Virgin Australia Holdings Limited

Preliminary Final Report

For the year ended 30 June 2015

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

Contents

Preliminary Final Report

Results for announcement to the market and other information

For the year ended 30 June 2015

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

Reporting period:	12 months ended 30 June 2015
Previous corresponding period:	12 months ended 30 June 2014

2. Results for announcement to the market

		%		$m
Revenue from ordinary activities	**Increased**	**10.3**	**to**	**4,749.2**
Loss from ordinary activities after income tax attributable to members	**Decreased**	**68.7**	**to**	**(110.8)**
Net loss for the period attributable to members	**Decreased**	**68.7**	**to**	**(110.8)**
Net loss for the year	**Decreased**	**73.5**	**to**	**(93.8)**

3. Dividends

	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 2015 is contained in the attached Australian Stock Exchange (ASX) release.

5. Net tangible assets

	30 June 2015 $	30 June 2014 $
Net tangible assets per ordinary share(1)	**0.15**	0.20
Net assets per ordinary share(2)	**0.31**	0.30

(1) Derived by dividing the net assets attributable to equity holders less intangible assets, calculated on total issued shares of 3,517.7 million (2014: 3,503.3 million).

(2) Derived by dividing the net assets attributable to equity holders, calculated on total issued shares of 3,517.7 million (2014: 3,503.3 million).

6. Details of associates and joint venture entities

Entity	Percentage of ownership interest held: 30 June 2015 %	30 June 2014 %	Equity accounted share of net (loss)/profit: 30 June 2015 $m	30 June 2014 $m
Virgin Samoa Limited	**49**	49	**0.5**	(2.6)
Tiger Airways Australia Pty Limited[1]	–	60	**(17.1)**	(46.1)

(1) On 16 October 2014 the Group acquired the remaining 40% of Tiger Airways Australia Pty Limited. Refer to note 5 of the condensed notes to the preliminary final report. The contribution to net loss for the year ended 30 June 2015 is the equity-accounted result from 1 July 2014 to 16 October 2014.

7. Control gained over entities during the period

(a) The following entities were incorporated during the period:

Entity	Place of incorporation	Date of incorporation
Virgin Australia Cargo Pty Ltd	Australia	11 July 2014
Short Haul 2014 No.1 Pty Ltd	Australia	21 July 2014
Short Haul 2014 No.2 Pty Ltd	Australia	24 July 2014
Velocity Frequent Flyer 1 Pty Ltd[1]	Australia	15 August 2014
Velocity Frequent Flyer 2 Pty Ltd[1]	Australia	15 August 2014
Velocity Frequent Flyer Pty Ltd[1]	Australia	22 August 2014
TA Holdco (Singapore) Pte Ltd	Singapore	27 November 2014
Tiger International Number1 Pty Limited	Australia	29 May 2015

(1) A commentary on these entities is included in note 6 of the condensed notes to the preliminary final report.

(b) Control was gained by way of acquisition during the year:

Entity	Place of incorporation	Date of acquisition
Tiger Airways Australia Pty Limited	Australia	16 October 2014
Tiger Airways Australia SPV Pty Ltd	Australia	16 October 2014

A commentary on the above entities is included in note 5 of the condensed notes to the preliminary final report.

Consolidated statement of profit or loss

For the year ended 30 June 2015

	Note	2015 $m	Restated[(1)] 2014 $m
Revenue and income			
Airline passenger revenue		**3,999.0**	3,603.0
Other ancillary revenue		**707.0**	683.8
Other income		**17.4**	16.4
Net foreign exchange gains		**25.8**	3.4
Revenue and income		**4,749.2**	4,306.6
Operating expenditure			
Aircraft operating lease expenses		**(290.0)**	(274.2)
Airport charges, navigation and station operations		**(917.0)**	(792.3)
Contract and other maintenance expenses		**(155.2)**	(189.0)
Commissions and other marketing and reservations expenses		**(363.1)**	(330.6)
Fuel and oil		**(1,191.6)**	(1,208.7)
Labour and staff related expenses		**(1,118.8)**	(1,041.4)
Impairment loss		**–**	(56.9)
Other expenses from ordinary activities		**(464.2)**	(433.6)
Depreciation and amortisation		**(275.4)**	(267.8)
Ineffective cash flow hedges and non-designated derivatives losses		**(27.4)**	(38.5)
Net operating expenditure		**(4,802.7)**	(4,633.0)
Share of net (losses)/profits of equity-accounted investees		**(16.6)**	(48.7)
Loss before related income tax benefit and net finance costs		**(70.1)**	(375.1)
Finance income		**39.7**	13.3
Finance costs		**(132.9)**	(119.7)
Net finance costs		**(93.2)**	(106.4)
Loss before income tax benefit		**(163.3)**	(481.5)
Income tax benefit		**69.5**	127.7
Net loss for the year		**(93.8)**	(353.8)
Attributable to:			
Owners of the Company		**(110.8)**	(353.8)
Non-controlling interests	6	**17.0**	–
		(93.8)	(353.8)

Earnings per share for loss attributable to the ordinary equity holders of the Company:	**Cents**	**Cents**
Basic earnings per share	**(3.2)**	(11.4)
Diluted earnings per share	**(3.2)**	(11.4)

(1) Refer to note 3(a)(i).

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 2015

	Note	2015 $m	Restated[1] 2014 $m
Loss for the year		**(93.8)**	(353.8)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(169.6)**	(0.1)
Effective portion of changes in fair value of cash flow hedges		**(78.0)**	(39.9)
Net change in fair value of cash flow hedges transferred to profit or loss		**73.7**	(38.0)
Income tax benefit on other comprehensive income		**1.3**	23.4
Items that will never be reclassified to profit or loss			
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item		**0.6**	–
Income tax expense on other comprehensive income		**(0.2)**	–
Other comprehensive loss for the year, net of income tax		**(172.2)**	(54.6)
Total comprehensive loss for the year		**(266.0)**	(408.4)
Attributable to:			
Owners of the Company		**(283.0)**	(408.4)
Non-controlling interests	6	**17.0**	–
Total comprehensive loss for the year		**(266.0)**	(408.4)

(1) Refer to note 3(a)(i).

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 2015

	Note	2015 $m	Restated[1] 2014 $m
Current assets			
Cash and cash equivalents		**1,028.5**	783.8
Trade and other receivables		**304.8**	302.9
Inventories		**41.1**	36.1
Derivative financial instruments		**43.6**	17.3
Other financial assets		**67.7**	29.0
Other current assets		**4.7**	4.7
Current tax assets		**0.2**	–
Assets classified as held for sale	7	**95.4**	61.1
Total current assets		**1,586.0**	1,234.9
Non-current assets			
Trade and other receivables		**–**	23.6
Derivative financial instruments		**6.9**	2.0
Other financial assets		**291.3**	171.4
Investments accounted for using the equity method		**6.6**	5.2
Deferred tax assets		**216.6**	146.9
Property, plant and equipment	8	**3,081.9**	2,702.4
Intangible assets	9	**564.3**	362.3
Other non-current assets		**26.0**	30.6
Total non-current assets		**4,193.6**	3,444.4
Total assets		**5,779.6**	4,679.3
Current liabilities			
Trade and other payables		**701.5**	620.3
Interest-bearing liabilities	10	**440.3**	360.2
Derivative financial instruments		**45.6**	11.7
Provisions		**172.8**	120.4
Unearned revenue		**939.3**	807.7
Other current liabilities		**0.3**	0.3
Total current liabilities		**2,299.8**	1,920.6
Non-current liabilities			
Trade and other payables		**6.3**	7.4
Interest-bearing liabilities	10	**2,321.9**	1,590.5
Derivative financial instruments		**–**	3.7
Provisions		**122.4**	102.5
Unearned revenue		**2.0**	–
Other non-current liabilities		**6.4**	6.5
Total non-current liabilities		**2,459.0**	1,710.6
Total liabilities		**4,758.8**	3,631.2
Net assets		**1,020.8**	1,048.1
Equity			
Share capital		**1,152.9**	1,147.3
Reserves		**177.3**	43.6
Retained losses		**(253.6)**	(142.8)
Equity attributable to the owners of the Company		**1,076.6**	1,048.1
Non-controlling interests	6	**(55.8)**	–
Total equity		**1,020.8**	1,048.1

(1) Refer to note 3(a)(i).

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 2015

	Share capital $m	Foreign currency translation reserve $m	Hedging reserve $m	Option time value reserve $m	Share-based payments reserve $m	Non-controlling interests contribution reserve(3) $m	Retained (losses)/ profits $m	Attributable to owners of the Company $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2014	1,147.3	36.6	(11.8)	–	19.5	–	(143.5)	1,048.1	–	1,048.1
Impact of early adoption of accounting standard(1)	–	–	–	(0.7)	–	–	0.7	–	–	–
Restated balance at 1 July 2014	1,147.3	36.6	(11.8)	(0.7)	19.5	–	(142.8)	1,048.1	–	1,048.1
(Loss)/profit for the year	–	–	–	–	–	–	(110.8)	(110.8)	17.0	(93.8)
Other comprehensive income(2)										
Foreign currency translation differences	–	(169.6)	–	–	–	–	–	(169.6)	–	(169.6)
Effective portion of changes in fair value of cash flow hedges	–	–	(38.1)	(16.5)	–	–	–	(54.6)	–	(54.6)
Net change in fair value of cash flow hedges transferred to profit or loss	–	–	44.8	6.8	–	–	–	51.6	–	51.6
Net change in the fair value of cash flow hedges transferred to initial carrying value of hedged item	–	–	0.4	–	–	–	–	0.4	–	0.4
Total other comprehensive (loss)/income	–	(169.6)	7.1	(9.7)	–	–	–	(172.2)	–	(172.2)
Total comprehensive (loss)/income for the year	–	(169.6)	7.1	(9.7)	–	–	(110.8)	(283.0)	17.0	(266.0)
Transactions with owners, recorded directly in equity(2)										
Sale of interest in Velocity Group	–	–	–	–	–	307.5	–	307.5	12.3	319.8
Income tax reserve	–	–	–	–	–	–	–	–	7.4	7.4
Redemption of convertible notes	–	–	–	–	–	–	–	–	(74.7)	(74.7)
Equity distributions	–	–	–	–	–	–	–	–	(17.8)	(17.8)
Share-based payment transactions	5.6	–	–	–	(1.6)	–	–	4.0	–	4.0
Total transactions with owners	5.6	–	–	–	(1.6)	307.5	–	311.5	(72.8)	238.7
Balance at 30 June 2015	1,152.9	(133.0)	(4.7)	(10.4)	17.9	307.5	(253.6)	1,076.6	(55.8)	1,020.8

(1) Refer to note 3(a)(i).

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

(3) The non-controlling interests contribution reserve represents the excess of consideration received over and above the carrying value of net assets attributable to equity instruments when acquired by non-controlling interests.

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 2015

	Share capital $m	Foreign currency translation reserve $m	Hedging reserve $m	Option time value reserve $m	Share-based payments reserve $m	Non-controlling interests contribution reserve[3] $m	Retained (losses)/ profits $m	Attributable to owners of the Company $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2013	794.7	36.7	40.9	–	16.9	–	212.1	1,101.3	–	1,101.3
Impact of early adoption of accounting standard[1]	–	–	–	1.1	–	–	(1.1)	–	–	–
Restated balance at 1 July 2013	794.7	36.7	40.9	1.1	16.9	–	211.0	1,101.3	–	1,101.3
Loss for the year	–	–	–	–	–	–	(353.8)	(353.8)	–	(353.8)
Other comprehensive income[2]										
Foreign currency translation differences	–	(0.1)	–	–	–	–	–	(0.1)	–	(0.1)
Effective portion of changes in fair value of cash flow hedges	–	–	(26.1)	(1.8)	–	–	–	(27.9)	–	(27.9)
Net change in fair value of cash flow hedges transferred to profit or loss	–	–	(26.6)	–	–	–	–	(26.6)	–	(26.6)
Total other comprehensive loss (restated)	–	(0.1)	(52.7)	(1.8)	–	–	–	(54.6)	–	(54.6)
Total comprehensive loss for the year (restated)	–	(0.1)	(52.7)	(1.8)	–	–	(353.8)	(408.4)	–	(408.4)
Transactions with owners, recorded directly in equity[2]										
Issue of ordinary shares for cash	349.7	–	–	–	–	–	–	349.7	–	349.7
Share-based payment transactions	2.9	–	–	–	2.6	–	–	5.5	–	5.5
Total transactions with owners	352.6	–	–	–	2.6	–	–	355.2	–	355.2
Restated balance at 30 June 2014	1,147.3	36.6	(11.8)	(0.7)	19.5	–	(142.8)	1,048.1	–	1,048.1

(1) Refer to note 3(a)(i).

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

(3) The non-controlling interests contribution reserve represents the excess of consideration received over and above the carrying value of net assets attributable to equity instruments when acquired by non-controlling interests.

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 2015

	Note	2015 $m	2014 $m
Cash flows from operating activities			
Cash receipts from customers		**5,176.7**	4,781.7
Cash payments to suppliers and employees		**(4,785.6)**	(4,615.6)
Cash generated from operating activities		**391.1**	166.1
Cash payments for business transformation expenses		**(82.5)**	(108.6)
Finance costs paid		**(109.3)**	(76.7)
Finance income received		**18.8**	11.5
Net cash from/(used in) operating activities		**218.1**	(7.7)
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(577.3)**	(360.2)
Proceeds from disposal of property, plant and equipment		**147.4**	376.8
Acquisition of intangible assets		**(60.3)**	(72.4)
Acquisition of subsidiary, net of cash acquired	5	**3.2**	–
Acquisition of interest in joint venture	5	**–**	(35.0)
Advances of loans to joint venture		**(23.8)**	(83.4)
Proceeds from loans to joint venture		**8.2**	35.1
Payments for other deposits		**(72.9)**	(55.2)
Proceeds from other deposits		**2.6**	19.6
Proceeds from non-controlling interests	6	**336.0**	–
Payments of transaction costs relating to non-controlling interests		**(8.8)**	–
Net cash used in investing activities		**(245.7)**	(174.7)
Cash flows from financing activities			
Proceeds from borrowings		**910.7**	1,041.4
Repayment of borrowings		**(525.4)**	(975.8)
Payments of transaction costs related to borrowings		**(34.9)**	(28.3)
Redemption of convertible notes		**(74.7)**	–
Net proceeds from share issue		**–**	348.5
Equity distributions paid to non-controlling interests	6	**(17.8)**	–
Advances of loans from associate	13(b)	**–**	1.8
Repayments of loans from associate	13(b)	**(4.2)**	(7.3)
Net cash from financing activities		**253.7**	380.3
Net increase in cash and cash equivalents		**226.1**	197.9
Cash and cash equivalents at 1 July		**783.8**	580.5
Effect of exchange rate fluctuations on cash held		**18.6**	5.4
Cash and cash equivalents at 30 June		**1,028.5**	783.8

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 2015

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 2015 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 2014 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 for the year ended 30 June 2015, which are in the process of being audited. 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 full annual consolidated 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 2014.

The preliminary final report was approved by the Board of Directors on 6 August 2015.

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 2015. The preliminary final report has been prepared on a going concern basis, which contemplates the return to profitable trading and continuing positive cash flows from operations. The Group has a cash and cash equivalents balance at 30 June 2015 of $1,028.5 million (2014: $783.8 million) and has an unrestricted cash balance at 30 June 2015 of $718.9 million (2014: $541.0 million).

(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 2014. Changes in significant judgements recognised in the year ended 30 June 2015 and changes in estimates recognised in the current and prior financial years are detailed below:

(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 $4.5 million (2014: decrease of $8.1 milion). The continuous assessment of unearned passenger revenue obligations and historical trends of non-attendance rates has resulted in an increase in revenue of $3.0 million (2014: increase of $3.5 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 2015, resulting in an decrease in program revenue of $6.4 million (2014: increase of $3.3 million).

2. Basis of preparation (continued)

(b) Use of estimates and judgements (continued)

(ii) Estimation of useful lives of assets

During the year ended 30 June 2015 the useful lives of certain software assets changed based on the intended use of these items resulting in a $7.4 million decrease to amortisation expense for the year (2014: decrease of $4.8 million). The impact of this change on future financial years, based on the current cost, is expected to be an average decrease in amortisation of $3.2 million per annum for each financial year until 30 June 2025, and an average increase of $7.9 million per annum thereafter, until the end of the useful lives of the assets on 30 June 2030.

During the year ended 30 June 2015 the useful lives of certain leasehold improvements and aircraft and aeronautic related assets changed based on the intended use of these items resulting in a $6.6 million decrease to depreciation expense for the year (2014: $nil). The impact of this change on future financial years, based on the current cost, is expected to be an average decrease in depreciation of $8.6 million per annum for each financial year until 30 June 2025, and an average increase of $23.2 million per annum thereafter, until the end of the useful lives of the assets on 30 June 2029.

(iii) Recognition of 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 2015, the Group had approximately $1,829.9 million (2014: $1,322.0 million) of carry-forward tax losses that would be available to offset against future taxable profit. A deferred tax asset of $549.0 million (2014: $396.6 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.

3. Significant accounting policies

Except as described below, 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 2014.

(a) Impacts of new accounting standards and interpretations adopted from 1 July 2014

(i) Financial instruments

From 1 July 2014 the Group early adopted AASB 9 *Financial Instruments (2013, 2010 and 2009)* (AASB 9). AASB 9 introduces a new hedge accounting model to simplify hedge accounting requirements. AASB 9 introduces more principle-based requirements allowing more risk management activities to qualify for hedge accounting and therefore matching the timing of the profit or loss on the hedge instruments with the profit or loss on the underlying exposures. The Group has achieved this through component hedges (jet fuel component) and deferral of the time value on option-based contracts to the option time value reserve until maturity of the contract. Component hedges and option-based contracts are both commonly used in managing fuel price risk across the aviation industry. AASB 9 also improves and simplifies the approach for the classification and measurement of financial assets and liabilities. The impact of early adopting AASB 9 had no material impact on classification and measurement.

The early adoption of AASB 9 has been applied retrospectively as permitted by the transitional provisions of AASB 9. Comparative amounts disclosed for the 2014 financial year and as at 1 July 2013 have been restated where appropriate. The table below summarises the adjustments made to reflect the early adoption of this accounting standard.

	Option time value reserve			Retained (losses)/profits		
	Reported $m	Adjustment $m	Restated $m	Reported $m	Adjustment $m	Restated $m
Opening 1 July 2013	–	1.1	1.1	212.1	(1.1)	211.0
Movement in the year	–	(1.8)	(1.8)	(355.6)	1.8	(353.8)
Closing 30 June 2014 / Opening 1 July 2014	–	(0.7)	(0.7)	(143.5)	0.7	(142.8)

(b) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

4. Operating segments

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

- Virgin Australia Domestic: 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.
- Virgin Australia International: operations using a mix of Boeing B777 and B737 aircraft. This comprises Trans-Pacific, Abu Dhabi, Trans-Tasman, Pacific Island and South East Asia flying.
- Velocity: operations of the airline's loyalty program, which comprises more than 5 million members.
- Tigerair: operations using a narrow body fleet of A320 aircraft. This comprises Australian domestic flying targeting the budget leisure market.

Information regarding the results of each operating segment is detailed in the tables which follow. Performance is measured based on Segment EBIT (earnings before net gain/(loss) on disposal of assets, impairment losses, accelerated depreciation due to changes in useful life of assets; business and capital restructure and transaction costs; share of net profits/(losses) of equity-accounted investees; time value movement on cash flow hedges; unrealised ineffectiveness on cash flow hedges and non-designated derivatives; net finance costs and income tax benefit) as included in the internal management reports that are reviewed by the chief operating decision maker.

Segment EBITDAR is defined as Segment EBIT excluding costs associated with aircraft rentals and depreciation and amortisation costs allocated to the Group's reportable segments.

During the period, two significant transactions occurred which resulted in management re-assessing the operating segments. The Velocity Frequent Flyer Group was transferred to a separate legal structure and a 35% interest was sold to an external party. In addition, the Group acquired the remaining 40% of Tiger Airways Australia Pty Ltd and its subsidiary Tiger Airways Australia SPV Pty Ltd (collectively referred to as Tigerair). Management has also re-assessed the allocation of corporate costs amongst the segments as a result of broader changes within the business. The 30 June 2014 comparative information has been restated to reflect these changes.

The Velocity airline loyalty program is operated by the Velocity Frequent Flyer Group (VFF Group) that was established on 22 October 2014 (refer to note 6). In establishing the VFF Group, various agreements were entered into by controlled entities to reset the terms and conditions of arrangements between the parties on an arm's length basis. Segment information, including restated comparative information of the domestic segment, has been prepared on the basis that these agreements were in place from 1 July 2013 to provide comparability between the reporting periods.

Segment 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. During the year ended 30 June 2015, changed management practices brought about by the early adoption of AASB 9 *Financial Instruments (2013, 2010 and 2009)* have resulted in time value movement on cash flow hedges and unrealised ineffectiveness on cash flow hedges and non-designated derivatives being excluded from Segment EBIT.

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.

4. Operating segments (continued)

2015	Virgin Australia Domestic $m	Virgin Australia International $m	Velocity[1] $m	Tigerair $m	Corporate and Eliminations $m	Consolidated $m
Revenue and income						
External revenue and other income	3,114.3	1,112.4	238.4	284.1	–	4,749.2
Inter-segment revenue	195.7	–	–	–	(195.7)	–
Segment revenue and income	3,310.0	1,112.4	238.4	284.1	(195.7)	4,749.2
Segment EBITDAR	404.5	154.1	82.3	26.4	(48.9)	618.4
Aircraft rentals	(68.1)	(180.4)	–	(28.6)	–	(277.1)
Segment EBITDA	336.4	(26.3)	82.3	(2.2)	(48.9)	341.3
Depreciation and amortisation	(225.3)	(42.6)	(1.1)	(6.4)	–	(275.4)
Segment EBIT	111.1	(68.9)	81.2	(8.6)	(48.9)	65.9
Net gain/(loss) on disposal of assets						(7.6)
Business and capital restructure and transaction costs						(84.4)
Share of net profits/(losses) of equity-accounted investees:						
– Tigerair						(17.1)
– Virgin Samoa						0.5
Time value movement on cash flow hedges[2][3]						(10.0)
Unrealised ineffectiveness on cash flow hedges and non-designated derivatives[2]						(17.4)
						(70.1)
Net finance costs:						
– Finance income resulting from Tigerair acquisition						21.8
– Net finance costs excluding capital restructure costs						(115.0)
Loss before related income tax benefit						(163.3)
Income tax benefit						69.5
Loss for the period						(93.8)

(1) The Velocity segment information includes adjustments to eliminate intercompany transactions and pro forma adjustments to reflect a full year result. Therefore the figures in the table above do not correspond to the statutory result reported in note 6.

(2) The addition of these two items reconciles to total ineffective cash flow hedges and non-designated derivatives 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.

4. Operating segments (continued)

2014 (restated)	Virgin Australia Domestic $m	Virgin Australia International $m	Velocity[1] $m	Tigerair $m	Corporate and Eliminations $m	Consolidated $m
Revenue and income						
External revenue and other income	2,955.6	1,149.8	201.2	–	–	4,306.6
Inter-segment revenue	202.2	–	–	–	(202.2)	–
Segment revenue and income	3,157.8	1,149.8	201.2	–	(202.2)	4,306.6
Segment EBITDAR	208.7	164.5	77.4	–	(56.1)	394.5
Aircraft rentals	(82.9)	(170.6)	–	–	–	(253.5)
Segment EBITDA	125.8	(6.1)	77.4	–	(56.1)	141.0
Depreciation and amortisation	(224.8)	(40.0)	(2.2)	–	–	(267.0)
Segment EBIT	(99.0)	(46.1)	75.2	–	(56.1)	(126.0)
Impairment losses						(56.9)
Accelerated depreciation due to changes in useful lives of assets[2]; and net gain/(loss) on disposal of assets						(3.1)
Business and capital restructure and transaction costs						(101.9)
Share of net losses of equity-accounted investees:						
– Tigerair						(46.1)
– Virgin Samoa						(2.6)
Time value movement on cash flow hedges[3][4][5]						(18.3)
Unrealised ineffectiveness on cash flow hedges and non-designated derivatives[3]						(20.2)
						(375.1)
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						(481.5)
Income tax benefit[5]						127.7
Loss for the period						(353.8)

(1) The Velocity segment information includes adjustments to eliminate intercompany transactions and pro forma adjustments to reflect a full year result.

(2) 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 the total depreciation and amortisation expense included within operating expenditure as disclosed in the consolidated statement of profit or loss.

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

(4) 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) Refer to note 3(a)(i).

5. Acquisition of subsidiary

On 8 July 2013, the Group acquired 60% of the shares and voting interests in Tiger Airways Australia Pty Ltd and its subsidiary, Tiger Airways Australia SPV Pty Ltd (collectively referred to as Tigerair) from Tiger Airways Holdings Limited (Tiger Holdings) for $35.0 million. As Tigerair is a low-cost Australian airline, the arrangement gave the Group a share of the budget travel sector, whilst maintaining its position in the corporate, regional and high-end leisure markets.

Although the Group had a majority holding, it did not control Tigerair. The terms of the shareholder agreement specified a number of matters relating to key activities of Tigerair which required unanimous consent of the Group and Tiger Holdings. These activities included, inter alia, approval of business plans and budgets, capital expenditure, major contracts and funding decisions. As a result, the Group and Tiger Holdings had joint control of Tigerair and the arrangement was classified as a joint venture. Accordingly, the Group applied the equity method to its investment in Tigerair.

Tigerair made losses in the period during which the Group had joint control and the equity method was applied. These losses were applied to reduce the investment in Tigerair and thereafter applied to reduce a loan receivable from Tigerair.

On 16 October 2014, the Group acquired the remaining 40% of Tigerair for a cash consideration of $1. It gained control from this date and accordingly has consolidated 100% of Tigerair from this date.

The acquisition will enable the Group to become an effective and sustainable competitor in Australia's budget travel market.

For the period 17 October 2014 to 30 June 2015, Tigerair contributed revenue of $284.1 million and net loss after tax of $5.2 million to the Group's results. If the acquisition had occurred on 1 July 2014, management estimates Tigerair would have contributed additional revenue of $130.0 million and additional net loss of $11.4 million to the Group's result. In determining these proforma amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2014. The directors of the Group consider these proforma numbers represent an approximate measure of the performance of the combined group and do not provide a reference point for comparison to future periods.

(a) Consideration

	$m
Cash paid	–
Settlement of pre-existing relationships	60.9
Total consideration transferred	60.9

(i) Cash paid

The Group paid $1 to acquire the remaining 40% interest in Tigerair.

(ii) Settlement of pre-existing relationships

Under the terms of the share purchase agreement, the Tigerair shareholder loans with the Group and Tiger Holdings were forgiven. The Group had impaired the loan receivable from Tigerair as a result of accounting for losses of Tigerair during the period of joint control. At acquisition date, the carrying amount of the loan receivable was $39.1 million. AASB 3 *Business Combinations* requires a gain or loss to be recognised which is measured as the amount by which the loan receivable from Tigerair is favourable or unfavourable compared to the fair value of the loan. The fair value of the loan was assessed to be $60.9 million, resulting in a gain of $21.8 million which has been recognised in finance income. The fair value attributed to the loan receivable results in an adjustment to the purchase consideration. The amount in finance income is not included in the reportable operating segments, but rather is an unallocated amount.

5. Acquisition of subsidiary (continued)

(b) Identifiable assets acquired and liabilities assumed

The following table summarises the assets acquired and liabilities assumed at the acquisition date, which are measured on a provisonal basis.

	$m
Current assets	
Cash and cash equivalents	**3.2**
Trade and other receivables	**7.3**
Inventories	**0.6**
Total current assets	**11.1**
Non-current assets	
Other financial assets	**10.9**
Property, plant and equipment	**80.0**
Intangible assets	**0.1**
Total non-current assets	**91.0**
Total assets	**102.1**
Current liabilities	
Trade and other payables	**59.2**
Unearned revenue	**44.9**
Provisions	**27.0**
Interest-bearing liabilities	**39.1**
Derivative financial instruments	**6.4**
Total current liabilities	**176.6**
Non-current liabilities	
Provisions	**25.7**
Total non-current liabilities	**25.7**
Total liabilities	**202.3**
Net liabilities	**100.2**

Trade and other receivables comprise gross contractual amounts of $7.3 million, all of which is expected to be collected.

Contingent liabilities were recognised as part of the acquisition. There were no contingent liabilities identified which could not be measured reliably.

(c) Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	$m
Consideration transferred	60.9
Fair value of previously held equity interest	–
Fair value of identifiable net liabilities	100.2
Goodwill	161.1

The previously held equity interest was recognised at nil immediately before the acquisition date. The fair value of this equity interest has been assessed to be nil.

The goodwill is attributable to synergies that resulted from the transaction. These include cost synergies, network optimisation and scale benefits along with access to a vehicle to compete in the low cost carrier budget market. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The goodwill will not be deductible for tax purposes.

5. Acquisition of subsidiary (continued)

(d) Net cash inflow

	$m
Consideration paid in cash	–
Cash and cash equivalent balances acquired	3.2
Net inflow of cash from investing activities	3.2

6. Non-controlling interests

On 22 October 2014, the Group announced the execution of documents for the sale of a 35% interest in the Velocity Frequent Flyer Group (VFF Group) to Affinity Equity Partners (Affinity) for total consideration of $336.0 million, by way of VFF Group issuing convertible notes to Affinity.

The VFF Group consists of the following entities, all with a principal place of business of Australia:

- Velocity Frequent Flyer Holdco Pty Ltd
- Velocity Frequent Flyer 1 Pty Ltd
- Velocity Frequent Flyer 2 Pty Ltd
- Velocity Frequent Flyer Pty Ltd
- Velocity Rewards Pty Ltd (as Trustee for The Loyalty Trust)
- The Loyalty Trust

The table below summarises the VFF Group contribution to the Group's assets and liabilities as at 30 June 2015 as well as income and cash movements for the period 22 October 2014 to 30 June 2015 before any intra-group eliminations. There is no comparative information for 30 June 2014 as the VFF Group was established during the year ended 30 June 2015 and a 35% interest in the VFF Group was sold to Affinity on 22 October 2014.

	2015 $m
Revenue and other income	**167.2**
Profit from continuing operations	**48.7**
Other comprehensive income	**–**
Total comprehensive income	**48.7**
Profit allocated to non-controlling interest	**17.0**
Other comprehensive income allocated to non-controlling interest	**–**
Current assets	**325.0**
Non-current assets	**13.6**
Current liabilities	**(284.2)**
Non-current liabilities	**(213.8)**
Net liabilities	**(159.4)**
Non-controlling interest (35%)	**(55.8)**
Net increase/(decrease) in cash and cash equivalents	**19.6**

Equity distributions of $17.8 million were paid to non-controlling interests during the year ended 30 June 2015.

6. Non-controlling interests (continued)

The following table summarises the changes in the Group's ownership interest in the VFF Group.

	$m
Ownership interest at 22 October 2014	**35.1**
Effect of decrease in ownership interest	**(12.3)**
Ownership interest at 22 October 2014	**22.8**

7. Assets classified as held for sale

In the prior financial year, aircraft with a net book value of $61.1 million (after impairment loss recognised of $5.7 million) were held for sale. These aircraft have been transferred out of assets classified as held for sale during the year ended 30 June 2015.

During the current financial year, the Group has reclassified aircraft operated within the domestic segment with a net book value of $95.4 million from property, plant and equipment to assets classified as held for sale following the commitment of the Group, on 1 January 2015, to a plan to sell the aircraft. Efforts to sell the aircraft have commenced, and a sale is expected prior to 31 August 2015.

No impairment loss was recognised on reclassification of the assets to held for sale. In the prior financial year a $5.7 million impairment loss was recognised on the remeasurement of the aircraft to the lower of its carrying amount and its fair value less costs to sell which was 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.

8. Property, plant and equipment

Reconciliations of the carrying amount of property, plant and equipment are set out below:

	2015 $m	2014 $m
Carrying amount at beginning of year	**2,702.4**	3,065.4
Acquisition through business combinations	**80.0**	–
Other additions	**615.0**	367.4
Disposals	**(167.1)**	(365.6)
Depreciation	**(256.5)**	(238.2)
Impairment loss	**—**	(51.2)
Transfers (to)/from assets classified as held for sale	**(34.3)**	(66.8)
Foreign exchange movements	**142.4**	(8.6)
Carrying amount at end of year	**3,081.9**	2,702.4

9. Intangible assets

Reconciliations of the carrying amount of intangible assets are set out below:

	2015 $m	2014 $m
Carrying amount at beginning of year	**362.3**	318.6
Acquisition through business combinations	**161.2**	–
Other additions	**60.8**	73.7
Disposals	**(1.1)**	(0.4)
Amortisation	**(18.9)**	(29.6)
Carrying amount at end of year	**564.3**	362.3

10. Interest-bearing liabilities

	2015 $m	2014 $m
Current		
Loans (aeronautic finance facilities) – secured(1)	**384.5**	296.5
Loans (bank) – secured(1)	**21.7**	24.1
Loans (bank) – unsecured(1)	**32.4**	33.9
Loan from associate – unsecured	**—**	4.2
Finance lease liabilities	**1.7**	1.5
Total current interest-bearing liabilities	**440.3**	360.2
Non-current		
Loans (aeronautic finance facilities) – secured(1)	**1,692.6**	1,562.5
Loans (bank) – secured(1)	**216.1**	—
Loans (bank) – unsecured(1)	**386.6**	—
Finance lease liabilities	**26.6**	28.0
Total non-current interest-bearing liabilities	**2,321.9**	1,590.5

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

The nature of interest-bearing liabilities are consistent with those disclosed at 30 June 2014 apart from the changes outlined below:

(a) Bank loans

(i) Secured

During the year ended 30 June 2015 Velocity Frequent Flyer Pty Ltd entered into a syndicated facility agreement with Australia and New Zealand Banking Group Limited, the proceeds for which were $225.0 million. This facility is subject to interest of 5.3% per annum.

(ii) Unsecured

During the year ended 30 June 2015 the Group issued USD300.0 million of bonds to investors in the US Bond Market. The bonds have a five year term, maturing on 15 November 2019. The interest rate is 8.5% per annum with interest payments due semi-annually. The bond issue has provided the Group with additional US dollar liquidity coverage and has diversified the Group's funding mix and ultimately reduced liquidity risk.

(b) Aeronautic finance facilities

During the year ended 30 June 2015, the Group financed USD171.0 million in the purchase of aeronautical assets. The facilities are secured over assets purchased. The weighted average interest rate on these facilities is 1.1%.

10. Interest-bearing liabilities (continued)

(c) Terms and debt repayment schedule

	Currency	Year of maturity[1]	Nominal interest rate 30 June 2015	Nominal interest rate 30 June 2014	Face value $m 30 June 2015	Face value $m 30 June 2014	Carrying amount $m 30 June 2015	Carrying amount $m 30 June 2014
Secured bank loans								
– Aircraft	AUD	2019–2020	**3.32%**	3.21%	**289.0**	346.0	**285.6**	343.5
– Aircraft	USD	2015–2027	**0.72%-8.50%**	2.41%–8.50%	**1,851.9**	1,562.3	**1,791.5**	1,515.5
– Other	AUD	2016-2020	**3.95%-5.30%**	4.49%	**249.1**	24.1	**237.8**	24.1
Unsecured bank loans								
– Other	AUD	2016	**4.45%**	4.99%	**34.0**	33.9	**34.0**	33.9
– Other	USD	2019	**8.50%**	—	**392.1**	—	**385.0**	—
Loan from associate	NZD	2014	**—**	6.68%	**—**	4.2	**—**	4.2
Finance leases	AUD	2018–2047	**8.51%-13.00%**	8.51%–13.00%	**28.3**	29.5	**28.3**	29.5
					2,844.4	2,000.0	**2,762.2**	1,950.7

(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.

11. 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 are $4,333.4 million as at 30 June 2015 (2014: $3,383.7 million).

12. Contingent liabilities and contingent assets

At 30 June 2015, there were $127.3 million (2014: $85.0 million) of bank guarantees and letters of credit outstanding and $272.9 million (2014: $486.7 million) of aircraft facilities guarantees.

There were no other material changes to contingent liabilities or assets disclosed in the 30 June 2014 annual consolidated financial statements.

13. Related parties

With the exception of those detailed below, all other arrangements with related parties disclosed in the 30 June 2014 annual consolidated financial statements continue to be in place. For details of these arrangements, refer to the 30 June 2014 annual consolidated financial statements.

(a) Tiger Airways Australia Pty Limited (Tigerair)

From 17 October 2014 the Group has consolidated 100% of Tigerair as a subsidiary (refer note 5). As a result, Tigerair related party transactions after this date are eliminated in the Group result. As a result of Tigerair being consolidated by the Group, Tiger Airways Holdings Limited (Tiger Holdings) became a related party of the Group, through the Group's relationship with Singapore Airlines Limited (Singapore). Singapore accounts for Tiger Holdings as a joint venture and accounts for the Group as an associate, therefore Tiger Holdings is a related party of the Group.

(b) Virgin Samoa Limited

During the year ended 30 June 2015, the Group made repayments on its revolving, unsecured loan facility with Virgin Samoa Limited, an associate of the Group of NZ$4.5 million, AU$4.2 million (30 June 2014: NZ$8.5 million, AU$7.3 million) and made no drawdowns for additional funding (30 June 2014: NZ$2.0 million, AU$1.8 million). As at 30 June 2015 the loan balance had been repaid in full (30 June 2014: loan repayable NZ$4.5 million, AU$4.2 million). The interest rate on the facility at 30 June 2015 is n/a (30 June 2014: 6.68%).

13. Related parties (continued)

(c) Key shareholders

On 4 July 2014, the Group appointed three Non-Executive Directors to the Board of Virgin Australia Holdings Limited. Refer to the 30 June 2014 annual consolidated financial statements for further details. As a result of these Board appointments, Singapore Airlines Limited, Etihad Airways P.J.S.C and Air New Zealand Limited are considered to be related parties as at 30 June 2015. The Group has commercial contracts in place with key shareholders.

14. Dividends paid

No dividends were declared and paid by the Company to ordinary equity holders during the year ended 30 June 2015 (2014: nil). No dividends have been declared by the Company subsequent to 30 June 2015.

Refer to note 6 for details on distributions paid to non-controlling interests.

15. Subsequent events

On 1 July 2015, the Group acquired Torque Data, a data analytics company, for consideration of $4.8 million.