



# Virgin Australia Holdings Limited

## Appendix 4D and Interim Financial Report

For the half-year ended 31 December 2016

VIRGIN AUSTRALIA HOLDINGS LIMITED

ACN: 100 686 226

ASX CODE: VAH

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# ASX Appendix 4D

For the half-year ended 31 December 2016

The results for announcement to the market for Virgin Australia Holdings Limited (VAH) (the Company) and its subsidiaries (the Group) and the Group's interests in associates for the period 1 July 2016 to 31 December 2016 and the comparative period 1 July 2015 to 31 December 2015 are detailed below. A commentary on the results is contained in the Australian Stock Exchange (ASX) release.

## Results for announcement to the market

	31 December 2016	31 December 2015	Change \$m	Change %
Revenue and income	2,633.7	2,658.2	(24.5)	(0.9)
Statutory profit/(loss) after tax	(21.5)	62.5	(84.0)	(134.4)
Statutory profit/(loss) after tax attributable to owners of the Company	(36.1)	45.7	(81.8)	(179.0)

## Dividends

No dividends were declared or paid during the half-year ended 31 December 2016 or during the prior corresponding period.

Equity distributions of \$27.6 million (31 December 2015: \$16.0 million) were paid to non-controlling interests during the half-year ended 31 December 2016.

## Net tangible assets

	31 December 2016	30 June 2016 <sup>(1)</sup>
Net assets attributable to owners of the Company (\$m)	1,873.3	911.7
Net tangible assets attributable to owners of the Company (\$m)	891.7	(92.7)
Ordinary shares (m)	8,454.1	4,051.7
Net assets attributable to owners of the Company per ordinary share (\$)	0.22	0.23
Net tangible assets attributable to owners of the Company per ordinary share (\$)	0.11	(0.02)

(1) The comparative has been amended to reflect the exclusion of deferred tax assets from tangible assets.

## Details of associates

The Company holds a 49 per cent (2015: 49 per cent) ownership interest in Virgin Samoa Limited and accounts for this investment as an associate.

# Directors' report

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The directors present their report together with the consolidated interim financial statements of the Group comprising Virgin Australia Holdings Limited (VAH) (the Company) and its subsidiaries (the Group) and the Group's interests in associates for the half-year ended 31 December 2016 and the auditor's review report thereon.

## 1. Directors

The directors of the Company at any time during or since the end of the period are:

Name	Position	Period of directorship
Ms Elizabeth Bryan AM	Chairman and Independent Non-Executive Director	Current, appointed as Chairman and Director 20 May 2015
Mr John Borghetti AO	Managing Director and Chief Executive Officer	Current, appointed 8 May 2010
Mr David Baxby	Independent Non-Executive Director	Current, appointed 30 September 2004
Mr Ken Dean	Independent Non-Executive Director	Current, appointed 1 December 2016
Dr Chien-tsung Lu	Non-Executive Director	Current, appointed 16 November 2016
Mr Bruno Matheu	Non-Executive Director	Current, appointed 18 February 2015
Mr John Patrick (JP) Moorhead	Non-Executive Director	Ceased, resigned 3 January 2017
Ms Samantha Mostyn	Independent Non-Executive Director	Current, appointed 1 September 2010
Mr Warwick Negus	Non-Executive Director	Current, appointed 3 January 2017
Mr Nang Qi	Non-Executive Director	Current, appointed 16 November 2016
Mr Marvin Tan	Non-Executive Director	Current, appointed 1 January 2016
Mr Robert Thomas	Independent Non-Executive Director	Current, appointed 8 September 2006
The Hon. Mark Vaile AO	Independent Non-Executive Director	Current, appointed 22 September 2008
Mr Ulf Huttmeier	Alternate Director for Mr Bruno Matheu	Current, appointed 18 February 2015
Mr Pee Teck Tan	Alternate Director for Mr Marvin Tan	Current, appointed 1 January 2016

## 2. Review of operations

Net loss after income tax attributable to the owners of \$36.1 million for the half-year ended 31 December 2016 represents a decline from a \$45.7 million net profit after income tax attributable to owners in the prior corresponding half-year ended 31 December 2015.

Revenue and income decreased 0.9 per cent from \$2,658.2 million in the prior corresponding half-year ended 31 December 2015 to \$2,633.7 million for the half-year ended 31 December 2016.

Net operating expenditure increased 1.2 per cent from \$2,565.4 million in the prior corresponding half-year ended 31 December 2015 to \$2,596.7 million for the half-year ended 31 December 2016.

## 3. Lead auditor's independence declaration under section 307C of the *Corporations Act 2001*

The lead auditor's independence declaration is set out on page 6 and forms part of the directors' report for the half-year ended 31 December 2016.

## 4. Rounding

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and in accordance with that instrument, amounts in the consolidated interim financial statements and directors' report have been rounded to the nearest one hundred thousand dollars, unless otherwise stated.

## Directors' report (continued)

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Signed in accordance with a resolution of the directors:



Elizabeth Bryan  
Director



John Borghetti  
Director

Dated at Sydney, 16 February 2017



## Lead Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001*

To: The directors of Virgin Australia Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2016 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A stylized, handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to be 'John Wigglesworth', with a long horizontal line extending to the right.

John Wigglesworth  
Partner

Sydney, 16 February 2017

# Consolidated statement of profit or loss

For the half-year ended 31 December 2016

	Note	Half-year to 31 December 2016 \$m	Half-year to 31 December 2015 \$m
<b>Revenue and income</b>			
Airline passenger revenue		2,224.0	2,232.9
Other ancillary revenue		385.6	399.2
Other income		2.2	11.4
Net foreign exchange gains		21.9	14.7
<b>Revenue and income</b>		<b>2,633.7</b>	<b>2,658.2</b>
<b>Operating expenditure</b>			
Aircraft operating lease expenses		(213.2)	(183.0)
Airport charges, navigation and station operations		(534.7)	(495.6)
Contract and other maintenance expenses		(110.6)	(89.8)
Commissions and other marketing and reservations expenses		(206.3)	(201.9)
Fuel and oil		(448.9)	(561.1)
Labour and staff related expenses		(595.2)	(597.2)
Onerous contract expenses	2(c)	(23.6)	-
Impairment losses on assets classified as held for sale	3(a)	-	(37.5)
Other expenses from ordinary activities		(280.0)	(252.2)
Depreciation and amortisation		(163.3)	(137.9)
Ineffective cash flow hedges and non-designated derivatives losses		(20.9)	(9.2)
<b>Net operating expenditure</b>		<b>(2,596.7)</b>	<b>(2,565.4)</b>
Share of net profits of equity-accounted investees		1.5	0.3
<b>Profit before net finance costs and tax</b>		<b>38.5</b>	<b>93.1</b>
Finance income		8.0	5.8
Finance costs		(93.4)	(85.7)
<b>Net finance costs</b>		<b>(85.4)</b>	<b>(79.9)</b>
<b>Profit/(loss) before tax</b>		<b>(46.9)</b>	<b>13.2</b>
Income tax benefit	2(b)	25.4	49.3
<b>Profit/(loss)</b>		<b>(21.5)</b>	<b>62.5</b>
<b>Attributable to:</b>			
Owners of the Company		(36.1)	45.7
Non-controlling interests		14.6	16.8
		(21.5)	62.5
<b>Earnings per share:</b>			
		<b>Cents</b>	<b>Cents</b>
Basic earnings/(loss) per share		(0.5)	1.3
Diluted earnings/(loss) per share		(0.5)	1.3

The consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

# Consolidated statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2016

	Half-year to 31 December 2016 \$m	Half-year to 31 December 2015 \$m
<b>Profit/(loss)</b>	<b>(21.5)</b>	<b>62.5</b>
<b>Other comprehensive income</b>		
<b>Items that may be reclassified subsequently to profit or loss</b>		
Exchange differences on translation of foreign operations (nil related tax)	(25.2)	(50.7)
Effective portion of changes in fair value of cash flow hedges	111.8	(129.7)
Net change in fair value of cash flow hedges transferred to profit or loss	16.4	43.6
Effective portion of changes in fair value of cash flow hedges (time value of options)	(14.6)	(44.8)
Net change in fair value of cash flow hedges transferred to profit or loss (time value of options)	21.0	10.9
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item	2.0	-
Income tax benefit/(expense) on other comprehensive income	(41.0)	36.0
<b>Other comprehensive income/(loss), net of tax</b>	<b>70.4</b>	<b>(134.7)</b>
<b>Total comprehensive profit/(loss)</b>	<b>48.9</b>	<b>(72.2)</b>
<b>Attributable to:</b>		
Owners of the Company	34.3	(89.0)
Non-controlling interests	14.6	16.8
	<b>48.9</b>	<b>(72.2)</b>

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.



# Consolidated statement of financial position

As at 31 December 2016

	Note	As at 31 December 2016 \$m	As at 30 June 2016 \$m
<b>Current assets</b>			
Cash and cash equivalents		1,595.8	1,123.8
Receivables		305.5	313.2
Inventories		45.8	42.3
Derivative financial instruments		106.6	26.3
Other financial assets		52.9	32.2
Current tax assets		0.3	-
Assets classified as held for sale	3(a)	77.6	171.6
Other		4.3	4.3
<b>Total current assets</b>		<b>2,188.8</b>	<b>1,713.7</b>
<b>Non-current assets</b>			
Receivables		166.1	129.0
Derivative financial instruments		47.3	23.2
Other financial assets		273.8	265.0
Investments accounted for using the equity method		4.0	4.0
Deferred tax assets		407.0	423.5
Property, plant and equipment	3(b)	3,013.6	2,872.8
Intangible assets	3(c)	584.3	590.7
Other		16.5	18.9
<b>Total non-current assets</b>		<b>4,512.6</b>	<b>4,327.1</b>
<b>Total assets</b>		<b>6,701.4</b>	<b>6,040.8</b>
<b>Current liabilities</b>			
Payables		718.9	708.9
Interest-bearing liabilities	4(a)	317.6	875.8
Derivative financial instruments		8.3	33.4
Provisions		200.3	170.9
Unearned revenue		917.2	990.4
Other		0.4	0.4
<b>Total current liabilities</b>		<b>2,162.7</b>	<b>2,779.8</b>
<b>Non-current liabilities</b>			
Payables		9.5	9.3
Interest-bearing liabilities	4(a)	2,448.0	2,124.2
Derivative financial instruments		0.9	8.0
Provisions		220.0	214.6
Other		5.9	6.1
<b>Total non-current liabilities</b>		<b>2,684.3</b>	<b>2,362.2</b>
<b>Total liabilities</b>		<b>4,847.0</b>	<b>5,142.0</b>
<b>Net assets</b>		<b>1,854.4</b>	<b>898.8</b>
<b>Equity</b>			
Share capital	4(b)	2,243.7	1,309.0
Reserves		180.2	117.2
Retained earnings		(550.6)	(514.5)
Equity attributable to the owners of the Company		1,873.3	911.7
Non-controlling interests		(18.9)	(12.9)
<b>Total equity</b>		<b>1,854.4</b>	<b>898.8</b>

The consolidated statement of financial position should be read in conjunction with the accompanying notes.

# Consolidated statement of changes in equity

For the half-year ended 31 December 2016

	Note	Share capital \$m	Foreign currency translation reserve \$m	Hedging reserve \$m	Option time value reserve \$m	Share-based payments reserve \$m	Non- controlling interests' contribution reserve <sup>(1)</sup> \$m	Retained earnings \$m	Attributable to owners of the Company \$m	Non- controlling interests \$m	Total equity \$m
<b>Balance at 1 July 2016</b>		1,309.0	(152.1)	6.2	(18.3)	16.6	264.8	(514.5)	911.7	(12.9)	898.8
Profit/(Loss)		-	-	-	-	-	-	(36.1)	(36.1)	14.6	(21.5)
<b>Other comprehensive income, net of tax</b>											
Foreign currency translation		-	(25.2)	-	-	-	-	-	(25.2)	-	(25.2)
Effective portion of changes in fair value of cash flow hedges		-	-	78.2	(10.2)	-	-	-	68.0	-	68.0
Net change in fair value of cash flow hedges transferred to profit or loss		-	-	11.5	14.7	-	-	-	26.2	-	26.2
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item		-	-	1.4	-	-	-	-	1.4	-	1.4
<b>Total other comprehensive income/(loss), net of tax</b>		-	(25.2)	91.1	4.5	-	-	-	70.4	-	70.4
<b>Total comprehensive income/(loss)</b>		-	(25.2)	91.1	4.5	-	-	(36.1)	34.3	14.6	48.9
<b>Transactions with owners, recorded directly in equity, net of tax</b>											
Issue of ordinary shares for cash	4(b)	934.3	-	-	-	-	-	-	934.3	-	934.3
Income tax reserve		-	-	-	-	-	(7.0)	-	(7.0)	7.0	-
Equity distributions		-	-	-	-	-	-	-	-	(27.6)	(27.6)
Share-based payment transactions		0.4	-	-	-	(0.4)	-	-	-	-	-
<b>Total transactions with owners, net of tax</b>		934.7	-	-	-	(0.4)	(7.0)	-	927.3	(20.6)	906.7
<b>Balance at 31 December 2016</b>		2,243.7	(177.3)	97.3	(13.8)	16.2	257.8	(550.6)	1,873.3	(18.9)	1,854.4

(1) The non-controlling interests' contribution reserve represents the excess of consideration received over and above the carrying value of net assets attributable to equity instruments when acquired by non-controlling interests and non-reciprocal capital contributions by the Company in relation to tax.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Consolidated statement of changes in equity (continued)

For the half-year ended 31 December 2016

	Share capital \$m	Foreign currency translation reserve \$m	Hedging reserve \$m	Option time value reserve \$m	Share-based payments reserve \$m	Non- controlling interests' contribution reserve <sup>(1)</sup> \$m	Retained earnings \$m	Attributable to owners of the Company \$m	Non- controlling interests \$m	Total equity \$m
<b>Balance at 1 July 2015</b>	1,152.9	(133.0)	(4.7)	(10.4)	17.9	307.5	(253.6)	1,076.6	(55.8)	1,020.8
Profit	-	-	-	-	-	-	45.7	45.7	16.8	62.5
<b>Other comprehensive income, net of tax</b>										
Foreign currency translation	-	(50.7)	-	-	-	-	-	(50.7)	-	(50.7)
Effective portion of changes in fair value of cash flow hedges	-	-	(90.8)	(31.3)	-	-	-	(122.1)	-	(122.1)
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	30.5	7.6	-	-	-	38.1	-	38.1
<b>Total other comprehensive loss, net of tax</b>	-	(50.7)	(60.3)	(23.7)	-	-	-	(134.7)	-	(134.7)
<b>Total comprehensive income/(loss)</b>	-	(50.7)	(60.3)	(23.7)	-	-	45.7	(89.0)	16.8	(72.2)
<b>Transactions with owners, recorded directly in equity, net of tax</b>										
Dilution of ownership interests <sup>(2)</sup>	-	-	-	-	-	-	-	-	(0.3)	(0.3)
Income tax reserve	-	-	-	-	-	(7.3)	-	(7.3)	7.3	-
Equity distributions	-	-	-	-	-	-	-	-	(16.0)	(16.0)
Share-based payment transactions	2.1	-	-	-	(0.4)	-	-	1.7	-	1.7
<b>Total transactions with owners, net of tax</b>	2.1	-	-	-	(0.4)	(7.3)	-	(5.6)	(9.0)	(14.6)
<b>Balance at 31 December 2015</b>	1,155.0	(183.7)	(65.0)	(34.1)	17.5	300.2	(207.9)	982.0	(48.0)	934.0

(1) The non-controlling interests' contribution reserve represents the excess of consideration received over and above the carrying value of net assets attributable to equity instruments when acquired by non-controlling interests and non-reciprocal capital contributions by the Company in relation to tax.

(2) Velocity Frequent Flyer Holdco Pty Ltd issued convertible notes during the period as partial consideration for the acquisition of Torque Solutions (Australia) Pty Ltd. This reduced the ownership interest of the Group in Velocity Frequent Flyer Holdco Pty Ltd from 65.00% to 64.81%.

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Consolidated statement of cash flows

For the half-year ended 31 December 2016

	Half-year to 31 December 2016 \$m	Half-year to 31 December 2015 \$m
<b>Cash flows from operating activities</b>		
Cash receipts from customers	2,825.9	2,848.8
Cash payments to suppliers and employees	(2,682.4)	(2,750.6)
<b>Cash generated from operating activities</b>	<b>143.5</b>	<b>98.2</b>
Cash payments for business transformation expenses	(58.3)	(23.5)
Finance income received	8.0	5.3
Finance costs paid	(70.0)	(69.8)
<b>Net cash from operating activities</b>	<b>23.2</b>	<b>10.2</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(214.5)	(527.4)
Proceeds on disposal of property, plant and equipment	94.0	305.1
Acquisition of intangible assets	(9.9)	(9.5)
Acquisition of subsidiary, net of cash acquired	-	(2.3)
Payments for other deposits	(27.7)	(30.1)
Proceeds from other deposits	0.1	1.4
Dividends from equity-accounted investees	1.5	-
<b>Net cash used in investing activities</b>	<b>(156.5)</b>	<b>(262.8)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	512.7	448.3
Repayment of borrowings	(843.8)	(306.3)
Payments of transaction costs related to borrowings	(11.3)	(6.4)
Net proceeds from share issues	931.4	-
Equity distributions paid to non-controlling interests	(27.6)	(16.0)
<b>Net cash from financing activities</b>	<b>561.4</b>	<b>119.6</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>428.1</b>	<b>(133.0)</b>
Cash and cash equivalents at 1 July	1,123.8	1,028.5
Effect of exchange rate fluctuations on cash held	43.9	11.2
<b>Cash and cash equivalents at 31 December</b>	<b>1,595.8</b>	<b>906.7</b>

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# Condensed notes to the consolidated interim financial statements

For the half-year ended 31 December 2016

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## 1. Basis of preparation

The consolidated interim financial statements were authorised for issue by the Board of Directors (Board) on 16 February 2017.

### (a) Reporting entity

Virgin Australia Holdings Limited (VAH) (the Company) is a for-profit company incorporated and domiciled in Australia. It is primarily involved in the airline industry, both domestic and international. The consolidated interim financial statements of the Company as at and for the half-year ended 31 December 2016 comprise the Company and its subsidiaries (the Group), and the Group's interests in associates.

### (b) Basis of accounting and statement of compliance

The consolidated interim financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated interim financial statements do not include all of the information required for a complete set of annual financial statements. The consolidated interim financial statements should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 June 2016 which are available upon request from the Company's registered office at 56 Edmondstone Road, Bowen Hills, Queensland, or at [www.virginaustralia.com](http://www.virginaustralia.com).

The consolidated interim financial statements are presented in Australian dollars, which is the functional currency of the Company. The consolidated interim financial statements have been prepared on the basis of historical costs, except where assets and liabilities are stated at fair value in accordance with relevant accounting policies.

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and in accordance with that instrument, amounts in the consolidated interim financial statements have been rounded to the nearest one hundred thousand dollars, unless otherwise stated.

### (c) Accounting policies and use of estimates and judgements

The accounting policies applied by the Group in the consolidated interim financial statements are consistent with those applied in the consolidated financial statements as at and for the year ended 30 June 2016.

The preparation of the consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates are reviewed on an ongoing basis and any revisions to estimates are recognised prospectively.

Key judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are consistent with those applied to the consolidated financial statements as at and for the year ended 30 June 2016.

### (d) Net current position

The Group's current assets exceed its current liabilities as at 31 December 2016 by \$26.1 million (30 June 2016: current liabilities exceeded current assets by \$1,066.1 million) including a current liability for unearned revenue of \$917.2 million (30 June 2016: \$990.4 million). Unearned revenue includes revenue received in advance which has been deferred in the statement of financial position until carriage is performed. The consolidated interim financial statements have been prepared on a going concern basis, based on the Group's cash flows for the current period and estimated profits and cash flows for future periods. The Group has a cash and cash equivalents balance at 31 December 2016 of \$1,595.8 million (30 June 2016: \$1,123.8 million) and has an unrestricted cash balance at 31 December 2016 of \$1,232.4 million (30 June 2016: \$728.9 million).

# Condensed notes to the consolidated interim financial statements (continued)

For the half-year ended 31 December 2016

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## 2. Results

As is normal in the airline industry, performance and capacity are seasonal throughout a 12 month period. Therefore, the first half-year period may not be representative of the second half-year period for any year.

### (a) Operating segments

Management and the Board use the segment results to assess the financial performance of the individual segments within the Group.

The following summary describes the operations in each of the Group's reportable segments which are determined based on the key business activities of the Group:

- Virgin Australia Domestic: operations using a mix of Boeing B737 aircraft, Airbus A320 and A330 aircraft, ATR aircraft, Embraer E190 aircraft, and Fokker F100 aircraft. This comprises Australian domestic flying, including regional network and cargo operations.
- Virgin Australia International: operations using a mix of Airbus A330, Boeing B777 and B737 aircraft. This comprises Trans-Pacific, Abu Dhabi, Trans-Tasman, Pacific Island and South East Asia flying, including international cargo operations.
- Velocity: operations of the Group's loyalty program.
- Tigerair Australia: operations using a narrow body fleet of Airbus A320 and Boeing B737 aircraft. This comprises Australian domestic flying targeting the budget leisure market, international flying to Denpasar and cargo operations.

Information regarding the results of each operating segment is detailed in the tables which follow. Performance is measured based on Segment EBIT (earnings before impairment losses on assets classified as held for sale; impairment losses on other assets; onerous contract expenses; business and capital restructure and transaction costs; share of net profits of equity-accounted investees; time value movement on cash flow hedges; unrealised ineffectiveness on cash flow hedges and non-designated derivatives; net finance costs and income tax benefit) as included in the internal management reports that are reviewed by the chief operating decision maker, being the Board.

Segment EBITDAR is defined as Segment EBIT excluding costs associated with aircraft rentals and depreciation and amortisation.

Inter-segment pricing is determined on an arm's length basis or a cost plus margin basis, depending on the nature of the revenue or expense and the financial impact on the segment of recognising the revenue or expense.

# Condensed notes to the consolidated interim financial statements (continued)

For the half-year ended 31 December 2016

## 2. Results (continued)

### (a) Operating segments (continued)

Half-year to 31 December 2016	Virgin Australia Domestic \$m	Virgin Australia International \$m	Velocity \$m	Tigerair Australia \$m	Corporate and Eliminations \$m	Consolidated \$m
<b>Revenue and income</b>						
External revenue and income	1,657.2	506.0	176.4	294.1	-	2,633.7
Inter-segment revenue	124.8	-	-	-	(124.8)	-
<b>Segment revenue and income</b>	<b>1,782.0</b>	<b>506.0</b>	<b>176.4</b>	<b>294.1</b>	<b>(124.8)</b>	<b>2,633.7</b>
<b>Segment EBITDAR</b>	<b>292.6</b>	<b>117.3</b>	<b>68.0</b>	<b>51.6</b>	<b>(25.3)</b>	<b>504.2</b>
Aircraft rentals	(77.0)	(96.8)	-	(39.4)	-	(213.2)
<b>Segment EBITDA</b>	<b>215.6</b>	<b>20.5</b>	<b>68.0</b>	<b>12.2</b>	<b>(25.3)</b>	<b>291.0</b>
Depreciation and amortisation	(135.6)	(19.7)	(2.0)	(6.0)	-	(163.3)
<b>Segment EBIT</b>	<b>80.0</b>	<b>0.8</b>	<b>66.0</b>	<b>6.2</b>	<b>(25.3)</b>	<b>127.7</b>
Onerous contract expenses						(23.6)
Business and capital restructure and transaction costs						(46.2)
Share of net profits of equity-accounted investees						1.5
Time value movement on cash flow hedges <sup>(1)(2)</sup>						(21.0)
Unrealised ineffectiveness on cash flow hedges and non-designated derivatives <sup>(1)</sup>						0.1
						<b>38.5</b>
Net finance costs						(85.4)
<b>Loss before tax</b>						<b>(46.9)</b>
Income tax benefit						25.4
<b>Loss</b>						<b>(21.5)</b>

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

(2) Time value represents the risk premium payable on a purchased option over and above its current exercise value (intrinsic value) based on the probability it will increase in value before expiry.

# Condensed notes to the consolidated interim financial statements (continued)

For the half-year ended 31 December 2016

## 2. Results (continued)

### (a) Operating segments (continued)

Half-year to 31 December 2015	Virgin Australia Domestic \$m	Virgin Australia International \$m	Velocity \$m	Tigerair Australia \$m	Corporate and Eliminations \$m	Consolidated \$m
<b>Revenue and income</b>						
External revenue and income	1,695.1	567.0	154.8	243.8	(2.5)	2,658.2
Inter-segment revenue	123.7	-	-	-	(123.7)	-
<b>Segment revenue and income</b>	1,818.8	567.0	154.8	243.8	(126.2)	2,658.2
<b>Segment EBITDAR</b>	310.3	85.8	71.6	37.1	(22.5)	482.3
Aircraft rentals	(58.6)	(103.0)	-	(21.4)	-	(183.0)
<b>Segment EBITDA</b>	251.7	(17.2)	71.6	15.7	(22.5)	299.3
Depreciation and amortisation	(121.7)	(13.6)	(0.8)	(1.8)	-	(137.9)
<b>Segment EBIT</b>	130.0	(30.8)	70.8	13.9	(22.5)	161.4
Impairment losses on assets classified as held for sale						(37.5)
Impairment losses on other assets						(1.2)
Business and capital restructure and transaction costs						(20.7)
Share of net profits of equity-accounted investees						0.3
Time value movement on cash flow hedges <sup>(1)(2)</sup>						(11.0)
Unrealised ineffectiveness on cash flow hedges and non-designated derivatives <sup>(1)</sup>						1.8
						93.1
Net finance costs						(79.9)
<b>Profit before tax</b>						13.2
Income tax benefit						49.3
<b>Profit</b>						62.5

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

(2) Time value represents the risk premium payable on a purchased option over and above its current exercise value (intrinsic value) based on the probability it will increase in value before expiry.



# Condensed notes to the consolidated interim financial statements (continued)

For the half-year ended 31 December 2016

## 2. Results (continued)

### (b) Taxation

A reconciliation of the income tax benefit follows:

	Half-year to 31 December 2016 \$m	Half-year to 31 December 2015 \$m
Profit/(loss) before tax	(46.9)	13.2
Tax (expense)/benefit at the Australian tax rate of 30% (2015: 30%)	14.1	(4.0)
<b>Tax effect of amounts which are not included in taxable income:</b>		
Amended tax assessments <sup>(1)</sup>	-	38.5
Foreign currency movements on debt and securitised assets	8.6	12.7
Other non-deductible or non-assessable amounts	2.7	2.1
Income tax benefit	25.4	49.3

(1) The Australian Taxation Office (ATO) issued a private ruling that altered when participation fees received for the Group's loyalty program are recognised for tax purposes. The amended assessments have resulted in an income tax benefit relating to taxable income attributable to periods preceding the statutory limit on tax return amendments.

### (c) Onerous contract expenses

Onerous contract expenses include maintenance expenses in relation to aircraft held under onerous operating leases as well as the re-measurement of the onerous contract provision.

# Condensed notes to the consolidated interim financial statements (continued)

For the half-year ended 31 December 2016

## 3. Tangible and intangible assets

### (a) Assets classified as held for sale

During the comparative period to 31 December 2015, five Embraer E190 and eight Fokker F50 aircraft were transferred to assets classified as held for sale and an impairment loss of \$37.5 million was recognised to write the assets down to fair value less costs to sell.

During the period to 31 December 2016, four Embraer E190 aircraft and seven Fokker F50 aircraft were sold.

	31 December 2016	31 December 2015
	\$m	\$m
Opening balance at 1 July 2016 (comparative: 1 July 2015)	171.6	95.4
Assets transferred from property, plant and equipment (prior to impairment)	-	137.1
Impairment losses on assets classified as held for sale	-	(37.5)
Assets sold	(94.0)	-
Closing balance at 31 December 2016 (comparative: 31 December 2015)	77.6	195.0

### (b) Property, plant and equipment

A reconciliation of the carrying value of property, plant and equipment follows.

	31 December 2016	31 December 2015
	\$m	\$m
Opening balance at 1 July 2016 (comparative: 1 July 2015)	2,872.8	3,081.9
Business combination acquisitions	-	0.1
Other additions	252.3	444.2
Disposals	-	(306.3)
Depreciation	(145.4)	(128.4)
Net transfers to assets classified as held for sale	-	(137.1)
Foreign exchange movements	33.9	74.0
Closing balance at 31 December 2016 (comparative: 31 December 2015)	3,013.6	3,028.4

### (c) Intangible assets

A reconciliation of the carrying value of intangible assets follows.

	31 December 2016	31 December 2015
	\$m	\$m
Opening balance at 1 July 2016 (comparative: 1 July 2015)	590.7	564.3
Business combination acquisitions	-	(3.6)
Other additions	11.5	22.8
Amortisation	(17.9)	(9.5)
Closing balance at 31 December 2016 (comparative: 31 December 2015)	584.3	574.0

# Condensed notes to the consolidated interim financial statements (continued)

For the half-year ended 31 December 2016

## 4. Capital structure

### (a) Interest-bearing liabilities

	31 December 2016 \$m	30 June 2016 \$m
<b>Current</b>		
Aeronautic finance facilities – secured <sup>(1)</sup>	311.7	357.2
Loans from shareholders - unsecured	-	423.7
Bank loans – secured <sup>(1)</sup>	-	58.7
Bank loans – unsecured <sup>(1)</sup>	-	34.0
Finance lease liabilities	5.9	2.2
	<b>317.6</b>	<b>875.8</b>
<b>Non-current</b>		
Aeronautic finance facilities – secured <sup>(1)</sup>	1,168.9	1,351.9
Bank loans – secured <sup>(1)</sup>	217.1	218.3
Bonds – unsecured <sup>(1)</sup>	1,023.3	529.0
Finance lease liabilities	38.7	25.0
	<b>2,448.0</b>	<b>2,124.2</b>

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

The nature of interest-bearing liabilities is consistent with those disclosed at 30 June 2016 apart from the changes outlined below:

#### Bonds - unsecured

During the half-year ended 31 December 2016, the Group issued US\$350.0 million in bonds to investors in the US Bond Market. The bonds have a five year term, maturing on 15 October 2021. The interest rate is fixed at 7.875 per cent per annum with interest payments due semi-annually. The bond issue has provided the Group with additional liquidity coverage.

#### Loans from shareholders - unsecured

During the half-year ended 31 December 2016, the Group repaid the shareholder loan facility using a portion of the proceeds from the \$852.1 million entitlement offer.

### (b) Share capital

On 4 August 2016, 4,057.6 million shares were issued at \$0.21 per share under an entitlement offer, resulting in an increase in share capital before transaction costs of \$852.1 million. On 20 September 2016, 343.0 million shares were issued at \$0.26 per share to HNA Innovation Ventures (Hong Kong) Co. Limited, resulting in an increase in share capital, before transaction costs of \$89.2 million.

	31 December 2016		31 December 2015	
	Number m	Value \$m	Number m	Value \$m
Balance at 1 July 2016 (comparative: 1 July 2015)	4,051.7	1,309.0	3,517.7	1,152.9
Issue of shares for cash, net of transaction costs	4,400.6	934.3	-	-
Issue of shares by Key Employee Performance Plan (KEPP)	0.5	0.1	1.8	0.8
Issue of shares for executive remuneration	1.3	0.3	3.0	1.3
Balance at 31 December 2016 (comparative: 31 December 2015)	<b>8,454.1</b>	<b>2,243.7</b>	3,522.5	1,155.0

### (c) Dividends and equity distributions

No dividends were declared or paid during the half-year ended 31 December 2016 or during the prior corresponding period.

Equity distributions of \$27.6 million (31 December 2015: \$16.0 million) were paid to non-controlling interests during the half-year ended 31 December 2016.

# Condensed notes to the consolidated interim financial statements (continued)

For the half-year ended 31 December 2016

## 4. Capital structure (continued)

### (d) Fair value measurements

Financial assets and liabilities are measured at either fair value or amortised cost. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the following fair value hierarchy:

- Level 1 - Quoted prices in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices that are directly or indirectly observable
- Level 3 - Inputs are not observable based on market data

There have been no changes in the nature of financial assets and liabilities or changes to the way the Group measures fair value since 30 June 2016. Refer to the 30 June 2016 consolidated financial statements for further information. Except as detailed in the following table, the carrying amounts of financial assets and liabilities recognised in the consolidated interim financial statements approximate their fair values.

	31 December 2016		30 June 2016	
	Carrying value \$m	Fair value \$m	Carrying value \$m	Fair value \$m
<b>Financial assets carried at fair value</b>				
Derivative financial instruments	153.9	153.9	49.5	49.5
<b>Financial liabilities carried at fair value</b>				
Derivative financial instruments	9.2	9.2	41.4	41.4
<b>Financial liabilities carried at amortised cost</b>				
Aeronautic finance facilities - secured	1,480.6	1,524.3	1,709.1	1,793.4
Loans from shareholders - unsecured	-	-	423.7	425.0
Bank loans - secured	217.1	225.0	216.0	225.0
Bonds - unsecured	1,023.3	1,060.0	529.0	556.1
Finance lease liabilities	44.6	44.6	27.2	27.2

The financial instruments disclosed in the table above are all measured based on level 2 valuation methods with the exception of certain loans in relation to aeronautic finance facilities which are measured based on level 1 valuation methods. The fair value of these loans is \$581.8 million (30 June 2016: \$677.5 million).

## 5. Other items

### (a) Commitments

The Group has capital expenditure commitments to purchase property, plant and equipment and intangibles contracted at the reporting date but not recognised as liabilities. These commitments are predominantly in US dollars. US dollar amounts are translated to Australian dollars at the 31 December 2016 closing exchange rate of 0.7229 (30 June 2016: 0.7446). The Group's capital expenditure commitments as at 31 December 2016 are \$4,086.1 million (30 June 2016: \$3,973.8 million).

### (b) Contingent liabilities

The Group has provided bank guarantees and standby letters of credit to third parties as guarantees of payment for fuel, aircraft lease security deposits and maintenance reserve deposits, non-aircraft operating lease commitments and other arrangements entered into with third parties.

As at 31 December 2016, there were \$126.3 million (30 June 2016: \$124.7 million) of bank guarantees and letters of credit outstanding.

# Condensed notes to the consolidated interim financial statements (continued)

For the half-year ended 31 December 2016

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## 5. Other items (continued)

### (c) Related parties

On 16 November 2016, the Group appointed two Non-Executive Directors to the Board from two of its major airline shareholders, HNA Innovation Ventures (Hong Kong) Co Limited and Nanshan Capital Holdings Limited. As a result of these appointments, these shareholders became related parties of the Group.

There have been no other significant changes to related party arrangements since 30 June 2016. Refer to the 30 June 2016 consolidated financial statements for further information.

### (d) Events subsequent to reporting date

There have been no significant events after the end of the reporting period.

# Directors' declaration

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In the opinion of the directors of Virgin Australia Holdings Limited (the Company):

- (a) the consolidated interim financial statements and notes that are set out on pages 7 to 21 are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
  - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Elizabeth Bryan  
Director



John Borghetti  
Director

Dated at Sydney, 16 February 2017



## Independent auditor's review report to the members of Virgin Australia Holdings Limited

We have reviewed the accompanying interim financial report of Virgin Australia Holdings Limited, which comprises the consolidated statement of financial position as at 31 December 2016, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the interim period ended on that date, notes 1 to 5 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year end or from time to time during the interim period.

### Responsibility of the Directors for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's responsibility for the review of the interim financial report

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Virgin Australia Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

### Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Virgin Australia Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

John Wigglesworth  
Partner  
Sydney  
16 February 2017