

Virgin Australia Holdings Limited (ASX: VAH) Announces Outcomes of Capital Structure Review Including a Fully Underwritten A\$852 Million Pro-Rata Entitlement Offer and Launch of Efficiency Initiatives Program

Highlights

The Virgin Australia Group today announces the outcomes of its capital structure review:

- Proposed fully underwritten A\$852 million equity raising, in the form of a 1 for 1 non-renounceable pro-rata entitlement offer to shareholders at a price of A\$0.21 per share ('Offer').
- Singapore Airlines, HNA Innovation¹, Virgin Group, Nanshan Group² and Air New Zealand³ have made binding commitments to take up their pro-rata entitlements. Singapore Airlines, HNA Innovation and Virgin Group have also made binding commitments to contribute to the sub-underwriting of entitlements not taken up by other shareholders.
- Together, the proposed Offer and the previously announced proposed A\$159 million placement to HNA Innovation will raise total gross proceeds of A\$1,011 million⁴ in new equity capital to strengthen the Group's balance sheet, improve earnings and cash flow and support new opportunities for growth.
- The implementation of a program of new operational and capital efficiency initiatives to enhance the cash flow and capital position of the Group. Through these initiatives, the Group is targeting net free cash flow savings increasing to A\$300 million per annum (annualised run rate) by the end of the 2019 financial year.

15 June 2016

Virgin Australia Holdings Limited (ASX: VAH) ('the Virgin Australia Group' or 'the Group') today announces the outcomes of its capital structure review and implementation of a program of operational and capital efficiency initiatives, which will strengthen its balance sheet, improve earnings and cash flow and support new opportunities for sustainable growth.

The board of the Virgin Australia Group intends to raise equity of approximately A\$852 million through a proposed fully underwritten 1 for 1 non-renounceable pro-rata entitlement offer to shareholders at a price of A\$0.21 per share ('the Offer'). The offer price of A\$0.21 per share represents a discount of 16.8 per cent to the Theoretical Ex Rights Price (TERP) of A\$0.253 and a 28.8 per cent discount to the previous close of A\$0.295 on 14 June 2016.

Singapore Airlines, HNA Innovation¹, Virgin Group, Nanshan Group² and Air New Zealand³ have made binding commitments to take up their pro-rata entitlements. Singapore Airlines, HNA Innovation and Virgin Group have also made binding commitments to contribute to the sub-underwriting of entitlements not taken up by other shareholders.

In total, the proposed Offer and the previously announced proposed placement to HNA Innovation will raise total gross proceeds of A\$1,011 million in new equity capital for the Group.⁴ The proposed placement to HNA

¹ Hainan HNA Innovation Ventures Co. Ltd. ("HNA Innovation"), a subsidiary of HNA Aviation Group.

² To the extent that Nanshan Group is a registered shareholder on the record date for the proposed Offer (and if Nanshan Group has not received applicable regulatory approvals in relation to its participation in the Offer, Air New Zealand or its nominee will subscribe for Nanshan Group's entitlements via a binding sub-underwriting arrangement).

³ In respect of the shares held by Air New Zealand as a registered shareholder on the record date (and if Nanshan Group has not received applicable regulatory approvals in relation to its participation in the Offer, Air New Zealand or its nominee will subscribe for Nanshan Group's entitlements via a binding sub-underwriting arrangement).

⁴ This amount may increase in the event that the Virgin Australia Group undertakes a top-up placement to HNA Innovation.

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Innovation and the Offer will be undertaken following receipt of required regulatory approvals from Chinese authorities by HNA Innovation.

The Virgin Australia Group will also implement a program of new operational and capital efficiency initiatives to enhance the cash flow and capital position of the Group. This program, which includes a reduction in ATR aircraft and the removal of all E190 aircraft from the fleet over the next three years, will assist the Group in simplifying its business and becoming more scalable and productive. Through the successful implementation of the program, the Group is targeting net free cash flow savings increasing to A\$300 million per annum (annualised run rate) by the end of the 2019 financial year.

Chief Executive Officer of the Virgin Australia Group John Borghetti says: "Our renewed capital structure will strengthen our balance sheet, provide additional liquidity and help fund initiatives to improve earnings and cash flow. Additionally, the new program of operational and capital efficiency initiatives will further deepen our focus on having a low, sustainable cost base. Going forward, we will continue to stay focused on delivering an excellent customer experience to travellers in Australia and around the world."

Chairman of the Virgin Australia Group Elizabeth Bryan says: "As a result of the upcoming equity raising, the Group will have a capital structure that is appropriate for its position as a mature, diversified airline group and will be in a stronger position to deliver sustainable growth."

"We are pleased that Singapore Airlines, HNA Innovation, Virgin Group, Nanshan Group and Air New Zealand will support the Group through their participation in the equity raising."

Proposed fully underwritten pro-rata entitlement offer for A\$852 million

The proposed fully underwritten Offer will be comprised of a 1 for 1 non-renounceable pro-rata entitlement offer (conducted on a non-accelerated basis) to raise equity of approximately A\$852 million at a price of A\$0.21 per share. The offer price of A\$0.21 per share represents a discount of 16.8 per cent to the TERP of A\$0.253 and a 28.8 per cent discount to the previous close of A\$0.295 on 14 June 2016.

Singapore Airlines, HNA Innovation, Virgin Group, Nanshan Group² and Air New Zealand³ have made binding commitments to take up their pro-rata entitlements. Singapore Airlines, HNA Innovation and Virgin Group have also made binding commitments to contribute to the sub-underwriting of entitlements not taken up by other shareholders.

Potential top-up placement to HNA Innovation

To the extent that HNA Innovation's shareholding is less than its target shareholding of 19.99 per cent following the proposed placement, the take-up of its pro-rata entitlement and participation in any sub-underwriting under the Offer, the Virgin Australia Group intends to undertake an additional top-up placement to HNA Innovation at a price of A\$0.26 per share. The top-up placement will enable HNA Innovation to achieve its target shareholding of 19.99 per cent, subject to a maximum investment by HNA Innovation of US\$300 million.

The top-up placement is subject to shareholder approval. Existing shareholders Singapore Airlines, Etihad Airways, Virgin Group and Air New Zealand have advised the Virgin Australia Group that they currently intend to vote to approve any additional top-up placement to HNA Innovation.

Further details of the Offer

The proposed placement to HNA Innovation and the Offer will be undertaken following receipt of required regulatory approvals from Chinese authorities by HNA Innovation.

Further details of the Offer, including formal offer documentation, will be provided to shareholders when the Offer is formally launched.

Proceeds from the proposed placement to HNA Innovation and the Offer will be used to repay the outstanding balances of the shareholder loan facility and other debt facilities and to support operational efficiency and capital initiatives as well as sustainable growth opportunities.

UBS is acting as financial adviser to the Group on the capital structure review and sole underwriter on the proposed Offer.

Operational and capital efficiency initiatives

The Virgin Australia Group has identified a program of operational and capital efficiency initiatives that are intended to simplify the Group's business and help build scale and improve productivity.

The program of initiatives will be focused on:

- **fleet and network optimisation**, including a reduction in ATR aircraft and the removal of all E190 aircraft from the fleet over the next three years, improvements in fleet utilisation and optimisation of the Group's network;
- **operating efficiencies**, including improved efficiency in crew and ground operations and initiatives minimising the impact of operational disruptions;
- **maintenance and engineering**, including measures to increase efficiency in scheduling; and
- **procurement and supply chain**, including the reduction of costs and identification of efficiencies in major contracts, fuel handling, catering and heavy maintenance.

Through the successful implementation of the program of initiatives, the Group is targeting net free cash flow savings increasing to A\$300 million per annum (annualised run rate) by the end of the 2019 financial year. In implementing this program, the Group anticipates incurring cash restructuring costs⁵ of A\$200 million – A\$250 million along with non-cash balance sheet impairments⁵ of A\$150 million – A\$200 million over the period to 30 June 2019. These will be measured and recognised through the consolidated statement of profit or loss over the period 1 April 2016 to 30 June 2019 in accordance with accounting standard requirements.

The program of initiatives is in addition to operational and cost efficiency initiatives already being undertaken by the Group as part of its ongoing focus on maximising value for shareholders.

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⁵ Calculated based on an AUD/USD FX rate assumption of 0.72.