Launch of Pro-Rata Entitlement Offer

6 July 2016

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Virgin australia

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Times and dates

Times and dates in this Presentation are indicative only and subject to change. All times and dates refer to Sydney time. Refer to the 'Key Dates' section of this Presentation for more details.

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Financial data

Investors should note that this Presentation contains pro forma financial information, including a pro forma balance sheet as at 31 December 2015. In preparing the pro forma financial information, certain adjustments were made to Virgin Australia Group information. Certain adjustments were made to the Group's audited balance sheet as at 31 December 2015 that the Group considered appropriate to reflect the application of the proceeds of the Entitlement Offer to repay debt, as if the Entitlement Offer and application of proceeds had occurred on 31 December 2015.

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Entitlement Offer overview

- The Virgin Australia Group is raising approximately A$852m through a fully underwritten non-renounceable pro-rata entitlement offer (‘Entitlement Offer’)
- The Entitlement Offer, in conjunction with the completed placement to HNA Innovation[1] of A$159m, will raise total gross proceeds of A$1,011m in equity for the Group
- The equity, in addition to a program of operational and capital efficiencies (‘Better Business program’), will strengthen the Group’s balance sheet and support initiatives to improve earnings and cash flow as well as new opportunities for sustainable growth
- Entitlements are offered on a 1 for 1 basis at A$0.21 per share (approximately 4,057m new ordinary shares (‘New Shares’)) to Eligible Shareholders
- Singapore Airlines, HNA Innovation, Virgin Group, Nanshan Group and Air New Zealand are supportive of the Entitlement Offer and have made binding commitments to take up their pro-rata entitlements under the Entitlement Offer
- 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
- Further details in relation to the Entitlement Offer are provided in Section 3 of this presentation

[1] *HNA Innovation Ventures (Hong Kong) Co. Limited (‘HNA Innovation’), an assignee of Hainan HNA Innovation Ventures Co Ltd and a subsidiary of HNA Aviation Group*

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Overview of Virgin Australia Group

- Virgin Australia Group (ASX: VAH) launched in 2000 as Virgin Blue, a low-cost carrier. Since 2011, the Group has established itself as a contemporary airline group with a strong presence in all segments of the Australian aviation market and a reputation for excellence in customer service and operational performance.

- Today, the Virgin Australia Group:
  - operates a modern fleet of around 149 aircraft that include Airbus A330, Boeing 777, Boeing 737, Embraer E-Jet, ATR-72 turboprop aircraft, Airbus A320 and Fokker 100 aircraft
  - flies to 44 city and regional destinations in Australia and 15 international destinations[1]
  - employs over 9,000 people worldwide
  - has strategic alliances with five key airline partners: Air New Zealand, Delta Air Lines, Etihad Airways, Singapore Airlines and HNA Aviation Group[2]

[1]Regular Passenger Transport destinations
[2] HNA Aviation Group Co. Ltd. - the alliance remains subject to finalisation of documentation and regulatory approvals.

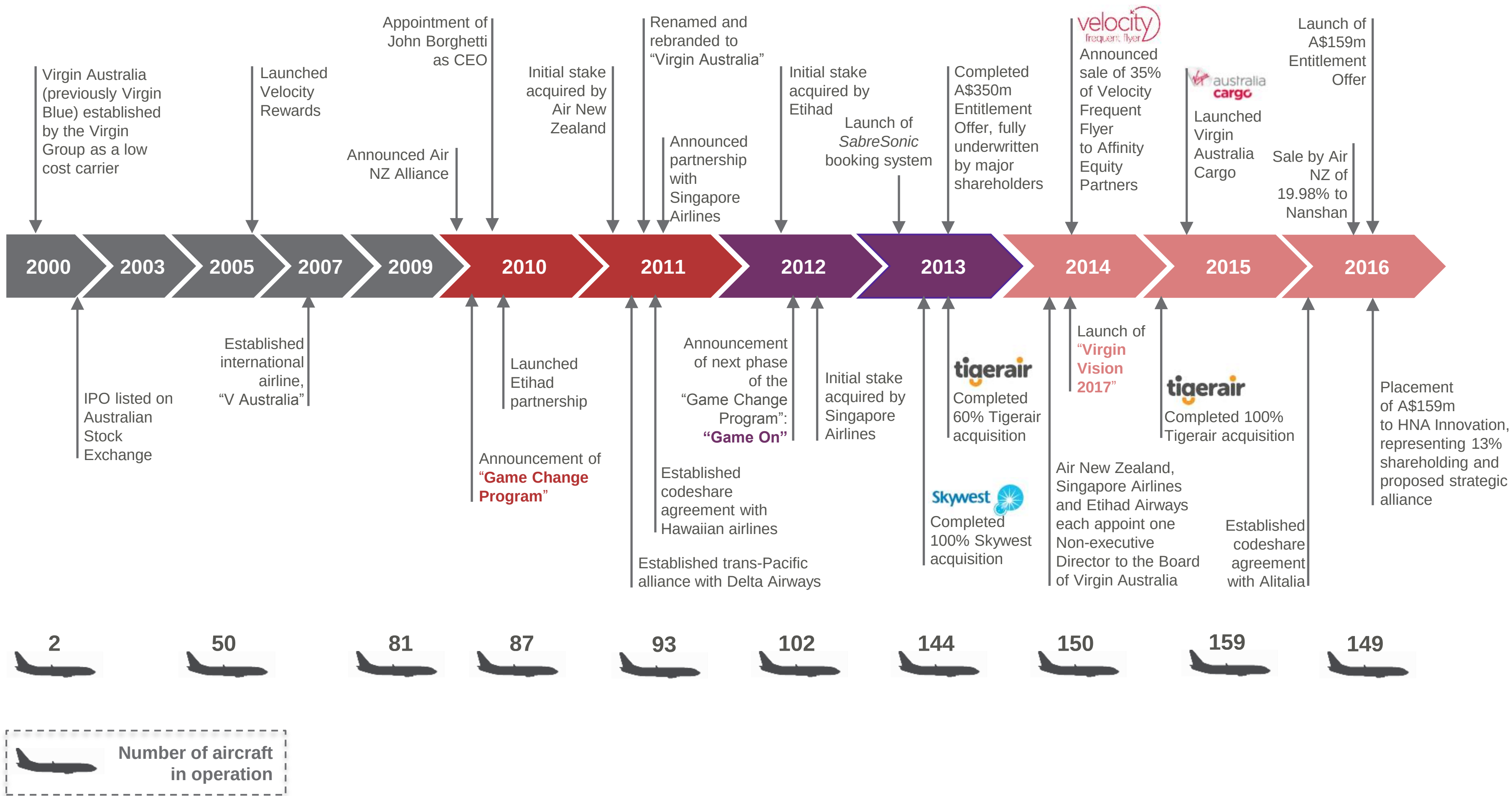
Virgin Australia Group Performance Update

- Performance improving YTD March-16[1]:
  - Underlying Profit Before Tax[2] of ~A$63m (9 months to March-16), an increase of ~A$75m on prior corresponding period
  - Statutory Profit After Tax of ~A$4m (9 months to March-16), an increase of ~A$80m on prior corresponding period
  - the March-16 YTD results excludes the impact of the cash restructuring costs (A$200–250m) and non-cash balance sheet impairments (A$150-200m) associated with the program of capital and operational efficiency initiatives announced on 15 June-16, known as the Better Business program

- FY16 full year – as per previous guidance - Underlying Profit Before Tax A$30-$60m, an increase of A$79-109m on FY15, excluding
  - ~A$90-100m of the cash restructuring costs[3] and ~A$155-175m of non-cash balance sheet impairments associated with the Better Business program are expected to be charged to the statutory profit or loss during the quarter ended 30 June-16. These, along with other restructuring charges recorded during the year[4] are expected to result in a full year restructure charge of A$410-450m being recorded in the statutory profit or loss for FY16.
  - the remainder of the cash restructuring costs and non-cash balance sheet impairments associated with the Better Business program will be measured and recognised in future periods to 30 June-19 in accordance with accounting standard requirements

[1] YTD March-16 performance is the sum of the three prior quarters. [2]Underlying Profit Before tax is a non-statutory measure that represents statutory profit / loss before tax excluding the impact of restructuring and transaction costs, impairment losses on assets held for sale, share of equity accounted profit / losses and hedging and financial instruments. [3] The cash restructuring costs will be recorded as a provision during the quarter ended 30 June-16 and will be settled in cash in future periods as the obligations fall due under the respective arrangements.[4] Other restructuring charges recorded during the year comprise A$59.4m reported in H1FY16; and a further A$105m-115m during H2FY16 related to restructuring costs and impairment losses on assets held for sale that are outside of the program of initiatives announced as part of the capital structure review on 15 June 2016.

Evolution of Virgin Australia Group



The foundations for sustainable growth are in place

Contemporary, diversified airline group	• Strong and innovative brand • Award winning product and customer service • Awarded most attractive employer (FY15 & FY16)[1]
Diversified business model with cost advantages	• Corporate and government, low cost leisure, international, charter, cargo and loyalty businesses • Young, modern, fuel efficient fleet • Capital light international expansion
Earnings turnaround	• Return to underlying profitability in FY16 with Underlying Profit Before Tax of A$30–60m,[2] an increase of A$79–109m on FY15 • ROIC expected to be ~9–10%, in line with WACC • Positive trajectory for key operational metrics
Potential growth opportunities	• Capital and operational efficiency initiatives program ('Better Business program') • New opportunities with strategic alliance with HNA Innovation[3], including potential launch of new routes • Potential launch of new partners for Velocity
Stronger balance sheet and liquidity position	• A stronger balance sheet and enhanced liquidity post the equity raising

[1] Recipient of 2015 and 2016 Randstad Awards for most attractive employer
[2] Underlying Profit Before Tax is a non-statutory measure that represents statutory profit / loss before tax excluding the impact of restructuring and transaction costs, impairment losses on assets held for sale, share of equity accounted profit / losses and hedging and financial instruments. This excludes the impact of the cash restructuring costs (A$200-250m) and balance sheet impairments (A$150-200m) announced as part of the capital structure review on 15 June 2016.
[3] Subject to regulatory approvals

Better Business program to help build scale and improve productivity

A detailed program of operational and capital efficiency initiatives has been initiated following an extensive review of the Group

Network and Fleet Optimisation (simplification of fleet types)	• Reduction in ATR aircraft and removal of all E190 and Tigerair-branded A320 aircraft from the fleet over the next three years. Tigerair-branded A320 aircraft will be replaced with B737 aircraft • Improvements in fleet utilisation • Optimisation of the Group's network
Operating Efficiencies	• Improved efficiency in crew and ground operations • Minimising impact of operational disruptions • Right sizing the organisation
Maintenance and Engineering	• Measures to increase efficiency in scheduling
Procurement and Supply Chain	• Reduction of costs and identification of efficiencies in: – major contracts – fuel handling and foreign exchange – catering and heavy maintenance

Target to deliver net free cash flow savings increasing to A$300m pa (annualised run rate) by end of FY19

- The Virgin Australia Group anticipates incurring cash restructuring costs of A$200–250m along with non-cash balance sheet impairments of A$150–200m over the period to 30 June 2019[1] under the Better Business program
- 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

[1] *Assumes an exchange rate of AUD/USD 0.72*

On track to meet FY17 targets[1]

Virgin Vision objective	Our target	Status
Capitalise on growth opportunities	***VA Domestic:*** *Underlying EBIT Margin 6-9%* / ***VA International:*** *Profitable by FY17* / ***Tigerair:*** *Profitable by FY17* / ***Velocity:*** *Underlying EBIT growth >15%, 7m+ members*	✓***On track***
Drive yield enhancement	*30% of Domestic revenue to come from corporate and government travellers by FY17*	✓***On track***
Drive cost savings	*A$1.2bn in cumulative cost savings by FY17[2]*	✓***On track***
Optimise balance sheet & ROIC	*Financial leverage 4.0x – 4.5x by FY17* *ROIC > WACC by FY17*	✓***On track***
Set a new standard in customer experience		***Ongoing***
Continuing to develop our people		***Ongoing***

[1] FY17 means by the end of FY17
[2] This does not include the benefits of the Better Business program – for further details on these initiatives, refer to page 10.

Fleet overview

Group operating fleet	31 Dec 2015	30 Jun 2016
B737 -700/800	78	75
E190[1]	18	16[1]
A330	6	6
B777	5	5
ATR72-500/600[1]	14	14[1]
Mainline fleet	**121**	**116**
F50	8	0
F100	14	14
A320 (Charter & Tigerair)	16	16[1]
B737-700/800 (Tigerair)	0	3
Virgin Australia Group	**159**	**149**

Fleet simplification through reduction in fleet types will make the business more scalable and productive

[1] *Under the Better Business program, the Virgin Australia Group is targeting a reduction in the ATR fleet and the removal of all E190 and Tigerair –branded A320 aircraft from the fleet over the next 3 years*

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Entitlement Offer

Total of approximately A$852m to be raised by way of the Entitlement Offer

Entitlement Offer	• 1 for 1 non-renounceable pro rata entitlement offer at A$0.21 per share to raise approximately A$852 million • The offer price of A$0.21 per share ('New Share') represents a discount of 28.8 per cent to the closing price on 14 June 2016 of A$0.295 per share, being the day prior to announcement of the Group's intention to undertake the Entitlement Offer, and a 16.8 per cent discount to the Theoretical Ex Rights Price ('TERP') of A$0.253 per share. [1] • The closing price per share on 5 July 2016, the last trading day prior to launch of the Entitlement Offer, was A$0.20.
Fully underwritten	• Entitlement Offer is fully underwritten and sub-underwritten[2] • Singapore Airlines, HNA Innovation, Virgin Group, Nanshan Group[3] and Air New Zealand[3] 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	• Additional top-up placement to HNA Innovation at A$0.26 per share to be undertaken to the extent that its shareholding is less than its target of 19.99% following the initial placement to HNA Innovation (completed on 23 June 2016), the take-up of its pro-rata entitlement and participation in any sub-underwriting under the Entitlement Offer • Capped at a maximum total investment by HNA Innovation of US$300m • The top-up placement is subject to shareholder approval, unless otherwise agreed to by the ASX. Singapore Airlines, Etihad Airways, Virgin Group and Air New Zealand have advised Virgin Australia Group that they currently intend to vote to approve any additional top-up placement to HNA Innovation • If Top Up Placement is required this would represent incremental equity above the A$852m to be raised under the Entitlement Offer

[1] TERP is calculated by reference to the closing price on 14 June 2016 of A$0.295 per share
[2] Refer to the Offer Booklet for further details about the underwriting and sub-underwriting arrangements
[3] Air New Zealand sale of 19.98% of Virgin's issued capital to Nanshan Group completed on 21 June 2016

Sources and uses

The Entitlement Offer in conjunction with the completed placement to HNA Innovation of A$159m will raise approximately A$1,011m in new equity for the Virgin Australia Group

Sources	
Placement[1,2]	A$159m
Entitlement Offer	A$852m
Total sources	**A$1,011m**

Uses	
Repayment of shareholder loan[3]	A$425m
Repayment of other debt facilities, funding of Better Business program and investment in sustainable growth initiatives	A$586m
Total uses	**A$1,011m**

[1] *This amount may increase in the event that the Virgin Australia Group undertakes a top-up placement to HNA Innovation*
[2] *The placement to HNA Innovation completed on 23 June 2016 and was settled in USD at an exchange rate of 0.7195 (being the prevailing FX rate on 31 May 2016, the date of the placement agreement)*
[3] *A$425 million loan facility from Air New Zealand, Etihad Airways, Singapore Airlines and Virgin Group, as announced on 21 March 2016*

Potential impact on shareholding levels

- The Entitlement Offer is sub-underwritten by a number of Virgin Australia Group's major shareholders and so may have an impact on the shareholding levels of those major shareholders, with their final shareholding levels dependant on a number of factors, including the level of take-up from Eligible Shareholders
- If all Eligible Shareholders take up their entitlement, the Entitlement Offer will have no material effect on the control of Virgin Australia Group as Eligible Shareholders will continue to hold the same percentage interest in the Group
- If some Eligible Shareholders do not take up their full entitlement, those shareholders' interest will be diluted relative to those who do take up their full entitlement and those major shareholders who have committed to sub-underwrite a portion of the Entitlement Offer
- A summary of the commitment and sub-underwriting position of the shareholders is provided below:

Shareholder	Shareholding before Entitlement Offer	Pre-commitment to take up entitlement	Sub-underwriting commitment
Air New Zealand	2.54%	Yes	-
Etihad Airways	21.83%[1]	-	-
HNA Innovation	13.04%	Yes	up to a shareholding of 19.99%
Nanshan	19.98%	Yes	-
Singapore Airlines	20.09%	Yes	up to a shareholding of 25.9%
Virgin Group	8.66%	Yes	up to a shareholding of 10.0%
Other	13.86%[1]	-	-

[1] *If a shareholder does not take up its entitlement, the proportion of its shares to the total number of shares on issue may be halved*

Indicative timetable

The Entitlement Offer will be available to eligible shareholders on the register as at 7.00pm Sydney time on Monday 11 July 2016:

- The timetable below is indicative only and may be subject to change
- All references to time are to Sydney time

Announcement of intention to undertake the Entitlement Offer	Wednesday 15 June 2016
Formal launch of the Entitlement Offer	Wednesday 6 July 2016
Offer Booklet lodged with ASX	Wednesday 6 July 2016
"Ex" date (Date on which shares trade ex-Entitlement to participate in the Offer)	Friday 8 July 2016
Record Date for the Entitlement Offer (7.00pm Sydney time)	Monday 11 July 2016
Offer Booklet and Entitlement and Acceptance Form dispatched	Thursday 14 July 2016
Entitlement Offer opens	Thursday 14 July 2016
Entitlement Offer closes (5.00pm Sydney time)	Wednesday 27 July 2016
New Shares commence trading on a deferred settlement basis	Thursday 28 July 2016
Results of Entitlement Offer announced	Tuesday 2 August 2016
Allotment of New Shares issued under the Entitlement Offer	Thursday 4 August 2016
Normal ASX trading for New Shares issued under the Entitlement Offer commences	Friday 5 August 2016
Dispatch of holding statements for New Shares issued under the Entitlement Offer	Friday 5 August 2016

Pro forma Statement of Financial Position[1]

As at 31 December 2015 (A$m)	Actual (Pre Entitlement Offer)	Pro forma (Effect of Entitlement Offer Adjustments)
Current assets		
Cash and cash equivalents	907	1,727
Other current assets	650	650
Non current assets		
Property, plant and equipment	3,028	3,028
Other non-current assets[2]	1,264	1,267
Total assets	**5,849**	**6,672**
Current liabilities		
Trade and other payables	611	611
Borrowings	626	457
Other current liabilities	1,123	1,123
Non-current liabilities		
Borrowings	2,387	2,387
Other non-current liabilities	168	168
Total liabilities	**4,915**	**4,745**
Share Capital	1,155	2,159
Reserves	35	35
Non-controlling interests	(48)	(48)
Retained Earnings	(208)	(219)
Equity	**934**	**1,927**

Pro forma adjustments include:

- Receipt of A$1,011m in equity (A$159m from Placement closed on 23 June 2016 and A$852m from the Entitlement Offer)
- Full drawdown and full repayment of shareholder loan (A$425m, nil net impact for the period)
- Repayment of a single US dollar debt facility
- Estimated transaction costs for the Entitlement Offer and HNA Innovation placement[2]

Other events (which are not reflected in the Pro forma Statement of Financial Position) include :

- Trading conditions and performance (including operating cash flow performance) since 31 December 2015
- Debt amortisation and the repayment of other short-term debt facilities
- Capital expenditure
- Impact of the cash restructuring costs and non-cash balance sheet impairments from the Better Business program
- Any potential top-up placement from HNA Innovation

[1] The Pro forma Statement of Financial Position is based on the Virgin Australia Group's 31 December 2015 Statement of Financial Position ,with adjustments described above as if they had occurred on 31 December 2016. It is not reflective or representative of the current Statement of Financial Position or the 30 June 2016 expected Statement of Financial Position.[2] Includes tax treatment of transaction costs

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Key risks

Introduction

Virgin Australia Group is subject to risks, both specific to its business activities as well as those of a more of a general nature. Each of the risks set out below could, in isolation or in combination, if they eventuate, have a material adverse impact on Virgin Australia Group's business, financial condition, results of operations and prospects. Investors should note that this section does not purport to list every risk that may be associated with an investment in Virgin Australia Group now or in the future, and that the occurrence or consequences of some of the risks described below are partially or completely outside of control of the Group, its directors and management.

Before deciding on whether to participate in the Entitlement Offer, investors should have a sufficient understanding of the risks below and should consider whether participation in the Entitlement Offer is a suitable investment having regard to their own objectives, financial circumstances and taxation position.

1. General risks associated with an investment in shares

There are general risks associated with investments in equity capital. The trading price of Virgin Australia Group shares may fluctuate with movements in equity capital markets in Australia and internationally. This may result in the market price for the New Shares offered under the Entitlement Offer being less or more than the Entitlement Offer price. Generally applicable factors which may affect the market price of shares include:

- general movements in Australian and international stock markets;
- investor sentiment;
- Australian and international economic conditions and outlook;
- changes in interest rates and the rate of inflation;
- change in government regulation and policies;
- announcement of new technologies; and
- geo-political stability, including international hostilities and acts of terrorism.

None of Virgin Australia Group, its Board or any other person guarantees the market performance of the New Shares.

2. If you do not take up your full entitlement, you will be diluted

You should note that if you do not take up, all or part of your entitlement, then your percentage shareholding in Virgin Australia Group will be diluted by not participating to the full extent in the Entitlement Offer and you will not be exposed to future increases or decreases in Virgin Australia Group's share price in respect of the New Shares which could have been issued to you had you taken up all of your entitlement. The offer is also non-renounceable and as a result if you do not take up your entitlement then shareholders will not receive any consideration or value for unused entitlements.

3. If there is an additional top-up placement to HNA Innovation, other shareholders will experience additional dilution

To the extent that HNA Innovation's shareholding is less than its target of 19.99%,following the placement to HNA Innovation, take-up of its pro-rata entitlement and participation in any sub-underwriting, Virgin Australia Group will undertake an additional top-up placement to HNA Innovation (subject to shareholder approval, unless the ASX otherwise agrees). If such a top-up placement is undertaken, shareholders other than HNA Innovation will experience a dilution in their percentage shareholding in Virgin Australia Group.

Key risks continued

4. Limited liquidity of Virgin Australia Group shares

Virgin Australia Group's major shareholders represent a significant proportion of its share register. This may have the effect of reducing liquidity and the volume of Virgin Australia Group shares that can be bought and sold on ASX and the speed with which they can be bought and sold. This reduced liquidity may negatively impact the price of Virgin Australia Group shares and result in increased volatility in the share price.

5. The airline industry is extremely competitive and Virgin Australia Group faces competition from other airlines as well as from alternative means of transportation

The airline industry is highly competitive and Virgin Australia Group (including Tigerair Australia) competes with a number of other airlines on almost all routes it operates on. Competitive intensity varies across different routes depending on the number and nature of competitors operating on any route, the applicable regulatory environment and associated barriers to entry, such as operating licenses, capital requirements, infrastructure availability and the availability of take-off and landing slots.

Virgin Australia Group may face increased competition as a result of the expansion of existing airlines, the consolidation or formation of alliances between airlines and new airlines entering or potentially entering the market. Virgin Australia Group may also continue to face increasing competition from other modes of transportation, including road and rail travel, if transport infrastructure facilities improve.

Some of Virgin Australia Group’s international competitor airlines have access to larger and less expensive sources of funding which may enable them to become more competitive. In addition, in the Australian domestic aviation market Qantas ("Qantas Group") has the majority market share. Qantas Group has an established position in all segments of the Australian domestic aviation market, including domestic corporate (premium offering), domestic leisure, budget (low-cost offering) and regional Regular Passenger Transport (“RPT”) and charter services. Qantas Group also has an established position in the international aviation market and is able to leverage alliances and partnerships with a number of international airline partners. Further, Qantas Group has initiated a substantial cost reduction program which, to the extent successfully implemented, will allow Qantas Group to become more competitive.

To the extent Virgin Australia Group is unable to effectively compete with its peers, including Qantas Group, it would have a material adverse effect on Virgin Australia Group’s operating and financial results.

6. Virgin Australia Group could be subject to substantial increases in the incidence of deeply discounted promotional fares and corporate discounting by its competitors

Virgin Australia Group operates in many markets characterised by high levels of price competition. Virgin Australia Group faces revenue risk as a result of the competitive nature of the airline industry. Aggressive pricing or capacity increases by Virgin Australia Group’s competitors in domestic and international aviation markets can adversely affect Group’s revenue and yield performance. As the airline industry is characterised by low profit margins and high fixed costs, a decision to match competitors’ fares to maintain passenger traffic may result in reduced yields which, in turn, may have a significant effect on Virgin Australia Group’s operating and financial results. As the costs of operating any particular flight do not vary significantly with the number of passengers carried, a relatively small change in the number of passengers or in fare pricing or fare mix may have a material adverse effect on Virgin Australia Group’s operating and financial results.

Key risks continued

7. Virgin Australia Group has incurred a loss over the last three financial years and this loss position may continue or may increase over subsequent periods

Virgin Australia Group incurred a statutory loss after tax of A$98.1 million for the financial year ended June 30, 2013, a larger statutory loss after tax of A$353.8 million for the financial year ended June 30, 2014, a statutory loss after tax of A$93.8 million for the financial year ended June 30, 2015 and a statutory profit after tax of A$62.5 million for the half year ended December 31, 2015. Furthermore, Tigerair Australia has also incurred losses in the last several years and, from October 17, 2014, Tigerair Australia's results have been reflected on a consolidated basis in Virgin Australia Group's financial statements. In recent years, domestic capacity in the Australian aviation market has exceeded passenger demand, resulting in a reduction in both domestic passenger load factors and revenue yields. Coupled with weak consumer sentiment and overcapacity has had a negative impact on industry profitability.

Through its Virgin Vision 2017 strategy, Virgin Australia Group has been working to expand upon the business efficiency program introduced under the Game Change Program to target A$1.2 billion in cumulative productivity gains by June 30, 2017.

Further, on 15 June 2016, Virgin Australia Group announced outcomes of a capital structure review which included a program of new operations and capital efficiency initiatives to enhance the cash flow and capital position of Virgin Australia Group – the 'Better Business program'. Through the successful implementation of these the Better Business program initiatives (which is in addition to the A$1.2 billion business efficiency program referred to above), Virgin Australia Group is targeting net free cash flow savings increasing to A$300m per annum (annualised run rate) by the end of FY2019 through the implementation of the Better Business program. However, there is no assurance that the business efficiencies Virgin Australia Group is seeking will be achieved or that they will be achieved without incurring greater than expected costs or related impairments.

8. Virgin Australia Group is exposed to risks associated with aviation fuel price trends

Fuel costs constitute the largest percentage of the total operating costs of Virgin Australia Group. Aviation fuel has been, and is expected to remain, subject to significant price volatility. Prices for aviation fuel are strongly correlated to the price of petroleum and are influenced by a number of factors, including political events, war or the threat of war and the impact on pricing of the coordinated supply decisions of the Organization of Petroleum Exporting Countries producer cartel.

As a result, volatility in the price of oil and petroleum products can have a material impact on Virgin Australia Group's operating results. For each of the financial years ended June 30, 2015 and June 30, 2014, and for the half year ended December 31, 2015, fuel and oil costs amounted to 25%, 26% and 22% respectively of Virgin Australia Group's net operating expenditure, respectively. Price risks relating to fuel and oil are partially hedged through the purchase of oil derivatives in forward markets which can generate a profit or a loss. If Virgin Australia Group is exposed to significant price volatility or changes in prices for aviation fuel or both, there can be no assurance that Virgin Australia Group's hedging practices will effectively protect against these price risks or that any increases will be partially or fully offset by passing portions of these costs on to passengers and/or by cost reductions, nor can Virgin Australia Group predict the movement of either short or long-term aviation fuel prices.

The management of fuel price risk involves passing on a portion of increased fuel costs to customers along with hedging. Although Virgin Australia Group may seek to pass on at least a portion of the cost of increased fuel prices to its customers, it is not always able to do so. Hedging defers the impact of changes to fuel prices; however, no assurance can be given that the hedging strategy that Virgin Australia Group chooses to employ will be effective. To the extent Virgin Australia Group is unable to effectively hedge or offset these price risks, there could be a material adverse effect on Virgin Australia Group's financial performance.

Key risks continued

9. Virgin Australia Group has incurred substantial indebtedness

Virgin Australia Group has incurred indebtedness and capital commitments (primarily with respect to aircraft) to finance its material capital expenditure requirements and a substantial portion of existing borrowings is secured on Virgin Australia Group's assets.

The consequences of this indebtedness could be material. For example, significant levels of indebtedness could reduce Virgin Australia Group's ability to grow its business through capital expenditures and acquisitions, reduce liquidity, limit Virgin Australia Group's flexibility in planning for, or reacting to, changes in its business industry or the general economy, place Virgin Australia Group at a disadvantage compared to its competitors that have less debt and limit Virgin Australia Group's ability to borrow additional funds or pay down existing debt. In addition, Virgin Australia Group is exposed to additional foreign exchange risk with approximately 80% of its existing debt (as at December 31, 2015) denominated in USD. Any of the foregoing could have a material adverse effect on Virgin Australia Group's business, financial condition and results of operations.

10. Virgin Australia Group has substantial future financing needs and may not be able to obtain sufficient funds in a timely manner, on acceptable terms or at all to provide adequate liquidity and to finance necessary operating and capital expenditures

Virgin Australia Group has substantial future financing needs and its ability to finance ongoing operations, committed aircraft orders and future fleet growth plans are vulnerable to various factors as identified in this presentation, including economic, political and financial market conditions. A failure to obtain adequate financing to meet necessary operating and capital expenditures would have a material adverse effect on Virgin Australia Group's financial condition and results of operations.

Virgin Australia Group faces a number of challenges in its business that are common within the airline industry, including in relation to economic conditions, foreign exchange rates, increased competition from domestic and international carriers, labour issues, volatile fuel prices and contractual covenants to maintain deposit cash collateral with third parties. In addition, Virgin Australia Group has significant existing fixed financial obligations, including commitments to purchase aircraft, and its ability to meet these commitments will be contingent on its operating performance, cash flow and ability to source capital on commercially acceptable terms or at all. Virgin Australia Group's liquidity may be adversely impacted by a number of factors and risks identified in this presentation. There can be no assurance that Virgin Australia Group will be able to obtain financing on acceptable terms (or at all) to refinance certain maturing debt, provide adequate liquidity, finance the operating and capital expenditures necessary to its ongoing operations and support its business strategy if cash flows from operations and cash on hand are insufficient.

11. Virgin Australia Group is exposed to the risk of losses from major safety or security incidents

The occurrence of or failure to prevent or respond effectively to a major safety or security incident relating to Virgin Australia Group could have a material adverse effect on Virgin Australia Group's reputation, operations and financial performance. Losses associated with these types of incidents may involve not only the costs associated with the repair or replacement of damaged or lost aircraft and their temporary or permanent loss from service but also claims by affected passengers, owners of the aircraft and third parties or loss of reputation which would negatively impact future revenue generating capability.

Whilst Virgin Australia Group maintains certain levels of liability insurance, there can be no assurance that Virgin Australia Group's insurance coverage will be sufficient to cover all such losses. Further, if the Australian or relevant international aviation safety regulatory bodies determine that Virgin Australia Group could not operate its services safely as a result of a safety or security incident, Virgin Australia Group could lose its regulatory approval or operational licenses which, in an extreme case, could result in the grounding of Virgin Australia Group's fleet.

Key risks continued

An aircraft accident or any security or safety related incident involving a partner airline with which Virgin Australia Group has a codeshare arrangement might be associated with Virgin Australia Group by the public, and could potentially cause Virgin Australia Group to suffer reputational damage (and associated losses), even if none of its aircraft are involved. Further, aircraft accidents or similar incidents involving another airline could impact general passenger confidence and lead to a reduced demand for air travel, which in turn could adversely impact Virgin Australia Group, particularly if the accident or incident involved an aircraft type used by Virgin Australia Group. Failure to prevent or respond effectively to a major safety or security incident could have a material adverse effect on Virgin Australia Group's financial and operating performance.

12. Virgin Australia Group is exposed to operational disruptions due to maintenance of its fleet, airport, security incidents or other events

Virgin Australia Group's business is highly dependent upon its ability to operate without interruption at a number of core airports. Delays or disruptions in service at any of these airports, including those due to security or other incidents, weather conditions, airport incidents, power failure, the unavailability of sufficient personnel or resources, or other causes beyond the control of Virgin Australia Group, such as industrial action by workers not employed by Virgin Australia Group, including baggage handlers, security or customs personnel or air traffic controllers, could have a material adverse impact on Virgin Australia Group, its business, results of operations and financial condition. Such events may also give rise to claims against Virgin Australia Group.

Virgin Australia Group's fleet requires both regularly scheduled maintenance work and also, from time to time, unscheduled maintenance work, which may cause operational disruption. On occasion, airframe manufacturers or regulatory authorities, or both, may require mandatory or recommended modifications to be made across a particular fleet which may necessitate the temporary grounding of a particular type of aircraft. There is also the possibility that a particular aircraft type may be grounded by regulatory authorities pending investigation into actual or perceived defects or safety issues. This may cause operational disruption to and impose significant costs on Virgin Australia Group, especially if the modifications are required on an aircraft type on which Virgin Australia Group is highly dependent.

13. Virgin Australia Group is dependent on uninterrupted operation of its processing systems, including SabreSonic and Navitaire, and any failure of critical information technology systems could have a material adverse effect on its business

Virgin Australia Group relies heavily on technology, including computer and telecommunications equipment and software and internet-based systems, to operate its business, generate revenues and reduce costs. Virgin Australia Group's ability to manage ticket sales, receive and process reservations, manage its network and perform other critical business operations is dependent on the efficient and uninterrupted operation of computer, internet and communication systems, including the SabreSonic online reservation and ticketing system (SabreSonic and Navitaire). The failure of SabreSonic or Navitaire or another system on which Virgin Australia Group is substantially dependent could have a material adverse effect on Virgin Australia Group's business and operations.

In addition, computer and communications technology systems and associated infrastructure may be vulnerable to disruption, power outages, acts of sabotage, computer viruses, fires and other events. While Virgin Australia Group invests in technology initiatives, including security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly and there can be no assurance of efficient and uninterrupted operation of these systems and associated infrastructure. Any such technology systems failure, disruption or misuse, whether by Virgin Australia Group or a third party could adversely affect Virgin Australia Group's operations and have a material adverse effect on its financial condition and results of operations.

Key risks continued

14. Virgin Australia Group is exposed to global and domestic economic conditions

Virgin Australia Group's operating results are sensitive to global economic conditions. Demand for air travel depends on general global and domestic economic conditions, employment levels, consumer and business confidence and the availability of consumer credit.

Economic conditions may also impact Virgin Australia Group's operating costs, fuel costs and the cost and availability of capital and supplies required by Virgin Australia Group. In addition, due to the long lead-times associated with purchasing aircraft, changes in economic conditions may result in Virgin Australia Group having either too much or too little capacity at the time future aircraft orders are delivered.

Airline fares and passenger demand have fluctuated significantly in the past and may fluctuate significantly in the future. Generally, the airline industry tends to experience significant adverse financial results during economic downturns, as passengers often choose to reduce their travel or reduce the price they are willing to pay for travel during such times. Depressed economic conditions, whether in Australia, in other areas serviced by Virgin Australia Group or elsewhere throughout the world, may therefore have a material adverse effect on Virgin Australia Group's financial and operating performance.

15. Virgin Australia Group is dependent on the strength of its brands

Virgin Australia Group licenses certain brands from the Virgin Group, including "Virgin Australia Group". The "Tigerair" brand is licensed from Tiger Airways Holdings Limited ("Tiger Airways"). Virgin Australia Group's brands have significant commercial value and damage to these brands could impact Virgin Australia Group's business as Virgin Australia Group relies on its brands' positive recognition to help attract and retain passengers, employees and investors both domestically and internationally. There is no guarantee that any brand license will be renewed upon its expiration or on terms that are favorable to Virgin Australia Group.

In addition, if Virgin Australia Group breaches a material term of a brand license and the breach is not remedied, there would be a risk of termination of the relevant brand license. The strong reputation of the Virgin Group brand (the "Virgin Group Brand") is not under Virgin Australia Group's control and can be adversely affected by the actions of members of the Virgin Group or other licensees that are not affiliated with or controlled by Virgin Australia Group. In addition, due to the high profile of the Virgin Group Brand internationally, Virgin Australia Group is susceptible to negative or inaccurate commentary on the Virgin Group Brand or organisations associated with the international Virgin Group Brand, which may, in turn, harm Virgin Australia Group's image and reputation. Losing the right to use the Virgin Group Brand, being required to modify its use of the Virgin Group Brand, a change in the perception of the Virgin Group Brand or damage to the Virgin Group Brand could have a material adverse effect on Virgin Australia Group's business.

The reputation of the "Tigerair" brand is not under Virgin Australia Group's control and can be adversely affected by the actions of Tiger Airways or other licensees that are not affiliated with or controlled by Virgin Australia Group. Tigerair Australia and, ultimately, Virgin Australia Group are susceptible to negative or inaccurate commentary on the "Tigerair" brand or organisations associated with the "Tigerair" brand, which may, in turn, harm the image and reputation of Tigerair Australia and, ultimately, Virgin Australia Group. Losing the right to use the "Tigerair" brand, being required to modify use of the "Tigerair" brand, a change in the perception of the "Tigerair" brand or damage to the "Tigerair" brand could have a material adverse effect on Tigerair Australia's business and, ultimately, on Virgin Australia Group's business.

In addition, Virgin Australia Group's ability to expand its operations under the Virgin brand to include new non-domestic destinations is, in some circumstances, subject to Virgin Group consent, which may place limitations on future expansion plans. Tigerair Australia's operations under the "Tigerair" brand are also subject to certain restrictions under its license agreement with Tiger Airways.

Key risks continued

16. Virgin Australia Group faces risks that its strategic alliances may not be reauthorised or renewed or deliver the anticipated results

The development and maintenance of alliances and other strategic relationships is critical to Virgin Australia Group's business and strategy. Virgin Australia Group has key strategic alliances with Air New Zealand, Delta Air Lines, Etihad Airways and Singapore Airlines. Subject to regulatory approvals it is entering into a strategic alliance with HNA Innovation.These strategic alliances are complemented by key partnerships with, among others, Hawaiian Airlines, Virgin Atlantic and Virgin America. Through these strategic alliances and partnerships, Virgin Australia Group's passengers have greater access to an international network with increased options for routes available to them, stop-overs and fare types, greater access to airport lounges and opportunities to earn frequent flyer points. Further, cooperation with strategic alliance partners on scheduling and pricing is possible only in prescribed circumstances and in accordance with anti-trust immunity. Each of the strategic alliances and reciprocal frequent flyer program agreements is subject to termination by either party upon the happening of certain events of insolvency, material default and other specified events and conditions.

Virgin Australia Group's strategic alliances with Air New Zealand, Delta Air Lines, Etihad Airways and Singapore Airlines (and once finalised, HNA Innovation) require ongoing authorisation from the Australian Competition and Consumer Commission ("ACCC") and the equivalent regulator in the home country of the strategic alliance partner. Authorisation is typically granted for between three and five years. The authorisation process in Australia is public and can take a significant amount of time (each previous alliance authorisation has taken approximately six months or longer to be approved). There is a risk that the ACCC or the equivalent regulator in the home country of each strategic alliance partner or both may choose not to reauthorise a key strategic alliance for a number of reasons, including if aviation market conditions have changed since the previous authorisation was granted. It is also possible that the ACCC or equivalent regulator may impose new or additional conditions on a partnership or alliance in connection with reauthorisation which can add additional costs and operational burdens on Virgin Australia Group's business. For example, the Air New Zealand authorisation is conditional on compliance with obligations concerning a number of routes between Australia and New Zealand.

The proposed strategic alliance between Virgin Australia Group and HNA Innovation is subject to receiving authorisation for the proposed conduct from the ACCC and could not be implemented as planned without such authorisation. The relevant test the ACCC will apply is whether the proposed alliance will result in public benefits that outweigh any competitive detriment. Once submitted, the ACCC will have 6 months to assess the application for authorisation, and will engage in a public consultation process to receive input from other market participants and the public at large. Virgin Australia Group considers that there are significant public benefits (including the introduction of new services between Australia and China, improved connectivity, additional codeshare itineraries, improved frequent flyer benefits and operational and financial cost savings) arising from the proposed alliance and no competitive detriment. There are no competition law or anti trust approvals required in China, however, the final terms of the alliance will need to be structured in accordance with the PRC Anti Monopoly Law.

A loss of one of these alliances could have a direct and adverse effect on Virgin Australia Group's revenues. Should one or more of Virgin Australia Group's strategic alliances or key partnerships be terminated or not be renewed, or should an alliance not be reauthorised by the ACCC or the equivalent regulator in the home country of each strategic alliance partner, the termination, nonrenewal or unsuccessful reauthorisation could have a material adverse effect on Virgin Australia Group's business, results of operations, financial condition and prospects. Further, no assurance can be given that Virgin Australia Group's alliances or partner airlines will perform in line, from an operational perspective, with Virgin Australia Group's expectations, which could result in a significant variation in the amount of transfer payments or receipts payable by or to Virgin Australia Group, and, in turn, could adversely affect Virgin Australia Group's results of operations and financial condition.

Key risks continued

17. Geopolitical conditions, including terrorist attacks and military conflicts, could have an adverse impact on Virgin Australia Group's business

The airline industry is exposed to political instability. Local, regional and international political conditions in markets served by Virgin Australia Group could adversely affect its business.

In addition, the occurrence of terrorist attacks, attempted terrorist attacks (whether domestic or international and whether involving Virgin Australia Group or another airline or no airline at all) or military conflicts worldwide could adversely affect Virgin Australia Group. The adverse consequences of terrorist attacks, and the threat of such attacks, or government advisory alerts about such potential threats, including limitations on the availability or amount of insurance coverage, increases in premiums and increased costs associated with security precautions and may add to fuel costs if alternative longer routes are required to be adopted for safety reasons. Further, increasingly restrictive security precautions, such as those relating to the content of carry-on baggage, passenger identification requirements and passenger screening procedures, could also have a material adverse effect on passenger demand for air travel generally. Any resulting reduction in passenger revenues or increases in costs or both could have a material adverse effect on Virgin Australia Group's financial and operating performance.

18. Epidemics, pandemics, severe weather conditions, natural disasters or other "Acts of God" could materially adversely affect Virgin Australia Group's operations and the demand for air travel

External events may cause a significant network disruption to the airline industry. Epidemics and pandemics (such as Ebola, Severe Acute Respiratory Syndrome ("SARS") and Avian Influenza-type viruses), natural disasters (such as volcanic ash, floods and earthquakes), severe weather conditions or other "Acts of God" (whether on a regional or global scale) could have a material adverse effect on the airline industry, resulting in substantial reductions in or cancellations of bookings and flights in the affected region and, more generally, reducing overall demand for Virgin Australia Group's services. For example, a significant number of Virgin Australia Group's operations involve flights to and from Queensland, where the tropical cyclone and associated wide spread flooding that affected Queensland from the end of December 2010 through January 2011 significantly impacted Virgin Australia Group's domestic operations and revenues. Similarly, the 2003 outbreak of SARS was linked to air travel early in its development and had a severe impact on the aviation industry, as evidenced by a sharp reduction in passenger bookings, cancellation of many flights and employee layoffs.

More generally, if external events were to weaken the demand for air travel or materially affect airline operations for a period of time, it could have a material adverse effect on Virgin Australia Group's financial and operating performance for the relevant financial year. This is especially the case because the occurrence and timing of such events, together with the reaction of aviation authorities to such events, cannot be predicted or controlled by Virgin Australia Group.

19. The supply of pilots to the airline industry may become limited

The hiring of pilots is contingent on those pilots holding the necessary credentials and meeting the requirements for the role and Australian based pilot roles being an attractive option. If more robust pilot qualification standards are introduced, there may be a decrease in eligible pilots available for hiring. Pilot shortages may result in increased training costs and a shortage of pilots available to conduct operations. This could have an adverse effect on Virgin Australia Group's financial condition and results of operations.

Key risks continued

20. Virgin Australia Group's business is subject to large liability claims for serious personal injury or death arising out of accidents or disasters.

Due to the nature of its core operating business, Virgin Australia Group may be subject to liability claims arising out of accidents or disasters involving aircraft on which Virgin Australia Group's passengers and staff are traveling or at facilities operated by Virgin Australia Group. An accident or other incident involving aircraft belonging to Virgin Australia Group or otherwise associated with Virgin Australia Group's Brand, such as codeshare flights, could involve significant potential claims by injured passengers or others for personal injury, death or damage to property in addition to the cost of the repair or replacement of damaged aircraft and its consequential temporary or permanent loss from service. While Virgin Australia Group's liability is capped in some instances by applicable legislation and Virgin Australia Group maintains insurance to mitigate risks associated with these types of liability claims, there can be no assurance that Virgin Australia Group's insurance coverage will be sufficient to cover one or more large claims and any shortfall may be material and could have a material adverse effect on Virgin Australia Group's financial condition and results of operations.

Additionally, even if fully insured against liability claims associated with any particular incident, if the incident involves an aircraft operated by, or on behalf of, Virgin Australia Group, it could cause a public perception that Virgin Australia Group's Brand is less safe or reliable than other airlines, which would harm Virgin Australia Group's reputation and business and, in turn, could have a material adverse effect on Virgin Australia Group's financial condition and results of operations.

21. Increases in insurance costs or a reduction in insurance coverage could have an adverse effect on Virgin Australia Group's business

Virgin Australia Group insures its fleet, at a minimum, in accordance with financing, contractual and legislative requirements. However, Virgin Australia Group's ability to secure the desired policies or policies required under its various aircraft financings or leasing obligations is dependent on the availability of such insurance policies. These policies must be renewed at regular intervals and may be subject to renewal on less favorable terms. In addition, these policies stipulate a number of exclusions and conditions under which the insurers may terminate policies or deny coverage.

The airline industry is exposed to the risk that in the future insurance coverage for aviation related risks will become too expensive or too difficult to obtain. For example, future terrorist attacks or acts of sabotage, especially if they were to be directed against air traffic, or the occurrence of other incidents such as a natural or man-made disaster, could result in insurance coverage for aviation risks becoming more expensive or certain risks becoming uninsurable or both.

There can be no assurance that the amount of insurance coverage, if any, available to Virgin Australia Group in the future, especially upon the occurrence of a man-made or natural disaster, including the loss of one or more of Virgin Australia Group's aircraft for any reason, would be adequate to cover the resulting losses. Any shortfall may be material and could have an adverse effect on Virgin Australia Group's financial condition and results of operation.

22. Virgin Australia Group is subject to extensive regulation of both its aviation and broader business activities

Airlines are subject to extensive regulatory requirements. Virgin Australia Group is subject not only to Australian law and regulation, but also to the laws and regulations of other countries, international organisations and international, bilateral and multilateral treaties. The scope of such laws and regulations include, among other things, international traffic rights, airport operation and access, the environment (including noise abatement and carbon emissions), civil aviation safety requirements, workplace health and safety regulation, licensing, competition, passenger protection, ticket pricing, privacy and tax.

Key risks continued

Additional laws, regulations, taxes and airport rates and charges, including significant increases in charges imposed directly on passengers, such as the Australian Government's Passenger Movement Charge, proposed or established from time to time could significantly increase the cost of airline operations or reduce revenues by, among other things, reducing demand for air travel. For example, changes in flight duty and rest requirement rules or the minimum required flight crew to passenger ratios could result in a material increase in Virgin Australia Group's employment-related costs. Similarly, new laws and regulations may change the way in which Virgin Australia Group is able to charge passengers for certain items, such as booking and service fees. These changes may lead to a material loss of revenue if such fees cannot be separately charged and are not able to be offset by fare increases. One such recent change was on May 26, 2016 the RBA announced the outcome of its Review of Card Payments Regulation. The new surcharging standard will preserve the right of merchants to surcharge for more expensive payment methods. However, the new standard limits surcharges for consumers using payment cards from designated systems (eftpos, the debit and credit systems of MasterCard and Visa, and the American Express companion card system). The limitation is that surcharges cannot be in excess of a merchant's cost of acceptance for that card system. The ACCC will have enforcement powers under the new framework, which will take effect for large merchants on September 1, 2016 and for other merchants on September 1, 2017. Virgin Australia Group is currently working through the requirements and what changes to booking and service fees may be required. These changes may have an adverse effect on Virgin Australia Group's financial performance.

Virgin Australia Group cannot anticipate all changes that may be made in the future, nor the possible adverse impact of such changes. Virgin Australia Group's ability to comply with such regulations is key to maintaining its operational and financial performance. If Virgin Australia Group is unable to fully comply with future regulations, or if the cost of compliance with new regulations is significant and Virgin Australia Group is unable to pass such costs on to its passengers, there may be a material adverse effect on Virgin Australia Group's financial and operating performance.

23. Virgin Australia Group may be exposed to risks associated with climate change regulation

Various international, national and regional regulatory approaches are being taken to address climate change. On July 1, 2012, the Australian federal government introduced a carbon price mechanism that imposed a fixed price on carbon emissions generated domestically. Legislation was passed on July 17, 2014 to end the carbon price mechanism effective June 30, 2014. Following the passage of legislation on October 31, 2014, the Australian federal government implemented an alternative climate change policy, known as Direct Action. Direct Action includes a government Emissions Reduction Fund to purchase Australian-based greenhouse gas emissions reductions and abatement at auctions. This presents an opportunity for businesses to be paid for their emissions reductions and abatement, so does not in itself present a risk to Virgin Australia Group. Direct Action will also apply a "safeguard" baseline mechanism to apply to large emitters from July 1, 2016 (pending the outcomes of the Australian Federal Election on 2 July 2016). This mechanism is proposed to apply to facilities with direct emissions of 100,000t carbon dioxide equivalent (CO_2-e) per annum or more. On this basis, the "safeguard" baseline mechanism would apply to Virgin Australia Group. If baselines are exceeded then carbon units would need to be surrendered or penalties would apply, thus imposing costs. The cost impact that Direct Action may have on Virgin Australia Group and the aviation industry is still to be determined. In the event that there is a change of Government at the election on 2 July 2016 it remains likely that there will be costs applying to Virgin Australia Group based upon the announced policy of the Australian Labor Party.

Key risks continued

24. Virgin Australia Group is exposed to macroeconomic factors and governmental policy changes or decisions, which could have an adverse impact on its business

Macroeconomic decisions and other government policy changes may impact taxes, duties, superannuation levies or other charges to which Virgin Australia Group is subject, which could have a material adverse effect on its financial condition and results of operations. Examples include the Australian carbon price and the alternative Direct Action approach, and changes to legislated curfews that restrict operations at some airports during certain times to provide noise relief to residents surrounding the relevant airports. Australian federal legislation, for example, currently limits take-offs and landings at Sydney Airport between 11:00pm and 6:00am by restricting passenger jet flights from operating during this time.

Certain markets in which Virgin Australia Group operates are subject to government regulation which limits capacity or restricts market entry, or both. For example, capacity is limited under the Australia-Indonesia bilateral air services agreement and some domestic intrastate routes have market entry restrictions. Relaxation of such restrictions, while creating growth opportunities for Virgin Australia Group, could increase competition and therefore have a negative impact on Virgin Australia Group's margins and result in a material adverse effect on its financial condition and results of operations. Furthermore, there is a risk that Virgin Australia Group's ability to enter new markets and manage its growth strategy may be impeded as a result of government regulations that restrict Virgin Australia Group's entry into new markets.

25. The airline industry relies upon and is exposed to national and international infrastructure development

Virgin Australia Group is dependent on and may be affected by infrastructure decisions or changes in infrastructure policy by governments, regulators or other entities outside its control. If the governing bodies of any airports important to Virgin Australia Group's operations do not make appropriate infrastructure decisions when needed, it could adversely affect Virgin Australia Group's ability to operate at that airport and have a material adverse effect on its financial and operating performance. Further, if the governing bodies of other airports make or implement decisions to improve infrastructure, the resulting expense requirements may have an adverse effect on Virgin Australia Group's financial condition and results of operations.

Key risks continued

26. Virgin Australia Group's operating results historically fluctuate due to seasonality and other factors associated with the airline industry

Virgin Australia Group has historically experienced greater demand for its services in the second half of the calendar year and lower demand in the first half of the calendar year. This demand pattern is principally a result of the greater number of peak leisure travel periods occurring during the second half of the calendar year and traditionally lower business-related travel in January. Virgin Australia Group has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short term. There is a risk that Virgin Australia Group's revenue during peak periods is not sufficient to support periods of lower demands or that Virgin Australia Group experiences more extreme fluctuations between high demand and low demand periods than previously experienced.

27. Virgin Australia Group may fail to secure required slot allocations

Slot allocations can affect the competitiveness and financial condition of airlines. Airport slots are rights allocated to an entity by an airport, government agency or other agency granting the slot user the right to schedule a landing or departure during a specific time period. Slot allocations are based on a number of factors and, for many airports, airlines are required to participate in an application process to secure slot allocations at the particular airport. While the International Air Transport Association ("IATA") has established best industry practice guidelines (based on such criteria as environmental issues and the appropriate use of slots) and a policy for worldwide application in relation to slot allocation and coordination, local regulation and legislation will override IATA's procedures if such regulation or legislation exists. Virgin Australia Group operates (or is seeking to operate) at a number of congested and slot constrained airports, including Sydney, Brisbane, Perth, Hong Kong and Denpasar. A failure of Virgin Australia Group to secure slots for current and future flights could affect its ability to add additional flights to its existing schedules at the relevant airports and could lead to changes in flight schedules or reduced aircraft utilisation, which in turn could adversely affect its operating and financial performance.

28. Airport, transit and landing fees, along with charges and the costs that an airline must pay to ensure it has access to airports and air navigation and related services may increase

Virgin Australia Group is exposed to increases in airport, transit and landing fees, along with changes in air security policies, air traffic security costs and airport common use infrastructure upgrades. Airport, transit and landing fees and security charges or initiatives represent a significant operating cost to Virgin Australia Group and have an impact on its operations.

Australia's major airports are privatised, and airport operators hold significant power in negotiating prices for airport services with airlines under the Australian government's approach to price monitoring. With airport charges representing one of Virgin Australia Group's largest expenditures, there is a risk that Virgin Australia Group's cost base will be negatively impacted in the future under the current regulatory regime. If Virgin Australia Group is unable to pass on any increases in charges, fees or other costs to its passengers, which could, in turn, have a material adverse effect on Virgin Australia Group's business and financial and operating performance.

29. Virgin Australia Group may be exposed to the loss of key airport capacity

Virgin Australia Group is exposed to the loss of capacity at its core airports, including the Brisbane, Sydney and Melbourne airports, and at other airports where it flies to and from. Factors affecting such capacity, on either a short or long-term basis, could have a material adverse effect on the Virgin Australia Group's financial condition and results of operations.

Key risks continued

The complete or partial loss or temporary closure of any terminal or other substantial facilities at Virgin Australia Group's core airports—for instance due to fire, collapse of the building, major air crash at the site, a terrorist or similar security incident, significant construction or labour strikes—would be likely to disrupt Virgin Australia Group's operations and could have a material adverse effect on Virgin Australia Group and its partners' business, financial condition and results of operations.

30. Virgin Australia Group's trademark licences have geographic restrictions

Virgin Australia Group is subject to restrictions imposed on it by brand and other agreements entered into with the Virgin Group and other partner or affiliated airlines and, in the case of Tigerair Australia, with Tiger Airways.

The trademark licenses for Virgin Australia Group's business limit the trademarks which may be used by Virgin Australia Group domestically and internationally. The trademark licenses and certain other agreements also place some restrictions on the international routes which may be flown by Virgin Australia Group, as well as the provision of other air transport services if the prior consent from the other party is not secured. To the extent Virgin Australia Group is unable to secure consent and expand its operations relative to its competitors, it could have an adverse effect on future revenue generation and the growth of Virgin Australia Group's business. Tigerair Australia's operations under the "Tigerair" brand are also subject to certain restrictions under its license agreement with Tiger Airways.

31. Virgin Australia Group is dependent on its employees, may not be able to maintain labour costs at sustainable levels or may be exposed to operational disruptions as a result of labour conflicts and industrial action

Employee costs represent the second largest cost component of Virgin Australia Group's business. Several unions represent many of Virgin Australia Group's staff members, which has the potential to cause industrial disruption or reputational damage to Virgin Australia Group's business operations. Unions are increasingly relying on safety as a basis for taking either industrial action or as a cause of action in other industrial disputes including, For example, breach of general protection provisions, and by raising safety as an issue in industrial disputes, unions increase Virgin Australia Group's exposure to reputational damage. Collective bargaining through unions over renewal of employee terms and conditions takes place on a regular basis, with multiple negotiations currently taking place. In addition, labour conflicts or a breakdown in the bargaining process with Virgin Australia Group's employees, including flight crew and ground operations employees, or workers not employed by Virgin Australia Group, including baggage handlers, could disrupt or threaten to disrupt operations and adversely affect Virgin Australia Group's business performance. Any drawn out industrial dispute which involves the prospect of industrial action could have a material adverse effect on Virgin Australia Group's reputation and causes passengers to book with its competitors.

Furthermore, strikes or other industrial action associated with Virgin Australia Group's strategic alliances could negatively reflect on Virgin Australia Group to the extent that passengers booked on Virgin Australia Group's codeshare or partner's flights are affected by such strikes.

32. Virgin Australia Group is dependent on its executive officers and other key employees and could be materially adversely affected by substantial turnover

Virgin Australia Group is dependent on the experience and industry knowledge of its executive officers and other key employees to execute its strategy, including the Virgin Vision 2017 initiative and the capital and operational efficiency program. If Virgin Australia Group were to experience a substantial turnover in its leadership or other key employees, Virgin Australia Group's business, financial condition and results of operations could be materially adversely affected. Additionally, Virgin Australia Group depends on its ability to attract and retain qualified key personnel with specified skill sets. No assurance can be given that it will be able to attract and retain such individuals as needed in the future.

Key risks continued

33. Virgin Australia Group is dependent on key suppliers and service providers

Virgin Australia Group is dependent upon its ability to source, on favorable commercial terms, sufficient quantities and quality of plant, equipment, goods and services in a timely manner. These include plant, equipment, goods and services available at airports or from airport authorities or otherwise required for Virgin Australia Group's operations, such as fuel, aircraft and related parts, aircraft maintenance services and IT and software products and services. This risk is increased in situations where there is a limited number of suppliers. For example Virgin Australia Group is dependent on The Boeing Company and Airbus S.A.S. as its primary suppliers for aircraft and aircraft-related items. The failure, refusal or inability of a supplier to provide plant, equipment, goods or services may arise as a result of a wide range of causes, which may be beyond Virgin Australia Group's control. Any failure or inability of Virgin Australia Group to successfully source plant, equipment, goods and services, including by reason of a failure, refusal or inability of a supplier or service provider to source goods and services on terms and within the timeframes and quality and pricing levels acceptable to Virgin Australia Group, could have a material adverse effect on Virgin Australia Group's business, financial condition and results of operations.

Virgin Australia Group is dependent on a number of other third parties for certain principal material business needs and services including aircraft manufacturers, airport operators, airport authorities, aircraft lessors, airframe and engine manufacturers, aircraft fuel providers, aircraft maintenance providers, software and IT service providers, global distribution systems, credit card issuers and processing service providers, air traffic controllers, ground handlers, caterers, security personnel, check-in staff, call centre services, baggage handlers and distributors and other general airport services. If these third parties are unable for any reason to continue to supply goods and services on terms acceptable to Virgin Australia Group, or at all, Virgin Australia Group may not be able to replace such third parties immediately or in some circumstances, may be required to find in house capability to deliver such services. In addition, Virgin Australia Group may be unable to source alternative equivalent plant, equipment, goods and services in a timely manner due to the specialised nature of the supply or market. If one or more of these third party services were restricted or temporarily unavailable as a result of events such as strikes or technical problems or were permanently unavailable or only available on uncommercial terms, or a service provider failed to provide services to the standard expected by Virgin Australia Group, or if lessors and airframe and engine manufacturers were to delay delivery of aircraft, make scheduled deliveries of aircraft late, or deliver goods which do not meet the standards and specifications contracted for, it could have a material adverse effect on Virgin Australia Group's business, reputation, financial condition and results of operations.

34. Virgin Australia Group is exposed to credit risk of counterparties

Virgin Australia Group is exposed to credit risk to the extent of non-performance by its counterparties to settle financial assets and receivables. Virgin Australia Group is also exposed to credit risk to the extent of non-performance by its insurance counterparties.

Failure of any of Virgin Australia Group's counterparties, including aircraft manufacturers and aircraft lessors to whom deposits and prepayments have been made, could have a material adverse effect on Virgin Australia Group's financial condition and results of operations.

35. Virgin Australia Group is exposed to interest rate fluctuations

Virgin Australia Group is exposed to increases in interest rates when its floating rate debt in a particular currency exceeds floating rate cash deposits in that currency or decreases in interest rates when its floating rate cash deposits in a particular currency exceed floating rate debt in that currency.

Key risks continued

36. Fluctuations in currency exchange rates could have a material adverse effect on Virgin Australia Group's financial condition and results of operations

Virgin Australia Group is exposed to currency risk on revenue, purchases and borrowings that are denominated in a currency other than the Australian dollar. Virgin Australia Group undertakes transactions in a number of foreign currencies, the most material of which are transactions denominated in U.S. dollars, including the purchase of fuel, aircraft, aircraft lease payments, the sale of airline passenger tickets and the repayment of U.S. dollar-denominated debt. A significant change in the value of the Australian dollar (or other currency in which Virgin Australia Group operates), including as a result of the outcome of Britain's decision to leave the European Union), to the extent Virgin Australia Group is unable to protect against currency risk, could have a material adverse effect on Virgin Australia Group's financial condition and results of operations. In addition, the translation of foreign currency assets and liabilities on Virgin Australia Group's balance sheet could, to the extent it is not offset, have a material adverse effect on Virgin Australia Group's financial condition and results of operations.

In order to protect against currency risk, Virgin Australia Group enters into Australian dollar-denominated fuel contracts and forward exchange contracts and option contracts to purchase currencies, other than Australian dollars, and to sell Australian dollars. These contracts hedge highly probable forecasted purchases for the ensuing financial periods. The contracts are timed to mature when the operating expenses or capital expenditures are expected to be incurred. Realised gains or losses on these contracts arise due to differences between the actual spot rates on settlement, the forward rates of the derivative contracts and the cost of option premiums paid. There can be no assurance that Virgin Australia Group's hedging practices will effectively protect Virgin Australia Group against currency risk. To the extent Virgin Australia Group is unable to effectively hedge or offset these currency risks, they could have a material adverse effect on Virgin Australia Group's financial performance.

37. Virgin Australia Group's reported financial position and results will be affected by changes in financial reporting requirements and changes to, or the application of, taxation laws

There is a risk that changes to accounting standards could have an impact on Virgin Australia Group's accounting policies, financial position or its performance.

Examples include:

- the AASB has released exposure drafts of a new lease accounting standard. This standard proposes that a single lease accounting model will apply, such that assets and liabilities arising under all lease contracts will be recognised on balance sheet, with an annual expense reflecting depreciation on the leased asset and interest expense for leases with a lease term of more than 12 months. If adopted in its proposed form, this standard would require Virgin Australia Group to recognise aircraft and property assets, currently accounted for as operating leases, on its balance sheet unless the maximum possible lease term is no more than 12 months.
- the AASB has released a new accounting standard AASB 15 Revenue from Contracts with Customers ("AASB 15"). AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and Interpretation 13 Customer Loyalty Programmes. AASB 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. Virgin Australia Group has commenced development of a project plan to assess the impact of AASB 15.

The impact of the above or other changes in financial reporting requirements or in taxation laws or their application could have a material adverse effect on Virgin Australia Group's financial condition and results of operations and financial metrics.

Key risks continued

38. Virgin Australia Group's management information reporting resources face significant demands from its rapid expansion and changes in strategy

Virgin Australia Group's rapid expansion and changes in strategy, including the implementation of the Virgin Vision 2017, have placed and may continue to place significant demands on management information resources and financial and internal controls systems. Effective management of Virgin Australia Group's growth will require, among other things, continued development and appropriate resourcing of its management information reporting systems and financial and internal controls. If Virgin Australia Group fails to successfully manage these aspects of its growth, this could have a material adverse effect on its financial condition.

39. Virgin Australia Group's reported financial position and results may be impacted by future acquisitions or divestments.

At each reporting date, Virgin Australia Group is required to make judgments, estimates and assumptions in order to assess the carrying value of significant asset and liability balances. Moreover, in addition to organic growth, Virgin Australia Group evaluates potential strategic opportunities and selective acquisitions as they are presented. There can be no assurance that the anticipated benefits of any such strategic opportunities or acquisitions will be fully or timely realised. In addition, there is a risk that future acquisitions or divestments could impact these judgments, estimates and assumptions and result in Virgin Australia Group making different assessments as to the carrying value of relevant assets and liabilities.

Affinity Equity Partners ("Affinity") own a 35% economic interests in the Velocity frequent flyer program. The current joint venture arrangements with Affinity provide for the joint venture to be in place for at least three years, with the potential for an exit after this period by way of a trade sale or initial public offering. Virgin Australia Group has a right of first offer in relation to Affinity's stake in certain circumstances, and also has the right to participate in connection with other exit mechanisms available to Affinity to the extent Virgin Australia Group does not pursue the right of first offer. The outcome of any exit will have an currently unknown impact on Virgin Australia Group.

Any such changes could have a material adverse effect on relevant financial metrics and/or on Virgin Australia Group's financial condition and results of operations and could result in write-downs and impairment charges in future periods.

40. Virgin Australia Group is exposed to liquidity risks associated with credit card processing service providers

Virgin Australia Group has various card acceptance and merchant acquiring agreements with companies that process customer credit card transactions in relation to the sale of air travel and other services. Certain of these agreements require restricted cash to be held to cover a material portion of forward sales for some forms of payment.

The restricted cash requirements can be modified at the discretion of the merchant acquiring companies upon the occurrence of specific events, including material adverse changes in Virgin Australia Group's financial condition. An increase in the restricted cash requirements could have an adverse effect on Virgin Australia Group's financial condition and results of operations.

Key risks continued

41. Virgin Australia Group has a substantial level of fixed obligations which may limit operational and financial flexibility

Virgin Australia Group has a significant amount of fixed obligations, including debt, aircraft leases and financings, aircraft purchase commitments, leases and developments of airport and other facilities, and other cash obligations. As a result of the substantial fixed costs associated with these obligations:

- a decrease in revenues results in a disproportionately greater percentage decrease in earnings;
- Virgin Australia Group may not have sufficient liquidity to fund all of its fixed obligations if its revenues decline or costs increase; and
- Virgin Australia Group may have to use its working capital to fund its fixed obligations instead of funding general corporate requirements, including capital expenditures.

These fixed obligations could also impact Virgin Australia Group's ability to obtain additional financing, if needed, and its flexibility in the conduct of its business, which could materially adversely affect its liquidity, results of operations and financial condition.

42. Certain financing arrangements could significantly limit Virgin Australia Group's operating and financial flexibility

Some of the financing and other major agreements to which Virgin Australia Group is a party contain provisions that affect the repayment profile, amount of security posted or applicable interest rates in respect of such arrangements, based on, among other things, liquidity and asset values. Virgin Australia Group's failure to comply with its contractual obligations could result in a variety of material adverse consequences.

Financing arrangements may affect and, in some cases, significantly limit or prohibit, among other things, the manner in which Virgin Australia Group may structure or operate its business, including by limiting Virgin Australia Group's ability to:

- maintain or improve its liquidity;
- incur indebtedness;
- create liens;
- sell assets;
- pay dividends;
- make capital expenditures; and
- engage in acquisitions, mergers, restructurings or a change of control.

These requirements may limit Virgin Australia Group's operating and financial flexibility, which could materially and adversely affect Virgin Australia Group's ability to operate its business and its profitability.

Key risks continued

43. Virgin Australia Group's strategic direction may be altered if it is acquired or a change of control occurs

A number of international airlines hold large shareholdings in Virgin Australia Group. If one or more of these shareholders, or any other person or company, acquires Virgin Australia Group or increases its shareholdings to initiate a change of control of Virgin Australia Group, Virgin Australia Group may be required to unwind a number of its strategic alliances or amend or terminate material contracts relating to its business operations. Such an acquisition or increase in shareholding could have a material adverse effect on Virgin Australia Group's strategic direction, financial condition and results of operations.

44. Virgin Australia Group faces risks from legal and arbitration proceedings

From time to time, Virgin Australia Group is involved in lawsuits and claims, the majority of which arise as a consequence of the normal course of its business and out of its relationships with employees, staff, public bodies, passengers and suppliers, as well as out of industrial activities.

The results of such lawsuits and claims can be uncertain and cannot therefore be precisely determined. No assurance can be given that any provisions made in relation to any ongoing investigations, legal and/or arbitration proceedings will be sufficient should any of the investigations or proceedings have a negative outcome for Virgin Australia Group. A negative outcome in any investigation or claim could have a material adverse effect on Virgin Australia Group's financial condition and results of operations.

45. Virgin Australia Group's major shareholders may withdraw support

Virgin Australia Group's major shareholders have previously provided additional equity capital and loan facilities to Virgin Australia Group. If these shareholders do not provide similar support in the future if required by Virgin Australia Group, it may result in an adverse effect on Virgin Australia Group's business, financial condition and results of operations.

46. Ongoing data security and privacy protection compliance requirements could increase costs, and any significant data breach or breach of privacy laws could harm Virgin Australia Group's business, financial condition or results of operations

Virgin Australia Group's business requires the appropriate and secure utilisation of customer and other sensitive information. Virgin Australia Group cannot be certain that advances in criminal capabilities (including cyber-attacks or cyber intrusions over the Internet, malware, computer viruses and the like) will not compromise or breach the technology protecting the networks that access and store sensitive information. Virgin Australia Group is required to comply with the Australian Privacy Principles under the Privacy Act 1988 (Cth) (the "Privacy Act") and, relevantly, is required to take reasonable steps to protect personal information it holds from misuse, interference and loss, as well as unauthorised access, modification or disclosure. Under the Privacy Act, Virgin Australia Group is responsible for the acts or omissions of its overseas service providers. In addition, commercial partners, including credit card issuers and credit card processing service providers, impose data security standards that must be met. Failure to comply with these legislative obligations and other standards (including credit card payment standards), may result in penalties, fines, the mandatory adoption of enforceable undertakings, adverse publicity and the commencement of civil proceedings against Virgin Australia Group, any of which may have an adverse effect on Virgin Australia Group's business, financial condition and results of operations.

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International offer jurisdictions

This document does not constitute an offer of New Shares of Virgin Australia Group in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person, and the New Shares may not be offered or sold, in any country outside Australia and New Zealand, except as otherwise determined by the Group and as permitted by applicable laws, including the below.

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Securities Act 1978 (New Zealand) or the Financial Markets Conduct Act 2013 (New Zealand).

The New Shares in the Entitlement Offer are not being offered or sold to the public in New Zealand other than to existing shareholders of Virgin Australia with registered addresses in New Zealand to whom the offer of New Shares is being made in reliance on the Securities Act (Overseas Companies) Exemption Notice 2013 (New Zealand).

Other than in the Entitlement Offer, New Shares may be offered and sold in New Zealand only to persons who meet one of the criteria for being a wholesale investor under clause 3(2) and (3) of Schedule 1 of the Financial Markets Conduct Act 2013.

British Virgin Islands

The New Shares may not be offered in the British Virgin Islands unless the Group or any person offering the New Shares on its behalf is licensed to carry on business in the British Virgin Islands. Virgin Australia Group is not licensed to carry on business in the British Virgin Islands. The securities may be offered to British Virgin Islands business companies from outside the British Virgin Islands without restriction.

China

The information in this document does not constitute a public offer of the New Shares, whether by way of sale or subscription, in the People's Republic of China (excluding, for purposes of this paragraph, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). The New Shares may not be offered or sold directly or indirectly in the PRC to legal or natural persons other than directly to "qualified domestic institutional investors".

Hong Kong

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "SFO"). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the New Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO).

International offer jurisdictions continued

No advertisement, invitation or document relating to the New Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to New Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted New Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

Norway

This document has not been approved by, or registered with, any Norwegian securities regulator under the Norwegian Securities Trading Act of June 29, 2007. Accordingly, this document shall not be deemed to constitute an offer to the public in Norway within the meaning of the Norwegian Securities Trading Act of 2007.

The New Shares may not be offered or sold, directly or indirectly, in Norway except to "professional clients" (as defined in Norwegian Securities Regulation of June 29, 2007 no. 876 and including non-professional clients having met the criteria for being deemed to be professional and for which an investment firm has waived the protection as non-professional in accordance with the procedures in this regulation).

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This document has been given to you on the basis that you are (i) an existing holder of the Group’s shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) a "relevant person" (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire New Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

International offer jurisdictions continued

Switzerland

The New Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("SIX") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the New Shares may be publicly distributed or otherwise made publicly available in Switzerland. The New Shares will only be offered to regulated financial intermediaries such as banks, securities dealers, insurance institutions and fund management companies as well as institutional investors with professional treasury operations.

Neither this document nor any other offering or marketing material relating to the New Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of New Shares will not be supervised by, the Swiss Financial Market Supervisory Authority (FINMA).

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United Arab Emirates

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No offer or invitation to subscribe for New Shares is valid in, or permitted from any person in, the Dubai International Financial Centre.

International offer jurisdictions continued

United Kingdom

Neither the information in this document nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("FSMA")) has been published or is intended to be published in respect of the New Shares.

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