

Virgin Australia Holdings Limited (ASX: VAH) Trading Update for the Second Quarter Ending 31 December 2016**3 February 2017¹**

Virgin Australia Holdings Limited (**Virgin Australia Group** or **Group**) today reported an Underlying Profit Before Tax of \$45.9 million for the second quarter of the 2017 financial year and announced an improved liquidity and leverage position with:

- A \$936.3 million reduction in Net Debt – an improvement of 44.5 per cent
- A 21.1 per cent improvement in Financial Leverage to 4.5x as at 31 December 2016
- Closing total cash balance of \$1,595.8 million as at 31 December 2016, up \$689.1 million on total cash balance as at 31 December 2015 – the highest ever reported total cash balance for the Group

Positive outcomes in liquidity and leverage

The Group delivered positive outcomes in its liquidity and leverage a result of the program of work that was initiated under the Group's capital structure review in the 2016 financial year. Outcomes include:

- A \$936.3 million reduction in Net Debt from 31 December 2015 to \$1,169.8 million as at 31 December 2016 – an improvement of 44.5 per cent, despite the negative impact of foreign exchange movements on US dollar-denominated debt
- A 21.1 per cent improvement in Financial Leverage from 5.7x as at 31 December 2015 to 4.5x as at 31 December 2016
- Closing total cash balance of \$1,595.8 million as at 31 December 2016, up \$689.1 million on total cash balance as at 31 December 2015 – the highest ever reported total cash balance for the Group
- A significant extension in the Group's debt maturity profile driven by the 144A bond issued in October 2016 and the repayment of approximately \$840 million in shorter term debt during the six months to 31 December 2016²

Performance during second quarter ending 31 December 2016

Subdued industry trading conditions in the domestic market continued to adversely impact revenue during the second quarter. The Group recorded an Underlying Profit Before Tax of \$45.9 million for the second quarter of the 2017 financial year, a decline of \$27.1 million on the prior corresponding period.

The Group continues to actively manage capacity in response to subdued trading conditions. In the second quarter, total sectors flown in the Virgin Australia Domestic business declined 5.0 per cent on the prior corresponding period³.

As a result of the impact of subdued industry trading conditions on revenue performance, the Group expects the Virgin Australia Domestic business to generate an Underlying Earnings Before Interest and Tax Margin of between 3 and 6 per cent for the 2017 financial year.

The Group's Statutory Profit After Tax for the second quarter was \$13.1 million. The statutory result includes the impact of restructuring charges related to the Group's three year Better Business program, which is expected to deliver significant free cash flow savings by the end of the 2019 financial year.

The Group will report its financial results for the first half of the 2017 financial year on 17 February 2017.

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¹ All financial information in this release has not been audited or reviewed. For definitions, refer to page 3.

² The US Dollar 144A bond issued in October 2016 was for US\$350 million and a five year term.

³ Refer to page 2 for further information regarding Available Seat Kilometre results for the second quarter.

VIRGIN AUSTRALIA GROUP PRELIMINARY QUARTERLY OPERATING STATISTICS
 For the period 1 October 2016 – 31 December 2016

		Operating Statistics		
		Q2 FY17	Q2 FY16	Change
VIRGIN AUSTRALIA GROUP	Revenue Passengers	6,302,021	6,106,420	3.2%
	Revenue Passenger Kilometres (millions)	9,919	9,667	2.6%
	Available Seat Kilometres (millions)	12,195	12,035	1.3%
	Revenue Load Factor	81.3%	80.3%	1.0 pts

		Operating Statistics		
		Q2 FY17	Q2 FY16	Change
VIRGIN AUSTRALIA DOMESTIC	Revenue Passengers	4,462,476	4,369,660	2.1%
	Revenue Passenger Kilometres (millions)	5,365	5,250	2.2%
	Available Seat Kilometres (millions)*	6,866	6,757	1.6%
	Revenue Load Factor	78.1%	77.7%	0.4 pts

*The increase in Virgin Australia Domestic Available Seat Kilometres was primarily driven by the increased use of Airbus A330 aircraft during the quarter compared to the Q2 FY16 (during which time A330 aircraft were removed from service for cabin embodiment) and the increased use of larger aircraft for some flying as Embraer 190 aircraft are removed from the Group's operational fleet.

		Operating Statistics		
		Q2 FY17	Q2 FY16	Change
VIRGIN AUSTRALIA INTERNATIONAL	Revenue Passengers	652,981	703,214	(7.1%)
	Revenue Passenger Kilometres (millions)	2,936	3,161	(7.1%)
	Available Seat Kilometres (millions)	3,517	3,825	(8.1%)
	Revenue Load Factor	83.5%	82.7%	0.8 pts

		Operating Statistics		
		Q2 FY17	Q2 FY16	Change
TIGERAIR AUSTRALIA DOMESTIC & INTERNATIONAL	Revenue Passengers	1,186,564	1,033,546	14.8%
	Revenue Passenger Kilometres (millions)	1,619	1,256	28.9%
	Available Seat Kilometres (millions)	1,812	1,453	24.7%
	Revenue Load Factor	89.3%	86.5%	2.8 pts

Notes:

- (1) Quarterly operating statistics are issued on a preliminary basis and are subject to change. Any adjustments made will flow through to the year to date results.
- (2) Revenue Passenger Kilometres or RPKs means number of paying passengers multiplied by the number of kilometres flown on Virgin Australia or Tigerair Australia operated flights.
- (3) Available Seat Kilometres or ASKs means total number of seats available for passengers multiplied by the number of kilometres flown on Virgin Australia or Tigerair Australia operated flights.
- (4) Revenue Load Factor means RPKs as a percentage of ASKs.

Definitions

Underlying Profit / (Loss) Before Tax: is a non-statutory measure that represents statutory profit / (loss) before tax excluding the impact of impairment losses on assets classified as held for sale, impairment losses on other assets, onerous contract expenses, business and capital restructure and transaction costs (as defined below), share of net profits/(losses) of equity-accounted investees and the impact of hedging and financial instruments (as defined below). This is a measure used by Management and Board of Virgin Australia Holdings Limited (**VAH**) to assess the financial performance of VAH.

Underlying Earnings Before Interest & Tax or Underlying EBIT: is a non-statutory measure that is defined as Underlying Profit/ (Loss) Before Tax (as defined above) excluding the impact of net finance costs. This is a measure used by Management and VAH's Board to assess the financial performance of VAH and its individual segments.

Underlying Earnings Before Interest and Tax Margin or Underlying EBIT Margin: is a non-statutory measure derived from Underlying Earnings Before Interest and Tax (as defined above) divided by total segment revenue.

Underlying Earnings Before Interest, Tax, Depreciation, Amortisation and Aircraft Rentals or EBITDAR: is a non-statutory measure that represents Underlying Profit/(Loss) Before Interest & Tax (as defined above) with the addition of depreciation, amortisation and aircraft rentals. This is a measure used by Management and VAH's Board to assess the financial performance of VAH and its individual segments.

Business and capital restructure and transaction costs: is a non-statutory measure that includes business and capital restructure and transaction costs.

Hedging and financial instruments: is a non-statutory measure that includes the following items: Unrealised ineffectiveness on cash flow hedges and non-designated derivatives and time value movements on cash flow hedges.

Financial Leverage: is a non-statutory measure and is defined as the ratio of Adjusted Net Debt (as defined below) to EBITDAR (as defined above).

Net Debt: is a non-statutory measure derived by interest bearing liabilities less cash and cash equivalents.

Adjusted Net Debt: is a non-statutory measure derived by interest bearing liabilities less cash and cash equivalents and adding 7 times annual aircraft operating lease rentals.

Forward Looking Statements: This document contains certain forward looking statements. Forward looking statements can generally be identified by the use of words such as 'project', 'believe', 'foresee', 'plan', 'expect', 'aim', 'potential', 'goal', 'target', 'intend', 'anticipate', 'estimate', 'may', 'could', 'should', 'will' or similar expressions. Indications of, and guidance on, future earnings and financial position and performance are also forward looking statements. Forward looking statements, opinions and estimates provided in this document involve a number of risks, assumptions and contingencies, many of which are beyond the Virgin Australia Group's control and which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. It is believed that the expectations reflected in these forward looking statements, opinions and estimates are reasonable, but there can be no assurance that actual outcomes will not differ materially from these statements. Such forward looking statements, opinions and estimates are provided as a general guide only, should not be relied on as an indication or guarantee of future performance and speak only as of the date of this announcement. You should not place undue reliance on forward looking statements.

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