	–	–	40.9
Total comprehensive (loss)/income for the year (restated)[1]		–	(34.7)	75.6	–	(98.1)	(57.2)
Transactions with owners, recorded directly in equity[2]							
Issue of ordinary shares for cash		110.7	–	–	–	–	110.7
Issue of ordinary shares related to business combinations		48.5	–	–	–	–	48.5
Share-based payment transactions		2.2	–	–	0.2	–	2.4
Total transactions with owners		161.4	–	–	0.2	–	161.6
Balance at 30 June 2013 (restated)[1]		794.7	36.7	40.9	16.9	212.1	1,101.3

(1) Refer to notes 3(b) and 6(b).

(2) 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 preliminary final report.

Consolidated statement of cash flows

For the year ended 30 June 2014

	Note	2014 $m	Restated[1] 2013 $m
Cash flows from operating activities			
Cash receipts from customers		**4,781.7**	4,347.8
Cash paid to suppliers and employees		**(4,615.6)**	(4,100.9)
Cash generated from operating activities		**166.1**	246.9
Cash paid for business and capital restructure costs		**(108.6)**	(81.5)
Finance costs paid		**(76.7)**	(63.8)
Finance income received		**11.5**	21.7
Net cash (used in)/from operating activities		**(7.7)**	123.3
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(360.2)**	(439.2)
Proceeds on disposal of property, plant and equipment		**376.8**	56.8
Acquisition of subsidiary, net of cash acquired		**–**	(42.2)
Acquisition of intangible assets		**(72.4)**	(128.0)
Acquisition of interest in joint venture	7	**(35.0)**	–
Advances of loans to joint venture	17	**(83.4)**	–
Repayments of loans to joint venture	17	**35.1**	–
Payments for other deposits		**(55.2)**	(58.9)
Proceeds from other deposits		**19.6**	52.4
Dividends received		**–**	0.4
Net cash used in investing activities		**(174.7)**	(558.7)
Cash flows from financing activities			
Proceeds from borrowings		**1,041.4**	354.9
Repayment of borrowings		**(975.8)**	(267.9)
Payments of transaction costs related to borrowings		**(28.3)**	(10.0)
Net proceeds from share issue	12	**348.5**	110.7
Loans from associate	17	**1.8**	8.7
Repayment of loans from associate	17	**(7.3)**	–
Net cash from financing activities		**380.3**	196.4
Net increase/(decrease) in cash and cash equivalents		**197.9**	(239.0)
Cash and cash equivalents at 1 July		**580.5**	802.6
Effect of exchange rate fluctuations on cash held		**5.4**	16.9
Cash and cash equivalents at 30 June		**783.8**	580.5

(1) Refer to note 3(b).

The above consolidated statement of cash flows is to be read in conjunction with the accompanying condensed notes to the preliminary final report.

Condensed notes to the preliminary final report

For the year ended 30 June 2014

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 preliminary final report of the Company as at and for the year ended 30 June 2014 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 are available upon request from the Company's registered office, or at www.virginaustralia.com.au.

2. Basis of preparation

(a) Statement of compliance

The preliminary final report has been prepared in accordance with *ASX Listing Rule 4.3A* and has been derived from the unaudited annual consolidated financial statements. The consolidated financial statements have been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*.

The preliminary final report does not include all of the information required for annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements of the Group as at and for the year ended 30 June 2013.

This report is based on the annual consolidated financial statements for the year ended 30 June 2014, which are in the process of being audited.

The preliminary final report was approved by the Board of Directors on 28 August 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 preliminary final report 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 year ended 30 June 2014 by $685.7 million (2013: $832.7 million) including a current liability for unearned revenue of $807.7 million (2013: $736.1 million). The preliminary final report has been prepared on a going concern basis, which contemplates the return to profitable trading and retention of a strong cash position. A net improvement of $147.0 million in net current liabilities was achieved in the year ended 30 June 2014, mainly due to an increase in cash and cash equivalents primarily due to debt and equity funding raised during the year. The Group has a cash and cash equivalents balance at 30 June 2014 of $783.8 million (2013: $580.5 million) and has an unrestricted cash balance at 30 June 2014 of $541.0 million (2013: $326.5 million).

The preliminary final report has been prepared on the basis of historical costs, except 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 preliminary final report 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 this preliminary final report, 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 with the exception of those changes noted in note 2(b)(i), 2(b)(ii) and 2(b)(iii). The significant judgements and changes in estimates recognised in the current financial year are detailed as follows:

(i) Estimation of unearned revenue redemption rate

There is a continuous assessment of future obligations in relation to credit vouchers. As a consequence of reviewing historical issued and expired credit vouchers, there has been a reassessment of credit voucher redemption rates resulting in a decrease in revenue of $8.1 million (2013: increase of $8.0 million). The continuous assessment of unearned passenger revenue obligations and historical trends of non-attendance rates has resulted in an increase in revenue of $3.5 million (2013: $11.1 million). The annual review of the unused points liability in regards to the Velocity frequent flyer program was conducted during the year ended 30 June 2014, resulting in an increase in program revenue of $3.3 million (2013: $14.6 million).

(ii) Share of net losses of equity accounted investees

In determining the Group's share of the equity accounted investment in Tiger Airways Australia Pty Limited (Tiger) and Virgin Samoa Limited (VSAM), the Group has not recognised tax benefits relating to its share of net losses for the year ended 30 June 2014. In accordance with accounting standards, at each subsequent reporting period, the Group will consider the impact of any unrecognised previous deferred tax assets of Tiger and VSAM 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)

(b) Use of estimates and judgements (continued)

(iii) Estimated useful lives of intangible assets

This estimate change was made and communicated in the first half of the 2014 financial year. There has been no subsequent change to the basis of estimation. The amortisation rates used for each class of intangible asset for the current and comparative periods are as follows:

	30 June 2014	30 June 2013
Software	**8.3% – 33.3%**	12.5% – 33.3%
Patents and trademarks	**33.3%**	33.3%
Customer contracts and relationships	**10% – 100%**	10% – 100%

During the current year 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 $4.8 million decrease to amortisation expense for the year ended 30 June 2014. The impact of this change on future financial years, based on the current cost, is expected to be a decrease in amortisation expense of $4.8 million per annum, for each financial year until 12 January 2021, and an increase in amortisation expense thereafter, until the end of the useful life of the assets on 12 January 2025.

(c) Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses can be utilised. At 30 June 2014, the Group had approximately $1,322.3 million (2013: $859.0 million) of carry-forward tax losses that would be available to offset against future taxable profit. A deferred tax asset of $396.6 million (2013: $257.6 million) has been recognised in respect of these losses. It is expected that sufficient profits will be generated in the future to utilise these carried forward tax losses. Evidence supporting projections of future taxable income are in the form of detailed financial modelling based on Group operating initiatives, recent industry trends, and long-term industry analysis. This evidence is reviewed by Senior Management and the Board and if the evidence presented is not considered convincing, then the deferred tax assets associated with these tax losses are not recognised.

(d) Comparatives

Where applicable, various comparative balances have been reclassified to align with current period presentation. These amendments have no material impact on the preliminary final report.

3. Significant accounting policies

The accounting policies applied by the Group in the preliminary final report 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 with the exception of those changes noted in notes 3(a) and 3(b).

(a) New accounting policies

(i) Assets classified as held for sale

The Group classifies non-current assets as held for sale if it is highly probable that their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in the statement of profit and loss. Assets are not depreciated or amortised once classified as held for sale. Assets classified as held for sale are presented separately as current items in the statement of financial position.

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3. Significant accounting policies (continued)

(b) Changes in accounting policies

(i) Repairs and maintenance – operating leased aircraft

The Group has re-assessed its accounting for major maintenance of leased engines, airframes, landing gear and auxiliary power units, including the end of lease obligations to return the aircraft in the condition specified by the lessor. The Group previously recognised provisions for the estimated future costs of major maintenance, calculated by reference to the current rectification cost. Provision is also made for end of lease obligations to return the aircraft in the condition specified by the lessor. Provisions are recognised net of reserve payments made to the lessor which are available to be drawn down. The costs of major maintenance are recognised against the provision when incurred.

Following the assessment of the current policy against those applied by industry participants in conjunction with the Board announcement in November 2013 on its intention to work with major airline shareholders for future board representation with appropriate protocols, the Group elected to change the method of accounting for major maintenance of leased aircraft parts and end of lease obligations on 30 June 2014. Under the new policy, the costs of major cyclical maintenance and modifications to leased aircraft are capitalised and depreciated over the remaining lease term period. A provision for return costs for operating leases is recognised on a consumption basis in line with minimum contractual return conditions. Maintenance reserve payments made to the lessor are recognised in the statement of financial position as a financial asset where recoverable. Unrecoverable reserve payments are treated as a component of lease expense and recognised over the term of the lease. The Group believes the change in accounting policy provides more relevant and reliable information, better reflects the present obligations arising under the lease agreements and achieves closer alignment with the policies adopted by industry participants.

The change in accounting policy has been applied retrospectively and the comparative amounts disclosed for the 2013 financial year have been restated where appropriate. The tables below summarise the adjustments made to reflect the implementation of the change in accounting policy:

Consolidated statement of financial position	**Balances at 1 July 2012, as previously reported $m**	**Impact of the change in accounting policy for the year ended 30 June 2012 $m**	**Restated balances at 1 July 2012 $m**	**Balances at 30 June 2013, as previously reported $m**	**Impact of the change in accounting policy for the year ended 30 June 2012 $m**	**Impact of the change in accounting policy for the year ended 30 June 2013 $m**	**Restated balances at 30 June 2013 $m**
Other financial assets (current)	8.1	20.2	**28.3**	3.4	20.2	(10.9)	**12.7**
Other financial assets (non-current)	47.7	62.8	**110.5**	42.6	62.8	30.9	**136.3**
Deferred tax assets	10.9	(10.9)	**–**	32.6	(10.9)	(21.7)	**–**
Property, plant and equipment	2,769.0	42.3	**2,811.3**	3,005.2	42.3	(13.0)	**3,034.5**
Provisions (current)	(104.1)	(5.0)	**(109.1)**	(102.0)	(5.0)	(10.4)	**(117.4)**
Provisions (non-current)	(25.9)	(24.3)	**(50.2)**	(53.6)	(24.3)	3.4	**(74.5)**
Deferred tax liabilities	(8.7)	(17.9)	**(26.6)**	–	(17.9)	21.7	**3.8**
Retained profits	(243.0)	(67.2)	**(310.2)**	(144.9)	(67.2)	–	**(212.1)**

Consolidated statement of profit or loss and other comprehensive income	**30 June 2014 $m**	**30 June 2013 $m**
Decrease in contract and other maintenance expenses	**(39.9)**	(32.3)
Increase in depreciation and amortisation expense	**12.5**	27.1
Increase in finance costs	**5.4**	5.2
Decrease/(increase) in income tax benefit	**6.6**	–
Increase/(decrease) in net loss for the year	**(15.4)**	–
Increase/(decrease) in total comprehensive loss for the year attributable to owners of Virgin Australia Holdings Limited	**(15.4)**	–

The change in accounting policy had no impact on the earnings per share for loss attributable to ordinary equity holders of the Company previously reported as 4.1 cents for the year ended 30 June 2013.

3. Significant accounting policies (continued)

(b) Changes in accounting policies (continued)

(i) Repairs and maintenance – operating leased aircraft (continued)

Consolidated statement of cash flows	Balances at 30 June 2013, as previously reported $m	Impact of the change in accounting policy for the year ended 30 June 2013 $m	Restated balances at 30 June 2013 $m
Net cash from operating activities	60.6	62.7	**123.3**
Net cash used in investing activities	(496.0)	(62.7)	**(558.7)**

(c) 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. 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 replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7 *Financial Instruments: Disclosures*. 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 measurement 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* (AASB 10) 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 that there are no significant impacts for the Group.

(iv) Joint arrangements

AASB 11 *Joint Arrangements* (AASB 11) 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, 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* 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.

(vi) AASB 2013-3 *Amendments to AASB 136 Recoverable Amount Disclosures for Non-Financial Assets*

AASB 2013-3 amends the disclosure requirements in AASB 136 *Impairment of Assets*. The effective date of this amendment is 1 January 2014. The Group has early adopted the new standard before its operative date, which means that it will be applied in the reporting period ended 30 June 2014. Early adoption of this amendment is allowed, provided that AASB 13 is also applied to the same period. As a result, there are additional disclosure requirements where an impairment is recognised.

4. Financial risk management

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

5. 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 and B737 aircraft. This comprises Trans-Pacific, Middle East, 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 impairment loss, accelerated depreciation due to changes in useful life of assets; and net gain/(loss) on sale of assets, business and capital restructure costs, share of net (losses)/profits of equity accounted investees, net finance costs and income tax benefit) as included in the internal management reports that are reviewed by the chief operating decision maker.

The 30 June 2013 comparative numbers have been restated to reflect the current definition of EBIT and the change in accounting policy, refer to note 3(b). 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 year ended 30 June 2014.

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 arm's 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.

2014	Domestic $m	International $m	Eliminations $m	Consolidated $m
Revenue and other income				
External revenues and other income	**3,156.8**	**1,149.8**	**–**	**4,306.6**
Inter-segment revenues	**43.1**	**–**	**(43.1)**	**–**
Segment revenue	**3,199.9**	**1,149.8**	**(43.1)**	**4,306.6**
Segment EBITDAR	**303.4**	**91.1**	**–**	**394.5**
Aircraft rentals	**(222.1)**	**(31.4)**	**–**	**(253.5)**
Segment EBITDA	**81.3**	**59.7**	**–**	**141.0**
Depreciation and amortisation[(1)]	**(140.5)**	**(126.45)**	**–**	**(267.0)**
Segment EBIT excluding time value movement and unrealised ineffectiveness	**(59.2)**	**(66.8)**	**–**	**(126.0)**
Time value movement on cash flow hedges[(2)(3)]	**(13.8)**	**(7.1)**	**–**	**(20.9)**
Unrealised ineffectiveness on cash flow hedges and non-designated derivatives[(2)]	**(13.9)**	**(6.3)**	**–**	**(20.2)**
Segment EBIT	**(86.9)**	**(80.2)**	**–**	**(167.1)**
Impairment loss				**(56.9)**
Accelerated depreciation due to changes in useful life of assets[(1)]; and net gain/(loss) on sale of assets				**(3.1)**
Business and capital restructure costs				**(101.9)**
Share of net (losses)/profits of equity accounted investees:				
– Tiger				**(46.1)**
– Virgin Samoa				**(2.6)**
				(377.7)
Net finance costs:				
– Net finance costs excluding capital restructure costs				**(85.7)**
– Interest rate swap terminations associated with capital restructure				**(8.4)**
– Accelerated amortisation resulting from capital restructure				**(12.3)**
Loss before related income tax benefit				**(484.1)**
Income tax benefit				**128.5**
Loss for the period				**(355.6)**

(1) Accelerated depreciation due to the changes in useful lives of assets for the year ended 30 June 2014 was $0.8 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 losses/(gains) 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.

5. Operating segments (continued)

2013	Domestic $m	International $m	Eliminations $m	Consolidated $m
Revenue and other income				
External revenues and other income	2,899.2	1,121.1	–	4,020.3
Inter-segment revenues	52.4	–	(52.4)	–
Segment revenue	2,951.6	1,121.1	(52.4)	4,020.3
Segment EBITDAR	311.9	133.9	–	445.8
Aircraft rentals	(192.3)	(30.8)	–	(223.1)
Segment EBITDA	119.6	103.1	–	222.7
Depreciation and amortisation(1)	(154.2)	(111.6)	–	(265.8)
Segment EBIT excluding time value movement and unrealised ineffectiveness	(34.6)	(8.5)	–	(43.1)
Time value movement on cash flow hedges(2)(3)	7.0	4.5	–	11.5
Unrealised ineffectiveness on cash flow hedges and non-designated derivatives(2)	25.3	12.3	–	37.6
Segment EBIT	(2.3)	8.3	–	6.0
Impairment loss				–
Accelerated depreciation due to changes in useful life of assets(1); and net gain/(loss) on sale of assets				(8.3)
Business and capital restructure costs				(96.8)
Share of net (losses)/profits of equity accounted investees:				
– Tiger				–
– Virgin Samoa				0.1
				(99.0)
Net finance costs:				
– Net finance costs excluding capital restructure costs				(50.7)
– Interest rate swap terminations associated with capital restructure				–
– Accelerated amortisation resulting from capital restructure				–
Loss before related income tax benefit				(149.7)
Income tax benefit				51.6
Loss for the period				(98.1)

(1) Accelerated depreciation due to the changes in useful lives of assets for the year ended 30 June 2013 was $6.3 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 losses/(gains) 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. Acquisition of subsidiary

During the year ended 30 June 2014 no new entities were acquired as subsidiaries of the Group.

In the prior year, the Group acquired 100% of the shares and voting interests in Skywest Airlines Pte Ltd (formerly Skywest Airlines Limited) and its subsidiaries (Skywest Group) on 19 April 2013. The primary operating entity of the Skywest Group was Skywest Airlines (Australia) Pty Limited (currently known as Virgin Australia Regional Airlines Pty Ltd), an airline operating out of Western Australia, Australia. The acquisition is expected to accelerate the Group's growth in regional and Fly-In, Fly-Out markets, increasing competition in those segments.

The purchase consideration of $114.0 million was transferred by the Group and included cash of $50.2 million, equity instruments issued of $48.5 million and the settlement of pre-existing relationships of $15.3 million. Under the terms of the agreement, Skywest Airlines Pte Ltd shareholders were entitled to receive $0.225 in cash plus 0.53 VAH shares for each share in Skywest Airlines Pte Ltd.

6. Acquisition of subsidiary (continued)

(a) Provisional accounting

Accounting for the acquisition of the Skywest Group was provisionally determined at 30 June 2013. At this date, the necessary market valuations and other calculations had not been finalised and were therefore only provisionally determined based on the directors' best estimates.

The Group has assessed new information obtained during the one year measurement period from the acquisition date about facts and circumstances relating to assets and liabilities that existed at the acquisition date and identified adjustments to the provisional accounting valuations. Revision to the acquisition accounting has been completed on this basis.

Note 6(b) summarises the major classes of assets acquired and liabilities assumed at the acquisition date and the subsequent revisions to purchase price accounting during the measurement period to 19 April 2014. The revisions to purchase price accounting include the change in repairs and maintenance accounting policy referred to in note 3(b). Note 6(c) outlines the change in goodwill as a result of these revisions.

(b) Identifiable assets acquired and liabilities assumed

	2013 $m	Adjustment $m	Restated 2013 $m
Current assets			
Cash and cash equivalents	8.0	–	**8.0**
Trade and other receivables[1]	20.0	–	**20.0**
Inventories	4.8	–	**4.8**
Other current assets	0.1	–	**0.1**
Current tax assets	2.1	1.5	**3.6**
Total current assets	35.0	1.5	**36.5**
Non-current assets			
Other financial assets	3.6	–	**3.6**
Deferred tax assets[2]	3.9	(4.8)	**(0.9)**
Property, plant and equipment[2]	33.7	30.9	**64.6**
Intangible assets	25.6	–	**25.6**
Total non-current assets	66.8	26.1	**92.9**
Total assets	101.8	27.6	**129.4**
Current liabilities			
Trade and other payables	43.0	–	**43.0**
Interest-bearing liabilities	4.2	–	**4.2**
Derivative financial instruments	0.1	–	**0.1**
Provisions	17.4	5.9	**23.3**
Unearned revenue	7.4	–	**7.4**
Total current liabilities	72.1	5.9	**78.0**
Non-current liabilities			
Interest-bearing liabilities	0.9	–	**0.9**
Provisions	16.5	10.7	**27.2**
Total non-current liabilities	17.4	10.7	**28.1**
Total liabilities	89.5	16.6	**106.1**
Net assets	12.3	11.0	**23.3**

(1) Included in trade and other receivables at 30 June 2013 are acquired trade receivables with a fair value of $14.4 million. These trade receivables were primarily supported by contracts with third party charter customers. The full amount of the contractual trade receivables has been collected post acquisition.

(2) Included in the adjustments to property, plant and equipment and deferred tax assets are amounts relating to the change in repairs and maintenance accounting policy of $24.1 million and ($7.2) million respectively.

6. Acquisition of subsidiary (continued)

(c) Goodwill

Goodwill was recognised as a result of the acquisition as follows:

	2013 $m	Adjustment $m	Restated 2013 $m
Total consideration transferred	114.0	–	**114.0**
Fair value of identifiable net assets	(12.3)	(11.0)	**(23.3)**
	101.7	(11.0)	**90.7**

Goodwill arose in the acquisition of the Skywest Group as the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and the assembled workforce of the Skywest Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on this acquisition is not expected to be deductible for tax purposes.

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 (Tiger Holdings). Purchase consideration of $35.0 million was paid by the Group. In addition $5.0 million will be payable by Tiger to Tiger Holdings if performance targets are met within a 4.75 year period.

After acquisition date, there is joint commitment by the Group and Tiger Holdings to invest up to $62.5 million (pro-rated based on ownership interest) into the Tiger operation plus a commitment for further funding should Tiger so require. At 30 June 2014 the Group had provided $25.0 million of funding to Tiger and $0.1 million of interest had accrued on this amount. The loan receivable, in substance, is deemed to form part of the Group's net investment in Tiger at 30 June 2014. As a consequence, in recognising the Group's share of Tiger losses from the acquisition date, the equity investment was reduced to nil and the loan receivable was reduced by $11.1 million.

As at 30 June 2014, the Group has provided various joint and several guarantees for Tiger aircraft and banking facilities of up to $506.7 million. Refer to note 17(a)(ii). Tiger Holdings 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, under a shareholders' agreement between the Group and Tiger Holdings (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 and Joint Ventures*, for its investment in Tiger.

Included in the Group's pre-tax loss for the year ended 30 June 2014 is $46.1 million attributable to the Group's share of losses generated by Tiger.

8. Assets classified as held for sale

The Group has reclassified aircraft operated within the domestic segment with a net book value of $66.8 million from property, plant and equipment to assets classified as held for sale following the commitment of the Group, on 1 January 2014, to a plan to sell the aircraft. Efforts to sell the aircraft have commenced, and a sale is expected prior to 31 December 2014.

An impairment loss of $5.7 million on the remeasurement of the aircraft to the lower of its carrying amount and its fair value less costs to sell has been included in "impairment loss" in the statement of profit or loss. There are no cumulative income or expenses included in other comprehensive income relating to the planned disposal of the aircraft.

9. Property, plant and equipment

During the year ended 30 June 2014, the Group acquired assets with a cost of $367.4 million (2013: $501.1 million) primarily comprising aircraft and aeronautic related assets. Assets with a carrying amount of $365.6 million (2013: $54.1 million) were disposed of during the year ended 30 June 2014. Depreciation for the year ended 30 June 2014 was $238.2 million (2013: $246.5 million). The impact of foreign exchange revaluations on the Group's property, plant and equipment for the year ended 30 June 2014 was an increase of $8.6 million (2013: $53.6 million). During the current year, an impairment loss was recorded against property, plant and equipment of $51.2 million (2013: n/a), refer to 9(a).

(a) Impairment loss – International operations

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting period to determine whether there is any indication of impairment. As at 30 June 2014, the Group assessed that the carrying amount of the International cash-generating unit (CGU) had increased above its recoverable amount due to a deterioration of performance on its short haul international market segment, in particular on the Bali route, due to increased capacity and competition.

The recoverable amount of the International CGU was based on its value-in-use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The cash flow projection covers a five-year period and is based on financial budgets approved by senior management. Value-in-use in 2014 was determined in a similar manner as in 2013. The carrying amount of the CGU was determined to be higher than its recoverable amount and an impairment loss of $51.2 million (2013: n/a) was recognised. The impairment loss was fully allocated to the carrying value of property, plant and equipment assets attributable to the International CGU. The estimate of value-in-use was determined using a post-tax discount rate of 10.13% (2013: 9.73%).

No other impairment losses were identified (2013: nil) as a result of the impairment testing performed at the CGU level. The Group has considered all reasonable changes in key assumptions, including growth rate and discount rate, and through sensitivity analysis concluded that there is no impairment from these changes in assumptions used in the value-in-use calculations for the Domestic CGU.

10. Intangible assets

During the year ended 30 June 2014, the Group acquired assets with a cost of $73.7 million (2013: $243.4 million) consisting predominantly of capitalised software $53.8 million (2013: $111.2 million) and capitalised contract intangibles relating to airport development project costs from which the Group will obtain future benefits of $19.7 million (2013: $15.9 million). Amortisation for the year ended 30 June 2014 was $29.5 million (2013: $25.6 million) and net losses on disposal of software assets was $0.4 million (2013: $0.2 million).

11. Interest-bearing liabilities

	2014 $m	2013 $m
Current		
Loans (aeronautic finance facilities) – secured[1]	**296.5**	263.4
Loans (bank) – secured[1]	**24.1**	99.0
Loans (bank) – unsecured	**33.9**	–
Loan from associate – unsecured	**4.2**	9.3
Finance lease liabilities	**1.5**	1.8
	360.2	373.5
Non-current		
Loans (aeronautic finance facilities) – secured[1]	**1,562.5**	1,493.1
Finance lease liabilities	**28.0**	23.3
	1,590.5	1,516.4

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

11. Interest-bearing liabilities (continued)

(a) Loans (aeronautic finance facilities) – secured

During the current year, the Group refinanced a collateralised pool of aircraft within the Group's existing fleet through the use of an Enhanced Equipment Notes (EEN) facility. The EEN 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.

The Group entered into a subordinated loan arrangement with a carrying amount of US$60.0 million, AU$63.8 million. The subordinated loan is secured on a subordinated basis by interests in 34 aircraft. The weighted average interest rate on this facility at 30 June 2014 is 6.23% (2013: n/a).

(b) Loans (bank)

(i) Secured

The bank loan of $99.0 million held as at 30 June 2013, secured over the Company's registered office, was repaid during the year ended 30 June 2014. The weighted average interest rate on this facility at 30 June 2013 was 6.59%.

The Group entered into a new bank loan facility with a carrying value of $24.1 million, secured over the Group's simulators and simulator training facility. The interest rate on this facility at 30 June 2014 is 4.49% (30 June 2013: n/a).

(ii) Unsecured

During the current year the Group entered into two new unsecured bank loan facilities with a carrying value of $17.0 million each. The weighted average interest rate on these facilities at 30 June 2014 is 4.99% (30 June 2013: n/a).

(c) Loans from associate – unsecured

Refer to note 17(b).

(d) Finance lease liabilities

During the year ended 30 June 2014, 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) Terms and debt repayment schedule

			Nominal interest rate		Face value $m		Carrying amount $m	
	Currency	Year of maturity[1]	30 June 2014	30 June 2013	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Secured bank loans								
– Aircraft	AUD	2014–2020	**3.21%**	3.37%–6.32%	**346.0**	700.7	**343.5**	696.0
– Aircraft	USD	2014–2024	**2.41%–8.50%**	0.70%–6.18%	**1,562.3**	1,096.8	**1,515.5**	1,060.5
– Other	AUD	2014	**4.49%**	6.58%–6.60%	**24.1**	100.0	**24.1**	99.0
Unsecured bank loans								
– Other	AUD	2014	**4.99%**	–	**33.9**	–	**33.9**	–
Loan from associate	NZD	2014	**6.68%**	6.03%	**4.2**	9.3	**4.2**	9.3
Finance leases	AUD	2014–2047	**5.00%–13.00%**	5.00%–10.45%	**29.5**	25.1	**29.5**	25.1
					2,000.0	1,931.9	**1,950.7**	1,889.9

(1) Based on the calendar year.

There have been no breaches in the financial covenants of any interest-bearing loans and borrowings in the current period.

12. Share capital

The number of ordinary shares issued at 30 June 2014 was 3,503.3 million (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)(i).

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 year ended 30 June 2014, 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 $3,383.7 million as at 30 June 2014 (2013: $3,348.1 million).

14. Financial instruments

The Group's accounting policies and disclosures may require the measurement of fair values for both financial and non-financial assets and liabilities.

(a) 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).

When measuring the fair value of financial assets and liabilities, the Group uses market observable data where available. There have been no transfers between levels of the fair value hierarchy during the period.

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

14. Financial instruments (continued)

(a) Fair value hierarchy (continued)

(i) Estimation of fair values

	Carrying amount $m	Fair value $m	Quoted market price (Level 1) $m	Observable inputs (Level 2) $m
2014				
Financial assets carried at fair value				
Fuel hedging contracts – cash flow hedges	**19.3**	**19.3**	**–**	**19.3**
Forward exchange contracts – cash flow hedges	**–**	**–**	**–**	**–**
	19.3	**19.3**	**–**	**19.3**
Financial assets carried at amortised cost				
Cash and cash equivalents	**783.8**	**783.8**	**–**	**–**
Trade and other receivables	**249.9**	**249.9**	**–**	**–**
Other financial assets	**200.4**	**200.4**	**–**	**–**
	1,234.1	**1,234.1**	**–**	**–**
Financial liabilities carried at fair value				
Fuel hedging contracts – cash flow hedges	**4.1**	**4.1**	**–**	**4.1**
Interest rate swap contracts – cash flow hedges	**–**	**–**	**–**	**–**
Forward exchange contracts – cash flow hedges	**11.3**	**11.3**	**–**	**11.3**
	15.4	**15.4**	**–**	**15.4**
Financial liabilities carried at amortised cost				
Trade and other payables	**627.7**	**627.7**	**–**	**–**
Loans (aeronautic finance facilities)	**1,859.0**	**1,962.6**	**859.6**	**1,103.0**
Finance lease liabilities	**29.5**	**29.5**	**–**	**29.5**
Other financial liabilities	**62.2**	**62.2**	**–**	**–**
	2,578.4	**2,682.0**	**859.6**	**1,132.5**
2013				
Financial assets carried at fair value				
Fuel hedging contracts – cash flow hedges	54.9	54.9	–	54.9
Forward exchange contracts – cash flow hedges	58.7	58.7	–	58.7
	113.6	113.6	–	113.6
Financial assets carried at amortised cost				
Cash and cash equivalents	580.5	580.5	–	–
Trade and other receivables	188.7	188.7	–	–
Other financial assets	149.0	149.0	–	–
	918.2	918.2	–	–
Financial liabilities carried at fair value				
Fuel hedging contracts – cash flow hedges	–	–	–	–
Interest rate swap contracts – cash flow hedges	9.3	9.3	–	9.3
Forward exchange contracts – cash flow hedges	–	–	–	–
	9.3	9.3	–	9.3
Financial liabilities carried at amortised cost				
Trade and other payables	587.0	587.0	–	–
Loans (aeronautic finance facilities)	1,756.5	1,804.8	–	1,804.8
Finance lease liabilities	25.1	25.1	–	25.1
Other financial liabilities	108.3	109.3	–	–
	2,476.9	2,526.2	–	1,829.9

14. Financial instruments (continued)

(a) Fair value hierarchy (continued)

(ii) Valuation techniques and significant unobservable inputs

The fair value of financial assets and liabilities is included at the amount at which the Group would expect to receive upon selling an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of cash and cash equivalents, trade and other receivables, other financial assets, trade and other payables and other financial liabilities approximate their carrying amounts largely due to the short-term nature of these instruments. The following methods and assumptions were used by the Group in estimating its fair value disclosures for financial instruments:

Forward currency transactions and over-the-counter fuel derivatives

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. These are measured at the market value of instruments with similar terms and conditions at the balance date (Level 2) using forward pricing models. Changes in counterparty and own credit risk are deemed to be insignificant. 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 such as estimated discounted cash flows. In the prior period, the fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows and credit adjustments.

Loans and finance leases

The fair value of the Group's interest-bearing borrowings and loans including leases, is determined by discounting the remaining contractual cash flows at the relevant credit adjusted market interest rates as at 30 June 2014.

15. Share-based payments

During the year ended 30 June 2014 the Group issued shares under existing option and share plans and one new option plan as follows:

(a) Senior executive option plans

(i) Existing senior executive option plans

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 year ended 30 June 2014. 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. All vested options were exercised during the year ended 30 June 2014.

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.

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 year ended 30 June 2014. 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 year ended 30 June 2014.

(ii) New senior executive option plans

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.

15. Share-based payments (continued)

(b) Employee share plans

(i) Existing employee share plans issued

Key Employee Performance Plan (KEPP) 2012

On 1 July 2013, vesting conditions associated with Tranche 1 of KEPP 2012, as detailed in the 30 June 2013 annual consolidated financial statements, were met. The Group issued 2,185,653 performance rights increasing share capital by $0.6 million.

(ii) New employee share plans

Key Employee Performance Plan (KEPP) 2013

Details

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. The Company provides all monies required by the trustee to acquire shares for the purposes of the KEPP, including costs and duties.

Restrictions

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.

4,379,721 performance rights were granted to participating employees on 11 September 2013 under the Key Employee Performance Plan (KEPP) 2013. Issued in three tranches, 58% of the performance rights are eligible to vest on 1 July 2014, a further 28% are eligible to vest 1 July 2015 and the remaining 14% are eligible to vest on 1 July 2016. The performance rights are exercisable during the period commencing on the date on which the respective year's annual results are announced and concluding on 30 June of the subsequent year, upon which they will lapse if unexercised.

(c) CEO Option plans

(i) Existing CEO option plans

CEO12

As approved at the Group's 2012 Annual General Meeting, on 20 November 2012 the CEO was granted 860,699 zero exercise price options in respect of a portion of his short-term incentive remuneration for the financial year ended 30 June 2012, which was deferred in shares. On 1 July 2013 100% of the options are vested as the CEO remained in continuous employment with the Virgin Australia Group of companies as CEO throughout the period 1 July 2012 to 30 June 2013. Entitlements were exercised and satisfied by an on-market purchase of existing securities. The number of shares purchases totalled 744,048 due to fluctuations in the share price since the grant date of the option plan in order to satisfy the financial value of the remuneration awarded.

(iI) New CEO option plans

CEO13

As approved at the Group's 2013 Annual General Meeting, on 20 November 2013 the CEO was granted 813,712 zero exercise price options in respect of a portion of his short-term incentive remuneration for the financial year ended 30 June 2013, which was deferred in shares. 100% of the options are exercisable if the CEO remains in continuous employment with the Virgin Australia Group of companies as CEO throughout the period 1 July 2013 to 30 June 2014. Exercised entitlements will be satisfied by an on-market purchase of existing securities. Any vested options are exercisable during the period 1 July 2014 to 30 June 2015.

16. Contingent liabilities and contingent assets

At 30 June 2014, excluding those guarantees referred to in note 17(a)(ii), there were bank guarantees and letters of credit outstanding to the value of $85.0 million (2013: $61.0 million). 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 year ended 30 June 2014, the Group entered into two unsecured loan facilities with Tiger Airways Australia Pty Limited (Tiger). Under one facility, the Group advanced US$54.1 million, AU$58.4 million, and receives interest at a rate of LIBOR + 5%, which at 30 June 2014 is 5.23% (2013: n/a). The Group received repayments during the year on this facility of US$32.3 million, AU$35.1 million. Amounts are repayable on an amortising basis to May 2016.

The other facility extended of AU$25.0 million attracts monthly interest at a rate equivalent to the prevailing Reserve Bank of Australia cash rate, which at 30 June 2014 is 2.5% (2013: n/a) and is repayable on 7 July 2017.

As at 30 June 2014 the total loan balance repayable, including interest receivable, is AU$49.6 million (2013: n/a). After recognising losses exceeding the Group's equity investment value in Tiger against the value of loan receivables (refer to note 7), the carrying value of the loan receivables at 30 June 2014 is AU$38.5 million.

(ii) Guarantees

As at 30 June 2014, the Group has provided various joint and several guarantees for Tiger and its related entities of AU$486.7 million (2013: n/a) for aircraft facilities and AU$20.0 million (2013: n/a) 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 year ended 30 June 2014, 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.

(b) Virgin Samoa Limited

(i) Loans

During the year ended 30 June 2014, 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$1.8 million (2013: NZ$11.0 million, AU$8.7 million) and made repayments of NZ$8.5 million, AU$7.3 million (2013: nil). As at 30 June 2014 the loan balance repayable is NZ$4.5 million, AU$4.2 million (2013: NZ$11.0 million, AU$9.3 million). The interest rate on the facility at 30 June 2014 is 6.68% (2013: 6.03%).

18. Shareholder transactions

(a) Subordinated term loan facilities

During the year ended 30 June 2014, 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 AU$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 arm's-length commercial terms. On 14 November 2013 the facilities were terminated.

(b) Shares issued

During the year ended 30 June 2014, 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.

19. Dividends paid

No dividends were declared and paid by the Company during the year ended 30 June 2014 (2013: nil). No dividends have been declared subsequent to 30 June 2014.

20. Subsequent events

(a) Board representation

On 4 July 2014, the Group appointed three Non-Executive Directors to the Board of Virgin Australia Holdings Limited:

- Mr Christopher Luxon, Air New Zealand Limited;
- Mr James Hogan, Etihad Airways P.J.S.C. (Alternate Director: Mr James Rigney); and
- Mr Goh Choon Phong, Singapore Airlines Limited (Alternate Director: Mr Marvin Tan).

The appointments have occurred following the adoption of a Nominee Director Protocol (Protocol) which sets out the procedures to be followed by the Board, its major shareholders and their nominated representatives on the Board. The Protocol will assist in managing potential issues relating to conflicts of interest and confidential information and ensure the Board continues to service the interests of all shareholders. The appointment of the three Non-Executive Directors had no financial effect on the Group at 30 June 2014.

(b) Velocity Frequent Flyer program

The Group has executed documents for the sale of a 35% minority interest in the Velocity Frequent Flyer program for total consideration of $336.0 million. Completion of the transaction is subject to customary conditions and regulatory approvals, including Foreign Investment Review Board approval, finalisation of due diligence items and completion of final transaction documents.

No other material matters have arisen since 30 June 2014.