

VIRGIN AUSTRALIA HOLDINGS LIMITED (ASX: VAH)

VIRGIN AUSTRALIA ANNOUNCES MAJOR TRANSACTION TO ACCELERATE GROWTH OF VELOCITY FREQUENT FLYER

29 August 2014

Virgin Australia Holdings Limited (**Virgin Australia**) today announced a major transaction designed to accelerate the growth of Velocity Frequent Flyer and fast track its strategy to become one of the world's leading loyalty programs.

The transaction will see one of Asia Pacific's largest investment firms, fund manager Affinity Equity Partners (**Affinity**) purchase a 35 per cent minority stake in the Velocity Frequent Flyer program, valuing the program at an enterprise value of \$960 million.

Under the plans, Velocity Frequent Flyer will remain under the Virgin Australia Group, with a long term commitment from the airline, and the introduction of a separate Velocity Frequent Flyer Board to work closely with the dedicated Velocity management team. Virgin Australia will maintain a majority stake in Velocity Frequent Flyer and majority representation on the Board, including the appointment of Chair and 65 per cent of voting rights of security holders.

Virgin Australia Chief Executive Officer John Borghetti said: "In the last four years we have built a transformational loyalty business, doubling membership numbers to 4.5 million and significantly increasing partner and member engagement. Today's announcement marks a significant milestone as it validates the success of the Velocity Frequent Flyer business to date.

"The program remains a key value driver for the Virgin Australia Group and through access to additional capital and resources, this transaction will allow us to accelerate the program's strategy and realise its full potential as a world class loyalty business.

"Affinity brings a wealth of experience in driving rapid and sustainable growth across a diverse range of businesses and we look forward to working with them to enhance value," Mr Borghetti said.

Affinity Equity Partners is a leading Asia Pacific investment firm and one of the largest private equity investors in the region. Affinity holds a diverse investment portfolio and currently manages more than US\$8 billion of funds and assets.

Affinity Equity Partners Head of Australia and New Zealand Brett Sutton said: "We are excited to be investing in one of Australia's largest and most successful loyalty programs. Velocity Frequent Flyer embodies all of the key traits we look for in an investment – a solid base business, strong management and significant growth prospects. Through this investment together with Virgin Australia we hope to rapidly grow the program and drive further value in return."

In 2015, Velocity Frequent Flyer will enter its tenth year in the Australian market. The award-winning loyalty program continues to be recognised for delivering innovative new benefits and industry firsts, and has the widest retail offering of any program in Australia. The program recently added a number of high profile brands to its portfolio including Starwood Hotel Group, Australia Post and Aussie Home Loans.

The transaction will be effected through the purchase of AUD denominated convertible notes issued by a Virgin Australia Group company. The notes convert either after 5 years, immediately prior to an exit by Affinity, on a change of control event affecting the issuer of the notes (excluding a change of control at Virgin Australia level) or by mutual consent.

24-hour media enquiries: 1800 142 467



The transaction is expected to increase Virgin Australia's cash balance by \$336 million¹. As a result of this transaction, lease-adjusted balance sheet gearing will reduce by 8 per cent. The Group profit and loss impact from this transaction is expected to be neutral in the 2015 Financial Year.

The transaction is also subject to conditions precedent, including Foreign Investment Review Board approval, finalisation of due diligence and completion of final transaction documents.

Virgin Australia anticipates that completion will occur by the end of October, but will keep the market updated on the timing of completion of the transaction.

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About Affinity Equity Partners

Affinity Equity Partners ("**Affinity**") is a leading Asia Pacific investment firm founded in 1998, with approximately US\$8 billion of assets under management and offices in Sydney, Beijing, Hong Kong, Jakarta, Seoul and Singapore. Affinity is one of the largest private equity investors in the region and has an extensive and successful track record. Affinity seeks to create value by partnering with strong management teams and businesses with significant growth prospects which can be accelerated and enhanced through our deep expertise and experience in driving operational improvements and strategic business initiatives.

¹ Excludes transaction costs