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Virgin Australia Holdings Limited (ASX: VAH) Reports Financial Results for First Half Ended 31 December 2016

Virgin Australia Group H1 FY17 Financial Summary[1]

- Group Underlying Profit Before Tax of $42.3 million
- Group Statutory Loss After Tax of $21.5 million – includes impact of restructuring charges from the implementation of Better Business initiatives, with the majority of charges related to fleet simplification
- Group revenue of $2,633.7 million – impacted by ongoing subdued trading conditions in the domestic market
- $936.3 million reduction in Net Debt – an improvement of 44.5 per cent on the prior corresponding period
- Financial Leverage improved to 4.5x as at 31 December 2016, an improvement of 21.1 per cent on 31 December 2015
- Closing total cash balance of $1,595.8 million as at 31 December 2016, up $689.1 million on 31 December 2015 – the highest ever reported total cash balance

Virgin Australia Group H1 FY17 Highlights

- Disciplined domestic capacity management in response to subdued domestic trading conditions – Virgin Australia Domestic[2] sectors flown decreased 4.7 per cent compared to H1 FY16
- Virgin Australia led its major competitor in domestic On Time Performance[3] for H1 FY17 and for 26 of the 30 months to December 2016
- Significant improvement in Virgin Australia International[4] from an Underlying EBIT loss of $30.8 million to an Underlying EBIT profit of $0.8 million, driven by international improvement strategy
- Tigerair Australia[5] profitable at the Underlying EBIT level and led its major competitor in domestic On Time Performance[6] for H1 FY17 and 24 of the 30 months to December 2016
- Velocity achieved target of 7 million members in January 2017 almost six months ahead of schedule
- Implementation of Better Business program is currently ahead of schedule with program on track to deliver net free cash flow savings increasing to $300 million per annum (annualised run rate) by the end of FY19
- Fleet restructuring well advanced:
  - Letter of Intent signed to sell six remaining owned Embraer 190 aircraft
  - All Embraer 190 flying to cease by the end of the 2017 calendar year
  - Delivery of first Boeing 737MAX aircraft deferred until the final quarter of 2019 calendar year and capital expenditure of over $350 million associated with the Group's Boeing 737MAX program to be deferred to beyond FY19

17 February 2017: Virgin Australia Holdings Limited (**Virgin Australia Group** or **Group**) (ASX: VAH) today reported an Underlying Profit Before Tax of $42.3 million for the first half of the 2017 financial year, a decline of $39.2 million on the first half of the 2016 financial year. The Group reported a Statutory Loss After Tax of $21.5 million, which includes the impact of restructuring charges from the implementation of Better Business initiatives, with the majority of charges related to fleet simplification.

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[1] For disclaimers and definitions of non-statutory financial terms, refer to page 7. This document should be read in conjunction with the Group's Interim Financial Report for the half year ended 31 December 2016 and the document entitled 'FY17 Half Year Results Presentation' released to the Australian Securities Exchange on 17 February 2017.

[2] **Virgin Australia Domestic** refers to operations for all domestic flights operated by the Virgin Australia Group and domestic cargo operations, excluding flights operated by Tigerair Australia.

[3] Reflects data from Bureau of Infrastructure, Transport and Regional Economics (BITRE) for the monthly On Time Performance of all VA and QF designated services flown in Australia from July 2014 to December 2016 inclusive. 'On Time Performance' refers to the percentage of flights that depart within 15 minutes of scheduled departure times.

[4] **Virgin Australia International** refers to operations for all international flights operated by the Virgin Australia Group and international cargo operations, excluding flights operated by Tigerair Australia.

[5] **Tigerair Australia** refers to operations for all domestic and international flights operated by Tigerair Australia.

[6] Reflects BITRE data on the monthly On Time Performance all Tigerair Australia and Jetstar services flown in Australia from July 2014 to December 2016 inclusive.

Virgin Australia Group Chief Executive Officer John Borghetti said: “Notwithstanding continued subdued trading conditions in the domestic market, the Group has strengthened its liquidity and cash position and is ahead of schedule in the implementation of the Better Business program. Significant progress has been made in fleet simplification, with a Letter of Intent signed to sell the Group’s six remaining owned Embraer 190 aircraft and the delivery of the first Boeing 737MAX deferred until the last quarter of the 2019 calendar year.

“Net Debt was reduced by $936.3 million or 44.5 per cent compared to the end of the prior corresponding period, while Financial Leverage improved by 21.1 per cent to 4.5x as at 31 December 2016. The Group also reported its highest ever reported total cash balance of $1,595.8 million.

“This work is enabling the Group to increase resilience against external trading conditions, which continued to be challenging during the first half of the 2017 financial year.

“Virgin Australia International is realising the benefits of the international improvement strategy that was implemented in the 2016 financial year, with a $31.6 million improvement in Underlying EBIT from a loss of $30.8 million to an Underlying EBIT profit of $0.8 million.

“Tigerair Australia continues to be profitable at the Underlying EBIT level and has now led its major competitor in domestic On Time Performance for 24 of the past 30 months.

“Velocity grew revenue and membership, reaching seven million members in January 2017 almost six months ahead of target.

“Going forward, the Group will stay focused on strengthening our financial foundation by further optimising the balance sheet and building a lower cost base. We will work to attract more passengers and increase revenue by introducing innovative enhancements to our customer experience and capturing sustainable growth opportunities. We will also broaden our international network by launching flights from Australia to Hong Kong[7] and commencing flights between Melbourne and Los Angeles as previously announced.

“I want to thank our people for delivering a consistent, innovative and excellent experience to our customers and for working to build a stronger business.

“Due to uncertainty in external market conditions, we are unable to provide further guidance at this time,” Mr Borghetti said.

[7] Subject to regulatory approval.

Group Financial Performance

Revenue and earnings

Group revenue was $2,633.7 million, a decline of 0.9 per cent on the first half of the 2016 financial year, while Group Underlying EBIT was $127.7 million, a decline of 20.9 per cent. These results were largely driven by subdued trading conditions in the domestic market.

Group Cost per Available Seat Kilometre increased by 1.4 per cent on the prior corresponding period, in line with inflation. The Group remains focused on maintaining discipline on costs. Future unit cost performance will be enhanced with the delivery of the savings being targeted through the Better Business program.

Cash and debt position

The Group is realising positive results from the program of balance sheet optimisation initiatives that commenced in the 2016 financial year as an outcome of our capital structure review.

The Group reported its highest ever total cash balance of $1,595.8 million as at 31 December 2016, up $689.1 million on the total cash balance as at 31 December 2015. The Group's unrestricted cash balance was $1,232.4 million, up from $543.7 million on the prior corresponding period. Cash generated from operating activities was $143.5 million, an improvement of $45.3 million and 46.1 per cent on the prior corresponding period.

The Group has also made significant progress in reducing debt and improving leverage. The Group's Financial Leverage improved by 21.1 per cent from 5.7x as at 31 December 2015 to 4.5x as at 31 December 2016. The Group reported a $936.3 million reduction in Net Debt from 31 December 2015 to $1,169.8 million as at 31 December 2016, which is an improvement of 44.5 per cent. These results have been achieved despite the negative impact of foreign exchange movements on US dollar-denominated debt.

The Group's debt maturity profile has been significantly extended as a result of the five year US$350 million 144A bond issued in October 2016 and the repayment of approximately $840 million in shorter term debt during the half.

Fuel and foreign currency

For the remainder of the 2017 financial year Virgin Australia Group has hedged 100 per cent of its operational foreign currency exposures, and 95 per cent of its expected fuel consumption. As at 13 February 2017, Virgin Australia Group retained 55 per cent and 25 per cent respective participation from any favourable price movements in fuel and foreign currency for the remainder of the 2017 financial year.

During 2016, the Group accelerated its 2017 financial year fuel hedging program in light of favourable market conditions.

Update on Better Business program

The Group's progress on the Better Business program is ahead of schedule and the program is on track to deliver net free cash flow savings increasing to $300 million per annum (annualised run rate) by the end of the 2019 financial year.

The Group simplified its fleet with the further removal of Embraer 190 flying during the half, and plans to cease all Embraer 190 operations by the end of the 2017 calendar year. The Group also announced today that a Letter of Intent has been signed to sell the six remaining owned Embraer 190 aircraft.

Changes in major operational areas including catering, maintenance and fuel consumption were also initiated during the half. These changes will deliver efficiencies and drive future savings that are being targeted through the Better Business program.

Deferral of Boeing 737MAX delivery
The Group will defer the delivery of the first Boeing 737MAX aircraft until the final quarter of the 2019 calendar year. Over $350 million of capital expenditure associated with the Group's Boeing 737MAX program will be deferred to beyond the 2019 financial year.

Existing leases on some Boeing 737NG aircraft may be extended in order to support the Group's capacity requirements.

Segment Performance

Virgin Australia Domestic
Virgin Australia Domestic's performance was impacted by subdued trading conditions that affected demand in parts of the domestic aviation market. As a result, Yield declined 5.6 per cent and RASK declined 3.5 per cent on the first half of the 2016 financial year. Underlying EBIT for the half was $80.0 million.

Virgin Australia International
Virgin Australia International is realising benefits from the international improvement plan that was implemented in the 2016 financial year. The improvement plan included the removal of Phuket and some Denpasar (Bali) flying from the Virgin Australia International business, and the embodiment of the Group's Boeing 777 aircraft with new business class suites and premium economy seats.

This plan has driven an improvement in Virgin Australia International's Underlying EBIT performance, with the business reporting an improvement of $31.6 million from a loss of $30.8 million to an Underlying EBIT profit of $0.8 million for the first half of the 2017 financial year. Taking the Bali disruption from the prior corresponding period into account, Underlying EBIT improved by $12.4 million.

Virgin Australia International's RASK decreased by 0.2 per cent and Yield declined by 0.7 per cent on the prior corresponding period.

Going forward, the Group will continue to execute its strategy to sustainably grow revenue and Yield in its international business. The Group is well-positioned to attract more high-yielding premium travellers on North American and Asian routes with its award-winning business class product, which is now embodied on all medium and long-haul aircraft. In order to accelerate its access to the fast-growing Chinese travel market, later this year the Group will launch flights from Australia to Hong Kong and progress a commercial alliance with HNA Aviation, Hong Kong Airlines and HK Express.[7] The Group is also focused on capturing a greater share of the trans-Pacific travel market with the launch of Melbourne – Los Angeles return services five times a week from April 2017.

Tigerair Australia
Tigerair Australia reported an Underlying EBIT of $6.2 million, representing a decline of $7.7 million on the first half of the 2016 financial year. Tigerair Australia's RASK declined 5.4 per cent and Yield 8.4 per cent on the prior corresponding period. The prior corresponding period was not impacted by the launch of Tigerair Australia Bali operations, which began in March 2016.

While Tigerair Australia decided in February 2017 to withdraw from flying between Australia and Bali due to regulatory issues, it remains focused on identifying other growth opportunities in the short haul international market as well as the domestic market. The cost of the withdrawal of Tigerair Australia's Bali operations does not have an impact on the Group's Interim Financial Report for the half year ended 31 December 2016 and is not currently expected to have a material impact on the Group's underlying earnings.

Having significantly enhanced its domestic customer experience over the past year, Tigerair Australia is continuing to attract customers. Over the half, Tigerair Australia's Revenue Passenger Kilometres grew by

31.7 per cent, outpacing Available Seat Kilometre growth of 27.5 per cent compared to the prior corresponding period.

Velocity

Velocity delivered revenue of $176.4 million, an improvement of 14.0 per cent on the first half of the 2016 financial year. Underlying EBIT was $66.0 million for the first half of the 2017 financial year. Velocity continued to invest in growth opportunities during the half including the partnership with FlyBuys and the Velocity LIVE platform announced during the half.

Velocity reached seven million members in January 2017, almost six months ahead of the 2017 financial year target. This achievement represents a 78 per cent increase in Velocity's membership base over approximately three years, and was supported by an average membership growth rate of approximately 3,300 people per day during the half.

ENDS

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

		Operating Statistics		
		H1 FY17	H1 FY16	*Change*
VIRGIN AUSTRALIA GROUP	Revenue Passengers	12,541,985	12,060,938	*4.0%*
	Revenue Passenger Kilometres (millions)	19,735	19,283	*2.3%*
	Available Seat Kilometres (millions)	24,277	24,172	*0.4%*
	Revenue Load Factor	81.3%	79.8%	*1.5 pts*

		Operating Statistics		
		H1 FY17	H1 FY16	*Change*
VIRGIN AUSTRALIA DOMESTIC	Revenue Passengers	8,912,452	8,652,899	*3.0%*
	Revenue Passenger Kilometres (millions)	10,690	10,349	*3.3%*
	Available Seat Kilometres (millions)	13,730	13,580	*1.1%*
	Revenue Load Factor	77.9%	76.2%	*1.7 pts*

		Operating Statistics		
		H1 FY17	H1 FY16	*Change*
VIRGIN AUSTRALIA INTERNATIONAL	Revenue Passengers	1,298,201	1,409,334	*(7.9%)*
	Revenue Passenger Kilometres (millions)	5,841	6,502	*(10.2%)*
	Available Seat Kilometres (millions)	6,942	7,767	*(10.6%)*
	Revenue Load Factor	84.1%	83.7%	*0.4 pts*

		Operating Statistics		
		H1 FY17	H1 FY16	*Change*
TIGERAIR AUSTRALIA DOMESTIC & INTERNATIONAL	Revenue Passengers	2,331,332	1,998,705	*16.6%*
	Revenue Passenger Kilometres (millions)	3,204	2,432	*31.7%*
	Available Seat Kilometres (millions)	3,604	2,827	*27.5%*
	Revenue Load Factor	88.9%	86.1%	*2.8 pts*

Notes:
(1) 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 is a non-statutory measure derived from 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 is a non-statutory measure derived from 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 is a non-statutory measure derived from RPKs as a percentage of ASKs.

Disclaimer

The non-IFRS information defined below has not been audited or reviewed by KPMG.

This document has not been audited or reviewed by KPMG; however, IFRS data has been derived from the Virgin Australia Holdings Limited Interim Financial Report for the half year ended 31 December 2016 that has been reviewed by KPMG.

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 Performance: is a non-statutory measure that refers to earnings or returns calculated based on Underlying Profit / (Loss) Before Tax (as defined above).

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 outlined in Note 2 of the VAH Interim Financial Report for the half year ended 31 December 2016: time value movement on cash flow hedges (loss of $21.0m), unrealised ineffectiveness on cash flow hedges and non-designated derivatives (gain of $0.1m). For the half year ended 31 December 2015, this item includes: time value movement on cash flow hedges (loss of $11.0m) and unrealised ineffectiveness on cash flow hedges and non-designated derivatives (gain of $1.8m).

Underlying Earnings Before Interest, Tax, Depreciation, Amortisation and Aircraft Rentals (EBITDAR): is a non-statutory measure per Note 2 of the VAH Interim Financial Report for the half year ended 31 December 2016. It is used by Management and VAH's Board as a measure to assess the financial performance of VAH and its individual segments. It is defined as Underlying Profit / (Loss) Before Tax (as defined above) excluding the impact of depreciation, amortisation, aircraft rentals and net finance costs.

Underlying Earnings Before Interest & Tax or **Underlying EBIT:** is a non-statutory measure per Note 2 of the VAH Interim Financial Report for the half year ended 31 December 2016. It is used by Management and VAH's Board as a measure to assess the financial performance of VAH and its individual segments. It is defined as Underlying Profit / (Loss) Before Tax (as defined above) excluding the impact of net finance costs.

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

RASK: is a non-statutory measure derived from segment revenue normalised for Cargo operations on a consistent basis divided by Available Seat Kilometres (defined below) of the Regular Passenger Transport business.

Group Cost per Available Seat Kilometre or **Group CASK:** is a non-statutory measure derived from consolidated segment revenue less consolidated segment Underlying EBIT (as defined above) excluding fuel, hedging gains / (losses) on fuel, Velocity Frequent Flyer (VFF) segment costs, foreign exchange gains / (losses) on non-fuel costs and normalising for Cargo operations on a consistent basis divided by Available

Seat Kilometres (defined below) of the Regular Passenger Transport business. Group CASK is reported on a sector length adjusted basis.

Yield: is a non-statutory measure derived from segment revenue normalised for Cargo operations on a consistent basis divided by Revenue Passenger Kilometres of the Regular Passenger Transport business.

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).

Adjusted Net Debt: is a non-statutory measure derived from Net Debt (as defined below) adding 7 times annual aircraft rentals.

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

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', 'foresee', 'plan', 'expect', 'aim', 'potential', 'goal', 'target', 'intend', 'anticipate', 'believe', '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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ASIC guidance

In December 2011 ASIC issued Regulatory Guide 230. In order to comply with this Guide, Virgin Australia Holdings Limited is required to make a clear statement about whether information disclosed in documents other than the Virgin Australia Holdings Limited Interim Financial Report for the half year ended 31 December 2016 has been audited or reviewed in accordance with Australian Auditing Standards.

The above non-IFRS information has not been audited or reviewed by KPMG. This document has not been audited or reviewed by KPMG; however, IFRS data has been derived from the Virgin Australia Holdings Limited Interim Financial Report for the half year ended 31 December 2016 that has been reviewed by KPMG.