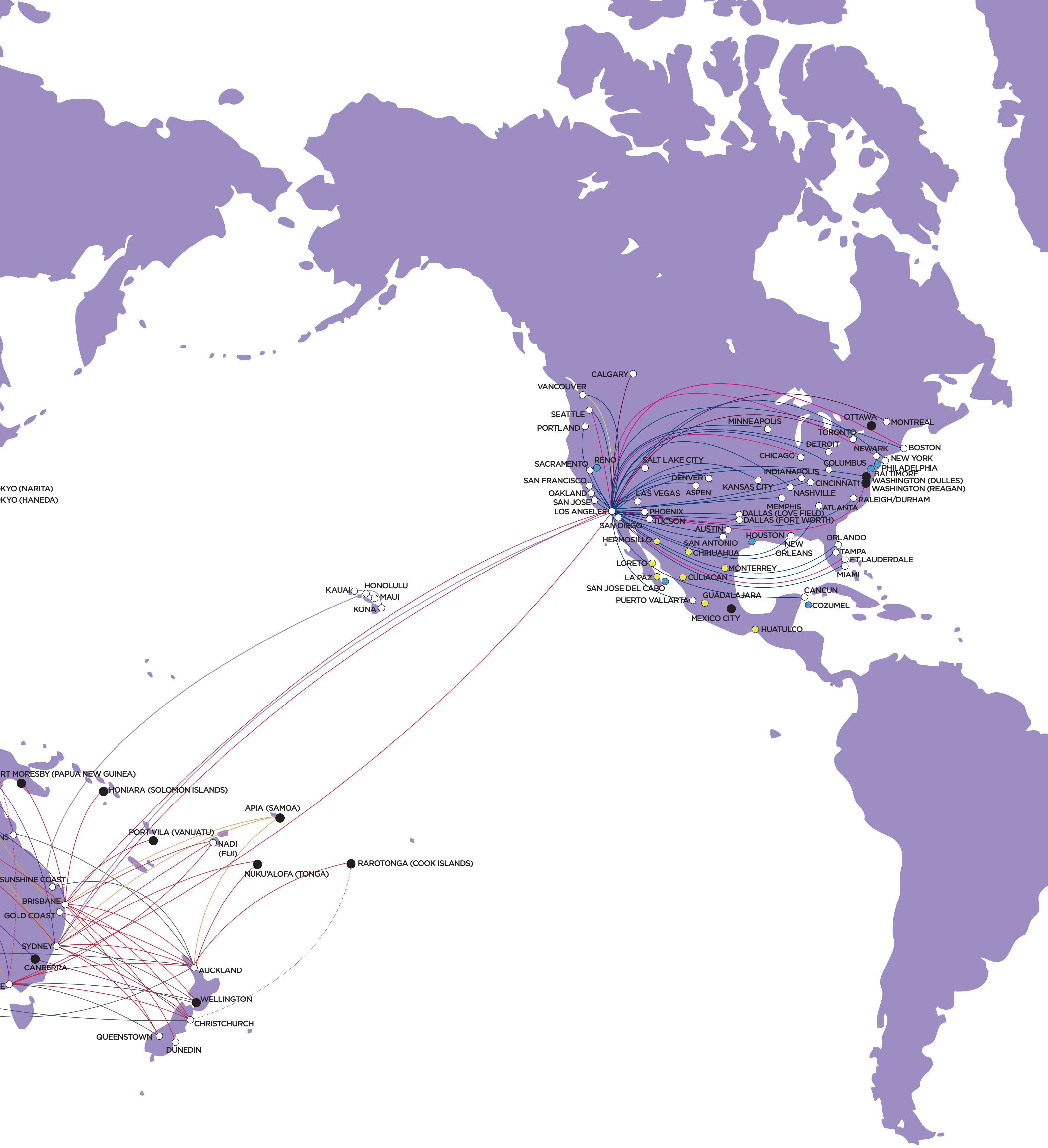
Annual Report 2017

NETWORK KEY

Virgin Australia	Virgin Samoa	Air New Zealand	Delta Air Lines	Etihad Airways	Hong Kong Airlines	Singapore Airlines
Aeromexico	Air Berlin	Air Canada	Air Serbia	Alitalia	Hawaiian Airlines	South African Airways	Virgin America

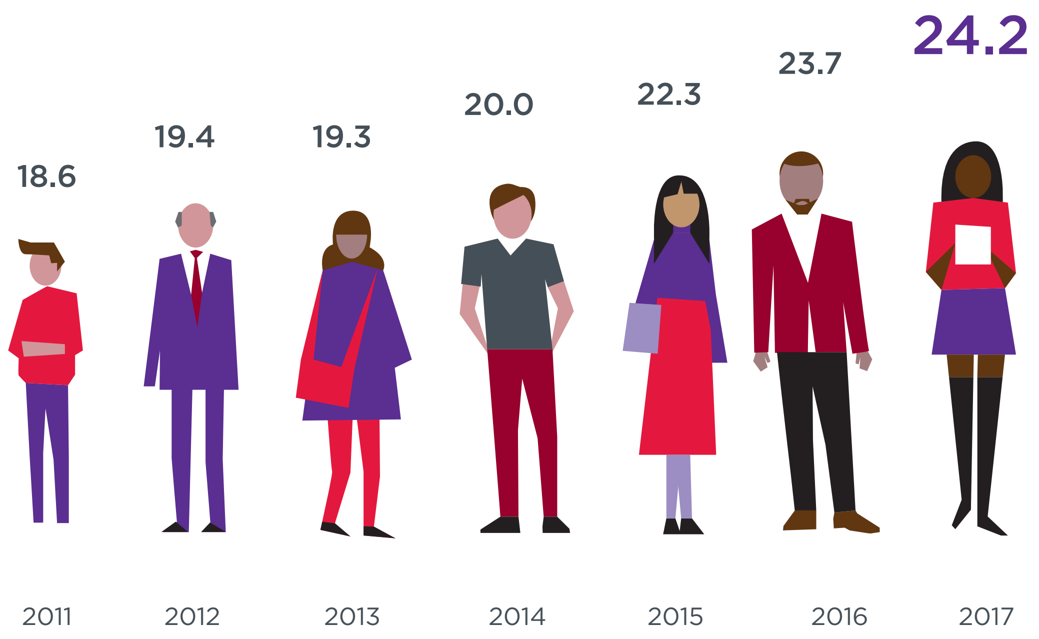
Virgin Australia seasonal route June – October


CALGARY
VANCOUVER
SEATTLE
PORTLAND
SACRAMENTO
RENO
SAN FRANCISCO
OAKLAND
SAN JOSE
LOS ANGELES
SAN DIEGO
HERMOSILLO
LORETO
LA PAZ
SAN JOSE DEL CABO
PUERTO VALLARTA
SALT LAKE CITY
LAS VEGAS
DENVER
ASPEN
PHOENIX
TUCSON
MINNEAPOLIS
CHICAGO
INDIANAPOLIS
KANSAS CITY
DETROIT
TORONTO
OTTAWA
MONTREAL
BOSTON
NEWARK
NEW YORK
PHILADELPHIA
BALTIMORE
WASHINGTON (DULLES)
WASHINGTON (REAGAN)
COLUMBUS
CINCINNATI
NASHVILLE
RALEIGH/DURHAM
MEMPHIS
ATLANTA
DALLAS (LOVE FIELD)
DALLAS (FORT WORTH)
AUSTIN
SAN ANTONIO
HOUSTON
NEW ORLEANS
ORLANDO
TAMPA
FT LAUDERDALE
MIAMI
CHIHUAHUA
MONTERREY
CULIACAN
GUADALAJARA
MEXICO CITY
HUATULCO
CANCUN
COZUMEL
KAUAI
HONOLULU
MAUI
KONA
HONIARA (SOLOMON ISLANDS)
APIA (SAMOA)
PORT VILA (VANUATU)
NADI (FIJI)
NUKU'ALOFA (TONGA)
RAROTONGA (COOK ISLANDS)
SUNSHINE COAST
BRISBANE
GOLD COAST
SYDNEY
CANBERRA
AUCKLAND
WELLINGTON
CHRISTCHURCH
QUEENSTOWN
DUNEDIN

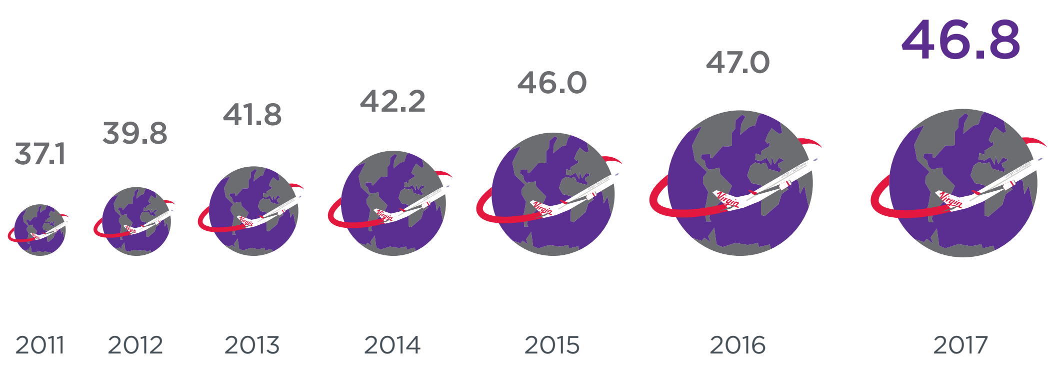
CONTENTS

SNAPSHOT

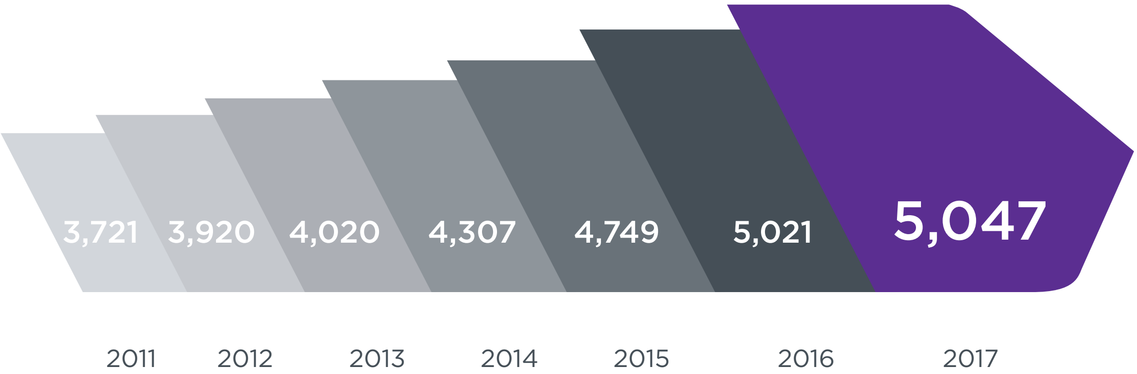
PASSENGERS CARRIED (MILLIONS)



AVAILABLE SEAT KILOMETRES (BILLIONS)



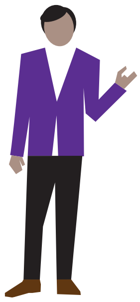
TOTAL REVENUE AND INCOME ($MILLIONS)



OPERATING FLEET

141

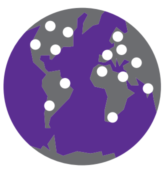
VELOCITY MEMBERS



MORE THAN 8,000,000

DESTINATIONS

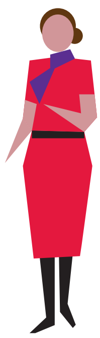
IN OUR VIRTUAL GLOBAL NETWORK



487

EMPLOYEES

MORE THAN 9,800



Statistics have been rounded. Passengers Carried and Available Seat Kilometres include 100% of Tigerair Australia statistics from 1 November 2014. Operating fleet excludes aircraft that have been removed from operational service.

CHAIRMAN'S REPORT

In the 2017 financial year, the Virgin Australia Group made significant progress towards building a stronger financial foundation that will support future earnings growth. The Group also continued to champion strong competition in Australian aviation by delivering a safe and rewarding travel experience for our customers.

I am pleased to report that our focus on improving our financial base is producing positive results, with the business achieving its 2017 financial year cash and efficiency program targets. For the 2017 financial year, we delivered a positive Free Cash Flow result[1], improved reported Financial Leverage by 14.1 per cent and maintained a strong cash balance[2]. The business has also made good progress in implementing the Better Business program of capital and operational initiatives and we now expect to deliver higher cash flow savings than originally targeted.

The Group reported losses at the underlying and statutory levels for the 2017 financial year. These results were predominantly impacted by subdued trading conditions and the upfront costs associated with implementing the Better Business program.

Importantly, as we move through the Better Business program, these costs will subside and the company will benefit from the ongoing, sustainable savings that the program is on track to deliver. This program, together with the work that our CEO John Borghetti and his team are doing to improve the Group's financial performance, will help us to deliver sustainable profitability, and ultimately, returns to all of our shareholders.

In the 2018 financial year, we will stay focused on improving our cost base, building strength in the balance sheet and growing revenue. The Group will implement the second year of the Better Business program and currently expects to remain ahead of schedule in implementing this program. Improving cash, debt and leverage outcomes will remain a key focus and further balance sheet improvements are expected to be delivered.

In addition, the business will work to keep growing revenue. This will be done by leveraging the benefits of our strong fleet, network and product to seize growth opportunities and consolidate our market position. In particular, we look forward to expanding our access to Greater China, which represents one of Australia's fastest growing travel markets.

I would like to thank our major shareholders Etihad Airways, HNA Aviation Group, Nanshan Group, Singapore Airlines and the Virgin Group for their support over the past year, which has played an important role in the positive results that have been achieved. I would also like to thank our smaller shareholders as well as my fellow board members for their support of the Group.

Also highly deserving of thanks are the people of the Virgin Australia Group. They are outstanding ambassadors and strong advocates for our business. Together, the Group's team members are responsible for our recognition as a world-class airline group. This was confirmed by the industry awards received during the year, which include:

- 'Best Airline' and 'Best Airline Staff' in the Australia/Pacific region at the World Airline Awards;
- 'Best Business Class' at the Airline Ratings 'Airline of the Year' awards; and
- 'Best Domestic Airline' at the National Travel Industry Awards.

The Group strongly believes that supporting the communities we serve and protecting our environment is the right thing to do for both our business and our country. During the year, we focused our efforts on the areas of youth at risk, mental illness, humanitarian aid and protecting our natural resources. We did so through our strong partnerships with the Australian Indigenous Mentoring Experience, the Black Dog Institute, CARE Australia, the Starlight Children's Foundation, and other organisations. The Group also supported Greening Australia's Reef Aid Project to help restore one of Australia's greatest assets, the Great Barrier Reef.

We enter the year ahead knowing that the future of the Virgin Australia Group is strong. We are firmly focused on executing our plan to improve financial performance, which will enable us to deliver long-term value to all of our shareholders.

Elizabeth Bryan AM
Chairman

1 For definitions of capitalised terms used in the Chairman's Report and the CEO's Report and for further information about the financial performance on the Virgin Australia Group in the 2017 financial year, please refer to the document entitled 'Release – FY17 Financial Results' that was released to the Australian Securities Exchange on 10 August 2017.

2 Refers to positions reported as at 30 June of relevant financial years.

CEO'S REPORT

Throughout the 2017 financial year, the Virgin Australia Group maintained a clear focus on strengthening our financial performance, providing a safe and rewarding travel experience for our customers and ensuring strong competition in the Australian aviation market. This focus has yielded positive outcomes for our balance sheet and has put our business on a good trajectory towards future earnings growth.

Financial performance

As the Chairman outlined, the Virgin Australia Group improved its cash flow, debt and leverage positions and made significant progress in implementing the Better Business program during the 2017 financial year. While our underlying profit result was affected by subdued trading conditions and the impact of fleet simplification, our performance improved towards the end of the year, with the Group's underlying result in the fourth quarter of the year up $38.4 million on the prior corresponding period.

Key results for the 2017 financial year included:

- Positive Free Cash Flow of $34.3 million, which is a $126.4 million improvement on the 2016 financial year and the first positive free cash flow result since the 2012 financial year;
- A $272.3 million increase in the Group's closing total cash balance to $1,396.1 million as at 30 June 2017;
- A $839.0 million reduction in Net Debt, including $260.0 million in accelerated debt repayments;
- An Underlying Loss Before Tax of $3.7 million. Underlying performance for the fourth quarter of the 2017 financial year was a $38.4 million improvement on the fourth quarter of the 2016 financial year;
- Statutory Loss After Tax of $185.8 million, an improvement of $38.9 million on the previous financial year. This result was impacted by restructuring charges from the Better Business program;
- An improvement in the underlying performance of Virgin Australia Domestic in the fourth quarter of the year and disciplined management of domestic capacity in response to subdued trading conditions;
- Profitability at the Underlying EBIT level for Virgin Australia International, with the business reporting a $49.3 million improvement in Underlying EBIT that was supported by growth in yield and unit revenues;
- Profitability at the Underlying EBIT level for the domestic operations of Tigerair Australia, with the business' overall underlying performance, including international operations, impacted by Bali operations; and
- Further growth for Velocity, which increased revenue by 13.2 per cent and Underlying EBIT by 2.2 per cent on the 2016 financial year while investing for future growth. Velocity also grew its membership base to 8 million members during the year, the equivalent of 1 in 3 Australians.

Building a better business

The Group has completed the first year of the three year Better Business program, which will enable us to reduce our cost base and further enhance our cash flow. The Group finished the 2017 financial year ahead of schedule in implementing the Better Business program, and importantly, we have increased the targeted savings we expect to receive from the program. The Better Business program is now on track to deliver $350 million per year in annualised net free cash flow savings by the end of the 2019 financial year, a $50 million per annum increase on the original savings target.

These outcomes have been driven by the implementation of efficiency initiatives across our business. In the 2017 financial year, we progressed the simplification of our fleet through a five per cent reduction in our operating fleet, the sale of ten Embraer 190 aircraft and lease return of two Embraer 190 aircraft, reductions in Embraer 190 and ATR operations and the identification of ATR aircraft for removal. We have also made progress on the optimisation of our domestic and international networks by withdrawing from loss-making routes while also realising efficiencies in maintenance, fuel consumption and our organisational structure.

Delivering safe and rewarding travel experiences

Delivering safe and rewarding travel experiences to our customers is central to our success as a business, and this remained a strong focus during the 2017 financial year.

During the year, Virgin Australia brought a number of innovations to the market, including launching the extra legroom seating product Economy X, which is unique to the Australian aviation market, and trialling inflight wireless internet connectivity. Tigerair Australia also introduced several enhancements to its low cost travel offering, including the completion of the T4 terminal facilities at Melbourne Airport. Velocity continued to expand and diversify its world-class portfolio of earn and redemption partners, including forging important new partnerships with Flybuys, Energy Australia and Bupa.

Our customer experience was underscored by excellence in operational performance. For the third consecutive financial year, both Virgin Australia Domestic and Tigerair Australia outperformed their major competitors in On Time Performance.

As we move into the 2018 financial year, we will continue to offer compelling travel experiences. Over the year, we will commence the rollout of inflight wi-fi to Virgin Australia's Boeing 737, Boeing 777 and Airbus A330 fleets. We will also create more opportunities for travel between Australia and Greater China through our comprehensive alliance with HNA Aviation, Hong Kong Airlines and HK Express and through our direct services to Hong Kong.

Safety has always been and will continue to be the highest priority of the Virgin Australia Group. We continue to exceed the high safety targets that we have set ourselves and identify ways to enhance our strong safety processes.

Our people

Our people have displayed an unwavering focus on providing a rewarding experience to our guests and executing the Better Business program. Their passion, dedication and professionalism are essential to our success and growth. I would like to thank each and every one of our team members for their efforts over the 2017 financial year.

Priorities for the 2018 financial year

The Virgin Australia Group has entered the 2018 financial year with the following priorities:

- Continuing the strong momentum of the Better Business program to deliver significant, sustainable cash flow savings by the end of the 2019 financial year;
- Consolidating our established position in the Australian domestic market by providing an outstanding customer experience as well as a flight network that is closely aligned with, and responsive to customer demand;
- Leveraging international growth opportunities in the Asian and North American markets; and
- Maintaining the positive trajectory we have established in our cash and debt performance.

Through these actions, we will work to improve our financial performance and deliver long term growth and value for our shareholders, and continue to offer genuine competition for travellers.

I would like to thank our customers and all of our shareholders for their support over this past financial year, and I look forward to reporting on our progress in the 2018 financial year

John Borghetti AO
CEO

1 The second lease return was completed in July 2017.

Directors' report

The directors present their report on the consolidated entity comprising Virgin Australia Holdings Limited ACN 100 686 226 (VAH or the Company) and the entities it controlled at the end of, or during, the financial year ended 30 June 2017.

Directors

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

Ms Elizabeth Bryan AM (Chairman)
Mr John Borghetti AO
Mr Ken Dean (appointed 1 December 2016)
Mr Harsh Mohan (appointed 30 June 2017)
Ms Samantha Mostyn
Mr Warwick Negus (appointed 3 January 2017)
Mr Nang Qi (appointed 16 November 2016)
Mr Marvin Tan
Mr Robert Thomas
The Hon. Mark Vaile AO
Mr Lan Xiang (appointed 24 July 2017)

Mr Wu An (Alternate Director) (appointed 24 July 2017)
Mr Chen Mingqiong (Alternate Director) (appointed 5 May 2017)
Mr Pee Teck Tan (Alternate Director)

Mr David Baxby (ceased 10 August 2017)
Dr Chien-tsung Lu (appointed 16 November 2016, ceased 24 July 2017)
Mr Bruno Matheu (ceased 30 June 2017)
Mr John Patrick (JP) Moorhead (ceased 3 January 2017)

Mr Ulf Huttmeyer (Alternate Director) (ceased 30 June 2017)

Except where otherwise indicated, each director named above held office for the whole financial year ended 30 June 2017.

Details of directors and alternate directors, their qualifications, experience and special responsibilities

Directors holding office at the date of this report

Ms Elizabeth Bryan AM – BA (Econ.), MA (Econ.), Chairman and Independent Non-Executive Director

Ms Elizabeth Bryan was appointed Company Chairman and to the VAH Board on 20 May 2015. Elizabeth is Chair of the Nomination Committee and a member of the Audit and Risk Management Committee and Safety and Operational Risk Review Committee.

Elizabeth is one of Australia's most respected corporate leaders, bringing more than 30 years of leadership experience and strategic and financial expertise to the Board. She has held senior positions in a diverse range of industries including financial services, oil and gas, agriculture, aviation, management consulting and the public sector.

Elizabeth is also Chairman of Insurance Australia Group.

Elizabeth has served as Chairman of Caltex Australia Limited and UniSuper Limited as well as a Director of Westpac Banking Corporation and a large number of other Australian public, private and government-owned companies. Elizabeth also held the position of Chief Executive Officer of Deutsche Asset Management Australia and its predecessor organisation the State Super Investment and Management Corporation for over a decade.

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:
- Director of Westpac Banking Corporation (6 November 2006 to 9 December 2016)
- Chairman of Caltex Australia Limited (18 July 2002 to 9 December 2015)
- Chairman of Insurance Australia Group Limited (current, appointed 5 December 2014)

Mr John Borghetti AO – Managing Director and Chief Executive Officer

Mr John Borghetti was appointed to the VAH Board on 8 May 2010.

John has more than 40 years of experience in the aviation sector having previously held a number of senior positions at Qantas, leaving the company in May 2009. John is also a Director of Coca-Cola Amatil Limited and the Australian Chamber Orchestra.

He was previously a Director of CARE Australia (2005-2011), The Australian Ballet (2009-2011), Piper Aircraft (USA) (2009-2010) and Energy Australia (2012-2015).

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:
- Director of Coca-Cola Amatil Limited (current, appointed 2 December 2015)

Directors (continued)

Details of directors and alternate directors, their qualifications, experience and special responsibilities (continued)

Mr Ken Dean – B.Com (Hons), FCPA, FAICD, Independent Non-Executive Director

Mr Ken Dean was appointed to the VAH Board on 1 December 2016. He has been a member of the Audit and Risk Management Committee and Remuneration Committee since his appointment. Ken became the Chair of the Audit and Risk Management Committee on 17 February 2017.

Ken is a Director and the Chair of the Audit and Risk Committees at Energy Australia and Bluescope Steel Limited. Previously, Mr Dean was a Director of Santos Limited for 11 years and the Chief Financial Officer of resources company Alumina Limited for four years.

Ken also worked for Shell Group for 30 years, during which time he held a number of executive financial roles, managing foreign exchange and money markets, insurance, mergers and acquisitions, internal audit, financial control and SAP implementation. He was Chief Executive Officer of Shell Financial Services, a member of the Shell Group Global Senior Management Team and Executive Director of Finance and Corporate Services for Shell Australia. Ken is also the Non-Executive Chairman of the not-for-profit organisation Mission Australia.

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:

- Director of Bluescope Steel Limited (current, appointed 21 April 2009)
- Director of Santos Limited (23 February 2005 to 4 May 2016)

Mr Harsh Mohan – B.Sc (Hons), FCA, Non-Executive Director

Mr Harsh Mohan was appointed to the VAH Board on 30 June 2017.

Harsh has held the position of Chief Group Support Services Officer for the Etihad Aviation Group since May 2017. Previously, Harsh held the position of Chief Executive Affairs, where he oversaw the Chairman's Project Management Office (PMO), Corporate Strategic Initiatives, Corporate PMO, Business Transformation, Ethics, and Risk Management teams for the Etihad Aviation Group.

Prior to this, Harsh was Senior Vice President Audit, Compliance and Risk Management for Etihad Airways, which he joined in April 2011.

Before joining Etihad Airways, he served as General Auditor and Senior Director, Risk Management and Business Transformation at Air Canada from 2007 to 2011.

Harsh is a member of the Institute of Chartered Accountants of India and is qualified as a Certified Public Accountant (CPA) in the United States.

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:

- Nil

Ms Samantha Mostyn – B.A, LLB, Independent Non-Executive Director

Ms Samantha Mostyn was appointed to the VAH Board on 1 September 2010. Samantha is the Chair of the Remuneration Committee and a member of the Safety and Operational Risk Review Committee.

Samantha is a Non-Executive Director and corporate advisor and has previously held senior executive positions at IAG Limited, Optus and Cable & Wireless Plc. Samantha is a Director of the Transurban Group, Citibank Australia, Cover-More Group Limited and Mirvac Group.

Samantha is a Board member of the Australia Council for the Arts, the Climate Council and Carriageworks. She is also President of ACFID and Deputy Chair of the Diversity Council of Australia.

Samantha served as an AFL Commissioner until March 2016 and has previously served as a Commissioner with the National Mental Health Commission. She also served on the Review into the Treatment of Women in the Australian Defence Force.

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:

- Director of Mirvac Group (current, appointed 1 March 2015)
- Director of Transurban Group (current, appointed 8 December 2010)
- Director of Cover-More Group Limited (2 December 2013 to 13 April 2017)

Mr Warwick Negus – BBus (UTS), MCom (UNSW), SF Fin, Non-Executive Director

Mr Warwick Negus was appointed to the VAH Board on 3 January 2017 and is a member of the Remuneration Committee.

Warwick is Chairman of Pengana Capital Group and URB Investments Limited. He is also a Director of Washington H Soul Pattinson & Co and Bank of Queensland, a Director of the diversified real estate company Terrace Tower Group and Chairman of UNSW Global Limited.

From 2005 to 2008, Warwick was Chief Executive of Colonial First State Global Asset Management, Australia's largest fund manager. Prior to this, Warwick co-founded 452 Capital, an independent fund management company, and held a number of senior positions in asset management and investment banking at Goldman Sachs in Hong Kong, Singapore, London and Sydney.

Warwick is also a member of the Council of University of NSW and a Director of FINSIA Limited.

Directors (continued)

Details of directors and alternate directors, their qualifications, experience and special responsibilities (continued)

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:
- Chairman of Pengana Capital Group (current, appointed 1 June 2017)
- Chairman of URB Investments Limited (current, appointed 13 October 2016)
- Director of Washington H Soul Pattinson & Company Limited (current, appointed 1 November 2014)
- Director of Bank of Queensland (current, appointed 22 September 2016)

Mr Nang Qi – BA Aviation Technology, Non-Executive Director

Mr Nang Qi (Frank) was appointed to the VAH Board on 16 November 2016 and is a member of the Audit and Risk Management Committee.

Frank is currently Chairman and CEO of HNA Catering Investment Group and a Director of Gate Gourmet. Prior to his current role, Frank held various roles within the HNA Group's companies including Chief Innovation Officer at HNA Aviation Group Co. Ltd, Deputy General Manager of the Finance Department at HNA Group Co Ltd and President of HNA Group Import and Export Co Ltd.

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:
- Nil

Mr Marvin Tan – BA International Relations, Stanford University, Non-Executive Director

Mr Marvin Tan was appointed as Alternate Director to Mr Goh Choon Phong from 4 July 2014 to 1 January 2016 and appointed to the VAH Board as a Director on 1 January 2016. Marvin is a member of the Nomination Committee.

Marvin is the Senior Vice President Product and Services for Singapore Airlines. Marvin joined Singapore Airlines in 1996 and has held various positions in the company both in Singapore and overseas. Prior to his current role, Marvin was the Senior Vice President Cabin Crew. Marvin was also seconded to SilkAir, Singapore Airlines' regional subsidiary, as the airline's Chief Executive.

Marvin holds a Bachelor of Arts degree in International Relations from Stanford University.

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:
- Nil

Mr Robert Thomas – B.Econ, MSAA, SF Fin, Independent Non-Executive Director

Mr Robert Thomas was appointed to the VAH Board on 8 September 2006. Robert is a member of the Audit and Risk Management Committee and the Remuneration Committee. Robert was Chair of the Audit and Risk Management Committee until 17 February 2017.

Robert has more than 40 years of experience in the securities industry. He is the Chairman of Starpharma Holdings Ltd, Aus Bio Ltd and Grahger Retail Securities Pty Ltd. He is a Director of O'Connell Street Associates Pty Ltd, REVA Medical, Inc and Biotron Ltd. Robert was previously a Director of Heartware International, Inc.

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:
- Director of Biotron Limited (current, appointed 7 March 2012)
- Director of REVA Medical, Inc (current, appointed 28 July 2010)
- Chairman of Starpharma Holdings Limited (current, appointed 4 December 2013)

The Hon. Mark Vaile AO – Independent Non-Executive Director, Former Deputy Prime Minister of Australia

The Hon. Mark Vaile was appointed to the VAH Board on 22 September 2008. Mark is the Chair of the Safety and Operational Risk Review Committee.

Mark is Chairman of Whitehaven Coal Limited, Palisade's Regional Infrastructure Fund and the Australia Korea Business Council, and Co-Chair of the Australian American Leadership Dialogue. He was previously Chairman of CBD Energy Ltd. Mark is a Director of Stamford Land Corporation Ltd, HostPlus Superfund Ltd, SmartTrans Holdings Ltd and Servcorp Ltd.

In 2012 Mark was appointed an Officer in the Order of Australia in the Queen's birthday honours list.

Mark was a Member of the Australian Parliament from 1993 to 2008. He was Deputy Prime Minister (2005-2007), Minister for Trade (1999-2006), Minister for Transport and Aviation (1997-1998, 2006-2007) and Minister for Agriculture (1998-1999).

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:
- Director of Servcorp Limited (current, appointed 27 June 2011)
- Chairman of Whitehaven Coal Limited (current, appointed 3 May 2012)
- Director of SmartTrans Holdings Ltd (current, appointed 4 April 2016)

Directors (continued)

Details of directors and alternate directors, their qualifications, experience and special responsibilities (continued)

Mr Lan Xiang – Bachelor's Degree in Aeronautical Electrical Engineering, Civil Aviation University of China, Masters Degree in Business Management, Beijing Normal University, Non-Executive Director

Mr Lan Xiang was appointed to the VAH Board on 24 July 2017.

Mr Lan is the President of Qingdao Airlines, which forms a part of the Nanshan Group. Mr Lan joined Qingdao Airlines in 2013 as the Vice President responsible for Marketing and Informational Technology.

Prior to this, Mr Lan was an executive and senior system analyst at Travel Sky, a provider of information technology solutions for the aviation and tourism industries. Mr Lan has also held positions at Shenzhen Airlines and China Southern Airlines.

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:

- Nil

Mr Wu An - Bachelor's Degree, Beijing University of International Study (First Class Honours), Undertook Masters program in Economics at Capital University of Trade and Economics, Alternate Director

Mr Wu An was appointed as Alternate Director to Mr Lan on 24 July 2017.

Mr Wu is the General Manager of Nanshan Group's Investments department, a position he has held since 2015.

Prior to this, Mr Wu was a senior executive and consultant at Geoff Raby & Associates, a consulting firm founded by former Australian Ambassador Dr Geoff Raby.

Between 2004 and 2012, Mr Wu served three Australian Ambassadors to China, providing advice on a wide range of issues.

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:

- Nil

Mr Chen Mingqiong – MBA, Zhongnan University of Economics and Law, Bachelor's Degree in Finance, Fudan University, Alternate Director

Mr Chen Mingqiong was appointed as Alternate Director to Mr Nang on 5 May 2017.

Mr Chen is currently the General Manager, Strategy and Marketing for HNA Aviation Investment Holding Company. Prior to this, he was the Strategy Manager, Strategy and Planning for HNA Aviation Group Company. From 2001 to 2013, Mr Chen held multiple roles at Hainan Airlines, most recently as General Manager of operations in Belgium and Germany.

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:

- Nil

Mr Pee Teck Tan – B.B.A (Hons), National University of Singapore, MSc International Marketing, University of Strathclyde, Alternate Director

Mr Pee Teck Tan was appointed as Alternate Director to Mr Marvin Tan on 1 January 2016.

Pee Teck is the Senior Vice President Cabin Crew of Singapore Airlines. Pee Teck joined Singapore Airlines in 1994 and has held various appointments both in Singapore and overseas, most recently as Senior Vice President Product and Services. He holds a Bachelor of Business Administration degree (honours) from the National University of Singapore and a Masters of Science in International Marketing from the University of Strathclyde.

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:

- Nil

Persons who ceased to hold office during, or since the end of, the financial year

Mr David Baxby – B.Com (Acct.), LLB (Hons), Independent Non-Executive Director

Mr David Baxby was appointed to the VAH Board on 30 September 2004 and resigned on 10 August 2017. Prior to his resignation, David was a member of the Audit and Risk Management Committee and the Nomination Committee.

David was recently appointed as the Managing Director, Industrials for Wesfarmers and is the Chairman of Frontier Digital Ventures Limited and a Non-Executive Director of Unlockd Limited and Workpac Limited. David is also a Councillor of Bond University Limited.

Previously, David was the Global CEO and President of Global Blue and the Co-CEO of the Virgin Group, Richard Branson's holding company. His past Directorships include Virgin Atlantic Ltd, Virgin Holidays Ltd, Virgin America Inc and Air Asia X. David was also an investment banker for nine years with Goldman Sachs.

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:

- Chairman of Frontier Digital Ventures Limited (current, appointed 15 July 2016)

Directors (continued)

Details of directors and alternate directors, their qualifications, experience and special responsibilities (continued)

Dr Chien-tsung Lu – Public Administration (Aviation Concentration), Ph.D, Aviation Safety M.S, FAA Airframe & Powerplant Certificate, FCC GROL, Applied Mathematics, BS, Non-Executive Director

Dr Chien-tsung Lu was appointed to the VAH Board on 16 November 2016 and resigned on 24 July 2017.

Lu is currently the Vice Chairman of Qingdao Airlines, a subsidiary of Nanshan Group. He was appointed to Qingdao Airlines' Board of Directors in January 2016. His major responsibilities at Qingdao Airlines include flight operation, revenue management, safety, human resources and international engagement and collaboration.

Lu has a tenured professorship at Purdue University, USA. Between September 2013 and December 2015, he served as the Dean of Nanshan Aeronautical College. Lu is renowned for his aviation safety research focusing on Safety Management Systems.

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:

- Nil

Mr Bruno Matheu – Master of Science, Ecole Centrale Paris, Non-Executive Director

Mr Bruno Matheu was appointed to the VAH Board on 18 February 2015 and resigned on 30 June 2017.

Bruno joined Etihad Airways in December 2014 as COO, Airline Equity Partners. In May 2016, he was appointed as CEO, Airline Equity Partners of Etihad Airways. He was responsible for strategic developments to optimise business performance, revenues and cost synergies between Etihad Airways and its equity partner airlines, and provides strategic leadership support for partners in which Etihad Airways has management responsibility.

Bruno brought to the Group over 30 years of senior management experience in the global aviation industry. He most recently served as Chief Long Haul Officer at Air France. Prior to that he held senior executive roles across Air France, and was a member of Air France and Air France-KLM Executive Boards for 17 years.

He has also served on the Boards of Air France, Alitalia and the global distribution company Amadeus.

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:

- Nil

Mr John Patrick (JP) Moorhead – MA, MEng, Non-Executive Director

Mr JP Moorhead was appointed a Director on 22 September 2015 and resigned on 3 January 2017.

JP is the COO of Eight Roads, the proprietary investment arm of Fidelity International Limited.

JP was previously CFO of the Virgin Group and responsible for the Virgin Group's overall financial and risk positions as well as accounting, financing, tax, treasury and certain portfolio matters. JP served as a Director of various Virgin Group operating companies including Virgin Atlantic and Virgin Rail as well as a number of Virgin Group holding companies.

Prior to joining the Virgin Group, JP spent eight years at Goldman Sachs in London and Sydney where he worked on a broad range of strategic advisory, M&A and capital markets transactions.

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:

- Nil

Mr Ulf Huttmeyer – Dipl. Kfm (FH), Alternate Director

Mr Ulf Huttmeyer was appointed as Alternate Director to Mr Bruno Matheu on 18 February 2015 and resigned on 30 June 2017.

Ulf was formerly CFO of airberlin and joined Etihad Airways on 1 April 2015 as Senior Vice President Finance Equity Partners. Following studies in economics, concluding with a degree in business administration, Ulf began his career in 1996 as an analyst with Commerzbank in the credit and financing division, followed by various assignments in Germany and Singapore. Thereafter, Ulf served as Group Manager for Corporate Client Services in Berlin and was promoted to Director at the beginning of 2005. Ulf was appointed CFO of airberlin in February 2006.

Listed directorships held at the date of this report or during the three year period ending 30 June 2017:

- Nil

Directors (continued)

Directors' meetings

Details of the number of meetings held by the Board and its Committees during the 2017 financial year and each director's attendance at those meetings are set out below:

	Board		Committees(1)									
			Audit and Risk Management		Nomination		Remuneration		Safety and Operational Risk Review		Special Purpose	
Director	Attended	Held(2)	Attended	Held(2)	Attended	Held(2)	Attended	Held(2)	Attended	Held(2)	Attended	Held(2)
Ms E Bryan AM	11	11	8	9	1	1	3	3	2(1)	2	(3)	-
Mr J Borghetti AO	11	11	(9)	-	(1)	-	(3)	-	(4)	-	4	5
Mr D Baxby	11	11	4	5	1	1	2(1)	2	-	-	5	5
Mr K Dean	5	5	5	5	(1)	-	1	1	(2)	-	-	-
Dr C-t Lu	5	5	-	-	-	-	-	-	2	2	-	-
Mr B Matheu	11	11	1	5	-	-	-	1	-	-	-	-
Mr H Mohan	-	-	-	-	-	-	-	-	-	-	-	-
Mr JP Moorhead	5	6	-	-	-	-	-	-	-	-	-	-
Ms S Mostyn	11	11	(1)	-	(1)	-	3	3	4	4	2	2
Mr W Negus	5	5	(1)	-	-	-	1	1	-	-	-	-
Mr N Qi	4	5	2	5	-	-	-	-	-	-	-	-
Mr M Tan	11	11	(1)	-	1	1	(1)	-	-	-	-	-
Mr R Thomas	11	11	9	9	-	-	3	3	(1)	-	5	5
The Hon. M Vaile AO	11	11	3(1)	4	(1)	-	(1)	-	4	4	3	3
Mr C Mingqiong (Alternate Director to Mr N Qi)	1	1	-	-	(1)	-	(1)	-	-	-	-	-
Mr U Huttmeyer (Alternate Director to Mr B Matheu)	-	-	-	-	-	-	-	-	-	-	-	-
Mr Pee Teck Tan (Alternate Director to Mr M Tan)	-	-	-	-	-	-	-	-	-	-	-	-

(1) Committee meetings are open to all directors to attend. Where a director attended a meeting of a Committee of which he or she was not a member at the time, this is indicated by ( ).

(2) Indicates the number of meetings held during the period the director was a member of the Board or relevant Committee or, in the case of alternate directors, while they were acting in the place of their appointing director.

Directors (continued)

Directors' interests

The table below sets out the relevant interests in shares of Virgin Australia Holdings Limited held, as at the date of this report, by the directors and alternate directors. These include any interests held by them directly, indirectly or beneficially (including shares held in the name of a trustee, nominee or superannuation fund). Details of these relevant interests have been disclosed to the Australian Securities Exchange (ASX) in accordance with section 205G(1) of the *Corporations Act 2001* (Cth) and the ASX Listing Rules.

Director	Number of relevant interests in ordinary shares
Ms Elizabeth Bryan AM	227,044
Mr John Borghetti AO	9,940,735
Mr Ken Dean	-
Mr Harsh Mohan	-
Ms Samantha Mostyn	250,000
Mr Warwick Negus	-
Mr Nang Qi	-
Mr Marvin Tan	-
Mr Robert Thomas	1,298,928
The Hon. Mark Vaile AO	60,000
Mr Lan Xiang	-
Mr Wu An	-
Mr Chen Mingqiong (Alternate Director)	-
Mr Pee Teck Tan (Alternate Director)	-

As at the date of this report, no options or rights over (nor contractual rights to call for or deliver) shares in Virgin Australia Holdings Limited or any related body corporate are held by any director or alternate director. Nor does any director or alternate director hold any right or option over (or any contractual right to call for or deliver) any debentures of, or interests in a registered scheme made available by, VAH or any related body corporate.

Company secretary

Ms Sharyn Page BA LLB ACIS was appointed Company Secretary on 1 February 2016. Ms Page was previously Company Secretary and General Counsel of SKILLED Group Ltd (December 2012 – December 2015) and Head of Human Resources (July 2014 – December 2015). Prior to that, Ms Page was Company Secretary of Spotless Group (2010 – 2012), Deputy Company Secretary ANZ (2009), Company Secretary Arrium Limited (2008 – 2009), Board Executive and Company Secretary AMP Limited (2005 – 2008) and Assistant Company Secretary AMP Limited (2003 – 2005). Ms Page previously held a number of legal and compliance roles within the financial services industry.

Corporate governance statement

The Corporate Governance statement for Virgin Australia Holdings Limited is located at www.virginaustralia.com/corporategovernance.

Operating and financial review

Principal activities and overview of the Group

The principal activities of the Group during the 2017 year were the operation of a domestic and international passenger and cargo airline business and a loyalty program. The Group offers a variety of aviation products and services to all key segments of the Australian aviation market, including corporate, government, leisure, low cost, regional and charter travellers and air freight customers. There were no significant changes in the nature of the activities of the Group during the year.

The Group flies to over 40 city and regional destinations in Australia and a range of international destinations including Hong Kong, the United States of America, New Zealand, Indonesia and the South Pacific Islands.

The Group operates a fleet of aircraft that includes Boeing 737 and Boeing 777 aircraft, Airbus A320 and A330 aircraft, ATR aircraft, Embraer E190 aircraft and Fokker F100 aircraft.

The Group employs more than 9,800 people in Australia, New Zealand and the United States of America.

The Group has strategic alliances with four key airline partners: Air New Zealand Limited, Delta Air Lines Inc., Etihad Airways P.J.S.C. and Singapore Airlines Limited. During the 2017 financial year, the Group also formed a new strategic alliance with HNA Aviation, Hong Kong Airlines and HK Express. That alliance received final authorisation from the Australian Competition and Consumer Commission in August 2017. Together with the Group's domestic and international operations, the strategic alliances, codesharing and interline agreements provide a global virtual network of over 485 destinations to Virgin Australia travellers.

Key developments

On 4 August 2016, the Group completed a one for one pro-rata non-renounceable entitlement offer to raise $852.0 million. On 20 September 2016 the Group completed an additional placement to HNA Innovation Ventures (Hong Kong) Co. Limited (HNA) of $89.2 million.

In September 2016, the Australian Competition and Consumer Commission (ACCC) approved the reauthorisation of the Group's alliance with Singapore Airlines for five years.

In October 2016, the Group issued US$350.0 million in bonds to investors in the US Bond Market. The bond issue was part of the Group's ongoing funding program, which ensures the Group has an efficient, flexible and diverse funding portfolio.

In February 2017, the Group announced a proposed alliance agreement with HNA, Hong Kong Airlines and HK Express which was subsequently authorised by the ACCC on 10 August 2017 for a five year term. Under the alliance, the Group operates direct flights to Hong Kong and has entered into codeshare, interline and frequent flyer reciprocity agreements with its alliance partners.

Over the 2017 financial year, the Group made strong progress in implementing the Better Business program of capital and operational efficiency initiatives. The Group finished year one of the three year program ahead of schedule. The Group has increased the Better Business savings target from $300.0 million to $350.0 million per annum in annualised cash savings by the end of the 2019 financial year.

A key part of the Better Business program is the Group's fleet simplification initiatives including a reduction of up to eight ATR aircraft and the removal of all E190 and Tigerair-branded A320 aircraft from the fleet. During the current financial year, the Group sold ten Embraer E190 aircraft and confirmed plans to cease all E190 operations by the end of the 2017 calendar year. Refer to note D1 for further information on assets classified as held for sale. Refer to note C6 for further information on onerous contract provisions.

In May 2017, the ACCC granted approval of a five year strategic partnership between Alliance Aviation Services Limited (Alliance) and the Group. The partnership will enable Alliance and the Group to form a charter partnership to jointly grow their charter business. The entities will also enter into agreements to provide and procure services for each other on a preferential basis. This includes, but is not limited to, aircraft procurement, spare parts pooling, maintenance, ground handling services and customer benefits.

In July 2017 Virgin Australia ceased flying to Gladstone, Bundaberg and from Brisbane to Port Macquarie and a marketing and distribution agreement was signed with Alliance that provides Virgin Australia codeshare operations on Alliance operated flights into these ports.

Operating and financial review (continued)

Statutory results

A summarised statement of profit or loss for the current year compared to the prior year is provided below.

	2017 $m	2016 $m	Movement $m	Movement %
Revenue and income	**5,047.3**	5,021.0	26.3	0.5
Net operating expenditure	**(5,171.2)**	(5,278.7)	107.5	2.0
Share of net profit of equity-accounted investee	**2.1**	0.7	1.4	200.0
Loss before net finance costs and tax	**(121.8)**	(257.0)	135.2	52.6
Net finance costs	**(167.8)**	(169.6)	1.8	1.1
Loss before tax	**(289.6)**	(426.6)	137.0	32.1
Income tax benefit	**103.8**	201.9	(98.1)	(48.6)
Loss	**(185.8)**	(224.7)	38.9	17.3

The Group recognised a statutory loss after tax of $185.8 million, a $38.9 million improvement compared to the previous year.

Revenue and income increased from $5,021.0 million to $5,047.3 million, a $26.3 million increase. This reflects the increase in revenue passenger kilometres (RPKs)(1) over the same period.

Net operating expenditure decreased from $5,278.7 million to $5,171.2 million, a decrease of $107.5 million. The improvement is mainly due to a reduction in impairment losses on assets classified as held for sale, impairment losses on other assets and onerous contract expenses. The costs in the comparative period arose from the commencement of the Group's fleet simplification program which included an announcement to remove leased ATR, leased and owned Embraer E190 and owned Fokker F50 aircraft from the fleet. This resulted in the recognition in the prior comparative period of an onerous contract provision of $100.2 million in relation to leased Embraer E190 and ATR aircraft, impairment losses of $118.1 million on assets associated with these aircraft and impairment losses of $100.5 million in relation to owned Embraer E190 and Fokker F50 aircraft. In the current period, the Group announced that an additional two ATR aircraft would be removed from the fleet from July 2017. These changes resulted in the recognition of an additional onerous contract provision of $29.6 million and impairment losses of $65.9 million in relation to these aircraft. In addition, a loss of $7.8 million was recognised in relation to owned Embraer E190 and Fokker F50 aircraft classified as held for sale. Refer to note C6 to the consolidated financial statements for further information in relation to costs associated with onerous contracts. Refer to note D1 to the consolidated financial statements for further information in relation to assets classified as held for sale.

The Group recognised profits from equity-accounted investees of $2.1 million during the year, an improvement of $1.4 million on the prior comparative period. Refer to note F2 to the consolidated financial statements for further information in relation to investments accounted for using the equity method.

Net finance costs have decreased from $169.6 million to $167.8 million, a $1.8 million decrease in costs. This includes an increase of $5.5 million in finance income, mainly as a result of additional funds held on deposit. Offsetting this is an increase of $3.7 million in finance costs, mainly as a result of additional unwinding expense in relation to onerous contract provisions. Refer to notes B4 and E3 to the consolidated financial statements for further information.

The income tax benefit decreased from $201.9 million to $103.8 million, a decrease of $98.1 million. The comparative figure included a tax benefit of $41.5 million in relation to an amended tax assessment. The remaining decrease is mainly due to the decrease in the loss before tax. Refer to note B5 to the consolidated financial statements for further information.

(1) Revenue Passenger Kilometres or RPKs is a non-statutory measure derived from the number of paying passengers multiplied by the number of kilometres flown on Virgin Australia or Tigerair Australia operated flights.

Operating and financial review (continued)

Underlying results

The following table summarises the amounts that are excluded from the statutory results to arrive at the underlying and segment results. The Group's underlying loss before tax(2) was $3.7 million, a decrease of $44.7 million on the previous year's profit of $41.0 million.

	2017 $m	2016 $m
Statutory loss after tax	**(185.8)**	(224.7)
Add back:		
Income tax benefit	**(103.8)**	(201.9)
Share of net (profit) of equity-accounted investee	**(2.1)**	(0.7)
Restructuring and transaction costs and impairment losses	**245.2**	440.5
Hedging and financial instruments losses	**42.8**	27.8
Underlying profit/(loss) before tax(2)	**(3.7)**	41.0
Add back: Net finance costs excluding capital restructure costs	**167.8**	169.6
Segment EBIT(3)	**164.1**	210.6

Segment results(3)

The following table summarises the segment results for the Group.

	2017 $m	2016 $m	Movement $m	Movement %
Revenue and income				
Virgin Australia Domestic	**3,439.6**	3,445.6	(6.0)	(0.2)
Virgin Australia International	**999.0**	1,016.3	(17.3)	(1.7)
Velocity	**371.0**	327.6	43.4	13.2
Tigerair Australia	**543.3**	475.9	67.4	14.2
Segment EBIT				
Virgin Australia Domestic	**92.9**	162.0	(69.1)	(42.7)
Virgin Australia International	**0.5**	(48.8)	49.3	101.0
Velocity	**142.8**	139.7	3.1	2.2
Tigerair Australia	**(24.3)**	2.2	(26.5)	(1,204.5)

	2017 %	2016 %	Movement points
Segment EBIT margin			
Virgin Australia Domestic	**2.7**	4.7	(2.0)
Virgin Australia International	**0.1**	(4.8)	4.9
Velocity	**38.5**	42.6	(4.1)
Tigerair Australia	**(4.5)**	0.5	(5.0)

(2) Underlying profit/(loss) before tax is a non-statutory measure. This measure is used by management and the Board to assess the financial performance of the Group. This non-IFRS information has not been audited or reviewed by KPMG.

(3) Segment results include references to Segment EBIT which is a non-statutory measure per note B1 to the consolidated financial statements and Segment EBIT margin. Segment EBIT and Segment EBIT margin are used by management and the Board to assess the financial performance of the individual segments within the Group.

Operating and financial review (continued)

Segment results (continued)

Virgin Australia Domestic

Virgin Australia Domestic's revenue and yield[4] performance were impacted by subdued trading conditions. The business exercised disciplined capacity management in response, with sectors flown declining by 5.9 per cent on the prior financial year. Yield declined by 1.5 per cent and RASK[5] declined by 0.2 per cent compared to the prior financial year. Segment EBIT for Virgin Australia Domestic was $92.9 million.

However, the underlying performance of Virgin Australia Domestic in the fourth quarter of the financial year showed improvement compared to the prior corresponding period.

Throughout the year, Virgin Australia Domestic continued to enhance and differentiate its domestic customer experience. The business introduced EconomyX, an extra legroom seating product that is unique to the Australian aviation market and is delivering revenue growth with a strong penetration among guests. Virgin Australia Domestic was the most on time major domestic airline in the 2017 financial year and has now led its major competitor in On Time Performance[6] for the past three financial years.

Virgin Australia International

Virgin Australia International reported a profitable Segment EBIT result of $0.5 million, in line with 2017 financial year targets and a $49.3 million improvement on the prior financial year. Virgin Australia International's RASK grew by 1.4 per cent and Yield grew by 2.1 per cent on the previous year.

These outcomes are the result of the international improvement strategy that has been implemented over the past two years. During this period, Virgin Australia International has withdrawn from the loss-making markets of Phuket, some routes to Denpasar (Bali) and Abu Dhabi and expanded to growth markets by commencing Melbourne–Los Angeles services in April 2017 and Melbourne–Hong Kong services in July 2017. The airline also completed the rollout of its award-winning business class product on the Boeing 777 fleet, which supported yield and unit revenue improvement.

Velocity

Velocity reported revenue of $371.0 million, a 13.2 per cent increase on the prior financial year. Velocity's Segment EBIT performance in the first half of the year was impacted by investment in technology, new partnerships and internal resources to position the business for future growth. However, Segment EBIT performance in the second half improved by 16 per cent on the first half, with Velocity delivering a full year Segment EBIT performance improvement of 2.2 per cent compared to the prior financial year.

Velocity's growth in membership was supported by an average daily join rate of 4,689 people across the current financial year. Velocity continued to add earning and redemption partners for a diverse portfolio of more than 400 brands.

In April 2017, Velocity was awarded 'Best Redemption Ability' in the Middle East and Asia/Oceania region for the fifth consecutive year at the 2017 Freddie Awards. Velocity was also awarded 'Best Elite Program' in the Middle East and Asia/Oceania region.

Tigerair Australia

Tigerair Australia reported a Segment EBIT loss of $24.3 million, representing a decline of $26.5 million on the prior financial year. This result was impacted by the costs associated with the launch and withdrawal of flights to Denpasar (Bali). Excluding the impact of the Denpasar international operations, the segment EBIT performance of Tigerair's domestic operations was profitable in line with 2017 financial year targets.

Passengers carried by Tigerair Australia grew by 10.7 per cent and RASK grew by 3.6 per cent on the prior financial year. Passenger growth outpaced Available Seat Kilometre[7] growth of 10.2 per cent. Tigerair's capacity growth over the year was driven by operations to Denpasar, which were launched and withdrawn during the year, and the comparative impact of the addition of a fourteenth Airbus A320 aircraft.

Tigerair Australia was the most on time low cost carrier in the current financial year and has now led its major competitor in On Time Performance for the past three financial years.

(4) 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.

(5) RASK is a non-statutory measure derived from segment revenue normalised for cargo operations divided by Available Seat Kilometres of the Regular Passenger Transport business.

(6) 'On Time Performance' refers to flights that depart within 15 minutes of the scheduled departure times shown in the carriers' schedules. Reflects BITRE data for the monthly on time performance for all Virgin Australia designated (Virgin Australia and Virgin Australia Regional Airlines) and all Qantas designated services (Qantas and Qantas Link).

(7) 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.

Operating and financial review (continued)

Financial position

A summarised statement of financial position for the Group for the current year compared to the prior year is provided below:

	2017 $m	2016 $m	Movement $m	Movement %
Current assets	**1,787.5**	1,713.7	73.8	4.3
Non-current assets	**4,568.3**	4,327.1	241.2	5.6
Total assets	**6,355.8**	6,040.8	315.0	5.2
Current liabilities	**2,348.3**	2,779.8	(431.5)	(15.5)
Non-current liabilities	**2,433.7**	2,362.2	71.5	3.0
Total liabilities	**4,782.0**	5,142.0	(360.0)	(7.0)
Net assets	**1,573.8**	898.8	675.0	75.1
Share capital	**2,243.7**	1,309.0	934.7	71.4
Reserves	**58.8**	117.2	(58.4)	(49.8)
Retained earnings	**(734.8)**	(514.5)	(220.3)	42.8
Non-controlling interests	**6.1**	(12.9)	19.0	(147.3)
Total equity	**1,573.8**	898.8	675.0	75.1

Assets

Net cash and cash equivalents increased by $272.3 million to $1,396.1 million from $1,123.8 million in the prior period. Unrestricted cash increased from $728.9 million in the prior comparative period to $985.8 million in the current period. Positive net cash from operating activities of $273.9 million contributed to this increase.

Assets classified as held for sale decreased by $167.3 million compared to the prior year. The assets classified as held for sale as at 30 June 2016 of $171.6 million were sold during the year. An impairment loss of $7.8 million was recognised in relation to these assets. In the current period, Embraer training equipment with a carrying value of $4.3 million was transferred to assets classified as held for sale. Refer to note D1 to the consolidated financial statements for further information.

Non-current receivables increased by $33.4 million as a result of maintenance prepayments paid to third party maintenance providers.

Other non-current financial assets increased by $27.5 million as a result of an increase in maintenance reserve deposits.

Net deferred tax assets increased by $130.7 million. This is mainly the result of the tax benefit on the loss before tax of $103.8 million and the tax benefit in relation to cash flow hedges recognised in other comprehensive income of $21.3 million.

Property, plant and equipment decreased by $43.8 million due to the following factors:

- $421.5 million of additions; less
- $63.7 million of impairment losses and disposals; less
- $279.4 million of depreciation; less
- $4.3 million net transfers to assets classified as held for sale; less
- $30.3 million of foreign exchange losses as a result of the strengthening Australian dollar.

Refer to note D2 to the consolidated financial statements for further information on the movements in property, plant and equipment.

Intangible assets increased by $26.5 million due to the following factors:

- $56.8 million of additions; less
- $30.3 million of amortisation.

Refer to note D3 to the consolidated financial statements for further information on movements in intangible assets.

Operating and financial review (continued)

Financial position (continued)

Liabilities

Current and non-current provisions increased by $112.2 million as a result of an increase of $80.8 million in the current and non-current maintenance provisions relating to leased aircraft and an increase of $35.8 million in the current and non-current provisions relating to employee benefits. Refer to note C6 to the consolidated financial statements for further information on the movements in provisions.

Current unearned revenue increased by $83.8 million mainly as a result of the growth in the Group's Velocity Frequent Flyer program.

Current and non-current interest-bearing liabilities decreased by $566.7 million as a result of the Group repaying several debt facilities, including the repayment of some facilities prior to the contracted expiry date. During the year, the Group also issued US$350.0 million of bonds to investors in the US Bond Market. The bonds have a five year term, maturing on 15 October 2021. Refer to note E3 to the consolidated financial statements for further information on the Group's interest-bearing liabilities.

Other current liabilities increased by $21.6 million as a result of the recognition of deferred costs in relation to assets classified as held for sale that were sold during the current period. Refer to note D1 to the consolidated financial statements for further information on assets classified as held for sale.

Equity

Total equity increased by $675.0 million during the current period mainly as a result of the issue of share capital of $934.3 million, net of transaction costs which was partially offset by the $185.8 million loss for the year. Refer to note E4 to the consolidated financial statements for further information on share capital.

Net current liability position

The Group's current liabilities exceeded its current assets as at 30 June 2017 by $560.8 million (2016: $1,066.1 million) including a current liability for unearned revenue of $1,074.2 million (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 financial statements have been prepared on a going concern basis, based on the Group's cash flows for the current year and estimated profits and cash flows for future years. The Group has a cash and cash equivalents balance at 30 June 2017 of $1,396.1 million (2016: $1,123.8 million) and has an unrestricted cash balance at 30 June 2017 of $985.8 million (2016: $728.9 million). Capital management is detailed in note E1 to the consolidated financial statements. Management of liquidity risk is detailed in note E7 to the consolidated financial statements.

Operating statistics(8)

Operating statistics (Group)		2017	2016	Change	% Change
Available seat kilometres (ASKs)	million	**46,833**	47,038	(205)	(0.4)
Passengers carried		**24,169,991**	23,723,292	446,699	1.9
Revenue load factor	%	**80.2**	79.4	0.8	1.0

Dividends

No dividends were declared or paid during the year ended 30 June 2017 or during the prior corresponding year.

Equity distributions of $38.2 million (2016: $41.9 million) were paid to non-controlling interests during the year.

Likely developments

The key areas of focus for the Group are outlined below:

- Continuing strong momentum on the Better Business program, which is designed to reduce the Group's cost base, enhance cash flow and improve the Group's capital position.
- Consolidating the Group's established position in the Australian domestic aviation market.
- Leveraging international opportunities, including in the Asian and North American growth markets.
- Leveraging investment in the Velocity business to drive further growth.
- Continuing the positive trajectory on debt reduction.

(8) This non-IFRS information has not been audited or reviewed by KPMG.

Operating and financial review (continued)

Significant risks and uncertainties

The Group is exposed to a range of risks associated with operating in the domestic and international aviation industry. These include:

- Fuel price and foreign exchange trends, which can significantly affect costs, including fuel, aircraft and funding costs;
- Increases in airport, transit and landing fees, and the costs of ensuring air traffic security;
- Competition from other airlines and from alternative means of transportation;
- Government policy changes or decisions which could have an adverse impact on its business, operations and financial performance;
- Industrial action by unionised employees, which can adversely impact operations, financial performance and staff engagement;
- Stability of critical systems, including technology and communication services, which can disrupt operations;
- Global economic and geopolitical conditions, as well as pandemics, terrorism, severe weather conditions, natural disasters or other Acts of God, which can materially adversely affect operations and demand for air travel;
- Losses associated with major safety or security incidents;
- Ability to obtain sufficient funds on acceptable terms, or at all, to provide adequate liquidity and to finance necessary operating and capital expenditures;
- Liquidity risk, inability to meet financial obligations, including aircraft purchase commitments, as they fall due; and
- Credit risk, failure of counterparties and dependency on third party service and facility providers.

The Group's exposure to these risks has the potential to affect financial performance, operations, liquidity, and/or result in impairment of the Group's cash-generating units (CGUs) and derecognition of defered tax assets. Impairment testing is performed on an annual basis, or more frequently if required, to determine if the impact of key risks has generated impairment losses during the financial year and considers the potential impacts, through sensitivity testing, for future financial years. Refer to note D4 to the consolidated financial statements for further information on impairment testing.

The Group aims to ensure that all activities are undertaken within the Board of Directors (the Board) approved risk appetite and management guidelines and with sufficient independent oversight to protect the safe operations, profitability, financial position and reputation of the Group.

The identification and proactive management of risk reduces uncertainty associated with the execution of the Group's business strategies and allows the Group to maximise opportunities as they arise. All personnel are accountable for identifying, assessing and managing risks in a proactive manner. The Group has established the Audit and Risk Management Committee which is responsible for the internal controls, policies and procedures that the Group uses to identify and manage business risks. The risk management system implemented by the committee is described in further detail on the Company's website www.virginaustralia.com/corporategovernance.

The Group is committed to managing risks in a proactive and effective manner. This commitment is supported by the Group's philosophy and approach to effective risk management and is in line with the principles outlined in the Mission Statement, Safety Policy, Just Culture Policy and Risk Management Policy of the Group.

Significant events after the balance date

In the opinion of the directors, no matters or circumstances have arisen since the reporting date which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Remuneration report – audited

Dear Shareholder

I am pleased to present our remuneration report for the 2017 financial year.

The key focus of the Remuneration Committee is to establish a remuneration structure that ensures the work of Executives is aligned with the best interests of all shareholders. Remuneration is structured to attract and retain Executives with the skills and experience needed to deliver the Group's strategy and reward them for the achievement of business objectives.

The Board has worked to ensure that the remuneration structure is aligned with the Group's focus on strengthening its financial foundation and performance. The 2017 financial year saw the Group focus on strengthening its balance sheet, enhancing cash flow and implementing the Better Business program, which will generate significant and sustainable Free Cash Flow savings. The Group's strong performance in these areas has enhanced its ability to deliver future profitability and supports the Group's objective of delivering value to all shareholders.

The following table provides a summary of the remuneration structure and outcomes for the 2017 financial year.

Fixed Remuneration	There were no fixed increases in remuneration for the CEO or Executives in the 2017 financial year. The Board has also not approved any increases for the 2018 financial year.
Short Term Incentives (STI)	The Board reviewed the 2017 financial year STI structure to ensure it reflected the Group's strong focus on strengthening its financial foundation and performance. This resulted in Board approved changes that include: • the inclusion of Free Cash Flow performance as a measure on the Group Scorecard. This measure was also designated as a performance gateway measure, meaning that the CEO and Executives were not eligible to receive an STI payment unless the Free Cash Flow target was achieved; and • the inclusion of Better Business program performance as a measure on the Group Scorecard. The STI awarded for the 2017 financial year reflects the strong progress the Group made in improving its Free Cash Flow position and in implementing the Better Business program. The Group reported a $126.4 million improvement in Free Cash Flow for the 2017 financial year. The Group also finished the 2017 financial year ahead of schedule in implementation of the Better Business program and increased its 2019 financial year savings target for the program. Group performance also met scorecard targets that the Board set on safety and customer satisfaction, while the people and culture target was partially met. The profit target was not met for the 2017 financial year. The Board has also reviewed the STI structure for the 2018 financial year, which will be similar to the 2017 financial year structure. Given the Group has completed the first year of the Better Business program and has developed positive momentum on Free Cash Flow, there will be an increased weighting on profitability within the Group Scorecard for the 2018 financial year. In addition, profit will form a performance gateway against Group financial measures. This means that for the 2018 financial year the CEO and Executives are not eligible to receive STI payments in relation to Group financial measures unless the profit gateway is achieved. The STI for the CEO Velocity Frequent Flyer was 70% aligned to the Velocity Frequent Flyer Scorecard and 30% aligned to the Group Scorecard. As a result of the Velocity Frequent Flyer performance gateway not being met, there was no STI payment to the CEO Velocity Frequent Flyer for the 2017 financial year.
Long Term Incentives (LTI)	The performance measure under the 2017 LTI plan is three year Return on Invested Capital (ROIC). ROIC measures how efficiently capital is used to generate earnings growth and reflects an important indicator of long term financial sustainability for the airline. LTI awards to the CEO and Executives are granted in cash. The Board has determined, having regard to the nature of the Group's capital structure with its small free float and limited stock liquidity, that it is appropriate that grants be issued in cash rather than performance rights or options. The LTI awards granted in 2015 were tested against their performance measures during the year. The performance measures for the CEO were 50% ROIC and 50% corporate measures. For Executives, the performance measure was 100% ROIC. The Group's growth in ROIC performance has led to above target vesting outcomes for the CEO and Executives under the 2015 LTI grant. The Group has delivered on all corporate measures linked to the CEO's LTI. The CEO Velocity Frequent Flyer does not participate in the Group LTI plan as he participates in a separate LTI plan governed by the Velocity Frequent Flyer Board.
Non-Executive Director Remuneration	The Board reviewed Director fees during the year. Director fees were last increased in March 2010 and independent benchmarking showed that fees were well below comparable external benchmarks of similarly sized ASX listed companies. The Board determined after careful consideration to increase fees payable to independent Non-Executive Directors from 1 December 2016 and at this time cease the payment of fees to shareholder nominated Directors.

I invite you to read the full report which outlines the Group's remuneration philosophy and remuneration outcomes for the 2017 financial year. It is our intention to provide details on Executive remuneration in a manner that is clear, concise and transparent. In addition to the fulfilment of statutory reporting obligations, the Group has voluntarily disclosed the actual remuneration received by the CEO and Executives in the 2017 financial year.

Sam Mostyn
Chairman, Remuneration Committee

Remuneration report - audited (continued)

The report is structured as follows:

Key management personnel

The Remuneration Report sets out remuneration information for the key management personnel (KMP) of the Group.

KMP are those people who, directly or indirectly, have authority and responsibility for planning, directing and controlling the activities of the entity and Group.

For the Group, KMP are defined to be;

- Non-Executive Directors;
- Group Chief Executive Officer (CEO); and
- Executives in Group Management Committee positions.

This report has been prepared in accordance with section 300A of the *Corporations Act 2001*.

For the year ended 30 June 2017, the Group Board of Directors were:

Name[(1)]	Position	Term as KMP
Ms E Bryan AM	Chairman	Full Year
Mr J Borghetti AO	Group Chief Executive Officer and Managing Director	Full Year
Mr D Baxby	Independent Director	Full Year
Ms S Mostyn	Independent Director	Full Year
Mr M Tan	Director	Full Year
Mr R Thomas	Independent Director	Full Year
The Hon M Vaile AO	Independent Director	Full Year
Dr C-t Lu	Director	Commenced 16 November 2016
Mr N Qi	Director	Commenced 16 November 2016
Mr K Dean	Independent Director	Commenced 1 December 2016
Mr W Negus	Director	Commenced 3 January 2017
Mr H Mohan	Director	Commenced 30 June 2017
Mr JP Moorhead	Director	Ceased 3 January 2017
Mr B Matheu	Director	Ceased 30 June 2017

(1) During the financial year Mr PT Tan, Mr C Mingqiong (commenced 5 May 2017) and Mr U Huttmeyer (ceased 30 June 2017) served as alternate Directors and were not eligible to receive fees in the current or prior period.

Since the end of the financial year Dr C-t Lu ceased as Director on 24 July 2017. On this date Mr L Xiang and Mr W An (alternate) commenced as Directors. In addition Mr D Baxby ceased as Director on 10 August 2017.

Remuneration report - audited (continued)

Key management personnel (continued)

For the year ended 30 June 2017, the Group Management Committee members were:

Name	Position	Term as KMP
Mr J Borghetti AO	Group Chief Executive Officer and Managing Director	Full Year
Mr G Smith	Chief Financial Officer	Full Year
Ms M McArthur	Group Executive, Virgin Australia Regional Airlines and Group Cargo	Full Year
Mr K Schuster	Chief Executive Officer, Velocity Frequent Flyer	Full Year
Mr R Sharp	Chief Executive Officer, Tigerair Australia[1]	Full Year
Mr L Turner	Group Executive, Business Services	Ceased 1 July 2016
Mr G Hammes	Chief Operating Officer	Ceased 1 September 2016
Mr M Hassell	Chief Customer Officer	Ceased 15 September 2016
Ms J Crompton	Chief Commercial Officer	Ceased 11 November 2016
Mr J Thomas	Group Executive, Virgin Australia Airlines	Commenced 30 September 2016, ceased 29 June 2017

(1) Mr Sharp became acting Group Executive, Virgin Australia Airlines on 29 June 2017.

Remuneration governance

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies, structure and performance of the CEO, Executives and Non-Executive Directors. The Board independently considers these recommendations before making remuneration decisions.

The Remuneration Committee ensures that remuneration policies align with Group strategy and objectives through the attraction, retention and performance of Executives. Full details of the responsibilities of the Remuneration Committee are set out in the Group's Corporate Governance Statement.

The remuneration of the CEO Velocity Frequent Flyer is determined by the Velocity Frequent Flyer Board within the broader Group framework and is aligned to the Velocity Frequent Flyer strategy.

Use of remuneration consultants

During the 2017 financial year the Board did not receive any remuneration recommendations from a remuneration consultant as defined by the *Corporations Act 2001*. The Board appointed Mercer Consulting (Australia) Pty Ltd to provide market advice.

Mandatory shareholding requirements

The Group does not have mandatory shareholding requirements for the CEO, Executives or Non-Executive Directors.

The Remuneration Committee considers that the interests of the CEO and Executives are sufficiently aligned with the Group strategy and objectives and shareholder interests through the current short and long term incentive design.

Securities trading policy

The Group securities trading policy applies to all Directors and employees of the Group. The policy ensures all Directors and employees are aware of the legal restrictions on trading Company securities while in possession of unpublished price sensitive information. Directors and Executives are required to obtain consent prior to dealing Company securities. Trading is only permitted during nominated trading windows, which are open for a four week period commencing on the first trading day after the release of the Company's quarterly, half-year and full year results. A copy of the Securities Trading Policy is available on the Company's website.

The Securities Trading Policy prohibits short term trading and hedging economic exposure to unvested options issued pursuant to an employee option plan. Directors and the CEO are prohibited from obtaining margin loans using the Company's securities as security for loans.

Use of Board discretion

The Board maintains absolute discretion in finalising remuneration outcomes for incentive based awards to the CEO and Executives. The Board may exercise discretion (either up or down) to take into account the impacts of external market conditions outside the control of the CEO and Executives. The Board is cognisant of ensuring any exercise of discretion reinforces the Group strategy and remuneration philosophy.

Remuneration report - audited (continued)

Executive remuneration overview

Remuneration philosophy

The Virgin Australia Group is focused on delivering sustainable shareholder returns through lowering its cost base, growing revenue and earnings and further optimising its balance sheet. At the same time the Group is firmly committed to delivering more choice and the best customer experience to Australian and international travellers.

The continued growth, development and success of the Group requires the alignment of Executive remuneration to the achievement of the Group strategy and delivery of shareholder returns.

Group Strategy

↓

Remuneration Strategy

A framework that attracts and retains high quality Executives and rewards performance aligned to Group strategic objectives and delivery of shareholder returns over the short, medium and long term

↓

Remuneration Philosophy

Externally competitive	Pay for performance	Align with shareholders
The Board believes that the delivery of the Group's strategy requires the recruitment and retention of talented Executives at a competitive market rate	Remuneration outcomes aim to deliver appropriate and fair rewards to the CEO and Executives consistent with the short, medium and long term objectives of the Group	Remuneration is structured to reward the delivery of shareholder return over the medium and long term

Summary of remuneration components

Fixed Remuneration	Short Term Incentive (STI)	Long Term Incentive (LTI)
Fixed remuneration includes base salary and superannuation. The Board sets fixed remuneration levels to ensure the CEO and Executives are fairly remunerated relative to similarly sized ASX listed companies and is reflective of each individual's skills and experience.	The STI is linked to performance over a one year period. A balanced scorecard approach has been adopted with financial and non-financial measures linked to Group strategy and objectives. Any payment under the STI in the 2017 financial year is subject to achieving the annual Free Cash Flow target. A portion of the award is paid in cash following the end of the performance period. The remaining portion is deferred in cash over one year.	The LTI is linked to financial performance over a three year period. Its structure takes into consideration the nature of the Group's capital structure with its small free float and limited stock liquidity. The LTI is a cash based plan paid upon delivery of significant improvement in Return on Invested Capital (ROIC). ROIC has been selected as it is an important indicator of sustainability and profitability for an airline Group and is based on several financial metrics, including earnings and invested capital.

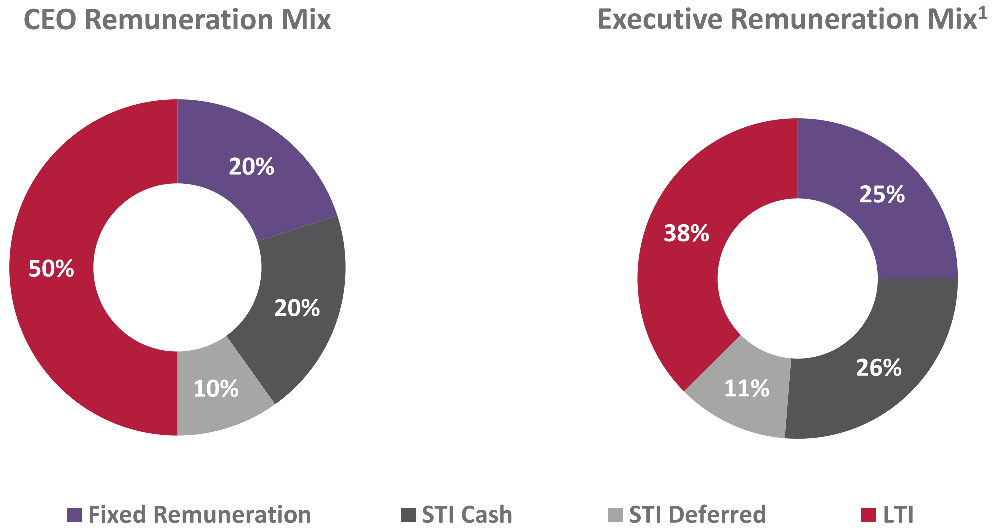
The remuneration of the CEO Velocity Frequent Flyer is determined by the Velocity Frequent Flyer Board within the broader Group framework. In addition to alignment with the Group Scorecard, the CEO Velocity Frequent Flyer has a set of measures under the STI aligned to Velocity Frequent Flyer performance. The CEO Velocity Frequent Flyer participates in a separate LTI plan governed by the Velocity Frequent Flyer Board.

Remuneration report - audited (continued)

Executive remuneration overview (continued)

Remuneration mix

The remuneration mix has been structured to align the CEO and Executives with the short, medium and long term objectives of the Group. The following graphs outline the remuneration mix for the CEO and average mix for Executives at maximum opportunity.



(1) Excludes CEO Velocity Frequent Flyer due to the indeterminate target value of the Velocity Frequent Flyer LTI.

Fixed remuneration

The Group aims to provide fixed remuneration that attracts and retains a CEO and Executives with the skills needed to deliver the Group strategy and objectives.

The Group takes the following factors into account when setting fixed remuneration levels:

- The CEO and Executives' individual skills, experience and ability to deliver Group strategy and objectives; and
- Remuneration levels in comparison to similarly sized ASX listed companies.

The Board did not approve any fixed increases in remuneration for the CEO and Executives in the 2017 financial year and has not approved any changes for the 2018 financial year.

Since the 2013 financial year, the only year in which increases have taken place for the CEO was in the 2016 financial year. This was based on comprehensive benchmarking which was performed against a peer group of ASX listed organisations (excluding mining organisations) with similar size and operational complexity. A similar review was also conducted for Executives. In line with the Group's remuneration philosophy, the CEO and two Executives who were found to be well below the median of the appropriate benchmark for their role received an increase to move their remuneration closer to the median of the peer group. The Executives who were found to be positioned competitively relative to the peer group received an increase in line with the wage price index at the time. This review was done with external advice from Mercer Consulting (Australia).

Short term incentives (STI)

The purpose of the STI is to reward delivery of the Group strategy and objectives both financial and non-financial over a one year time horizon. The performance measures included in the STI program are also designed to align the CEO and Executives' interests with the medium and longer term Group strategy and objectives and to position the Group for sustainable financial performance.

A review of the STI was undertaken at the commencement of the 2017 financial year to align the plan with the outcomes of the capital structure review. This resulted in the introduction of a Free Cash Flow performance gateway for the 2017 financial year and a single Group Scorecard to measure the performance of the CEO and Executives. The Group Scorecard includes both financial and non-financial measures aligned to the performance objectives of the Group strategy and objectives, with a particular emphasis on Free Cash Flow performance and the implementation of the Better Business program.

Remuneration report - audited (continued)

Executive remuneration overview (continued)

Short term incentives (STI) (continued)

How is performance measured?

Performance is measured using a balanced scorecard approach.

The CEO and Executives are aligned to a single Group Scorecard weighted to reflect the financial priorities of the Group. The financial measures are selected by the Board annually based on the alignment to the key financial priorities of the Group in the financial year.

The scorecard also includes non-financial measures relating to customer, safety and people which align closely to the Group strategy and objectives and are viewed by the Board as critical to the overall ongoing success of the Group.

Category		Weighting
Financial	**Group Free Cash** Group free cash flow(1)	25%
	Better Business Program Capital and operational efficiencies	25%
	Profit Underlying Group profit / (loss) before tax(2)	15%
Non-Financial	**Guest Satisfaction** Customer likelihood to recommend	10%
	Safety % lost-time injury per million hours worked	5%
	People and Culture People and culture objectives	5%
Individual	**Individual** Financial / strategic objectives	15%

(1) Free Cash Flow is a non-statutory measure derived from cash generated from operating activities (excluding finance costs and finance income) less cash payments for business restructuring expenses less net cash used in investing activities less equity distributions paid to non-controlling interests.

(2) Underlying profit 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, share of net profit of equity-accounted investee, time value movement on cash flow hedges and unrealised ineffectiveness on cash flow hedges and non-designated derivatives.

Under the Group Scorecard in the 2017 financial year, the CEO and Executives were not eligible to receive an STI payment unless the annual Free Cash Flow target was achieved.

The Board may exercise discretion (either up or down) to determine STI outcomes to take into account the impacts of external market conditions outside the control of the CEO and Executives. The Board is cognisant of ensuring any exercise of discretion reinforces the Group's strategy, objectives and remuneration philosophy.

How much can Executives earn?

The STI sets threshold, target and stretch performance levels.

For the CEO the opportunity at target is equal to 100% of fixed remuneration, for Executives this ranges between 100% and 110% of fixed remuneration.

The CEO and Executives can earn up to 150% of target STI for significant outperformance in the 2017 financial year against annual Free Cash Flow and Better Business program targets. For certain performance measures, where threshold performance levels are delivered participants will be eligible to receive a payout between threshold and target.

How and when is it paid?

STI outcomes are determined by the Board after the end of the financial year, based on recommendations from the Remuneration Committee.

Any approved STI cash payment to the CEO up to $1.0 million is paid in cash, typically in September. Of the remaining portion 50% is paid in cash, typically in September and 50% is deferred in cash and paid in July of the following financial year.

Remuneration report - audited (continued)

Executive remuneration overview (continued)

Short term incentives (STI) (continued)

How and when is it paid? (continued)	For Executives, 70% is paid in cash following Board approval of performance results, typically in September, with the remaining 30% deferred in cash and paid in July of the following financial year. The deferred component for the CEO and Executives is not subject to interest over the deferral period.
What happens if an Executive leaves?	Upon termination of an Executive's employment, the Board has discretion as to whether an Executive may remain in the plan.
What happens in a change of control?	The Board may resolve that all STI plans will become payable.
Are there any other vesting considerations?	The Board maintains absolute discretion to determine vesting of the deferred component.
How does the STI work for the CEO Velocity Frequent Flyer?	The remuneration of the CEO Velocity Frequent Flyer is determined by the Velocity Frequent Flyer Board within the broader Group framework. Performance is measured 30% aligned to the Group Scorecard and 70% to a specific Velocity Frequent Flyer Scorecard set by the Velocity Frequent Flyer Board. The CEO Velocity Frequent Flyer is not eligible to receive STI unless the Velocity Frequent Flyer performance gateway is achieved. Once the performance gateway has been met, performance is measured using a balanced scorecard approach. The Velocity Frequent Flyer Scorecard at target is 60% weighted on EBIT, 10% on Free Cash Flow, 20% on membership growth and 10% on people and culture. The Velocity Frequent Flyer Board may exercise discretion (either up or down) to determine STI outcomes to take into account the impacts of external market conditions outside the control of the CEO Velocity Frequent Flyer. The Velocity Frequent Flyer Board is cognisant of ensuring any exercise of discretion reinforces the Velocity Frequent Flyer strategy, objectives and remuneration philosophy. The CEO Velocity Frequent Flyer has a target STI opportunity equal to 75% of fixed remuneration, with the potential to earn above target for Velocity Frequent Flyer EBIT outperformance. 70% is paid in cash following Velocity Frequent Flyer Board approval of performance results, typically in September, with the remaining 30% deferred in cash and paid in July of the following financial year.

Long term incentives (LTI)

The purpose of the LTI is to reward Executives for the delivery of the long term financial objectives of the Group over a three year time horizon. The plan has been structured based on the nature of the Group's capital structure with its small free float and limited stock liquidity and is directly linked to long term Group financial performance and shareholder interests.

The CEO Velocity Frequent Flyer participates in a separate LTI governed by the Velocity Frequent Flyer Board. No LTI was granted to the CEO Velocity Frequent Flyer in the 2017 financial year.

How is performance measured?	Performance is measured based on ROIC performance over a three year period. ROIC is a profit efficiency ratio which measures how efficiently capital is used to generate earnings. It is an important indicator of long term sustainability and profitability in capital intensive industries such as aviation. ROIC links explicitly to the creation of sustainable earnings growth for long term shareholder return. ROIC targets are set based on the three year business plan. ROIC is defined as underlying EBIT plus aircraft operating leases and notional depreciation on the capitalised value of aircraft operating leases as a percentage of average adjusted net debt and total equity. The Board is satisfied that the performance metric of ROIC is appropriate given it is based on several financial metrics, including earnings and invested capital, which are two of the most critical financial metrics for the Group at this time.

Remuneration report - audited (continued)

Executive remuneration overview (continued)

Long term incentives (LTI) (continued)

<table>
<tr><td>How is performance measured? (continued)</td><td>The Board may exercise discretion (either up or down) to determine LTI outcomes to take into account the impacts of external market conditions outside the control of the CEO and Executives. The Board is cognisant of ensuring any exercise of discretion reinforces the Group's strategy, objectives and remuneration philosophy.

The LTI plan does not permit retesting.</td></tr>
<tr><td>How much can Executives earn?</td><td>The CEO is eligible to receive 100% of his fixed remuneration at target performance levels with the ability to earn up to 250% of fixed remuneration for outperformance.

Executives are eligible to receive an average 31% of fixed remuneration at target with the ability to earn up to 150% of fixed remuneration for outperformance.</td></tr>
<tr><td>What is the vesting schedule for ROIC performance?</td><td>Whilst ROIC performance targets are commercially sensitive and are not disclosed, the vesting schedule for the 2017 grant is outlined in the table below. The Board is of the opinion that performance targets are sufficiently challenging for the CEO and Executives and deliver shareholder return over the medium and long term.

<table>
<tr><th>ROIC Performance</th><th>CEO Vesting</th><th>Executive Vesting</th></tr>
<tr><td>Below threshold</td><td>0%</td><td>0%</td></tr>
<tr><td>Threshold</td><td>75% of target</td><td>75% of target</td></tr>
<tr><td>Between threshold and target</td><td>Straight line between threshold and target</td><td>Straight line between threshold and target</td></tr>
<tr><td>Target</td><td>100% of target</td><td>100% of target</td></tr>
<tr><td>Between target and stretch</td><td>Straight line between target and stretch</td><td>Straight line between target and stretch</td></tr>
<tr><td>At or above stretch</td><td>250% of fixed remuneration</td><td>150% of fixed remuneration</td></tr>
</table></td></tr>
<tr><td>When and how is it paid?</td><td>LTI is delivered in cash at the end of a three year performance period.

The Board has elected to pay incentives in cash rather than issue incentives in stock having regard to the illiquid nature of Virgin Australia Holdings stock and the Group remuneration strategy. The Board is of the view that a cash based plan linked to ROIC performance sets clear objectives for the CEO and Executives which are aligned with the Group's strategy and objectives and rewards them appropriately for their contribution to the financial performance of the Group.</td></tr>
<tr><td>What happens if an Executive leaves?</td><td>Upon termination of an Executive's employment, all awards under the LTI plan are no longer payable. In certain circumstances, at the Board's discretion, an Executive may retain a pro-rated portion of their award subject to the ongoing performance conditions under which they were originally granted.</td></tr>
<tr><td>What happens in a change of control?</td><td>The Board may resolve that all cash-settled LTI plans will become payable.</td></tr>
<tr><td>Are there any forfeiture conditions?</td><td>The Board maintains absolute discretion to determine vesting.</td></tr>
</table>

Remuneration report - audited (continued)

Executive remuneration overview (continued)

Cash-settled performance plans granted in prior financial years

Details of previously granted cash-settled LTI are provided in the table below. The structure of the plans are consistent with details provided in the section above with the exception of the performance hurdles for the LTI 3 grant.

For the LTI 3 grant to the CEO, the Board included strategic and operational measures aligned to the Group strategy and objectives. These included corporate / government revenue targets, Tigerair Australia financial performance, Velocity Frequent Flyer growth and safety performance.

Grant	Grant Date	Participants[1]	Performance Hurdle	Performance Period Start Date	Test Date
LTI 2	2-Oct-14	Executives	ROIC	1-Jul-14	30-Jun-17
LTI 3	15-Oct-14	CEO	50% ROIC 50% Corporate Performance Measures	1-Jul-14	30-Jun-17
LTI 5	18-Sep-15[2]	Executives	ROIC	1-Jul-15	30-Jun-18
LTI 6	11-Sep-15	CEO	ROIC	1-Jul-15	30-Jun-18
LTI 7	23-Nov-16	Executives	ROIC	1-Jul-16	30-Jun-19
LTI 8	16-Nov-16	CEO	ROIC	1-Jul-16	30-Jun-19

(1) Excludes CEO Velocity Frequent Flyer
(2) Grant date for CEO Tigerair Australia was 25 November 2015

LTI option plans granted in prior financial years

The remaining option plan for the CEO was tested on 30 June 2016 and achieved partial vesting in accordance with the Senior Executive Option Plan (SEOP 20) rules. 60% of the resulting shares were transferred to the CEO at the end of the 2016 financial year with the final 40% transferred to the CEO in August 2017.

Grant	Grant Date	Participants	Performance Hurdle	Performance Period Start Date	Test Date
SEOP 20	20-Dec-13	CEO	50% Total Shareholder Return 50% Corporate Performance Measures	1-Jul-13	30-Jun-16

Velocity Frequent Flyer Long Term Incentive granted in prior financial years

The CEO Velocity Frequent Flyer participates in the Velocity Frequent Flyer LTI plan granted in the 2016 financial year. The Velocity Frequent Flyer LTI is a profit participation plan which requires participants to acquire a number of Co-Investment Participation Notes (CPNs) at face value. Participants are then issued additional rights referred to as Profit Participation Notes (PPNs).

Under the plan, participants benefit in upside business performance in the event Velocity Frequent Flyer investors (the Virgin Australia Group and Affinity Equity Partners) exit from their investment in Velocity Frequent Flyer. Participants will only be eligible to receive such a benefit from PPNs held if previously defined performance hurdles are met upon a pre-defined exit event. The benefit payable will depend on the number of PPNs issued to the participant and the value of the PPNs which is linked to pre-agreed hurdle rates in the disposal value earned by investors. In the event that a benefit becomes payable, the participant may be issued further rights in Velocity Frequent Flyer Holdco Pty Ltd or the Velocity Frequent Flyer Board may exercise its discretion to pay this entitlement in cash. This plan is subject to continued employment and good leaver provisions.

The LTI value at target for the CEO Velocity Frequent Flyer is indeterminate due to the nature of PPNs with no predefined exit or vesting date.

Remuneration report - audited (continued)

Executive remuneration overview (continued)

Service agreements

Each Executive has a formal contract, or "service agreement" that is of a continuing nature (subject to termination conditions). The notice periods in the service agreements for the CEO and Executives are summarised below. Under the service agreements, in the event of termination, the Group may provide payments in lieu of notice or for non-compete arrangements, and may exercise its discretion to award incentive payments.

Position	Notice Period Employer(1)	Notice Period Employee
CEO	12 months	6 months(2)
Executive	6 months	6 months

(1) The Group may terminate without notice in the event of any act which detrimentally affects the Group (such as dishonesty, fraud or serious or wilful misconduct in the discharge of his / her duties or unremedied, persistent, wilful or material breaches of the terms of his / her service agreement).

(2) The CEO may terminate employment by giving the Group 30 days' notice in writing on occurrence of a fundamental change (if the CEO ceases to be the most senior executive of the Group, there is substantial diminution in his role and responsibilities or the Company ceases to be listed on a recognised stock exchange), and receives payment equal to 12 months' fixed remuneration. No such arrangements exist for other Executives.

2017 financial year outcomes

Performance against short term incentive measures and outcomes

Following the completion of the capital structure review in 2016, the Board elected to align the 2017 financial year STI with the key outcomes of the capital structure review to enhance the Free Cash Flow and capital position of the Group. This resulted in the Board increasing the weighting in the 2017 Group Scorecard towards improving the Group's free cash position and the inclusion of the implementation of the Better Business program to generate significant and sustainable cash flow savings. The Board also designated the Group's Free Cash Flow target as a performance gateway, meaning that the CEO and Executives were not eligible to receive an STI payment unless the Free Cash Flow target was achieved.

The following table reflects the Group Scorecard outcomes for the 2017 financial year.

Group Scorecard Measure	Scorecard Weighting	2017 Scorecard Outcome
Free Cash Flow	25%	Exceeded
Better Business	25%	Exceeded
Underlying Group Profit Before Tax	15%	Did not meet
Guest Satisfaction	10%	Met
Safety	5%	Met
People and Culture	5%	Partial
Individual	15%	Varies
Total	**100%**	

The Group delivered a significant improvement in Free Cash Flow in the 2017 financial year, recording a positive result of $34.3m, which was $126.4m higher than the 2016 financial year and the first positive Free Cash Flow result since the 2012 financial year.

The first year of the Better Business program was also successfully implemented ahead of schedule.

As the Group has achieved the Free Cash Flow performance gateway set by the Board post the capital structure review, the Board has elected to award STI to the CEO and Executives in line with the outcomes of the Group Scorecard.

The Group has completed the first year of the Better Business program and has developed positive momentum on Free Cash Flow. The STI for the 2018 financial year has an increased weighting on profit and includes a performance gateway based on profit for any payments against Group financial measures.

The CEO Velocity Frequent Flyer Scorecard did not meet the performance gateway for the 2017 financial year and as a result the CEO Velocity Frequent Flyer was not eligible to receive an STI for the 2017 financial year.

Remuneration report - audited (continued)

2017 financial year outcomes (continued)

Long term incentive outcomes

The following table reflects the outcomes for LTI grants tested for the 2017 financial year.

Grant	Grant Date	Participants	Performance Hurdle	Performance Period Start Date	Test Date	% of Target Achieved
LTI 2	2-Oct-14	Executives	ROIC	1-Jul-14	30-Jun-17	110%
LTI 3	15-Oct-14	CEO	50% ROIC 50% Corporate Performance Measures	1-Jul-14	30-Jun-17	105%

The corporate performance measures under the LTI 3 grant to the CEO were tested on 30 June 2017. The Board determined that 100% of the corporate performance measures had been achieved. This included the achievement of:

- Corporate / government revenue targets;
- Tigerair Australia financial performance;
- Velocity Frequent Flyer membership growth; and
- Safety performance measured based on lost-time injury frequency rates.

Overview of company performance

The table below provides summary information on the Group's financial performance and the effect on shareholder wealth for the five years to 30 June 2017.

Financial Year	2017	2016	2015	2014	2013
Segment EBIT ($m)	164.1	210.6	65.9	(126.0)	6.0
Underlying Group profit / (loss) before tax ($m)	(3.7)	41.0	(49.1)	(211.7)	(93.8)
Net (loss) / profit attributable to owners ($m)	(220.3)	(260.9)	(110.8)	(353.8)	(98.1)
Share price ($)	0.16	0.21	0.43	0.43	0.43
Change in share price ($)	(0.05)	(0.22)	–	–	0.04
Dividends paid ($m)	–	–	–	–	–
EPS (cents)	(2.8)	(7.4)	(3.2)	(11.4)	(4.1)
ROIC (%)	8.3	8.9	6.1	1.7	3.5

Actual remuneration outcome for the CEO and Executives in the 2017 financial year

The actual remuneration received by the CEO and Executives that were with the Group for the full 2017 financial year are set out below. It includes the value of fixed remuneration paid and any incentives that have vested at 30 June 2017. This differs from the remuneration details prepared in accordance with statutory obligations and accounting standards.

Name	Fixed Remuneration	Non-Deferred STI(1)	Deferred STI(2)	LTI Paid(3)	Total Actual Remuneration
Mr J Borghetti AO	$1,950,000	$1,796,750	$0	$1,821,071	$5,567,821
Mr G Smith	$700,000	$656,600	$81,809	$211,500	$1,649,909
Ms M McArthur	$565,000	$513,590	$94,341	$322,777	$1,495,708
Mr K Schuster	$550,000	$0	$139,219	N/A	$689,219
Mr R Sharp	$615,630	$512,820	$76,971	N/A	$1,205,421

(1) Reflects the value of the 2017 STI that vested 30 June 2017 and is not subject to deferral.
(2) Reflects the value of 2016 deferred cash STI that vested 30 June 2017.
(3) Includes the value of cash LTI granted in the 2015 financial year and tested 30 June 2017. Additionally for the CEO the value of the second tranche of SEOP 20 (equal to $0.16 per option at vesting) that vested 30 June 2017 based on achievement against performance hurdles tested in the prior year.

Remuneration report - audited (continued)

Non-Executive Director remuneration

Virgin Australia Holdings Limited

The Board reviewed Director fees during the year. Director fees were last increased in March 2010 and independent benchmarking showed that fees were well below comparable external benchmarks for similarly sized ASX listed companies. The Board determined after careful consideration to increase fees payable to independent Non-Executive Directors and to cease the payment of fees to shareholder nominated Directors from 1 December 2016.

Independent Non-Executive Directors receive a base fee and where an Independent Non-Executive Director participates in a Board Committee, an additional fee is payable in recognition of the increased workload and additional responsibilities. Each Committee Chairman receives a premium over Committee Member fees reflecting the relative role responsibilities and expected time commitment. The Chairman of the Board is not eligible to receive additional fees for Committee participation.

For the purposes of ASX Listing Rule 10.17 and rule 47 of the Virgin Australia Holdings Constitution, a maximum aggregate amount of $1.2 million per annum may be paid or provided to Non-Executive Directors by way of:

(a) Directors' fees (within the meaning contemplated by ASX Listing Rule 10.17); and

(b) Remuneration (within the meaning contemplated by rule 47 of the Virgin Australia Holdings Constitution) for their services as Directors of the Company.

The $1.2 million limit was approved by shareholders at the Company's Annual General Meeting in November 2011. The total amounts of such fees and remuneration for the 2017 financial year were below the $1.2 million limit.

The annual fees paid to independent Non-Executive Directors for Board and Committee membership are set out in the table below and are inclusive of superannuation.

	Board	Audit and Risk Management Committee	Remuneration Committee	Nomination Committee	Safety and Operational Risk Committee
Chairman	$300,000	$40,000	$25,000	Nil	$25,000
Members	$140,000	$10,000	$10,000	$10,000	$10,000

Non-Executive Directors do not receive incentive payments and are not eligible to participate in any Executive or employee share acquisition plans established by the Group. Non-Executive Directors are not entitled to any termination benefits.

Virgin Australia International Holdings Pty Ltd

Members of the Board of Directors of Virgin Australia International Holdings Pty Ltd (VAIH), which under Accounting Standards is a controlled entity of the Company, receive an annual fee of $75,000. The Chairman of VAIH receives an annual fee of $140,000.

Mr Borghetti, in his capacity as a director of the VAIH Board, has elected to receive 50 per cent of the annual director fee, $37,500, which he has elected to donate to charity.

Travel entitlements

Independent Non-Executive Directors receive annual travel entitlements. Under the current Board-approved travel policy (which took effect on 1 December 2016), each Independent Non-Executive Director is entitled to 2 return international trips and 4 return domestic trips (flying business class) per financial year. Flights are not cumulative and lapse if they are not used during the financial year in which the entitlement exists. The accounting value of the travel benefit is captured in the remuneration table as a non-monetary benefit for travel during the relevant financial year.

Remuneration report - audited (continued)

Statutory tables

Non-Executive Directors

Details of the remuneration of Non-Executive Directors for the financial years ended 30 June 2017 and 30 June 2016 are set out in this section.

	Year	Cash salary and fees $'000	Non-monetary benefits[(1)] $'000	Superannuation benefits $'000	Total compensation $'000
Non-Executive Directors[(2)]					
Ms E Bryan AM[(3)]	**2017**	**299**	**22**	**24**	**345**
	2016	228	–	22	250
Mr D Baxby[(4)]	**2017**	**185**	**103**	**18**	**306**
	2016	87	78	8	173
Ms S Mostyn	**2017**	**139**	**30**	**13**	**182**
	2016	108	–	10	118
Mr R Thomas	**2017**	**137**	**7**	**14**	**158**
	2016	110	13	10	133
The Hon M Vaile AO	**2017**	**134**	**57**	**13**	**204**
	2016	110	4	10	124
Mr M Tan (commenced 1 January 2016)	**2017**	**35**	**–**	**–**	**35**
	2016	38	–	4	42
Mr K Dean (commenced 1 December 2016)	**2017**	**95**	**5**	**9**	**109**
	2016	–	–	–	–
Mr JP Moorhead (commenced 22 September 2015, ceased 3 January 2017)	**2017**	**35**	**–**	**–**	**35**
	2016	59	–	6	65

(1) Non-monetary benefits relate to travel entitlements as detailed on page 33.

(2) Directors not included in the table above are all shareholder nominated Directors and did not receive fees in the 2016 or 2017 financial years.

(3) Ms Bryan's compensation includes Director fees of $68,493 (2016: $68,493) and superannuation of $6,507 (2016: $6,507) relating to her services provided to VAIH in her capacity as director.

(4) Mr Baxby's compensation includes Director fees of $63,829 (2016: Nil) and superannuation of $6,064 (2016: Nil) relating to his services provided to Velocity Frequent Flyer in his capacity as Director which commenced 17 August 2016. Since the end of the financial year Mr Baxby has ceased as Director of Velocity Frequent Flyer effective 18 July 2017.

Remuneration report - audited (continued)

Statutory tables (continued)

Key management personnel

Details of the remuneration of KMP for the financial years ended 30 June 2017 and 30 June 2016 in line with statutory requirements are set out in this section.

		Short term benefits					Long term benefits				Share based payments			
		Cash salary and fees	Cash settled STI	Deferred cash settled STI	Other short term benefits	Non-monetary benefits[1]	Cash settled LTI[2]	Other long term benefits[3]	Superannuation benefits	Termination benefits[4]	Equity settled STI	Equity settled LTI	Total	Percentage performance related
	Year	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	% of total
Executive Director														
Mr J Borghetti AO[5]	**2017**	**1,930**	**1,797**	**398**	**33**	**25**	**2,195**	**17**	**20**	**–**	**–**	**93**	**6,508**	**69**
	2016	1,931	341	121	50	16	1,067	238	19	–	–	375	4,158	47
Other KMP														
Ms M McArthur	**2017**	**523**	**514**	**157**	**–**	**108**	**335**	**–**	**20**	**–**	**–**	**–**	**1,657**	**61**
	2016	555	220	138	–	48	6	–	19	–	6	–	992	37
Mr R Sharp	**2017**	**580**	**513**	**148**	**–**	**23**	**124**	**–**	**35**	**–**	**–**	**–**	**1,423**	**55**
	2016	597	180	95	–	–	35	–	35	–	–	–	942	33
Mr G Smith (commenced as KMP 23 September 2015)	**2017**	**676**	**657**	**182**	**–**	**69**	**274**	**–**	**20**	**–**	**–**	**–**	**1,878**	**59**
	2016	496	191	41	–	1	46	25	16	–	3	–	819	34
Mr K Schuster (commenced 1 October 2015)	**2017**	**530**	**–**	**70**	**–**	**31**	**–**	**100**	**20**	**–**	**–**	**666**	**1,417**	**52**
	2016	396	325	70	–	102	–	75	14	–	–	261	1,243	53
Mr L Turner (commenced as KMP 1 December 2015, ceased 1 July 2016)	**2017**	**1**	**–**	**28**	**–**	**–**	**(134)**	**–**	**0**	**569**	**–**	**–**	**464**	**(23)**
	2016	275	130	28	–	8	8	–	11	–	2	–	462	36
Mr G Hammes (ceased 1 September 2016)	**2017**	**128**	**–**	**38**	**–**	**153**	**(53)**	**–**	**3**	**629**	**–**	**–**	**898**	**(2)**
	2016	620	177	140	–	181	39	–	19	–	–	–	1,176	30
Mr M Hassell (ceased 15 September 2016)	**2017**	**122**	**–**	**28**	**–**	**18**	**(45)**	**–**	**4**	**615**	**–**	**–**	**742**	**(2)**
	2016	497	133	113	–	153	4	–	19	–	5	–	924	27
Ms J Crompton (ceased 11 November 2016)	**2017**	**213**	**–**	**29**	**–**	**38**	**(148)**	**–**	**7**	**450**	**–**	**–**	**589**	**(20)**
	2016	550	133	110	–	22	5	–	19	–	4	–	843	29
Mr J Thomas (commenced 30 September 2016, ceased 29 June 2017)	**2017**	**767**	**–**	**–**	**–**	**317**	**–**	**–**	**15**	**990**	**–**	**–**	**2,089**	**–**
	2016	–	–	–	–	–	–	–	–	–	–	–	–	–

(1) Non-monetary benefits include travel entitlements and expatriate benefits such as relocation.

(2) The table above has been restated since the 2016 financial year disclosures to include the expense value of cash based long term incentives which had previously been disclosed in the equity and deferred cash tables.

(3) Other long term benefits include movements in annual leave where the accrual was greater than 20 days. Long term benefits for Mr Schuster includes the accrued value (recognised over a two year period from his commencement) for a one-off commencement bonus of $200,000 which was paid following his commencement as CEO Velocity Frequent Flyer and may be clawed back should the CEO Velocity Frequent Flyer be deemed a bad leaver or resign his position within two years of commencement.

(4) The relevant accounting standard requires that certain payments be treated as termination benefits, although not so regarded for the purposes of Division 2 Part 2D.2 of the Corporations Act. The Group confirms that benefits provided are compliant with the Corporations Act.

(5) Cash salary and fees for Mr Borghetti include Director fees of $37,500 (2016: $37,500) relating to services provided in his capacity as director of VAIH, which he has elected to donate to charity. Short term benefits for Mr Borghetti in the current and prior financial year include cash payments made to compensate for the impact that the Entitlement Offer launched on 6 July 2016 had on SEOP 20 as an unvested employee option plan. 60% of the total payment ($49,834) was paid in July 2016 with the remaining 40% ($33,223) paid in July 2017 in line with the vesting schedule of SEOP 20.

Remuneration report - audited (continued)

Equity and deferred cash tables

Equity instruments held by Executives

Options and performance rights over equity instruments of Virgin Australia Holdings Limited

The movement during the reporting period in the number of options and performance rights over ordinary shares in Virgin Australia Holdings Limited held directly, indirectly or beneficially, by each KMP, including their related parties, is as follows.

2017	Held at 1 July 2016 '000	Commenced as KMP '000	Granted '000	Exercised(1) '000	Other changes(2) '000	Ceased as KMP '000	Held at 30 June 2017 '000	Vested during the year '000	Vested and exercisable at 30 June 2017 '000
Executive Director									
Mr J Borghetti AO	1,881	–	–	(1,307)	–	–	574	574	574
Other KMP(3)									
Ms M McArthur	41	–	–	(41)	–	–	–	41	–
Mr G Smith	30	–	–	(30)	–	–	–	30	–
Mr L Turner (ceased 1 July 2016)	13	–	–	(13)	–	–	–	13	–
Mr M Hassell (ceased 15 September 2016)	33	–	–	(33)	–	–	–	33	–
Ms J Crompton (ceased 11 November 2016)	28	–	–	(28)	–	–	–	28	–

(1) These options and performance rights are exercised at nil amounts per option and performance right. There are no amounts unpaid on the shares issued as a result of the exercise of the options in the 2017 financial year.

(2) Other changes represent options and performance rights that lapsed or were forfeited during the year.

(3) No other Executive held options or performance rights over ordinary shares in the Company in the current or prior period.

Remuneration report - audited (continued)

Equity and deferred cash tables (continued)

LTI – Cash-settled performance plan compensation granted during the 2017 financial year and previous plans

Grants under the cash-settled performance plan made during the 2017 financial year and previous grants yet to vest are detailed below.

During the reporting period, $2,557,281 (2016: $153,000) awards were paid as compensation. Details of awards provided as LTI compensation, vested and lapsed during the period in which each individual was considered to be KMP, are detailed in the table below. Nil awards lapsed and $655,000 were forfeited during the financial year. The minimum payment under each of the LTI plans is nil.

			Value of cash-settled LTI								
2017	Date granted	Performance plan	Balance at beginning of year $'000	Allocated in year $'000	Vested in year $'000	Forfeited in year $'000	Balance at end of year $'000	Forfeited in year %	Financial year in which grant vests	Remaining value to be allocated in future financial years $'000	Maximum potential future allocation available for outperformance $'000
Executive Director											
Mr J Borghetti AO	15-Oct-14	LTI 3	834	895	(1,729)	–	–	–	30-Jun-17	–	–
	11-Sep-15	LTI 6	650	650	–	–	1,300	–	30-Jun-18	650	2,925
	15-Nov-16	LTI 8	–	650	–	–	650	–	30-Jun-19	1,300	2,925
Other KMP											
Ms M McArthur	2-Oct-14	LTI 2	114	209	(323)	–	–	–	30-Jun-17	–	–
	18-Sep-15	LTI 5	63	63	–	–	126	–	30-Jun-18	64	658
	23-Nov-16	LTI 7	–	63	–	–	63	–	30-Jun-19	127	658
Mr R Sharp	25-Nov-15	LTI 5	62	62	–	–	124	–	30-Jun-18	61	738
	23-Nov-16	LTI 7	–	62	–	–	62	–	30-Jun-19	123	738
Mr G Smith (commenced as KMP 23 September 2015)	2-Oct-14	LTI 2	70	142	(212)	–	–	–	30-Jun-17	–	–
	13-Nov-15	LTI 5	62	62	–	–	124	–	30-Jun-18	62	737
	23-Nov-16	LTI 7	–	70	–	–	70	–	30-Jun-19	140	840
Mr L Turner (ceased 1 July 2016)	2-Oct-14	LTI 2	84	–	–	(84)	–	100	30-Jun-17	–	–
	1-Dec-15	LTI 5	50	–	–	(50)	–	100	30-Jun-18	–	–
Mr G Hammes (ceased 1 September 2016)	2-Oct-14	LTI 2	126	10	(136)	–	–	–	30-Jun-17	–	–
	18-Sep-15	LTI 5	63	11	–	(74)	–	100	30-Jun-18	–	–
Mr M Hassell (ceased 15 September 2016)	2-Oct-14	LTI 2	104	10	(111)	(3)	–	3	30-Jun-17	–	–
	18-Sep-15	LTI 5	52	11	–	(63)	–	100	30-Jun-18	–	–
Ms J Crompton (ceased 11 November 2016)	2-Oct-14	LTI 2	126	24	(46)	(104)	–	69	30-Jun-17	–	–
	18-Sep-15	LTI 5	68	25	–	(93)	–	100	30-Jun-18	–	–
Mr J Thomas (commenced 30 September 2016, ceased 29 June 2017)	23-Nov-16	LTI 7	–	184	–	(184)	–	100	30-Jun-19	–	–

Remuneration report - audited (continued)

Equity and deferred cash tables (continued)

Options and rights granted as compensation

All options and rights refer to options or rights over ordinary shares in Virgin Australia Holdings Limited, which are exercisable on a one for one basis and are provided at no cost to the recipient. Details of options granted as LTI and rights granted as STI, exercised and lapsed, including vesting profiles, during the period in which each individual was considered to be KMP, are detailed in the table below.

The Velocity Frequent Flyer LTI relates to a right to receive a variable number of Co-Investment Participation Notes (CPNs) in Velocity Frequent Flyer Holdco Pty Ltd. The CPNs convert into ordinary shares in Velocity Frequent Flyer Holdco Pty Ltd on a pre-defined Exit event. 5,000 CPN rights and 40,000 Profit Participation Notes (PPN) rights were granted to CEO Velocity Frequent Flyer on 14 December 2015 and no rights have vested or lapsed during the year. The fair value per right net of face value paid at the time of grant is $0.57 for CPNs and $36.03 for PPNs with $nil exercise price.

No options or rights have been granted since the end of the financial year.

2017	Date granted	Option plan / right plan	Number of unvested options / rights: Balance at beginning of year '000	Granted in year '000	Vested in year '000	Lapsed in year '000	Balance at end of year '000	Exercised in year '000	Vested and exercisable '000	Fair value per option / right at grant date(1) $	Exercise price per option / right $	Vested in year %	Lapsed in year(2) %	Value of options / rights granted in year $'000	Financial years in which grant vests	Expiry date
Executive Director																
Mr J Borghetti AO	20-Dec-13	SEOP 20	574	–	574	–	–	860	574	0.29	0.00	100	0	–	30-Jun-16/17(3)	30-Jun-17/18(3)
Other KMP(4)																
Ms M McArthur	11-Sep-13	KEPP 13	41	–	(41)	–	–	41	–	0.43	0.00	100	0	–	1-Jul-14/15/16(5)	1-Jul-15/16/17
Mr G Smith	23-Sep-15	KEPP 13	30	–	(30)	–	–	30	–	0.43	0.00	100	0	–	1-Jul-14/15/16(5)	1-Jul-15/16/17
Ms J Crompton (ceased 11 November 2016)	11-Sep-13	KEPP 13	28	–	(28)	–	–	28	–	0.43	0.00	100	0	–	1-Jul-14/15/16(5)	1-Jul-15/16/17
Mr M Hassell (ceased 15 September 2016)	11-Sep-13	KEPP 13	33	–	(33)	–	–	33	–	0.43	0.00	100	0	–	1-Jul-14/15/16(5)	1-Jul-15/16/17
Mr L Turner (ceased 1 July 2016)	1-Dec-15	KEPP 13	13	–	(13)	–	–	13	–	0.43	0.00	100	0	–	1-Jul-14/15/16(5)	1-Jul-15/16/17

(1) The fair value of options at grant date under SEOP 20 is independently calculated using a Monte Carlo simulation, the valuation is undertaken in a risk-neutral framework and takes into consideration share price volatility, dividend yield, the risk free rate, the withdrawal rate and the probability that performance hurdles are met along with constants such as the strike price, option term and vesting periods. The fair value of rights under KEPP 13 at grant date is independently calculated using a discounted cash flow technique taking into consideration the share price and dividends forgone over the vesting period.

(2) The percentage forfeited and lapsed during the year represents the reduction from the maximum number of options / rights available for vesting due to performance or service conditions not being achieved.

(3) Of the options which vest, 60% vested on 30 June 2016 (share price of $0.24 on exercise) and 40% vested on 30 June 2017. Options that have vested are exercisable no later than 12 months after vesting, after which time they will lapse.

(4) No other Executive was awarded options or rights over ordinary shares in the Company in the current or prior period.

(5) Of the performance rights which vest, 58% vested on 1 July 2014, 28% vested on 1 July 2015 and 14% vested on 1 July 2016. All performance rights granted under KEPP 13 have vested and were converted into shares immediately on vesting.

Remuneration report - audited (continued)

Additional information

Movements in shares

The movement during the reporting period in the number of ordinary shares in Virgin Australia Holdings Limited held directly, indirectly or beneficially, by each KMP including their related parties, is as follows:

2017[1]	Balance at 1 July 2016 '000	Commenced as KMP '000	Received on exercise of performance rights / options '000	Purchases '000	Sales '000	Ceased as KMP '000	Balance at 30 June 2017 '000
Directors of Virgin Australia Holdings Limited							
Ms E Bryan AM	114	–	–	113	–	–	227
Mr J Borghetti AO	7,589	–	1,307	471	–	–	9,367
Mr D Baxby	54	–	–	55	–	–	109
Ms S Mostyn	125	–	–	125	–	–	250
Mr R Thomas	659	–	–	640	–	–	1,299
The Hon M Vaile AO	30	–	–	30	–	–	60
Other KMP							
Ms M McArthur	171	–	41	–	–	–	212
Mr G Smith	91	–	30	–	–	–	121
Mr L Turner (ceased 1 July 2016)	23	–	13	–	–	(36)	N/A
Mr M Hassell (ceased 15 September 2016)	553	–	33	–	–	(586)	N/A
Ms J Crompton (ceased 11 November 2016)	181	–	28	–	–	(209)	N/A

(1) No other Directors or Executive held shares in the Company in the current or prior period.

Insurance of officers

During the financial year, the Group paid premiums in respect of Directors' and officers' liability insurance contracts which cover former Directors and officers, including Executive officers of the entity and Directors, Executive officers and secretaries of its controlled entities. The Directors have not included the amount of the premium paid in respect of the Directors' and officers' liability insurance contracts as such disclosure is prohibited under the terms of the insurance contract.

Loans to KMP and their related parties

For the 2017 financial year, there were no loans made, guaranteed, secured or outstanding in relation to KMP or their related parties (2016: nil).

Other transactions with KMP

A number of KMP hold positions in other subsidiaries of the parent entity that result in them having control or significant influence over the financial and operating policies of those entities. A number of these entities transacted with the Group in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-KMP related entities on an arm's-length basis. Refer to note G4 to the consolidated financial statements.

Share options

Unissued shares under option

As at the date of this report, there are no unissued shares of the Company under option.

Shares issued as a result of the exercise of options

During the financial year ended 30 June 2017, the Company issued 447,427 ordinary shares as a result of the exercise of options, for which no exercise or issue price was payable. The amount paid and unpaid on each of those issued shares is nil.

Environmental regulation

The Group's operations are subject to carbon emissions reporting, noise restrictions and other similar environmental regulations. The directors believe that the Group has adequate systems in place to appropriately manage the Group's environmental impacts and reporting requirements.

Indemnification and insurance of officers and auditors

The Company has agreed to indemnify the directors and officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as a director or an officer of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

The Company has directors' and officers' liability insurance contracts in place, for all current and former officers of the Company (including directors and the company secretary). The directors have not included the details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance contracts, as such disclosure is prohibited under the terms of the insurance contract.

Non-audit services

During the year ended 30 June 2017, KPMG, the Group's auditor, performed certain other services in addition to its statutory duties as auditor.

The directors have considered the non-audit services provided during the year ended 30 June 2017 and are satisfied that the provision of those non-audit services is compatible with, and did not compromise, the general standard of independence for auditors imposed by the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Management Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the non-audit services provided undermined the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid or payable to KPMG and its related practices for audit and non-audit services provided, during the year ended 30 June 2017, are set out in note G5 to the consolidated financial statements (located on page 100 of this document).

The lead auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 42 and forms part of the directors' report.

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 financial statements and directors' report have been rounded to the nearest one hundred thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of the directors:

Elizabeth Bryan
Director

John Borghetti
Director

Sydney

This report is made on 20 September 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 audit of Virgin Australia Holdings Limited for the financial year ended 30 June 2017 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

John Wigglesworth

Partner

Sydney, 20 September 2017

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Financial Report

For the year ended 30 June 2017

This financial report covers the Virgin Australia Holdings Limited Group, consisting of Virgin Australia Holdings Limited ACN 100 686 226 and its controlled entities. The financial report is presented in Australian dollars.

Consolidated financial statements

For the year ended 30 June 2017

Contents

Contents (continued)

Consolidated statement of profit or loss

For the year ended 30 June 2017

	Note	2017 $m	2016 $m
Revenue and income			
Airline passenger revenue	B3	**4,275.3**	4,194.8
Other ancillary revenue	B3	**765.3**	790.9
Other income		**3.8**	18.2
Net foreign exchange gains		**2.9**	17.1
Revenue and income		**5,047.3**	5,021.0
Operating expenditure			
Aircraft operating lease expenses	B4	**(420.3)**	(360.6)
Airport charges, navigation and station operations		**(1,023.8)**	(984.1)
Contract and other maintenance expenses		**(238.5)**	(182.0)
Commissions and other marketing and reservations expenses		**(430.0)**	(408.2)
Fuel and oil		**(866.7)**	(1,018.8)
Labour and staff related expenses		**(1,219.2)**	(1,157.8)
Impairment losses on assets classified as held for sale	D1	**(7.8)**	(107.3)
Impairment losses on other assets	B4	**(65.9)**	(118.1)
Onerous contract expenses	C6	**(29.6)**	(100.2)
Other expenses from ordinary activities	B4	**(516.9)**	(531.6)
Depreciation and amortisation		**(309.7)**	(282.2)
Time value movement and ineffectiveness on cash flow hedges		**(42.8)**	(27.8)
Net operating expenditure		**(5,171.2)**	(5,278.7)
Share of net profit of equity-accounted investee	F2	**2.1**	0.7
Loss before net finance costs and tax		**(121.8)**	(257.0)
Finance income		**16.9**	11.4
Finance costs	B4	**(184.7)**	(181.0)
Net finance costs		**(167.8)**	(169.6)
Loss before tax		**(289.6)**	(426.6)
Income tax benefit	B5	**103.8**	201.9
Loss		**(185.8)**	(224.7)
Attributable to:			
Owners of the Company		**(220.3)**	(260.9)
Non-controlling interests	F5	**34.5**	36.2
		(185.8)	(224.7)

Earnings per share		Cents	Cents
Basic earnings per share	B2	**(2.8)**	(7.4)
Diluted earnings per share	B2	**(2.8)**	(7.4)

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 year ended 30 June 2017

	Note	2017 $m	2016 $m
Loss		**(185.8)**	(224.7)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations (nil related tax)		**14.4**	(19.1)
Effective portion of changes in fair value of cash flow hedges		**(59.0)**	(115.0)
Net change in fair value of cash flow hedges transferred to profit or loss		**3.4**	128.6
Effective portion of changes in fair value of cash flow hedges (time value of options)		**(62.4)**	(40.1)
Net change in fair value of cash flow hedges transferred to profit or loss (time value of options)		**43.1**	28.9
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item		**3.9**	2.0
Income tax benefit/(expense) on other comprehensive income		**21.3**	(1.4)
Other comprehensive loss, net of tax		**(35.3)**	(16.1)
Total comprehensive loss		**(221.1)**	(240.8)
Attributable to:			
Owners of the Company		**(255.6)**	(277.0)
Non-controlling interests	F5	**34.5**	36.2
		(221.1)	(240.8)

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 30 June 2017

	Note	2017 $m	2016 $m
Current assets			
Cash and cash equivalents	E2	**1,396.1**	1,123.8
Receivables	C1	**308.9**	313.2
Inventories	C2	**46.3**	42.3
Derivative financial instruments	E7	**2.4**	26.3
Other financial assets	C3	**25.2**	32.2
Assets classified as held for sale	D1	**4.3**	171.6
Other	C4	**4.3**	4.3
Total current assets		**1,787.5**	1,713.7
Non-current assets			
Receivables	C1	**162.4**	129.0
Derivative financial instruments	E7	**6.6**	23.2
Other financial assets	C3	**292.5**	265.0
Investment accounted for using the equity method	F2	**4.6**	4.0
Deferred tax assets	B5	**554.2**	423.5
Property, plant and equipment	D2	**2,916.6**	2,872.8
Intangible assets	D3	**617.2**	590.7
Other	C4	**14.2**	18.9
Total non-current assets		**4,568.3**	4,327.1
Total assets		**6,355.8**	6,040.8
Current liabilities			
Payables	C5	**679.9**	708.9
Interest-bearing liabilities	E3	**280.9**	875.8
Derivative financial instruments	E7	**57.1**	33.4
Provisions	C6	**234.2**	170.9
Unearned revenue	C7	**1,074.2**	990.4
Other		**22.0**	0.4
Total current liabilities		**2,348.3**	2,779.8
Non-current liabilities			
Payables	C5	**6.3**	9.3
Interest-bearing liabilities	E3	**2,152.4**	2,124.2
Derivative financial instruments	E7	**6.4**	8.0
Provisions	C6	**263.5**	214.6
Other		**5.1**	6.1
Total non-current liabilities		**2,433.7**	2,362.2
Total liabilities		**4,782.0**	5,142.0
Net assets		**1,573.8**	898.8
Equity			
Share capital	E4	**2,243.7**	1,309.0
Reserves		**58.8**	117.2
Retained earnings		**(734.8)**	(514.5)
Equity attributable to the owners of the Company		**1,567.7**	911.7
Non-controlling interests	F5	**6.1**	(12.9)
Total equity		**1,573.8**	898.8

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

Consolidated statement of changes in equity

For the year ended 30 June 2017

	Note	Share capital $m	Foreign currency translation reserve $m	Hedge reserve $m	Option time value reserve $m	Share-based payments reserve $m	Non-controlling interests' contribution reserve[1] $m	Retained earnings $m	Attributable to owners of the Company $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2016		1,309.0	(152.1)	6.2	(18.3)	16.6	264.8	(514.5)	911.7	(12.9)	898.8
(Loss)/profit		–	–	–	–	–	–	(220.3)	(220.3)	34.5	(185.8)
Other comprehensive income, net of tax											
Foreign currency translation		–	14.4	–	–	–	–	–	14.4	–	14.4
Effective portion of changes in fair value of cash flow hedges		–	–	(41.3)	(43.7)	–	–	–	(85.0)	–	(85.0)
Net change in fair value of cash flow hedges transferred to profit or loss		–	–	2.4	30.2	–	–	–	32.6	–	32.6
Net change in the fair value of cash flow hedges transferred to initial carrying value of hedged item		–	–	2.7	–	–	–	–	2.7	–	2.7
Total other comprehensive (loss)/income, net of tax		–	14.4	(36.2)	(13.5)	–	–	–	(35.3)	–	(35.3)
Total comprehensive (loss)/income		–	14.4	(36.2)	(13.5)	–	–	(220.3)	(255.6)	34.5	(221.1)
Transactions with owners, recorded directly in equity, net of tax											
Issue of ordinary shares for cash	E4	934.3	–	–	–	–	–	–	934.3	–	934.3
Income tax reserve[2]		–	–	–	–	–	(22.7)	–	(22.7)	22.7	–
Equity distributions	F5	–	–	–	–	–	–	–	–	(38.2)	(38.2)
Share-based payment transactions	E4	0.4	–	–	–	(0.4)	–	–	–	–	–
Total transactions with owners, net of tax		934.7	–	–	–	(0.4)	(22.7)	–	911.6	(15.5)	896.1
Balance at 30 June 2017		2,243.7	(137.7)	(30.0)	(31.8)	16.2	242.1	(734.8)	1,567.7	6.1	1,573.8

(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) This includes the non-controlling interests' share of non-reciprocal 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 year ended 30 June 2017

	Note	Share capital $m	Foreign currency translation reserve $m	Hedge reserve $m	Option time value reserve $m	Share-based payments reserve $m	Non-controlling interests' contribution reserve[1] $m	Retained earnings $m	Attributable to owners of the Company $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2015		1,152.9	(133.0)	(4.7)	(10.4)	17.9	307.5	(253.6)	1,076.6	(55.8)	1,020.8
Loss/(profit)		–	–	–	–	–	–	(260.9)	(260.9)	36.2	(224.7)
Other comprehensive income, net of tax											
Foreign currency translation		–	(19.1)	–	–	–	–	–	(19.1)	–	(19.1)
Effective portion of changes in fair value of cash flow hedges		–	–	(80.5)	(28.1)	–	–	–	(108.6)	–	(108.6)
Net change in fair value of cash flow hedges transferred to profit or loss		–	–	90.0	20.2	–	–	–	110.2	–	110.2
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item		–	–	1.4	–	–	–	–	1.4	–	1.4
Total other comprehensive (loss)/income, net of tax		–	(19.1)	10.9	(7.9)	–	–	–	(16.1)	–	(16.1)
Total comprehensive (loss)/income		–	(19.1)	10.9	(7.9)	–	–	(260.9)	(277.0)	36.2	(240.8)
Transactions with owners, recorded directly in equity, net of tax											
Issue of ordinary shares for cash	E4	154.0	–	–	–	–	–	–	154.0	–	154.0
Dilution of ownership interests[2]	F5	–	–	–	–	–	6.3	–	6.3	(0.4)	5.9
Income tax reserve[3]		–	–	–	–	–	(49.0)	–	(49.0)	49.0	–
Equity distributions	F5	–	–	–	–	–	–	–	–	(41.9)	(41.9)
Share-based payment transactions	E4	2.1	–	–	–	(1.3)	–	–	0.8	–	0.8
Total transactions with owners, net of tax		156.1	–	–	–	(1.3)	(42.7)	–	112.1	6.7	118.8
Balance at 30 June 2016		1,309.0	(152.1)	6.2	(18.3)	16.6	264.8	(514.5)	911.7	(12.9)	898.8

(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) These amounts include the issue of convertible notes during the period by Velocity Frequent Flyer Holdco Pty Ltd as partial consideration for the acquisition of Torque Solutions (Australia) Pty Ltd as well as those acquired by management as part of a management incentive plan. This reduced the ownership interest of the Group in Velocity Frequent Flyer Holdco Pty Ltd from 65.00% to 64.72%.

(3) This includes the non-controlling interests' share of non-reciprocal 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 cash flows

For the year ended 30 June 2017

	Note	2017 $m	2016 $m
Cash flows from operating activities			
Cash receipts from customers		**5,657.1**	5,567.4
Cash payments to suppliers and employees		**(5,131.2)**	(5,118.6)
Cash generated from operating activities		**525.9**	448.8
Cash payments for business restructuring expenses		**(121.8)**	(110.0)
Finance income received		**17.0**	11.4
Finance costs paid		**(147.2)**	(151.7)
Net cash from operating activities	B6	**273.9**	198.5
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(436.7)**	(713.4)
Proceeds on disposal of property, plant and equipment	D1	**188.0**	418.4
Acquisition of intangible assets		**(37.2)**	(46.8)
Acquisition of subsidiary, net of cash acquired	F1	**–**	(2.3)
Payments for other deposits		**(48.4)**	(49.1)
Proceeds from other deposits		**1.2**	4.2
Dividends from equity-accounted investee		**1.5**	–
Net cash used in investing activities		**(331.6)**	(389.0)
Cash flows from financing activities			
Proceeds from borrowings		**557.0**	875.8
Repayment of borrowings		**(1,098.9)**	(713.6)
Payments of transaction costs related to borrowings		**(13.1)**	(10.1)
Net proceeds from share issue		**931.4**	151.9
Equity distributions paid to non-controlling interests	F5	**(38.2)**	(41.9)
Proceeds from non-controlling interests	F5	**–**	1.1
Net cash from financing activities		**338.2**	263.2
Net increase in cash and cash equivalents		**280.5**	72.7
Cash and cash equivalents at 1 July		**1,123.8**	1,028.5
Effect of exchange rate fluctuations on cash and cash equivalents		**(8.2)**	22.6
Cash and cash equivalents at 30 June	E2	**1,396.1**	1,123.8

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

A. Basis of preparation

This section sets out the basis upon which the consolidated financial statements have been prepared as a whole.

The consolidated financial statements were authorised for issue by the Board of Directors (Board) on 20 September 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 financial statements of the Company as at and for the year ended 30 June 2017 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 financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The consolidated financial statements are presented in Australian dollars, which is the functional currency of the Company. The consolidated 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 financial statements have been rounded to the nearest one hundred thousand dollars, unless otherwise stated.

(c) Net current liability position

The Group's current liabilities exceeded its current assets as at 30 June 2017 by $560.8 million (2016: $1,066.1 million) including a current liability for unearned revenue of $1,074.2 million (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 financial statements have been prepared on a going concern basis, based on the Group's cash flows for the current year and estimated profits and cash flows for future years. The Group has a cash and cash equivalents balance at 30 June 2017 of $1,396.1 million (2016: $1,123.8 million) and has an unrestricted cash balance at 30 June 2017 of $985.8 million (2016: $728.9 million). Capital management is detailed in note E1. Management of liquidity risk is detailed in note E7.

(d) Accounting policies

Accounting policies have been applied consistently by all of the Group's entities and to all periods presented in the consolidated financial statements. The following accounting policies apply to the consolidated financial statements as a whole. Specific significant accounting policies are described in the note to which they relate.

Foreign currency transactions and balances

Foreign currency transactions are initially recorded in the functional currency at the spot rate at the date the transaction first qualifies for recognition. Subsequently, foreign currency monetary balances are translated to the functional currency at the spot rates of exchange on the reporting date and the resultant exchange differences are recognised in profit or loss. Non-monetary balances that are measured in terms of historical cost are not re-translated. Non-monetary balances that are measured at fair value are translated at the date the fair value was determined with the gain or loss treated in line with the gain or loss recognised on changes to the fair value of the item.

Foreign operations

The Group has a number of foreign operations which operate in an economic environment in which the predominant currency is not Australian dollars and which apply a functional currency other than Australian dollars. The assets and liabilities of these operations are translated from their functional currency to Australian dollars at the exchange rates at the reporting dates. The income and expenses are translated to Australian dollars at the exchange rate at the date of the transaction or the average exchange rate for the month if that is a reasonable approximation of the exchange rates on the transaction dates for that month. All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When an operation is disposed of, the cumulative amount in the foreign currency translation reserve relating to that operation is reclassified to profit or loss as part of the gain or loss on disposal. Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur are reclassified to other comprehensive income in the consolidated financial statements. These exchange differences are reclassified to profit or loss on disposal of the foreign operation.

A. Basis of preparation (continued)

(e) Impact of new standards issued but not yet effective

The following accounting standards have been issued but are not yet effective and may impact the Group in the period of initial application. They are available for early adoption in the current reporting period but have not yet been applied in preparing the consolidated financial statements.

AASB 15 *Revenue from Contracts with Customers* (AASB 15)

AASB 15 replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and Interpretation 13 *Customer Loyalty Programmes*. It requires an entity to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018 with a number of transition options available. The Group will apply AASB 15 in the financial year beginning on 1 July 2018 and is in the process of assessing which transition option will be applied. The Group has an implementation plan in place and is in the process of finalising its assessment of the quantitative impact of the standard.

The key impacts of the standard are discussed below.

Airline passenger revenue

Under the Group's application of the current accounting standards, the calculation of unearned passenger revenue in relation to ticket sales requires the use of estimates and judgements, including an assessment of historical passenger non-attendance rates to determine the probability that the passenger's contractual rights will not be exercised.

AASB 15 requires that revenue is recognised only when it is highly probable that it will not result in a significant reversal in the future and that revenue is recognised in proportion to the pattern of rights exercised by the passenger or when the likelihood of the passenger exercising their remaining rights becomes remote. This will result in no revenue being recognised prior to carriage being performed. The application of the standard is expected to result in a deferral of the recognition of revenue in profit or loss. The Group does not expect this to have a material impact.

Other ancillary revenue

Other ancillary revenue comprises revenue earned from the provision of airline related services including booking change fees, baggage charges and other additional services provided to passengers. Under the current accounting standards, ancillary revenues are recognised at the time the service is provided or when carriage is performed.

AASB 15 requires ancillary revenues that are not separate performance obligations to be recognised when carriage is performed. A separate performance obligation arises if the passenger could benefit from the additional service in the absence of the flight. The Group has concluded that some of its ancillary revenues would not be separate performance obligations and consequently, the application of the standard will result in a deferral of the recognition of certain items of revenue in profit or loss. AASB 15 also enables the deferral of incremental costs in relation to these ancillary revenues until the recognition of the associated revenue. The Group does not expect this to have a material impact.

Loyalty program revenue - group qualifying services

Members of the Velocity Frequent Flyer program accumulate loyalty points by travelling on qualifying Group airline services. The obligation to provide awards to members is accounted for by deferring a portion of the flight ticket sales revenue. The amount deferred is the fair value, which is the amount for which the points could be sold separately. The residual amount is then allocated to the ticket and ancillary revenue.

AASB 15 does not allow the residual value approach and instead requires the stand-alone selling price of each performance obligation to be calculated separately and apportioned over the total ticket price. This will alter the allocation of ticket revenue between airline passenger revenue, other ancillary revenue and loyalty program revenue. The Group is currently assessing the impact of this change.

Loyalty program revenue - third party participation

The Group receives participation fee revenue from third parties for the rights to have loyalty points allocated to members of the Velocity Frequent Flyer program. The fair value of the points is currently deferred as unearned revenue to recognise the Group's obligation to provide awards to members. The residual revenue represents marketing services provided by the Group and is recognised immediately in profit or loss.

AASB 15 requires that the participation fee revenue be allocated to the respective performance obligations proportionately based on the stand-alone selling prices of each component. This is likely to require estimates to be made of the stand-alone selling prices of each component of third party participation revenue to enable the correct apportionment of revenue to each performance obligation. This is expected to result in differences in the amount recognised immediately in profit or loss and the amount deferred to unearned revenue. The Group is currently assessing the impact of this change.

A. Basis of preparation (continued)

(e) Impact of new standards issued but not yet effective (continued)

AASB 16 *Leases* (AASB 16)

AASB 16 replaces AASB 117 *Leases* and Interpretation 4 *Determining whether an Arrangement contains a Lease*. Under current accounting standards, leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases, with an asset and liability recognised in the consolidated statement of financial position. All other leases are classified as operating leases, with the costs of the lease recognised over the term of the lease in profit or loss. Refer to note G1 for the Group's accounting policy in relation to leases. By contrast, AASB 16 requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, excluding low value assets. A right-of-use (ROU) asset is recognised, representing the lessee's right to use the underlying asset, and is depreciated in accordance with AASB 116 *Property, Plant and Equipment.* A lease liability is also recognised, representing the lessee's obligation to make lease payments. Repayments in relation to the lease liability are allocated between the principal portion, which reduces the lease liability, and an interest portion which is recognised in the consolidated statement of profit or loss.

AASB 16 will have significant implications for the measurement of key financial metrics, debt covenants, systems, processes and controls. There will also be additional disclosure requirements. The Group has an implementation plan in place with the project scheduled for completion in the 2018 financial year.

Refer to note G1 for a summary of the Group's operating lease commitments. The present value of the payments in relation to the operating leases underlying these commitments would give rise to ROU assets and lease liabilities being recognised under AASB 16.

AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019 with a number of transition options available. Early application is only permitted if AASB 15 has been applied or is applied at the same time. The Group is in the process of finalising its assessment of the quantitative impact of the standard. The Group has not reached a conclusion on whether the standard will be adopted early, nor has it concluded on the transition method to be applied.

AASB 9 *Financial Instruments* (AASB 9 (2014))

The Group adopted AASB 9 *Financial Instruments (2013, 2010 and 2009)* from 1 July 2014.

AASB 9 (2014) amends AASB 9 (2013) to include a new expected credit loss model for calculating impairment on financial assets. AASB 9 (2014) is effective for annual reporting periods beginning on or after 1 January 2018 with early adoption permitted. The Group will apply AASB 9 (2014) in the financial year beginning on 1 July 2018. The standard is not expected to have a material impact on the Group.

A. Basis of preparation (continued)

(f) Critical accounting estimates and judgements

The preparation of the consolidated 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 described in the following notes:

B3 - Revenue – loyalty program revenue, non-attendance rates and credit vouchers
B5 - Taxation – deferred tax amounts
C3 - Other financial assets – impairment of maintenance reserve deposits
C4 - Other assets – sale and leaseback transactions
C6 - Provisions – maintenance provisions and onerous contracts
C7 - Unearned revenue – unearned passenger and loyalty program revenue
D1 - Assets classified as held for sale – fair value of assets classified as held for sale
D2 - Property, plant and equipment – residual values and estimated useful lives
D3 - Intangible assets – residual values and estimated useful lives
D4 - Impairment testing – determination of cash-generating unit and estimation of recoverable amount
E7 - Financial risk management – impairment of financial assets
E8 - Fair value measurements – estimation of fair value
F3 - Controlled entities – basis of control
F4 - Investments in unconsolidated structured entities – basis of control

B. Results

This section sets out the results and performance of the Group.

B1. 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 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 profit of equity-accounted investee; 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.

B1. Operating segments (continued)

(a) Reportable segments

2017	Virgin Australia Domestic $m	Virgin Australia International $m	Velocity $m	Tigerair Australia $m	Corporate and Eliminations $m	Consolidated $m
Revenue and income						
External revenue and income	3,134.0	999.0	371.0	543.3	–	5,047.3
Inter-segment revenue	305.6	–	–	–	(305.6)	–
Segment revenue and income	3,439.6	999.0	371.0	543.3	(305.6)	5,047.3
Segment EBITDAR	498.6	223.8	147.5	72.0	(47.8)	894.1
Aircraft rentals	(153.4)	(185.0)	–	(81.9)	–	(420.3)
Segment EBITDA	345.2	38.8	147.5	(9.9)	(47.8)	473.8
Depreciation and amortisation	(252.3)	(38.3)	(4.7)	(14.4)	–	(309.7)
Segment EBIT	92.9	0.5	142.8	(24.3)	(47.8)	164.1
Impairment losses on assets classified as held for sale						(7.8)
Impairment losses on other assets						(65.9)
Onerous contract expenses						(29.6)
Business and capital restructure and transaction costs						(141.9)
Share of net profit of equity-accounted investee						2.1
Time value movement on cash flow hedges[(1)(2)]						(43.5)
Unrealised ineffectiveness on cash flow hedges and non-designated derivatives[(1)]						0.7
						(121.8)
Net finance costs						(167.8)
Loss before tax						(289.6)
Income tax benefit						103.8
Loss						(185.8)

(1) The addition of these two items reconciles to time value movement and ineffectiveness on cash flow hedges 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.

B1. Operating segments (continued)

(a) Reportable segments (continued)

2016	Virgin Australia Domestic $m	Virgin Australia International $m	Velocity $m	Tigerair Australia $m	Corporate and Eliminations $m	Consolidated $m
Revenue and income						
External revenue and income	3,201.2	1,016.3	327.6	475.9	–	5,021.0
Inter-segment revenue	244.4	–	–	–	(244.4)	–
Segment revenue and income	3,445.6	1,016.3	327.6	475.9	(244.4)	5,021.0
Segment EBITDAR	516.9	175.4	141.3	60.5	(44.5)	849.6
Aircraft rentals	(125.4)	(182.5)	–	(52.7)	–	(360.6)
Segment EBITDA	391.5	(7.1)	141.3	7.8	(44.5)	489.0
Depreciation and amortisation	(229.5)	(41.7)	(1.6)	(5.6)	–	(278.4)
Segment EBIT	162.0	(48.8)	139.7	2.2	(44.5)	210.6
Impairment losses on assets classified as held for sale						(107.3)
Impairment losses on other assets						(118.1)
Onerous contract expenses						(100.2)
Business and capital restructure and transaction costs						(114.9)
Share of net profit of equity-accounted investee						0.7
Time value movement on cash flow hedges(1)(2)						(28.5)
Unrealised ineffectiveness on cash flow hedges and non-designated derivatives(1)						0.7
						(257.0)
Net finance costs						(169.6)
Loss before tax						(426.6)
Income tax benefit						201.9
Loss						(224.7)

(1) The addition of these two items reconciles to time value movement and ineffectiveness on cash flow hedges 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.

B1. Operating segments (continued)

(b) Geographical segments

Ticket sales revenue from domestic services within Australia is attributed to the Australia geographic region. Passenger and other services revenue from inbound and outbound services between Australia and overseas is allocated proportionately to the area in which point of sale occurs. Certain other revenue amounts are not allocated to a geographical region as it is impractical to do so.

	Australia $m	New Zealand $m	United States $m	Europe $m	Other $m	Unallocated $m	Consolidated $m
External revenue and income							
2017	**4,273.8**	**154.7**	**229.2**	**124.7**	**151.9**	**113.0**	**5,047.3**
2016	4,195.2	154.7	204.8	163.9	168.2	134.2	5,021.0

For the financial years ended 30 June 2017 and 30 June 2016, the principal assets of the Group comprised the aircraft fleet. These assets are used flexibly across the Group's worldwide route network. Accordingly, there is no suitable basis for allocating such assets and the related liabilities between geographic areas.

B2. Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit or loss attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS adjusts the basic EPS for the effects of any instruments that could potentially be converted into ordinary shares. Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations. The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options and performance rights is based on quoted market prices for the period that the options and performance rights were outstanding. At 30 June 2017, 0.6 million options and performance rights (2016: 2.4 million) were excluded from the diluted weighted average number of ordinary shares calculation due to their anti-dilutive effect.

	2017 $m	2016 $m
Loss attributable to ordinary shareholders	**(220.3)**	(260.9)
Basic earnings	**(220.3)**	(260.9)
Diluted earnings	**(220.3)**	(260.9)

	2017 Number (m)	2016 Number (m)
Weighted average number of ordinary shares - basic	**7,987.8**	3,530.8
Effect of share options and performance rights on issue	**–**	–
Weighted average number of ordinary shares and potential ordinary shares - diluted	**7,987.8**	3,530.8

B3. Revenue

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

(a) Airline passenger revenue

Airline passenger revenue

Airline passenger revenue comprises revenue from passenger ticket sales. Revenue is recognised in profit or loss when carriage is performed. Airline passenger revenue received in advance is carried forward in the consolidated statement of financial position as unearned revenue based on expected future carriage.

The calculation of unearned passenger revenue requires the use of estimates and judgements including an assessment of historical trends of passenger non-attendance rates which are reviewed at each reporting date. The reassessment of historical trends of non-attendance rates on unearned passenger revenue obligations resulted in no changes to revenue in the current year (2016: nil).

In addition, the Group is a party to various alliance arrangements. Revenue under these arrangements is recognised in profit or loss when the Group performs the carriage or otherwise fulfils all relevant contractual commitments.

Loyalty program revenue

The Group receives participation fee revenue from third parties for the rights to have loyalty points allocated to members of the Velocity Frequent Flyer program. Members of the Velocity Frequent Flyer program also accumulate loyalty points by travelling on qualifying Group airline services. The obligation to provide awards to members is accounted for by deferring the participation fee revenue and a portion of the flight ticket sales revenue. The amount deferred is the fair value, which is the amount for which the points could be sold separately (taking into account non-performance risk) and includes an estimate based on historical breakage trends. The receipt of cash from third parties in excess of the fair value of the redemption is recognised immediately in profit or loss. For airline redemptions, revenue is recognised in profit or loss in accordance with the accounting policy for airline passenger revenue above. For non-airline redemptions relating to third parties, revenue is recognised in profit or loss as ancillary revenue when points are redeemed.

The calculation of unearned revenue in the consolidated statement of financial position requires the use of estimates and judgements based on assumptions regarding the fair value of reward points. The fair value of the reward points is reduced to reflect points that are expected to lapse under the rules of the Velocity Frequent Flyer program. Assumptions are based on historical trends experienced within the program. The reassessment of the unused points liability in regards to the Velocity Frequent Flyer program resulted in an increase in program revenue of $2.3 million in the current year (2016: increase of $17.2 million).

(b) Other ancillary revenue

Credit vouchers

Revenue from the redemption of credit vouchers is recognised in profit or loss as other ancillary revenue when carriage is complete, or when the credit voucher is no longer expected to be redeemed by the passenger based on an analysis of historical non-redemption rates, or upon expiry.

The calculation of credit vouchers that are no longer expected to be redeemed requires the use of estimates and judgements including an assessment of expected redemption rates based on historical issued and expired credit vouchers which are reviewed at each reporting date. The reassessment of expected redemption rates resulted in no changes to revenue in the current year (2016: nil).

Other

Other ancillary revenue comprises revenue earned from the provision of other airline related services (including charter revenue, freight revenue, on-board sales and other product revenue) and revenue from unutilised carriage. Other ancillary revenue is recognised in profit or loss at the time the service is provided or when carriage is performed.

B4. Expenses

This section sets out certain specific expenses included within the following profit or loss line items.

(a) Aircraft operating lease expenses and other expenses from ordinary activities

	2017 $m	2016 $m
Aircraft operating lease rentals	**420.3**	360.6
Other operating lease rentals[1]	**113.8**	99.3
Total operating lease rentals	**534.1**	459.9

(1) Other operating lease rentals includes $31.8 million (2016: $22.8 million) of contingent rents.

Other expenses from ordinary activities includes costs for aircraft, crew, maintenance and insurance in relation to wet leases of $32.5 million (2016: $0.3 million).

(b) Labour and staff related expenses

The Group contributes to several defined contribution superannuation plans. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Such contributions are charged to profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available. The amount recognised as an expense for the year ended 30 June 2017 was $76.9 million (2016: $71.7 million).

(c) Net finance costs

Finance income is recognised in profit or loss as it accrues, using the effective interest rate method.

Finance costs comprise interest paid or payable on borrowings calculated using the effective interest rate method, amortisation of borrowing costs and unwinding of the discount on provisions and other liabilities.

Finance costs that relate to qualifying assets are capitalised to the cost of the assets. If funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the finance costs capitalised are those incurred in relation to that borrowing, net of any interest earned on those borrowings. If funds are borrowed generally, finance costs are capitalised using a weighted average capitalisation rate and amortised over the terms of the agreement. Finance costs were capitalised at a weighted average rate of 3.04% (2016: 3.07%).

	2017 $m	2016 $m
Interest and finance charges	**172.9**	174.4
Unwinding of discount on provisions and other liabilities	**13.0**	9.2
Less: interest paid and capitalised on qualifying assets	**(1.2)**	(2.6)
Finance costs expensed	**184.7**	181.0

(d) Impairment losses on other assets

Impairment losses of $65.9 million were recognised during the year on assets associated with the onerous contracts and on other obsolete assets. Refer to note C6 for further information on the onerous contract provision.

B5. Taxation

Income tax expense or benefit

Income tax expense or benefit comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates and tax laws enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is recognised for all taxable temporary differences arising from the difference between the carrying amount of assets and liabilities and their corresponding tax base. It is measured using tax rates and tax laws that are expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted at the reporting date.

Deferred tax is not recognised for temporary differences:

- on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- relating to investments in subsidiaries and associates, and interests in joint arrangements, where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future; or
- arising on initial recognition of goodwill.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which they can be utilised. Estimates and judgements are required to determine the amount of deferred tax assets that can be recognised at each reporting date, based upon the likely timing and level of future taxable profits.

At 30 June 2017, the Group had $2,346.3 million (2016: $2,067.7 million) of tax losses carried forward which have no expiry date. A deferred tax asset of $703.9 million (2016: $620.3 million) has been recognised in respect of these losses. The Group has concluded, based on convincing evidence, that it is probable that sufficient taxable profits will be available to utilise these tax losses, based on detailed financial estimates and sensitivity analyses approved by the Board. These estimates include consideration of macroeconomic factors, current industry trends, and long term industry analysis of the key Australian domestic, Asian and US markets. It includes the implementation of Board approved strategic initiatives including cost savings programs, expansion of shareholder alliances into key Asian markets and continued growth of the Velocity operating segment.

As at 30 June 2017, deferred tax assets have not been recognised in respect of $318.4 million (2016: $317.7 million) of net tax losses relating to Tigerair Australia because it is not considered probable that future taxable profit will be available against which these tax losses can be realised. These losses have no expiry date.

Tax consolidation

VAH and its Australian controlled entities are part of a tax consolidated group (TCG) under Australian tax law. Tigerair Australia is a separate TCG. Entities within each TCG have entered into tax funding and tax sharing arrangements with the head entity in each TCG. Under the terms of the agreements, the head entity and the other entities within each TCG have agreed to pay (or receive) an amount to (or from) the head entity, based on the current tax liability or current tax asset of the relevant entity.

Each entity in each TCG measures its current and deferred taxes as if it continues to be a separate taxable entity in its own right. In addition to its own current and deferred tax amounts, the head entity in each tax consolidated group recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the TCG to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

B5. Taxation (continued)

(a) Reconciliation of income tax benefit

	2017 $m	2016 $m
Loss before tax	**(289.6)**	(426.6)
Tax benefit at the Australian tax rate of 30% (2016: 30%)	**86.9**	128.0
Tax effect of amounts which are not included in taxable income:		
Amended tax assessment(1)	**–**	41.5
Foreign currency movements on debt and securitised assets	**15.2**	25.4
Other non-deductible or non-assessable amounts	**1.7**	7.0
Income tax benefit	**103.8**	201.9
Represented by:		
Deferred tax benefit	**103.8**	201.9
Income tax benefit	**103.8**	201.9

(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 assessment results in an income tax benefit of $41.5 million relating to taxable income attributable to periods preceding the statutory limit on tax return amendments.

(b) Deferred tax

The composition of the Group's net deferred tax asset recognised in the consolidated statement of financial position and the net deferred tax benefit/(expense) recognised in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income is as follows:

	Consolidated statement of financial position		Consolidated statement of profit or loss		Consolidated statement of profit or loss and other comprehensive income	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Deferred tax assets						
Provisions	**126.8**	101.7	**25.1**	24.1	**–**	–
Payables	**12.9**	17.5	**(4.6)**	4.2	**–**	–
Unearned loyalty program revenue	**123.8**	96.6	**27.2**	96.6	**–**	–
Other liabilities	**18.9**	13.0	**5.9**	(0.5)	**–**	–
Equity-raising costs (recognised in equity)	**4.8**	3.6	**–**	–	**–**	–
Cash flow hedges (recognised in other comprehensive income)	**26.5**	5.2	**–**	–	**21.3**	(1.4)
Total deferred tax assets excluding tax losses	**313.7**	237.6	**53.6**	124.4	**21.3**	(1.4)
Tax losses carried forward	**703.9**	620.3	**83.6**	71.3	**–**	–
Total deferred tax assets	**1,017.6**	857.9	**137.2**	195.7	**21.3**	(1.4)
Deferred tax liabilities						
Property, plant and equipment	**(329.1)**	(310.2)	**(23.3)**	(30.0)	**–**	–
Maintenance assets	**(115.4)**	(102.8)	**(12.6)**	(1.2)	**–**	–
Unearned loyalty program revenue	**–**	–	**–**	36.2	**–**	–
Other assets	**(18.9)**	(21.4)	**2.5**	1.2	**–**	–
Total deferred tax liabilities	**(463.4)**	(434.4)	**(33.4)**	6.2	**–**	–
Net deferred tax assets	**554.2**	423.5	**103.8**	201.9	**21.3**	(1.4)

B6. Reconciliation of net loss to net cash from operating activities

	2017 $m	2016 $m
Loss	**(185.8)**	(224.7)
Adjustments for non-cash items included in profit or loss:		
Depreciation	**279.5**	264.5
Amortisation	**30.2**	17.7
Share of net profit of equity-accounted investee	**(2.1)**	(0.7)
Amortisation of deferred borrowing costs	**34.2**	21.8
Equity-settled share-based payment expenses	**–**	0.8
Net change in fair value of cash flow hedges transferred to profit or loss	**32.6**	110.2
Unrealised foreign exchange movements – non-operating activities	**(2.4)**	(15.0)
Amortisation of deferred loss on sale and leaseback assets	**0.3**	0.4
Impairment losses on assets classified as held for sale	**7.8**	107.3
Impairment losses on other assets	**65.9**	118.1
	260.2	400.4
Changes in assets and liabilities:		
(Increase)/decrease in receivables	**2.8**	(2.9)
(Increase)/decrease in inventories	**(4.0)**	(1.2)
(Increase)/decrease in other assets	**4.7**	27.5
(Increase)/decrease in deferred and current tax assets	**(103.8)**	(201.9)
(Increase)/decrease in derivative financial instruments	**(19.9)**	(110.2)
(Decrease)/increase in payables	**(9.7)**	(25.8)
(Decrease)/increase in provisions	**49.3**	70.6
(Decrease)/increase in unearned revenue	**94.3**	42.0
Net cash from operating activities	**273.9**	198.5

C. Working capital and other assets and liabilities

This section sets out information relating to the working capital and other assets and liabilities of the Group. Working capital includes the assets and liabilities that are used in the day-to-day trading operations of the Group.

C1. Receivables

Receivables are initially recognised at fair value on the date the Group becomes a party to the contract. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less an allowance for impairment. Impairment is calculated as the difference between the asset's carrying amount and the present value of its estimated future cash flows, discounted at the asset's original effective interest rate. No interest is charged on trade receivables. Maintenance prepayments include amounts prepaid to third party maintenance providers for the labour component of heavy maintenance and other major components of aircraft.

	2017 $m	2016 $m
Current		
Trade receivables	**170.7**	173.0
Less: provision for doubtful receivables	**(0.1)**	(1.9)
	170.6	171.1
Other receivables	**50.0**	60.6
Prepayments	**88.3**	81.5
	308.9	313.2
Non-current		
Maintenance prepayments	**162.4**	129.0

The Group's exposure to foreign exchange risk, credit risk and impairment losses related to receivables is disclosed in note E7.

C2. Inventories

Inventories are measured at the lower of cost and net realisable value. The costs of engineering consumables and uniforms are assigned to the individual items of inventory on the basis of weighted average costs. Cost of catering inventory is determined using the first-in, first-out (FIFO) cost method. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses. Inventories expensed during the 2017 financial year totalled $103.8 million (2016: $122.6 million).

	2017 $m	2016 $m
Engineering expendables – at cost	**34.0**	31.7
Consumables stores – at cost	**11.9**	10.2
Other – at cost	**0.4**	0.4
	46.3	42.3

C3. Other financial assets

Deposits include aircraft and other security deposits. Maintenance reserve deposits are payments made to lessors under operating lease agreements and are assessed for recoverability at the date the payment is made. Recoverability is determined based on historical trends.

Subsequent to recognition, all financial assets are assessed for impairment at each reporting date. A financial asset is impaired if objective evidence indicates that a loss event has occurred that has had a negative effect on the estimated future cash flows of that asset. An impairment in relation to maintenance reserve deposits of $3.4 million (2016: $28.5 million) has been recognised in other expenses in the consolidated statement of profit or loss. An impairment loss of $1.0 million (2016: $30.6 million) in relation to maintenance reserve deposits associated with onerous leases has been recognised in impairment losses on other assets in the consolidated statement of profit or loss.

	2017 $m	2016 $m
Current		
Deposits	**1.6**	2.5
Maintenance reserve deposits	**23.6**	29.7
	25.2	32.2
Non-current		
Deposits	**41.3**	39.7
Maintenance reserve deposits	**251.1**	225.2
Other	**0.1**	0.1
	292.5	265.0

C4. Other assets

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. If a sale and leaseback transaction results in an operating lease, and the transaction is established at fair value, any profit or loss is recognised immediately. If the sale price is below fair value, any profit or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred as future lease payments in other assets and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above the fair value, the excess over fair value is deferred as future lease payments in other liabilities and amortised over the period for which the asset is expected to be used. If the fair value at the time of a sale and leaseback transaction is less than the carrying amount, a loss equal to the amount of the difference between the carrying amount and the fair value is recognised immediately in the consolidated statement of profit or loss.

	2017 $m	2016 $m
Current		
Future lease payments	**3.9**	3.9
Other	**0.4**	0.4
	4.3	4.3
Non-current		
Future lease payments	**12.5**	16.5
Other	**1.7**	2.4
	14.2	18.9

C5. Payables

Payables are recognised on the date the Group receives the associated goods or services. They are non-interest-bearing.

	2017 $m	2016 $m
Current		
Trade payables and accruals	**665.4**	696.8
Other payables	**14.5**	12.1
	679.9	708.9
Non-current		
Other payables	**6.3**	9.3

The Group's exposure to currency and liquidity risk related to payables is disclosed in note E7.

C6. Provisions

A provision is a liability of uncertain timing or amount. A provision is recognised when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount can be estimated reliably. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate and the unwinding of the discount is recognised as a finance cost.

Employee benefits – annual leave and sick leave

Liabilities for annual leave expected to be settled within twelve months of the reporting date are measured at their nominal amounts and represent the amounts expected to be paid when liabilities are settled. Liabilities for non-vesting sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Employee benefits – long term employee benefits

The provision for long term employee benefits, such as long service leave, represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to the reporting date. It is calculated using expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using high quality corporate bond rates at the reporting date which most closely match the terms of maturity of the related liabilities.

Employee benefits – employee bonus plans

A liability for employee benefits in the form of bonus plans is recognised in the provision for employee entitlements when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- There are formal terms in the plan for determining the amount of the benefit;
- The amounts to be paid are determined before the time of completion of the annual consolidated financial statements; or
- Past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Employee benefits – termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring.

Maintenance – operating leased aircraft

If the Group is obligated under its operating leases to pay an amount upon return of the aircraft based on either use or condition of the aircraft, a provision is recognised at inception of the lease for the present value of the expected payment, with a corresponding asset, reflecting the maintenance components within the lease payments. The provision is accreted to the expected payment at the end of the lease with a finance cost recognised in profit or loss.

The calculation of the maintenance provision requires the use of estimates and judgements. These include the expected use of the aircraft during the lease term, forecast maintenance obligation dates and forecast contractual maintenance rates. CPI has been applied to certain current labour and market costs. The provisions are discounted based on a nominal discount rate applied of 9.0% (2016: 9.0%).

C6. Provisions (continued)

Onerous and unfavourable contracts

An onerous contract is a contract in which the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs are measured at the lower of the cost of fulfilling the contract and any compensation or penalties from failure to fulfil it. Before a provision is recognised, the Group recognises any impairment loss on assets dedicated to that contract.

As part of the acquisition of Tigerair Australia, the Group recognised a provision for unfavourable aircraft lease terms of $23.5 million. The final lease agreement expires in October 2021. The Group also recognised a provision of $18.6 million for an engine maintenance contract which has hourly rates which are unfavourable compared to current market rates. The contract expires in June 2023.

In the prior year, the Group announced the outcomes of its capital structure review which included fleet and network optimisation initiatives. These initiatives included a planned reduction in the ATR and E190 fleets by way of the sub-leasing of operating leased aircraft. As a result of these initiatives, the Group recognised an onerous contract provision of $100.2 million for onerous operating lease terms. This provision was remeasured during the current year to reflect changes in market conditions. During the current year, the Group announced that an additional two ATR aircraft would be removed from the fleet from July 2017. As a result, an additional provision was recognised in relation to the operating leases for these aircraft. The onerous contract provision was increased by $29.6 million to reflect these changes. This takes into consideration the unavoidable costs of meeting the Group's obligations under the current lease arrangements and the expected economic benefits from sub-leasing the aircraft. The provisions were measured based on the Group's best estimate of the net cash outflow that would be required to settle the Group's obligations.

Other provisions

Other provisions includes restructure costs and provisions for property make-good clauses contained in operating leases of premises. The property make-good provisions were recognised during the 2013 financial year as part of the acquisition of Skywest and will all expire by 2022.

(a) Provision balances

	2017 $m	2016 $m
Current		
Employee benefits[1]	**147.3**	114.6
Maintenance	**51.8**	27.2
Onerous and unfavourable contracts	**35.1**	28.7
Other	**–**	0.4
	234.2	170.9
Non-current		
Employee benefits	**18.7**	15.6
Maintenance	**157.1**	100.9
Onerous and unfavourable contracts	**82.8**	94.1
Other	**4.9**	4.0
	263.5	214.6

(1) Includes $3.4 million workers' compensation liability calculated by an external actuary.

(b) Provision movements

2017	Maintenance $m	Onerous and unfavourable contracts $m	Other $m	Total $m
Balance at 1 July	128.1	122.8	4.4	255.3
Provisions made	88.1	29.6	0.9	118.6
Provisions utilised	(18.6)	(36.2)	(0.3)	(55.1)
Provisions reversed	–	–	(0.1)	(0.1)
Unwinding of discount	11.3	1.7	–	13.0
Balance at 30 June	208.9	117.9	4.9	331.7

C7. Unearned revenue

Refer to note B3 for a description of the Group's policy in relation to revenue recognition and deferral of unearned revenue, including the estimates and judgements used in estimating unearned revenue.

	2017 $m	2016 $m
Current		
Unearned passenger revenue	**647.7**	628.1
Unearned loyalty program revenue	**412.8**	336.2
Credit vouchers	**13.5**	18.6
Other unearned revenue	**0.2**	7.5
	1,074.2	990.4

D. Tangible and intangible assets

This section sets out the non-current tangible and intangible assets used by the Group to generate revenues and the methods the Group uses to assess the recoverable amount of these assets.

D1. Assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. For this to be the case, the asset must be available for sale in its present condition, the sale must be highly probable and management must be committed to the plan to sell within one year from the date of classification.

Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Fair value is estimated based on recent similar transactions and negotiations with market participants and requires significant estimates and judgements. Depreciation and amortisation of these assets ceases from the date they are classified as held for sale.

In the comparative period, six Embraer E170 aircraft classified as held for sale with a carrying amount of $95.4 million were sold and a loss of $6.8 million was recognised in impairment losses on assets classified as held for sale in the consolidated statement of profit or loss.

In the comparative period, eleven Embraer E190 and eight Fokker F50 aircraft were transferred to assets classified as held for sale and one Embraer E190 and one Fokker F50 were sold. An impairment loss of $100.5 million was recognised in impairment losses on assets classified as held for sale in the consolidated statement of profit or loss.

In the current period, the remaining ten Embraer E190 and seven Fokker F50 aircraft were sold. An impairment loss of $7.8 million was recognised in impairment losses on assets classified as held for sale in the consolidated statement of profit or loss. Cash proceeds of $188.0 million were realised on the sales. A $24.2 million liability for deferred costs relating to the sales was recognised. In addition, Embraer training equipment with a net book value of $4.3 million was transferred to assets classified as held for sale. No impairment loss was recognised in relation to this.

There are no cumulative amounts included in other comprehensive income relating to the disposal.

	2017 $m	2016 $m
Balance at 1 July	**171.6**	95.4
Assets transferred from property, plant and equipment (prior to impairment)	**4.3**	295.4
Impairment losses on assets classified as held for sale	**(7.8)**	(107.3)
Assets sold	**(163.8)**	(111.9)
Balance at 30 June	**4.3**	171.6

D2. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price plus any costs directly attributable to the acquisition. This may include transfers from other comprehensive income of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Costs of day-to-day servicing of owned and leased aircraft, including minor airframe checks are recognised in profit or loss as incurred.

The cost of major cyclical maintenance on owned aircraft is capitalised to the carrying value of the aircraft as incurred and depreciated over the period to the next scheduled heavy maintenance. Any remaining carrying amount of the cost of the previous inspection is derecognised.

If the Group is obligated under its operating leases to pay an amount upon return of the aircraft based on either use or condition of the aircraft, a provision is recognised at inception of the lease for the present value of the expected payment, with a corresponding asset, reflecting the maintenance components within the lease payments. The asset is depreciated on a straight line basis over the life of the lease. The cost of major cyclical maintenance and modifications to operating leased aircraft are capitalised as leasehold improvements and depreciated over the shorter of the remaining lease term, the estimated life of the improvement or the time to the next major maintenance event.

Depreciation is recognised on a straight-line basis over the estimated useful life, taking into account estimated residual values. Assets are depreciated from the date they are installed and are ready for use, or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Finance leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term in which case they are depreciated over their useful lives.

Depreciation methods, useful lives and residual values are reviewed at each reporting date. The estimation of useful lives and residual values requires significant judgement. Australian dollar residual value estimates are based on US dollar market estimates of future aircraft values and estimates of future use of the aircraft including maintenance profiles.

There have been no changes to the useful lives of property, plant and equipment during the current year (2016: nil).

The estimated useful lives in years of each class of asset are as follows:

	2017	2016
Buildings	**10-40**	10-40
Aircraft and aeronautic related assets		
– Modifications to leased aircraft	**6-13**	6-13
– Rotables and maintenance parts	**9-33**	9-33
– Airframe, engines and landing gear	**4-20**	4-20
– Major cyclical maintenance	**1-10**	1-10
Plant and equipment		
– Leasehold improvements	**1-15**	1-15
– Other	**5-33**	5-33
Computer equipment	**3-5**	3-5
Finance leased assets		
– Buildings	**34**	34
– Aeronautic related assets	**4-5**	4-5

The Group recognised net losses on disposal of property, plant and equipment in impairment losses on other assets in the consolidated statement of profit or loss of $2.2 million during the year ended 30 June 2017 (2016: nil).

D2. Property, plant and equipment (continued)

2017	Buildings $m	Aircraft and aeronautic(1) $m	Plant and equipment $m	Computer equipment $m	Finance leased assets $m	Work in progress $m	Total $m
Balance at 1 July	6.2	2,441.1	140.8	12.8	22.4	249.5	2,872.8
Additions	–	251.8	1.2	–	18.7	149.8	421.5
Impairment losses(2)	–	(61.2)	(0.3)	–	–	–	(61.5)
Disposals	–	(2.2)	–	–	–	–	(2.2)
Depreciation	(0.2)	(251.0)	(21.7)	(3.9)	(2.6)	–	(279.4)
Transfers from work in progress	–	332.6	2.1	0.7	–	(335.4)	–
Net transfers to assets classified as held for sale (refer note D1)	–	–	(4.3)	–	–	–	(4.3)
Foreign exchange movements	–	(31.2)	–	–	–	0.9	(30.3)
Balance at 30 June	6.0	2,679.9	117.8	9.6	38.5	64.8	2,916.6
At cost(3)	19.8	3,967.0	266.0	31.1	43.3	64.8	4,392.0
Accumulated depreciation and impairment(3)	(13.8)	(1,287.1)	(148.2)	(21.5)	(4.8)	–	(1,475.4)
	6.0	2,679.9	117.8	9.6	38.5	64.8	2,916.6
Total pledged as security in relation to interest-bearing liabilities	–	1,957.1	–	–	–	–	1,957.1

2016	Buildings $m	Aircraft and aeronautic(1) $m	Plant and equipment $m	Computer equipment $m	Finance leased assets $m	Work in progress $m	Total $m
Balance at 1 July	6.5	2,740.3	99.1	16.7	23.1	196.2	3,081.9
Business combination acquisitions	–	–	0.1	–	–	–	0.1
Other additions	–	208.2	–	0.2	–	433.6	642.0
Impairment losses(2)	–	(22.8)	–	–	–	–	(22.8)
Disposals	–	(106.7)	(1.5)	–	–	(198.3)	(306.5)
Depreciation	(0.3)	(236.9)	(18.7)	(7.9)	(0.7)	–	(264.5)
Transfers from work in progress	–	117.0	61.8	3.8	–	(182.6)	–
Net transfers to assets classified as held for sale (refer note D1)	–	(295.4)	–	–	–	–	(295.4)
Foreign exchange movements	–	37.4	–	–	–	0.6	38.0
Balance at 30 June	6.2	2,441.1	140.8	12.8	22.4	249.5	2,872.8
At cost	19.8	3,644.6	318.0	72.0	24.6	249.5	4,328.5
Accumulated depreciation and impairment	(13.6)	(1,203.5)	(177.2)	(59.2)	(2.2)	-	(1,455.7)
	6.2	2,441.1	140.8	12.8	22.4	249.5	2,872.8
Total pledged as security in relation to interest-bearing liabilities	5.9	2,244.0	15.0	–	–	–	2,264.9

(1) Includes deposits and other costs incurred in respect of aircraft which have not yet been delivered of $119.5 million (2016: $107.6 million). These amounts are not being depreciated.
(2) Impairment losses are recognised in impairment losses on other assets in the consolidated statement of profit or loss.
(3) The Group derecognised the cost and accumulated depreciation of fully depreciated assets for which no future economic benefits are expected.

D3. Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. They are classified as having a useful life that is either finite or indefinite. Assets with finite lives are amortised on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication the asset may be impaired. Amortisation methods, useful lives and residual values are reviewed at each reporting date. Assets with indefinite useful lives are not amortised but are tested for impairment annually and whenever there is an indication the asset may be impaired. The estimation of useful lives and residual values and impairment requires significant judgement.

Goodwill

Goodwill is an asset recognised in a business combination and represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. It has an indefinite useful life and is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. After initial recognition, it is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Refer to note D4 for the allocation of goodwill between CGUs.

Software

The Group's software assets have useful lives of between 1 and 15 years (2016: 3 and 15 years). The Sabre system has a carrying value of $64.3 million at 30 June 2017 (2016: $69.2 million) and has a useful life of 15 years (2016: 15 years). The remaining amortisation period is 11.1 years (2016: 12.1 years). There have been no changes to the useful lives of software during the current year (2016: nil).

Contract intangible

An intangible asset was recognised during the comparative year as a result of the completion and commencement of use of Terminal 1 at Perth airport. The asset has a useful life of 20 years. The remaining amortisation period is 18.5 years (2016: 19.5 years).

Customer contracts and relationships

Customer contracts have been recognised as a result of business combinations and have finite useful lives of between 1 and 10 years (2016: 1 and 10 years). The remaining amortisation period of the assets is 1 to 6 years (2016: 1 to 7 years).

2017	Goodwill $m	Software $m	Contract intangible $m	Customer contracts and relationships $m	Work in progress $m	Total $m
Balance at 1 July	290.8	163.0	58.3	10.2	68.4	590.7
Additions	–	–	–	–	56.8	56.8
Amortisation	–	(24.1)	(3.2)	(3.0)	–	(30.3)
Transfers from work in progress	–	60.7	–	–	(60.7)	–
Balance at 30 June	290.8	199.6	55.1	7.2	64.5	617.2
At cost	290.8	314.7	60.0	21.0	64.5	751.0
Accumulated amortisation and impairment	–	(115.1)	(4.9)	(13.8)	–	(133.8)
	290.8	199.6	55.1	7.2	64.5	617.2

D3. Intangible assets (continued)

2016	Goodwill $m	Software $m	Brand names $m	Contract intangible $m	Customer contracts and relationships $m	Work in progress $m	Total $m
Balance at 1 July	295.8	151.3	4.6	–	13.2	99.4	564.3
Business combination acquisitions	(5.0)	0.6	–	–	0.3	0.6	(3.5)
Other additions	–	6.8	–	–	–	45.4	52.2
Impairment losses	–	-	(4.6)	–	–	–	(4.6)
Amortisation	–	(12.7)	–	(1.7)	(3.3)	–	(17.7)
Transfers from work in progress	–	17.0	–	60.0	–	(77.0)	–
Balance at 30 June	290.8	163.0	–	58.3	10.2	68.4	590.7
At cost	290.8	289.0	–	60.0	21.0	68.4	729.2
Accumulated amortisation and impairment	–	(126.0)	–	(1.7)	(10.8)	–	(138.5)
	290.8	163.0	–	58.3	10.2	68.4	590.7

D4. Impairment testing

The Group assesses, at each reporting date, whether there is an indication that an asset is impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or - where the asset does not generate inflows that are largely independent of those from other assets or groups of assets - the cash-generating unit's (CGUs) fair value less costs of disposal and its value-in-use. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. A CGU is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The determination of CGUs requires judgement regarding the way management monitors the Group's operations and makes decisions regarding continuing or disposing of those operations. The Group has determined that its CGUs are consistent with its operating segments.

If an impairment loss was recognised in a prior period for an asset other than goodwill, and the carrying value of the CGU exceeds its recoverable amount, management makes a judgement as to whether any portion of the impairment should be reversed in the profit or loss during the current reporting period. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset after the reversal cannot exceed the amount that would have been determined, net of amortisation or depreciation had no impairment loss been recognised.

(a) Allocation of intangible assets with indefinite useful lives

The carrying value of goodwill allocated to each CGU is summarised in the table below. These balances are not amortised and therefore result in a greater risk of impairment losses in future periods.

The Group has no other intangible assets with indefinite useful lives.

	Goodwill	
CGU	2017 $m	2016 $m
Virgin Australia Domestic	**234.1**	234.1
Virgin Australia International	**–**	–
Tigerair Australia	**53.2**	53.2
Velocity	**3.5**	3.5
Unallocated	**–**	–
Total	**290.8**	290.8

D4. Impairment testing (continued)

(b) Recoverable amount

The recoverable amounts of CGUs have been determined based on value-in-use calculations. Estimated future cash flows are based on financial budgets covering a five year period and approved by the Board and senior management. The key assumptions underlying the cash flow projections are as follows:

- Management's expectation regarding the market, including passenger numbers, revenue yield and operating costs;
- The fuel price is set with regard to the Brent forward curve adjusted for refining margins and hedge positions;
- The AUD/USD exchange rate is set with regard to the prevailing spot rate;
- Load factors and average net fares are set having regard to historical experience and market conditions, fleet plans and competitor behaviour; and
- Projected cash flows beyond the five year period are based on managements' best estimate of long term growth rates.

Estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects the weighted average cost of capital based on the risk-free rate for ten year Australian government bonds adjusted for a risk premium to reflect the risk of the specific CGU.

The growth rates, post-tax discount rates (and equivalent pre-tax discount rates) used in determining value-in-use are included in the table below.

	Growth rate		Post-tax rate		Pre-tax rate	
CGU	2017 %	2016 %	2017 %	2016 %	2017 %	2016 %
Virgin Australia Domestic	**3.00**	3.00	**8.53**	8.53	**10.87**	10.82
Virgin Australia International	**3.00**	3.00	**9.13**	9.13	**11.46**	10.67
Tigerair Australia	**3.00**	3.00	**8.93**	8.93	**11.49**	10.23
Velocity	**3.00**	3.00	**8.53**	8.53	**10.95**	10.85

(c) Sensitivity analysis

The recoverable amount of the Virgin Australia International CGU exceeds its carrying amount by $412.6 million (2016: $111.0 million). The recoverable amount of the Tigerair Australia CGU exceeds its carrying amount by $13.4 million (2016: N/A). Management has identified that a reasonably possible change in the following assumptions would cause the carrying amounts to exceed the recoverable amounts. The following table shows the assumptions used and the percentage by which these assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount, assuming all other variables remain constant.

	2017 Assumption	2017 %	2016 Assumption	2016 %
Virgin Australia International				
Average unit revenue[1]	**6.82**	**(2.6)**	N/A	N/A
Revenue growth rate (% per annum)	**N/A**	**N/A**	1.7	(15.0)
Australian dollar (AUD/USD)	**N/A**	**N/A**	0.73	(2.7)
Jet fuel price (AUD/bbl including fuel handling costs)	**N/A**	**N/A**	97.5	3.9
Tigerair Australia				
Revenue growth rate (% per annum)	**2.3**	**(3.0)**	N/A	N/A
Australian dollar (AUD/USD)	**0.73**	**(0.5)**	N/A	N/A
Jet fuel price (AUD/bbl including fuel handling costs)	**97.5**	**1.1**	N/A	N/A

(1) Unit revenue represents the airline passenger revenue per available seat kilometre, where available seat kilometres are calculated as the total number of seats available for passengers multiplied by the number of kilometres flown. Unit revenue has been used in the current financial year rather than revenue growth rate as it provides a more relevant measure during periods of changing or high growth rates.

The Group has considered all reasonably possible changes in key assumptions relating to the remaining CGUs and concluded that no impairment would result from these changes.

E. Capital structure and financial risks

This section sets out the capital structure of the Group and its exposure to financial risks. The capital structure consists of debt and equity. The Group has a strong focus on optimising the capital structure to obtain a balance between reducing finance costs and managing risks. This section also sets out the financial risks to which the Group is exposed as a result of its operating, investing and financing activities.

E1. Capital management

Capital management is a key focus of the Board and senior management and it is the Group's policy to maintain a strong capital base that will ensure continuing investor, creditor and market support for the future development of the business.

The Board monitors:

- The liquidity of the Group including unrestricted and total cash balances;
- Future financing requirements including those relating to aircraft purchases, with determination of financing being based on competitively priced financing alternatives available at the time of the financing transaction; and
- Compliance with debt covenants.

During the comparative period, the Group undertook a capital structure review in order to strengthen its balance sheet, improve liquidity, reduce debt and build a lower, sustainable cost base to improve earnings and cash flow. As a result of this review, in the current period, the Group issued shares of $941.2 million, before transaction costs. A portion of the proceeds were used to repay debt prior to the contractual reporting date.

Refer to note E7 for information regarding key market, credit and liquidity risks.

The following table summarises the Group's net debt position.

	2017 $m	**2016 $m**
Current interest-bearing liabilities	**(280.9)**	(875.8)
Cash and cash equivalents (including restricted cash)	**1,396.1**	1,123.8
Current net debt	**1,115.2**	248.0
Non-current interest-bearing liabilities	**(2,152.4)**	(2,124.2)
Net debt (non-IFRS measure)	**(1,037.2)**	(1,876.2)

E2. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, on-demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant changes in value.

	2017 $m	**2016 $m**
Cash at bank and on hand	**532.0**	306.9
Deposits	**864.1**	816.9
	1,396.1	1,123.8

Certain merchant acquiring relationships require restricted cash to be held to cover total forward sales for some forms of payment. Cash is also required to secure standby letters of credit and bank guarantees. Cash held in entities with non-controlling interests are subject to restrictions relating to distributions. The amount of restricted cash included in cash and cash equivalents but not available for use is $410.3 million (2016: $394.9 million).

E3. Interest-bearing liabilities

Interest-bearing liabilities are initially recognised at fair value, net of transaction costs incurred, on the date they originate. They are subsequently measured at amortised cost, using the effective interest method. They are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance date.

(a) Carrying amount

	2017 $m	2016 $m
Current		
Aeronautic finance facilities – secured[1]	**275.1**	357.2
Loans from shareholders – unsecured[1]	**–**	423.7
Bank loans – secured[1]	**–**	58.7
Bank loans – unsecured[1]	**–**	34.0
Finance lease liabilities	**5.8**	2.2
	280.9	875.8
Non-current		
Aeronautic finance facilities – secured[1]	**934.6**	1,351.9
Bank loans – secured[1]	**218.3**	218.3
Bonds – unsecured[1]	**964.8**	529.0
Finance lease liabilities	**34.7**	25.0
	2,152.4	2,124.2

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

(b) Facility terms

			Carrying/drawn amount $m		Facility limit $m	
	Currency	Calendar year of principal repayments	2017	2016	2017	2016
Secured bank loans						
– Aircraft	AUD	2017-2029	**84.6**	169.9	**123.7**	169.9
– Aircraft	USD	2017-2028	**1,125.1**	1,539.2	**1,125.1**	1,552.0
– Other	AUD	2020	**218.3**	277.0	**264.4**	277.0
Unsecured loans						
– Shareholders	AUD		**-**	423.7	**-**	423.7
– Other	AUD		**-**	34.0	**12.2**	34.0
Unsecured bonds	USD	2019-2021	**964.8**	529.0	**964.8**	529.0
Finance leases	AUD	2017-2047	**40.5**	27.2	**40.5**	27.2
Standby letters of credit and bank guarantees	AUD and USD	2017-2025	**122.2**	124.7	**162.2**	128.3
			2,555.5	3,124.7	**2,692.9**	3,141.1

For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, refer to note E7.

(c) Assets pledged as security

$27.8 million of the standby letters of credit and bank guarantee facilities require no collateral. The remaining letters of credit and bank guarantee facilities are secured over cash and cash equivalents or property, plant and equipment of an equivalent amount.

The carrying amount of property, plant and equipment pledged as security and the subsidiaries whose issued capital is pledged as security for current and non-current interest-bearing liabilities is disclosed in notes D2 and F3, respectively.

E4. Share capital

Ordinary share capital

Ordinary shares carry one vote per share and carry the right to dividends. In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation. All authorised shares have been issued and fully paid and have no par value.

When vesting conditions associated with the Senior Executive Option Plans (SEOP) are met, additional ordinary shares may be issued, shares may be purchased on-market or shares may be issued from the Treasury shares.

On 4 August 2016, the Company issued 4,057.6 million shares under its one for one non-renounceable pro-rata entitlement offer at a price of $0.21 per share, resulting in an increase in share capital, before transaction costs, of $852.0 million. On 20 September 2016, the Company issued 343.0 million shares to HNA Innovation Ventures (Hong Kong) Co. Limited at a price of $0.26 per share, resulting in an increase in share capital of $89.2 million.

Treasury shares

The trustee for the Key Employee Performance Plan (KEPP) holds shares in VAH which may be transferred to employees of the Group in accordance with the rules of the Plan. The trust acts as the Company's agent and accordingly, KEPP transactions are treated as being directly executed by the Company. These shares are represented as treasury shares and offset against share capital in the table below. The Group has recognised the cost of the KEPP shares in profit or loss and has recognised the carrying value of the shares in the share-based payments reserve.

Treasury shares carry no voting or dividend rights until the shares are transferred to the employees, following satisfaction of any vesting conditions. When the shares vest, the carrying value of the vested shares is transferred from the share-based payments reserve to share capital. Refer to note G3 for further information on share-based payments.

	2017		2016	
	Number (m)	Value $m	Number (m)	Value $m
Ordinary share capital (issued and fully paid)				
Balance at 1 July	**4,057.1**	**1,325.9**	3,524.9	1,170.6
Issue of shares for cash, net of transaction costs	**4,400.6**	**934.3**	529.2	154.0
Increase in share capital - SEOP Issue 16	**–**	**–**	1.7	0.7
Increase in share capital - SEOP Issue 18	**–**	**–**	0.6	0.3
Increase in share capital - SEOP Issue 19	**0.4**	**0.1**	0.7	0.3
Balance at 30 June	**8,458.1**	**2,260.3**	4,057.1	1,325.9
Less: Treasury shares				
Balance at 1 July	**(5.4)**	**(16.9)**	(7.2)	(17.7)
Increase in share capital - SEOP Issue 20	**0.9**	**0.2**	–	–
Increase in share capital - KEPP 12	**–**	**–**	0.7	0.3
Increase in share capital - KEPP 13	**0.5**	**0.1**	1.1	0.5
Balance at 30 June	**(4.0)**	**(16.6)**	(5.4)	(16.9)
Net ordinary share capital				
Balance at 1 July	**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**	529.2	154.0
Increase in share capital - SEOP	**1.3**	**0.3**	3.0	1.3
Increase in share capital - KEPP	**0.5**	**0.1**	1.8	0.8
Balance at 30 June	**8,454.1**	**2,243.7**	4,051.7	1,309.0

E5. Dividends

No dividends were declared or paid during the year ended 30 June 2017 or during the prior corresponding year. The following imputation credits are available for use in a subsequent reporting period. The ability to use franking credits is dependent on the ability to declare dividends.

	2017 $m	2016 $m
Dividend franking account balances		
Virgin Australia Holdings Limited based on tax rate of 30% (2016: 30%)	**34.5**	50.9
Exempting franking credits from acquisition of Skywest Group based on tax rate of 30% (2016: 30%)	**4.2**	4.2

E6. Reserves

Foreign currency translation reserve

Exchange differences arising on translation of foreign operations are recognised in the foreign currency translation reserve, as described in note A(d).

Hedge reserve and option time value reserve

The hedge reserve and option time value reserve are used to recognise the effective portion of changes in the fair value of cash flow hedging instruments. If the hedging instrument no longer meets the criteria for hedge accounting, is expired or sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in the hedge reserve or option time value reserve remains there until the forecast transaction is recognised in profit or loss, or recognised as part of the acquisition price of property, plant and equipment.

Share-based payments reserve

The Group operates a number of employee option plans and share plans. The share-based payments reserve is used to recognise the grant date fair value of equity-settled share-based payments provided to employees with a corresponding entry in profit or loss. When the underlying shares vest and are transferred to the employee, the reserve balance is reversed and recognised in share capital. Refer to note G3 for further information on share-based payments.

Non-controlling interests' contribution reserve

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.

E7. Financial risk management

The Group has exposure to a variety of financial risks, including market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. There have been no significant changes in the Group's risk management strategy from the previous period.

The Group manages these risk exposures using various financial instruments. The Board has determined hedging limits for financial risks and these are documented in the Treasury Risk Management Policy. Transactions entered into are to be carried out within these guidelines. Implementation of this policy is delegated to management, who have flexibility to act within the bounds of the authorised policy limits. Group policy is to not enter, issue or hold derivative financial instruments for speculative trading purposes. Compliance with the policy is monitored on an ongoing basis through regular reporting to the Board.

(a) Market risk

Market risk is the risk that changes in market prices, such as fuel prices, foreign exchange rates and interest rates, will affect the Group's cash flows and profits. The objective of market risk management is to manage and control market exposures, within tolerances.

The Group enters into derivatives in order to manage market risks relating to fuel prices, foreign exchange rates and specific asset purchases denominated in foreign currencies. Derivatives are recognised at fair value, both initially and on an ongoing basis. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group assesses, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective".

Hedges of highly probable forecast transactions which are exposed to variations in cash flows that could ultimately affect profit or loss are called cash flow hedges. Changes in the fair value of derivatives designated as cash flow hedges are recognised directly in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss. Cumulative gains and losses in other comprehensive income, including those relating to discontinued hedges, are recognised in profit or loss in the periods in which the hedged item will affect profit or loss. If the hedged item is capital in nature, the cumulative gain or loss is transferred to the carrying value of the hedged item when it is recognised.

Changes in the fair value of derivative financial instruments that are not designated in a hedge relationship are recognised immediately in profit or loss.

The following table summarises the fair value of the Group's forward foreign exchange and fuel hedging contracts as at reporting date.

	2017 $m	2016 $m
Current assets		
Forward foreign exchange contracts - cash flow hedges	**1.0**	3.7
Fuel hedging contracts - cash flow hedges	**1.4**	22.6
	2.4	26.3
Non-current assets		
Forward foreign exchange contracts - cash flow hedges	**3.8**	2.4
Fuel hedging contracts - cash flow hedges	**2.8**	20.8
	6.6	23.2
Current liabilities		
Forward foreign exchange contracts - cash flow hedges	**42.4**	25.4
Fuel hedging contracts - cash flow hedges	**14.7**	8.0
	57.1	33.4
Non-current liabilities		
Forward foreign exchange contracts - cash flow hedges	**5.3**	7.7
Fuel hedging contracts - cash flow hedges	**1.1**	0.3
	6.4	8.0

E7. Financial risk management (continued)

(b) Market risk - fuel price risk

Fuel price risk arises on the Group's exposure to jet fuel prices.

Fuel price risk management

The Group's fuel price risk management strategy aims to provide the airline with protection against sudden and significant increases in fuel prices while ensuring that the airline is not competitively disadvantaged in the event of a substantial decrease in the price of fuel.

The Group's risk management policy is to hedge anticipated jet fuel consumption subject to limits determined by the Board. This exposure is managed by using Singapore kerosene and Brent crude commodity swaps, option contracts and other fuel related derivatives. These contracts are designated as hedges of price risk on specific volumes of future jet fuel consumption. The Group considers Brent crude to be a separately identifiable and measurable component of Singapore kerosene. The price of Brent crude is highly correlated with the price of Singapore kerosene and represents approximately 85% of the total Singapore kerosene price. The Group primarily operates in a geographical area in which jet fuel is priced in reference to Singapore kerosene as opposed to other jet fuels (i.e. MOPAG, LA PIPE).

Ineffectiveness on fuel derivatives can arise from timing differences on the notional amount between the hedging instrument and hedged item, or changes in market dynamics which may cause the Group to reassess the component inputs into jet fuel. As at 30 June 2017, the Group has no ineffectiveness (2016: no ineffectiveness) on derivative positions.

Realised gains or losses on fuel hedging contracts arises due to differences between the actual fuel prices on settlement, the forward rates of derivative contracts and the cost of option premiums paid.

	2017 $m	2016 $m
Fuel hedging gains/(losses) recognised in profit or loss		
Realised gains/(losses) recognised in fuel and oil expense	**20.5**	(183.6)
Unrealised losses, change in option time value and realised option premium recognised in time value movement and ineffectiveness on cash flow hedges	**(31.4)**	(25.4)
Net loss from fuel hedging recognised in profit or loss	**(10.9)**	(209.0)

The following table sets out the timing of the notional amount and the hedged price range (minimum and maximum strike/contract rates) of the Group's fuel hedging instruments.

	Hedged price $/bbl	Notional amount bbl (m)	Less than 1 year bbl (m)	1 to 5 years bbl (m)
AUD fuel costs				
2017	**55-95**	**13.2**	**8.1**	**5.1**
2016	55-100	12.5	9.1	3.4

Sensitivity to fuel price

The following table summarises the sensitivity of the Group's financial assets and liabilities to a reasonably possible change in fuel prices. An AUD 30 (2016: AUD 30) per barrel (bbl) increase or decrease in the price of fuel (with no change in refining margin) would have increased/(decreased) equity and the profit or loss (before tax) by the amounts shown below. This assumes all other variables remain constant and is based on the designated hedge relationship at the reporting dates.

		AUD 30/bbl increase		AUD 30/bbl decrease	
	Carrying amount $m	Profit or loss $m	Equity $m	Profit or loss $m	Equity $m
2017					
Net derivative financial liability	**(11.6)**	**–**	**300.7**	**–**	**(230.1)**
2016					
Net derivative financial asset	35.1	–	309.9	–	(243.4)

E7. Financial risk management (continued)

(c) Market risk - foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Group undertakes transactions in US dollars, including the cost of purchasing fuel, aircraft, aircraft lease payments, some maintenance costs, the sale of airline passenger tickets and the repayment of USD debt and interest. The Group also undertakes transactions in New Zealand dollars (NZD). The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD	**2017**	**2016**	**2017**	**2016**
USD	**0.7531**	0.7307	**0.7665**	0.7446
NZD	**1.0592**	1.0949	**1.0514**	1.0443

Exposure to foreign exchange risk

The Group's exposure to foreign exchange risk at the reporting date was as follows, based on notional amounts (presented in AUD):

	2017			2016		
	AUD $m	**USD $m**	**NZD $m**	**AUD $m**	**USD $m**	**NZD $m**
Cash and cash equivalents	**–**	**622.5**	**18.1**	0.8	456.1	15.2
Receivables	**–**	**59.1**	**2.4**	–	40.9	1.9
Other financial assets	**–**	**124.1**	**0.2**	–	122.9	0.1
Payables	**–**	**(91.7)**	**(14.1)**	(4.0)	(147.9)	(15.1)
Interest-bearing liabilities	**–**	**(978.5)**	**–**	–	(537.2)	–
Gross statement of financial position exposure	**–**	**(264.5)**	**6.6**	(3.2)	(65.2)	2.1

Foreign exchange risk management

In order to protect against exchange rate movements, the Group uses forward exchange contracts and option contracts to purchase US dollars to hedge highly probable forecasted purchases for the ensuing financial periods. The contracts are timed to mature when the operating expenses or capital expenditure are expected to be settled. 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.

Ineffectiveness on foreign exchange derivatives can arise from timing differences on the notional amount between the hedged instrument and hedged item. At 30 June 2017, the Group has ineffectiveness of $0.7 million (2016: $0.7 million) on derivative positions.

	2017 $m	**2016 $m**
Foreign exchange hedging gains/(losses) recognised in profit or loss		
Realised gains/(losses) recognised in aircraft operating lease expenses, contract and other maintenance expenses and finance costs	**(24.6)**	52.8
Unrealised losses, including those relating to non-designated derivatives, change in option time value and realised option premium recognised in time value movement and ineffectiveness on cash flow hedges	**(11.4)**	(2.4)
Net gains/(losses) from foreign exchange hedging recognised in profit or loss	**(36.0)**	50.4

The following table sets out the timing of the notional amount and the hedged rate range (minimum and maximum strike/contract rates) of the Group's foreign exchange hedging instruments.

	Hedged rate AUD/USD	**Notional amount $m**	**Less than 1 year $m**	**1 to 5 years $m**
USD operating and capital costs				
2017	**0.68-0.77**	**1,467.3**	**990.1**	**477.2**
2016	0.68-0.79	1,567.3	1,180.0	387.3

E7. Financial risk management (continued)

(c) Market risk - foreign exchange risk (continued)

Sensitivity to foreign exchange rates

The following table summarises the sensitivity of the Group's foreign currency denominated financial assets and liabilities to a reasonably possible change in the exchange rate to the US dollar. This includes monetary assets and liabilities denominated in a foreign currency which are held by controlled entities with a US dollar functional currency for which changes in exchange rates are recognised within the foreign currency translation reserve. A 10% (2016: 10%) appreciation or depreciation of the AUD against the USD would have increased/(decreased) equity and profit or loss (before tax) by the amounts shown below. This assumes all other variables remain constant.

		10% appreciation in AUD		10% depreciation in AUD	
	Carrying amount $m	Profit or loss $m	Equity $m	Profit or loss $m	Equity $m
2017					
Non-derivative financial assets	**984.4**	**(73.2)**	**(16.2)**	**89.5**	**19.9**
Net derivative financial liability	**(43.6)**	**(17.1)**	**(93.1)**	**20.9**	**131.7**
Non-derivative financial liabilities	**(2,216.1)**	**97.3**	**104.2**	**(118.9)**	**(127.3)**
		7.0	**(5.1)**	**(8.5)**	**24.3**
2016					
Non-derivative financial assets	790.8	(56.4)	(15.5)	68.9	19.0
Net derivative financial liability	(2.2)	(31.8)	(134.3)	38.8	167.0
Non-derivative financial liabilities	(2,256.1)	62.3	142.8	(76.1)	(174.6)
		(25.9)	(7.0)	31.6	11.4

(d) Market risk - interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises from cash and cash equivalents and interest-bearing liabilities. The carrying value of these financial instruments is set out in the table below. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Interest rate risk management

The Group manages its cash flow interest rate risk by entering into fixed and floating rate debt and operating lease arrangements. The residual exposure to variable interest rates is managed by holding floating rate assets to create a natural hedge and may include entering into floating-to-fixed interest rate swaps to hedge part of this exposure. The Group accounts for variable rate financial assets and financial liabilities at amortised cost using the effective interest rate method. There were no gains or losses on interest rate hedging activities for the Group during the current or prior year.

Exposure to interest rate risk and sensitivity to interest rates

The fixed and variable components of the Group's cash and cash equivalents and interest-bearing liabilities are set out in the table below. Non-interest-bearing amounts are not included in the table. The impact on profit or loss (before tax) of a 100 basis point increase or decrease in interest rates, assuming all other variables remain constant, is also set out below. There are no impacts on equity.

		Interest rate profile		Profit or loss sensitivity	
	Carrying amount $m	Fixed rate instruments $m	Variable rate instruments $m	100 bp increase $m	100 bp decrease $m
2017					
Cash and cash equivalents	**1,396.1**	**901.6**	**488.0**	**4.9**	**(4.9)**
Interest-bearing liabilities	**(2,433.3)**	**(1,997.5)**	**(435.8)**	**(4.4)**	**4.4**
	(1,037.2)	**(1,095.9)**	**52.2**	**0.5**	**(0.5)**
2016					
Cash and cash equivalents	1,123.8	523.9	574.3	5.7	(5.7)
Interest-bearing liabilities	(3,000.0)	(1,780.2)	(1,219.8)	(12.2)	12.2
	(1,876.2)	(1,256.3)	(645.5)	(6.5)	6.5

E7. Financial risk management (continued)

(e) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial asset fails to meet its contractual obligations. Financial assets include cash and cash equivalents, receivables, derivative financial instruments and other financial assets.

Cash and cash equivalents, derivative financial instruments and other financial assets

Exposure to credit risk in relation to cash and cash equivalents, derivative financial instruments and other financial assets arises principally from financial institution and aircraft lessor counterparties. The Group limits its exposure to credit risk by only investing in liquid securities with counterparties and entering into derivative contracts with counterparties that have an investment grade rating. The Group also limits exposure by transacting with multiple aircraft lessors in various countries.

Receivables

Exposure to credit risk in relation to receivables arises principally from trade debtor and other counterparties (travel agents, industry settlement organisations and credit provided direct to customers).

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty and is assessed based on trading performance of the counterparty. The Group has credit policies in place under which each new trade debtor is analysed individually for creditworthiness before the Group's standard payment terms are offered. Purchase limits are established for each counterparty and reviewed on a regular basis to ensure that sales made on credit terms are made to counterparties with an appropriate credit history. The Group continuously monitors counterparty credit limits on defaults, incorporating this information into credit risk controls.

The demographics of the Group's customer base, including default risk of the industry, have less of an influence on credit risk. A significant proportion of the Group's revenue is received through credit cards, however, there are no significant concentrations of credit risk.

Of the trade receivables as at 30 June 2017, deemed neither past due nor impaired, there are no customers who represent more than 5% (2016: 5%) of the total balance of trade receivables. The average credit period on revenue is 16 days (2016: 17 days). Upon default, the credit of customers immediately ceases. A provision for doubtful receivables account in respect of trade receivables is used to record impairment losses related to specific receivables where there is objective evidence of impairment. Objective evidence of impairment includes default by a debtor or other events which have a negative effect on estimated future cash flows associated with the receivable. If the Group is satisfied that no recovery of the amount owing is possible the amount is written off against the financial asset directly. An ageing analysis of receivables is included in the table below:

	Gross 2017 $m	Impairment 2017 $m	Gross 2016 $m	Impairment 2016 $m
Not past due	**206.6**	**–**	219.0	–
Past due 1-30 days	**10.4**	**–**	5.4	–
Past due 31-60 days	**2.5**	**–**	2.4	–
61+ days	**1.2**	**(0.1)**	6.8	(1.9)
	220.7	**(0.1)**	233.6	(1.9)

Exposure to credit risk

The Group's maximum exposure to credit risk at the reporting date equates to the carrying amount of its financial assets and is set out in the table below.

		Carrying amount	
	Note	2017 $m	2016 $m
Cash and cash equivalents	E2	**1,396.1**	1,123.8
Receivables	C1	**220.6**	231.7
Derivative financial instruments		**9.0**	49.5
Other financial assets	C3	**317.7**	297.2
		1,943.4	1,702.2

E7. Financial risk management (continued)

(f) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Exposure to liquidity risk

The following table summarises the periods in which the cash flows associated with derivatives are expected to occur, as well as the contractual maturities of financial liabilities, including estimated interest payments and the impact of netting agreements. The carrying amount of derivative financial instruments that are cash flow hedges is based on the valuation at reporting date and therefore the settled gain or loss may be more or less than this amount. The net inflows/(outflows) relating to derivatives that are net cash settled represent the contractual undiscounted cash flows relating to derivatives held for risk management purposes as at 30 June. Derivative financial instruments may be closed out prior to their contracted maturity date in accordance with the Group's hedging policy. The cash flows relating to derivatives are expected to impact profit or loss in the same periods in which the cash flows are expected to occur.

The interest-bearing liabilities are denominated in AUD and USD (refer to note E3) and the contractual cash flows noted in the table below may differ as a result of the foreign exchange rate that applies at the date the USD denominated instrument is settled. Any breach in financial covenants relating to financing arrangements may result in a requirement for the Group to repay the relevant loans earlier than indicated by the contractual cash flows. At reporting date, the Group was in compliance with all of its covenants.

It is not expected that the cash flows below could occur significantly earlier or at significantly different amounts.

	Carrying amount $m	Contractual cash flows $m	Less than 1 year $m	1-5 years $m	More than 5 years $m
2017					
Derivative financial assets	**9.0**	**9.0**	**2.4**	**6.6**	**–**
Derivative financial liabilities	**(63.5)**	**(63.5)**	**(57.1)**	**(6.4)**	**–**
Non-derivative financial liabilities					
Secured loans	**(1,428.0)**	**(1,648.1)**	**(338.7)**	**(1,021.0)**	**(288.4)**
Unsecured loans and bonds	**(964.8)**	**(1,251.2)**	**(80.3)**	**(1,170.9)**	**–**
Finance lease liabilities	**(40.5)**	**(94.9)**	**(9.6)**	**(23.1)**	**(62.2)**
Payables	**(686.2)**	**(686.2)**	**(679.9)**	**(6.3)**	**–**
	(3,174.0)	**(3,734.9)**	**(1,163.2)**	**(2,221.1)**	**(350.6)**
2016					
Derivative financial assets	49.5	49.5	26.3	23.2	–
Derivative financial liabilities	(41.4)	(41.4)	(33.4)	(8.0)	–
Non-derivative financial liabilities					
Secured loans	(1,986.1)	(2,300.8)	(497.7)	(1,469.5)	(333.6)
Unsecured loans and bonds	(986.7)	(1,101.8)	(450.4)	(651.4)	–
Finance lease liabilities	(27.2)	(82.0)	(4.9)	(12.2)	(64.9)
Payables	(718.2)	(718.2)	(708.9)	(6.0)	(3.3)
	(3,710.1)	(4,194.7)	(1,669.0)	(2,123.9)	(401.8)

The Group also has contractual commitments for the acquisition of property, plant and equipment and intangible assets, which are detailed in note G1.

Liquidity risk management

The Group aims to ensure that it has sufficient cash on demand to meet expected operational expenses and contractual commitments, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot be predicted, such as natural disasters. Due to the dynamic nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping adequate liquidity available. The Group also maintains various lines of credit, which are detailed in note E3. The Group's capital management policies are detailed in note E1.

E8. 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 transfers between levels of the fair value hierarchy during the financial year.

The determination of fair values requires the use of estimates and judgements. The different valuation methods used by the Group to measure fair value include:

Derivative financial instruments

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on Level 1 inputs at each reporting date. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is based on Level 2 inputs. These financial instruments relate to forward foreign exchange and fuel hedging contracts and are principally with counterparties with investment grade credit ratings. The fair value of these instruments is determined using estimated discounted cash flows based on forward exchange market rates and fuel prices at the reporting date.

Interest-bearing liabilities

The fair value of the Enhanced Equipment Notes is measured based on Level 1 inputs. The fair value of the remaining interest-bearing liabilities is determined based on Level 2 inputs by discounting the remaining contractual cash flows at the relevant credit adjusted market interest rates at the reporting date.

Other financial assets and liabilities carried at amortised cost

The fair value of cash and cash equivalents, receivables and payables approximate their carrying amounts largely due to the short term nature of these instruments. The fair value of other financial assets and variable rate liabilities that are not recognised net of transaction costs approximate their carrying amounts.

(a) Estimated fair values

	Note	Carrying amount $m	Fair value $m	Quoted market price (Level 1) $m	Observable inputs (Level 2) $m
2017					
Financial assets carried at fair value					
Derivative financial instruments		**9.0**	**9.0**	**–**	**9.0**
Financial liabilities carried at fair value					
Derivative financial instruments		**63.5**	**63.5**	**–**	**63.5**
Financial liabilities carried at amortised cost					
Aeronautic finance facilities - secured	E3	**1,209.7**	**1,285.5**	**480.1**	**805.4**
Unsecured facilities	E3	**964.8**	**1,023.6**	**–**	**1,023.6**
Secured syndicate facility	E3	**218.3**	**225.0**	**–**	**225.0**
Finance lease liabilities	E3	**40.5**	**40.5**	**–**	**40.5**
2016					
Financial assets carried at fair value					
Derivative financial instruments		49.5	49.5	–	49.5
Financial liabilities carried at fair value					
Derivative financial instruments		41.4	41.4	–	41.4
Financial liabilities carried at amortised cost					
Aeronautic finance facilities - secured	E3	1,709.1	1,793.4	677.5	1,115.9
Unsecured facilities	E3	952.7	981.1	–	981.1
Secured syndicate facility	E3	216.0	225.0	–	225.0
Finance lease liabilities	E3	27.2	27.2	–	27.2

E9. Offsetting financial assets and liabilities

The Group enters into contractual arrangements such as the International Air Transport Association (IATA) and International Swaps and Derivatives Association (ISDA) Master Agreements where, upon the occurrence of a credit event (such as default), a termination value is calculated and only a single net amount is payable in settlement of all transactions that are capable of offset under the contractual terms.

Balances relating to the Group's IATA agreements do not meet the criteria for offsetting in the consolidated statement of financial position. This is because the Group does not have any currently legally enforceable right to offset recognised amounts, as the right to offset is enforceable only on the occurrence of a credit event.

Offsetting is applied to derivatives balances in the consolidated statement of financial position where the Group has a legally enforceable right to set off and there is an intention to settle on a net basis.

The following table sets out the carrying amounts of recognised financial assets and liabilities that are subject to the above agreements.

2017	Note	Gross financial assets and liabilities recognised $m	Amounts offset $m	Net amounts presented(1) $m	Amounts not offset $m	Net amount $m
Financial assets						
Cash and cash equivalents	E2	**391.3**	**–**	**391.3**	**(21.4)**	**369.9**
Receivables	C1	**16.7**	**–**	**16.7**	**(11.9)**	**4.8**
Derivative financial assets		**21.2**	**(12.2)**	**9.0**	**(8.0)**	**1.0**
		429.2	**(12.2)**	**417.0**	**(41.3)**	**375.7**
Financial liabilities						
Payables	C5	**(14.0)**	**–**	**(14.0)**	**12.7**	**(1.3)**
Derivative financial liabilities		**(75.7)**	**12.2**	**(63.5)**	**28.6**	**(34.9)**
Interest-bearing liabilities	E3	**–**	**–**	**–**	**–**	**–**
		(89.7)	**12.2**	**(77.5)**	**41.3**	**(36.2)**

2016	Note	Gross financial assets and liabilities recognised $m	Amounts offset $m	Net amounts presented(1) $m	Amounts not offset $m	Net amount $m
Financial assets						
Cash and cash equivalents	E2	201.3	–	201.3	(37.7)	163.6
Receivables	C1	13.6	–	13.6	(13.6)	–
Derivative financial assets		65.1	(15.6)	49.5	(29.2)	20.3
		280.0	(15.6)	264.4	(80.5)	183.9
Financial liabilities						
Payables	C5	(18.3)	–	(18.3)	14.2	(4.1)
Derivative financial liabilities		(57.0)	15.6	(41.4)	32.3	(9.1)
Interest-bearing liabilities	E3	(34.0)	–	(34.0)	34.0	–
		(109.3)	15.6	(93.7)	80.5	(13.2)

(1) Balances may not equate to the corresponding line item presented on the face of the consolidated statement of financial position or in the supporting notes. The difference relates to financial assets and financial liabilities that are not subject to master netting arrangements and are therefore not in scope for offsetting disclosures.

F. Group structure

This section sets out the legal structure of the Group. It provides information on business combinations, details on controlled entities, joint ventures, associates, non-controlling interests and unconsolidated structures.

F1. Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. The Group did not complete any acquisitions during the period. Refer to note D3 for the accounting policy regarding goodwill.

F2. Investment accounted for using the equity method

The investment accounted for using the equity method comprises the Group's interest in its associate. An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but it is not control or joint control of those policies.

The investment in associate is accounted for using the equity method. Under this method, the investment is initially recognised at cost. Subsequent to acquisition, the Group's share of profits or losses is recognised in the consolidated statement of profit or loss and its share of post-acquisition movements in reserves is recognised in reserves. These movements are adjusted against the carrying amount of the investment. Dividends receivable from the associate reduce the carrying amount of the investment.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate and are eliminated against the carrying amount of the investment. Unrealised losses are also eliminated in the same way unless the transaction provides evidence of impairment.

The investment is assessed at each reporting date to determine if there is objective evidence of impairment as a result of an event that impacts estimated future cash flows and can be reliably measured. An impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

The Group holds a 49% (2016: 49%) interest in Virgin Samoa Limited (Virgin Samoa), a company incorporated in Samoa and accounted for as an associate. The principal activity of Virgin Samoa is the operation of airline activities between Samoa, Australia and New Zealand. The arrangement commenced in September 2005 between the Group, the Government of Samoa (49%) and Aggie Grey's Hotel Limited (2%) and is governed by agreements which will cease in November 2017. Subject to regulatory approvals, the Group may continue to fly to Samoa but not under this arrangement.

	2017 $m	**2016 $m**
100%		
Revenue and income	**47.8**	47.8
Profit	**4.2**	1.4
Other comprehensive income	**–**	–
Total comprehensive income	**4.2**	1.4
Group share		
Carrying value	**4.6**	4.0
Dividends received	**1.5**	–
Revenue and income	**23.4**	23.4
Profit	**2.1**	0.7
Other comprehensive income	**–**	–
Total comprehensive income	**2.1**	0.7

The Group had no contingent liabilities or capital commitments relating to its interest in Virgin Samoa as at 30 June 2017 (2016: nil).

F3. Controlled entities

The consolidated financial statements comprise the financial statements of the Company and the entities it controls. The Company controls an entity when it is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Controlled entities are consolidated from the date on which control commences and are de-consolidated from the date that control ceases. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Significant judgement may be required to determine if an entity is controlled by the Company. The Company consolidates a number of entities in which it holds minimal or no issued capital. There are no significant restrictions on the Company's ability to access or use the assets and settle the liabilities of the Group, other than those disclosed in note E2.

The ultimate parent entity in the Group is Virgin Australia Holdings Limited. The consolidated financial statements include the following subsidiaries which are wholly-owned in the current and prior period unless otherwise noted.

	Country of incorporation
Companies	
737 2012 No.1 Pty. Ltd.(4)	Australia
737 2012 No. 2 Pty Ltd(4)	Australia
A.C.N. 098 904 262 Pty Ltd(1)	Australia
Captivevision Capital Pte. Ltd.(5)	Singapore
F11305 Pte. Ltd.(5)	Singapore
Red Jet Foundation Pty Ltd	Australia
Short Haul 2014 No. 1 Pty Ltd	Australia
Short Haul 2014 No. 2 Pty Ltd(4)	Australia
Short Haul 2016 No. 1 Pty Ltd	Australia
Short Haul 2016 No. 2 Pty Ltd(4)	Australia
Short Haul 2017 No. 1 Pty Ltd(6)	Australia
Short Haul 2017 No. 2 Pty Ltd(6)	Australia
Skywest Airlines Pte. Ltd.(5)	Singapore
Skywest Airlines (S) Pte. Ltd.(5)	Singapore
TA Holdco (Singapore) Pte. Ltd.(1)	Singapore
Tiger Airways Australia Pty Limited(1)	Australia
Tiger Airways Australia SPV Pty Ltd(1)	Australia
Tiger International Number1 Pty Ltd(3)	Australia
Torque Solutions (Australia) Pty. Ltd.(2)	Australia
VA Hold Co Pty Ltd	Australia
VA Lease Co Pty Ltd	Australia
VA Leaseco No.4 Pty Ltd(4)	Australia
VA Regional Leaseco Pty Ltd	Australia
VAH Newco No.1 Pty Ltd(1)	Australia
VAH Newco No.2 Pty Ltd(1)	Australia
VB 800 2009 Pty Ltd	Australia
VB E190 2009 No.2 Pty Ltd	Australia
VB E190 2009 Pty Ltd	Australia
VB Investco Pty Ltd	Australia
VB Leaseco No 2 Pty Ltd	Australia
VB Leaseco Pty Ltd(1)	Australia
VB LH 2008 No. 1 Pty Ltd(4)	Australia
VB LH 2008 No. 2 Pty Ltd(4)	Australia
VB PDP 2010-11 Pty Ltd	Australia
VB Training Pty Ltd	Australia

F3. Controlled entities (continued)

	Country of incorporation
VB Ventures Pty Ltd	Australia
VBNC5 Pty Ltd	Australia
VBNC9 Pty Ltd(4)	Australia
Velocity Frequent Flyer 1 Pty Ltd(2)	Australia
Velocity Frequent Flyer 2 Pty Ltd(2)	Australia
Velocity Frequent Flyer Holdco Pty Ltd(2)	Australia
Velocity Frequent Flyer Pty Ltd(2)	Australia
Velocity Rewards Pty Ltd(2)	Australia
Virgin Australia 2013-1 Issuer Co Pty Ltd(4)	Australia
Virgin Australia Airlines Holdings Pty Ltd(1)	Australia
Virgin Australia Airlines (NZ) Limited(3)	New Zealand
Virgin Australia Airlines Pty Ltd(1)(4)	Australia
Virgin Australia Airlines (SE Asia) Pty Ltd(3)	Australia
Virgin Australia Cargo Pty Ltd(1)	Australia
Virgin Australia Holidays Pty Ltd	Australia
Virgin Australia International Airlines Pty Ltd(3)	Australia
Virgin Australia International Holdings Pty Ltd(3)	Australia
Virgin Australia International Operations Pty Ltd(1)	Australia
Virgin Australia (NZ) Holdings Pty Ltd(1)	Australia
Virgin Australia (NZ) Employment and Crewing Limited	New Zealand
Virgin Australia Regional Airlines Pty Ltd(1)(4)	Australia
Virgin Tech Pty Ltd(1)	Australia
Trusts	
Key Employee Performance Plan Trust(7)	Australia
The Loyalty Trust(2)(7)	Australia
Virgin Australia 2013-1A Trust(8)	Australia
Virgin Australia 2013-1B Trust(8)	Australia
Virgin Australia 2013-1C Trust(8)	Australia
Virgin Australia 2013-1D Trust(8)	Australia

(1) Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 dated 28 September 2016, these controlled entities are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports for the financial year ended 30 June 2017. Refer to note F6 for further information.
(2) The Company owns 100% of the ordinary share capital of these entities but recognises a 35.28% non-controlling interest in these entities as a result of the issue of convertible notes to third parties. Refer to note F5 for further information.
(3) The Company consolidates these entities despite holding minimal issued capital as the Company is exposed to or has rights to variable returns from its involvement with these entities and has the ability to affect those returns through its power over the entities and they are therefore controlled entities of the Company.
(4) The issued capital of these entities is pledged as security for the aeronautic finance facilities in note E3.
(5) These entities have been placed into voluntary (solvent) liquidation.
(6) These entities were incorporated on 27 February 2017.
(7) The Company administers the Key Employee Performance Plan Trust and The Loyalty Trust through appointed Trustees.
(8) The Company consolidates these trust entities despite holding no issued capital as the Company is exposed to or has rights to variable returns from its involvement with these trust entities and has the ability to affect those returns through its power over the trust entities and therefore controls these trust entities.

F4. Investments in unconsolidated structured entities

The Group has established Special Purpose Entities (SPEs) for certain asset-backed financing arrangements relating to the purchase of aircraft. The Group does not have any direct or indirect shareholding in these SPEs and does not control these entities in accordance with the definition of control set out in note F3. Therefore, the Group does not consolidate these entities. The Group sponsors these entities on the basis that it is a majority user of these entities. On aircraft delivery, the arrangements are such that the Group takes title to the aircraft. During the year, the Group did not provide financial support to the SPEs and has no intention of providing financial or other support. The Group does meet the administrative expenses of the SPEs.

F5. Non-controlling interests

Profit or loss and each component of other comprehensive income are attributed to equity holders of the Group and to non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Affinity Equity Partners (Affinity) holds a 35% interest in the Velocity Frequent Flyer Group (VFF Group). During the prior year, the VFF Group issued convertible notes as partial consideration for the Group's acquisition of Torque Solutions (Australia) Pty Ltd which increased the ownership interest of non-controlling interests to 35.19%. During the prior year the VFF Group also issued convertible notes as part of a management incentive plan which increased the ownership interest of non-controlling interests to 35.28%. These transactions resulted in a $0.3 million increase and $0.1 million increase in equity attributable to the owners of the Company due to the dilution of the Group's ownership interest of 0.19% and 0.09%, respectively.

The VFF Group consists of the following entities, all with a principal place of business in Australia:

- Velocity Frequent Flyer Holdco Pty Ltd
- Velocity Frequent Flyer 1 Pty Ltd
- Velocity Frequent Flyer 2 Pty Ltd
- Velocity Frequent Flyer Pty Ltd
- Velocity Rewards Pty Ltd (as Trustee for the Loyalty Trust)
- The Loyalty Trust
- Torque Solutions (Australia) Pty Ltd

The following table summarises the financial information of the VFF Group, before intra-group eliminations.

	2017 $m	2016 $m
Revenue and income	**371.0**	327.6
Net profit (after tax)	**97.9**	102.9
Other comprehensive income	**–**	–
Total comprehensive income	**97.9**	102.9
Profit allocated to non-controlling interest (2017: 35.28%) (2016: 35 - 35.28%)	**34.5**	36.2
Other comprehensive income allocated to non-controlling interest (2017: 35.28%) (2016: 35 - 35.28%)	**–**	–
Current assets	**498.8**	388.3
Non-current assets	**156.4**	127.6
Current liabilities	**(419.6)**	(336.5)
Non-current liabilities	**(218.3)**	(216.0)
Net assets/(liabilities)	**17.3**	(36.6)
Net assets/(liabilities) attributable to non-controlling interest (2017: 35.28%) (2016: 35.28%)	**6.1**	(12.9)
Net increase in cash and cash equivalents[1]	**240.1**	41.9
Equity distributions paid to non-controlling interests	**38.2**	41.9

(1) The increase in cash and cash equivalents includes $150.0 million proceeds from the repayment by a related party of a loan facility made in a prior year.

F6. Deed of Cross Guarantee

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 dated 28 September 2016, the wholly-owned subsidiaries identified in note F3 are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of a financial report and Directors' Report.

It is a condition of the Corporations Instrument that the Company and each of the subsidiaries eligible to obtain relief under the Corporations Instrument enter into a Deed of Cross Guarantee (Deed). The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of those subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the *Corporations Act 2001*, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries that are a party to the Deed have also given similar guarantees in the event that the Company is wound up. The Deed came into effect on 18 June 2007.

It is also a condition of the Deed that consolidated financial information of the Company and the controlled entities which are a party to the Deed (the Deed Group) is presented.

(a) Consolidated statement of profit or loss of the Deed Group

	2017 $m	2016 $m
Revenue and income	**4,002.3**	3,959.7
Impairment losses on assets classified as held for sale	**(7.8)**	(107.3)
Impairment losses on other assets	**(65.9)**	(118.1)
Onerous contract expenses	**(29.6)**	(100.2)
Impairment loss on investment	**(475.7)**	–
Net operating expenditure	**(3,924.3)**	(3,848.0)
Loss before net finance costs and tax	**(501.0)**	(213.9)
Finance income	**44.5**	48.3
Finance costs	**(178.5)**	(187.8)
Net finance costs	**(134.0)**	(139.5)
Loss before tax	**(635.0)**	(353.4)
Income tax benefit	**49.9**	103.2
Loss	**(585.1)**	(250.2)

(b) Consolidated statement of profit or loss and other comprehensive income and retained earnings of the Deed Group

Loss(1)	**(585.1)**	(250.2)
Other comprehensive loss that may be reclassified subsequently to profit or loss	**(49.7)**	(16.1)
Other comprehensive loss, net of tax	**(49.7)**	(16.1)
Total comprehensive loss	**(634.8)**	(266.3)
Retained earnings at 1 July	**(332.1)**	(81.9)
Transfers to reserves	**49.7**	16.1
Movement in retained earnings due to entities entering the Deed	**–**	–
Retained earnings at 30 June	**(917.2)**	(332.1)

(1) The Deed Group impaired the carrying value of its investments in subsidiaries during the current financial year to reflect the net asset value of its subsidiaries.

F6. Deed of Cross Guarantee (continued)

(c) Consolidated statement of financial position of the Deed group

	2017 $m	2016 $m
Current assets		
Cash and cash equivalents	**1,018.4**	989.9
Receivables	**1,524.8**	1,428.9
Inventories	**45.1**	38.1
Derivative financial instruments	**2.4**	26.3
Other financial assets	**21.1**	22.3
Assets classified as held for sale	**4.3**	171.6
Other	**4.3**	4.3
Total current assets	**2,620.4**	2,681.4
Non-current assets		
Receivables	**160.4**	129.0
Derivative financial instruments	**6.6**	23.2
Other financial assets	**421.5**	646.8
Deferred tax assets	**502.9**	451.6
Property, plant and equipment	**2,490.9**	2,422.3
Intangible assets	**532.4**	513.9
Other	**14.2**	18.7
Total non-current assets	**4,128.9**	4,205.5
Total assets	**6,749.3**	6,886.9
Current liabilities		
Payables	**1,125.3**	1,165.4
Interest-bearing liabilities	**118.8**	646.7
Derivative financial instruments	**57.1**	40.2
Provisions	**227.3**	163.0
Unearned revenue	**452.7**	445.6
Total current liabilities	**1,981.2**	2,460.9
Non-current liabilities		
Payables	**12.2**	15.3
Interest-bearing liabilities	**2,103.6**	2,020.4
Derivative financial instruments	**6.4**	24.2
Provisions	**246.8**	198.3
Unearned revenue	**90.7**	134.4
Total non-current liabilities	**2,459.7**	2,392.6
Total liabilities	**4,440.9**	4,853.5
Net assets	**2,308.4**	2,033.4
Equity		
Share capital	**2,260.3**	1,325.9
Reserves	**965.3**	1,039.6
Retained earnings	**(917.2)**	(332.1)
Total equity	**2,308.4**	2,033.4

F7. Parent entity disclosures

As at, and throughout the financial year ended 30 June 2017, the ultimate parent entity of the Group was Virgin Australia Holdings Limited. Information relating to the parent entity is set out below.

	2017 $m	2016 $m
Results of the parent entity		
Loss	**(894.7)**	(0.6)
Total comprehensive loss	**(894.7)**	(0.6)
Financial position of the parent entity		
Current assets	**455.2**	1,373.6
Total assets	**3,495.1**	2,804.2
Current liabilities	**948.9**	738.6
Total liabilities	**1,927.4**	1,275.8
Net assets	**1,567.7**	1,528.4
Share capital	**2,260.3**	1,325.9
Share-based payments reserve	**16.2**	16.6
Retained earnings	**(708.8)**	185.9
Total equity	**1,567.7**	1,528.4

The Company impaired the carrying value of its investments in subsidiaries during the current financial year to reflect the net asset value of its subsidiaries.

The Company has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of a number of its subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in note F6.

The Company does not have any contingent assets or contingent liabilities at 30 June 2017 (2016: nil).

The Company does not have any contractual commitments for the acquisition of property, plant and equipment at 30 June 2017 (2016: nil).

G. Other items

This section sets out other disclosures that may be relevant to understanding the financial position and performance of the Group.

G1. Commitments

(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 30 June 2017 closing exchange rate of 0.7665 (2016: 0.7446). The Group's capital expenditure commitments as at 30 June 2017 are $3,816.7 million (2016: $3,973.8 million).

G1. Commitments (continued)

(b) Finance leases – as lessee

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

Assets held under finance leases are initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequently, the assets are depreciated over the term of the relevant lease, or where it is likely the Group will obtain ownership of the asset, the life of the asset. Minimum lease payments made under finance leases are apportioned between finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The Group leases buildings, telecommunications and aircraft and aeronautical related assets under finance leases.

During a previous financial year the Group entered into a finance lease for telecommunications infrastructure. The lease term is until 2018 with three additional one year options to extend the lease until 2021. This finance lease contains an option to purchase the assets at the end of the term of the lease.

During a previous financial year the Group entered into a finance lease agreement for the sale and leaseback of the Brisbane Hangar. The lease term is to 2047 and there is an additional 15 year option to extend the lease to 2062. This finance lease does not contain an option to purchase the asset at the end of the term of the lease.

During the current financial year the Group entered into finance lease agreements for five Fokker F100 aircraft. The lease terms extend to August 2020. The finance leases contain options to purchase the asset throughout the term of the lease.

	Future minimum lease payments		Interest		Present value of minimum lease payments	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
Less than one year	**9.6**	4.9	**3.8**	2.7	**5.8**	2.2
Between one and five years	**23.1**	12.2	**10.2**	9.5	**12.9**	2.7
More than five years	**62.2**	64.9	**40.4**	42.6	**21.8**	22.3
	94.9	82.0	**54.4**	54.8	**40.5**	27.2

(c) Operating leases – as lessee

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

The Group leases property, plant and equipment, principally aircraft, under non-cancellable operating leases with terms of one to twelve years from 30 June 2017 (2016: one to twelve years).

Aircraft lease payments are payable in US dollars. There are options on some leases to renew the leases at the end of the original lease period. Some leases provide for additional rent payments that are based on changes in a local price index. There are no restrictions imposed by the leases in relation to additional debt raising or entering into further leases. In accordance with normal industry practice, the Group is responsible for maintenance costs of operating leased aircraft for the term of the lease.

Contingent rentals are payable in relation to certain property leases based on passenger numbers.

	2017 $m	2016 $m
Future minimum rentals under non-cancellable operating leases:(1)		
Less than one year	**509.9**	533.1
Between one and five years	**1,565.7**	1,778.3
More than five years	**900.1**	1,142.4
	2,975.7	3,453.8

(1) Future minimum rentals include $46.1 million (2016: $64.6 million) of amounts that do not relate to minimum lease rentals.

G2. Contingent liabilities

A contingent liability is a possible obligation arising from past events which will only be confirmed by the occurrence or non-occurrence of future events not wholly within the control of the Group or a present obligation arising from past events that is not probable or cannot be measured reliably. Contingent liabilities are not recognised.

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 30 June 2017, there were $122.2 million (2016: $124.7 million) of bank guarantees and letters of credit outstanding. Refer to note E3 for further information on facility limits.

As at 30 June 2017, the Group has provided other guarantees of $22.3 million (2016: nil), mainly in relation to securing a self-insurance licence in relation to workers' compensation.

The Directors are of the opinion that there is a low likelihood of having to make payments under these facilities.

G3. Share-based payments

The Group operates a number of senior executive option plans and share plans. The fair value of options and performance rights granted are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options and performance rights. The measurement of the fair value requires the use of estimates and judgements.

The fair value of senior executive option plans at grant date is determined using a Black-Scholes, Binomial or Monte Carlo option pricing model depending on the terms and conditions of each option, that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The fair value of employee share plan performance rights at the grant date is independently determined using a discounted cash flow technique taking into account the share price at the grant date and dividends forgone over the vesting period of the performance rights.

The fair value of the option granted excludes the impact of any service and non-market vesting conditions (for example, profitability and sales growth targets). Service and non-market vesting conditions are included in assumptions about the number of options and performance rights that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options and performance rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimates, such that the amount ultimately recognised as an expense is based on the number of options and performance rights that meet the related service and non-market performance conditions at the vesting date.

Upon exercise of options and performance rights, the balance of the share-based payments reserve relating to those options and performance rights is transferred to share capital. The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the shares vest.

(a) Share-based payments expense

	2017 $'000	**2016 $'000**
Rights issued under senior executive plan	**1,373**	456
Options issued under senior executive option plans	**18**	1,494
Shares issued under employee share plans	**–**	203
Shares issued under employee short term incentive remuneration plans	**–**	69
	1,391	2,222

G3. Share-based payments (continued)

(b) Senior executive option plans

The Group has established a number of senior executive option plans (SEOP). Under each plan, senior executives are granted zero exercise price options. Each option is convertible into one ordinary share. Options vested are exercisable no later than 12 months after vesting, after which time they will lapse. The key conditions of the options, with the exception of SEOP 18, relate to the growth in the Company's Total Shareholder Return (TSR) over a three year period (measured at the conclusion of the vesting period) and meeting corporate performance measures determined by the Board, as specific to each plan.

The following table sets out the percentages of the options that will vest depending on the growth in the Company's TSR over a three year period relative to the median of the S&P/ASX 200 Index (excluding financial services and resource companies) as at the testing date. TSR on the testing date is determined using the Volume Weighted Average Price (VWAP) for VAH shares traded on the ASX on each of the 30 trading days up to and including the relevant date.

The Group's relative TSR growth	% of options that vest
Below 50th percentile	0%
50th percentile	50%
Between 51st and 74th percentile	2% (for each percentile ranking above 50%)
75th percentile	100%

Details of the options granted are set out below:

Option plan	SEOP 16	SEOP 18	SEOP 19	SEOP 20	Total
Grant and issue date	29-Feb-12	1-May-13	1-May-13	20-Dec-13	
Expiry dates	30-Jun-15(1)	30-Jun-16(2)	30-Jun-16(1)	30-Jun-17(1)	
	30-Jun-16(3)		30-Jun-17(3)	30-Jun-18(3)	
2017	**'000**	**'000**	**'000**	**'000**	**'000**
Number of options at 1 July	**–**	**–**	**447**	**1,434**	**1,881**
Options granted	**–**	**–**	**–**	**–**	**–**
Options forfeited	**–**	**–**	**–**	**–**	**–**
Options lapsed	**–**	**–**	**–**	**–**	**–**
Options exercised	**–**	**–**	**(447)**	**(860)**	**(1,307)**
Number of options on issue at 30 June	**–**	**–**	**–**	**574**	**574**
Number of options vested and exercisable at 30 June	**–**	**–**	**–**	**574**	**574**
Weighted average exercise price ($)	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Weighted average share price at date of exercise ($)	**N/A**	**N/A**	**0.21**	**0.22**	
2016					
Number of options at 1 July	1,699	653	1,118	2,868	6,338
Options granted	–	–	–	–	–
Options forfeited	–	–	–	–	–
Options lapsed	–	–	–	(1,434)	(1,434)
Options exercised	(1,699)	(653)	(671)	–	(3,023)
Number of options at 30 June	–	–	447	1,434	1,881
Number of options vested and exercisable at 30 June	–	–	447	860	1,307
Weighted average exercise price ($)	0.00	0.00	0.00	0.00	0.00
Weighted average share price at date of exercise ($)	0.43	0.43	0.48	N/A	

(1) Of the options that vest, 60% vest 12 months before this date.
(2) Of the options that vest, 100% vest 12 months before this date.
(3) Of the options that vest, 40% vest 12 months before this date.

The weighted average remaining contractual life of share options outstanding at the end of the financial year was one year (2016: one year).

G3. Share-based payments (continued)

(b) Senior executive option plans (continued)

The key conditions of each plan are set out below.

Plan	Key conditions
SEOP Issue 16	• Granted to the CEO • 50% of the options were exercisable if there was growth in the Company's TSR over a three year period commencing 1 July 2011 • The remaining 50% of the options were exercisable if corporate performance measures were met. The performance measures included specific targets in relation to the growth of corporate, government and alliances partners' related business, performance of the Velocity Frequent Flyer program and Group safety outcomes
SEOP Issue 18	• Granted to the CFO • Exercisable if the CFO remained in continuous employment with the Group in a Group Executive role or higher throughout the period 1 July 2012 to 30 June 2015
SEOP Issue 19	• Granted to the CEO • 50% of the options were exercisable if there was growth in the Company's TSR over a three year period commencing 1 July 2012 • The remaining 50% of the options were exercisable if corporate performance measures were met. The performance measures included specific targets in relation to the growth of corporate, government and alliances partners' related business, performance of the Velocity Frequent Flyer program, Group safety outcomes and productivity enhancements.
SEOP Issue 20	• Granted to the CEO • 50% of the options were exercisable if there is growth in the Company's TSR over a three year period commencing 1 July 2013 • The remaining 50% of the options were exercisable if corporate performance measures were met. The performance measures included specific targets in relation to the growth of corporate and government revenue targets, performance of Tigerair Australia, performance of the Velocity Frequent Flyer program and Group safety outcomes

Velocity LTI

On 14 December 2015, the Group established an equity-settled long term incentive plan (Velocity LTI) for key executives in the Velocity Frequent Flyer Group. 10,589 Co-Investment Participation Notes (CPN) with a fair value net of face value paid of $0.57 per right and 70,000 Profit Participation Notes (PPN) with a fair value of $36.03 per right were issued. In the current financial year 1,922 CPNs and 7,500 PPNs were redeemed and 1,427 CPNs and 5,000 PPNs were issued. CPNs provide a right to receive ordinary shares in Velocity Frequent Flyer Holdco Pty Ltd and PPNs provide a right to receive CPNs. No rights have vested or lapsed during the current or prior years. The exercise price per right is nil. Due to the nature of the terms of CPNs and PPNs, the fair value is required to be remeasured each financial year. The fair value as at 30 June 2017 is $37.25 per right for CPNs and $76.21 per right for PPNs.

The Velocity LTI entitles the recipient to participate in the upside value of the business that may be generated in the future and is subject to continuing employment and good leaver provisions. The entitlements only vest on the occurrence of a pre-defined exit event where the investors (Virgin Australia Group or Affinity Equity Partners) dispose of their interest in the Velocity Frequent Flyer Group. The amount that may be earned is variable depending on agreed hurdle rates in the disposal value earned by the investors.

The Board may exercise discretion in determining LTI vesting if external conditions outside of the control of the senior executive team have impacted results unfairly, positively or negatively. The Board is cognisant of ensuring any exercise of discretion reinforces the Group's remuneration philosophy.

There is no pre-defined exit or vesting date.

G3. Share-based payments (continued)

(c) Employee share plans

The Group currently has one key employee performance plan (KEPP) titled KEPP 13. The Company has appointed CPU Share Plans Pty Limited as Trustee to acquire and hold shares under these plans. The Trustee will transfer shares held by it to participating full-time or permanent part-time employees (other than non-executive directors of a member of the Group) when the vesting conditions in relation to a performance right have been satisfied or have been waived by the Board. The Company provides all monies required by the Trustee to acquire shares for the purposes of the plan, including costs and duties. Participating employees are not entitled to any income or other rights (including voting rights) derived from any shares acquired by the Trustee unless and until the shares are transferred to the employee, following satisfaction of any vesting conditions. The vesting conditions require employees to hold and not sell any of their initial purchase of shares and to remain an employee throughout the period.

KEPP 13 was established on 11 September 2013, with performance rights being issued on the same date with a grant date of 11 September 2013. 4,379,721 performance rights were issued in three tranches. 58% were eligible to vest on 1 July 2014, a further 28% were eligible to vest on 1 July 2015 and the remaining 14% were eligible to vest on 1 July 2016.

KEPP 12, which expired in the prior financial year, was established on 6 September 2012. Performance rights were issued on 1 May 2013 with a grant date of 6 September 2012. 5,409,856 performance rights were issued in three tranches. 40% were eligible to vest on 1 July 2013, a further 40% were eligible to vest on 1 July 2014 and the remaining 20% were eligible to vest on 1 July 2015.

The performance rights for both plans were exercisable during the period commencing on the date on which the respective year's annual results were announced and concluding on 30 June of the subsequent year, upon which the rights would lapse if unexercised.

The fair value of shares granted and distributed was based on the market price of the shares of the Company on the Australian Securities Exchange as at close of trading on each of the issue dates.

Set out below are summaries of performance rights granted by the Group under KEPP:

	KEPP 12 '000	KEPP 13 '000	Total '000
2017			
Number of performance rights at 1 July	**–**	**490**	**490**
Granted	**–**	**–**	**–**
Vested and exercised	**–**	**(481)**	**(481)**
Forfeited	**–**	**(9)**	**(9)**
Number of performance rights at 30 June	**–**	**–**	**–**
Number of performance vested and exercisable at 30 June	**–**	**–**	**–**
Weighted average share price at date of exercise ($)	**–**	**0.21**	
2016			
Number of performance rights at 1 July	742	1,592	2,334
Granted	–	–	–
Vested and exercised	(700)	(1,102)	(1,802)
Forfeited	(42)	–	(42)
Number of performance rights at 30 June	–	490	490
Number of performance vested and exercisable at 30 June	–	–	–
Weighted average share price at date of exercise ($)	0.43	0.43	

G4. Related parties

(a) Key management personnel disclosures

Key management personnel (KMP) are those persons having responsibility and authority for planning, directing and controlling the activities of the entity, directly or indirectly, including any director. The total remuneration of KMP of the Group is set out below.

	2017 $'000	2016 $'000
Short term employee benefits	**12,127**	10,627
Long term benefits	**2,665**	338
Termination benefits	**3,253**	511
Post-employment benefits	**235**	264
Share-based payments	**759**	636
	19,039	12,376

For the 2017 financial year, there were no loans made, guaranteed, secured or outstanding in relation to KMP or their related parties (2016: nil).

Personal travel by KMP and their related parties is undertaken on terms no more favourable than those of employees, as per Group policy.

(b) Other related party transactions and balances

The Group has a related party relationship with its associate, Virgin Samoa Limited (Virgin Samoa). The Group provides certain airline services and wet leases aircraft to Virgin Samoa.

On 4 July 2014, the Group appointed three Non-Executive Directors to the Board of Virgin Australia Holdings Limited ('the Board") from its major airline shareholders, Air New Zealand Limited (Air New Zealand), Etihad Airways P.J.S.C. (Etihad) and Singapore Airlines Limited (Singapore). As a result of these Board appointments, these shareholders became related parties of the Group.

On 30 March 2016, the Non-Executive Director representing Air New Zealand resigned from the Board. As a result, Air New Zealand ceased to be a related party from this date. The tables on the following pages include related party transactions with Air New Zealand up to this date.

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 (HNA) and Nanshan Capital Holdings Limited (Nanshan). As a result of these appointments, these shareholders became related parties of the Group. The tables on the following pages include related party transactions with HNA and Nanshan from this date.

Tiger Airways Holdings Limited (Tiger Holdings) is a related party of the Group as a result of the Group's relationships with Singapore. Singapore accounts for Tiger Holdings as a joint venture and accounts for the Group as an associate, therefore Tiger Holdings is a related party of the Group. Tiger Holdings provided services to the Group relating to leasing of aircraft and other support services. The Group also pays Tiger Holdings a brand name royalty.

The Group has codesharing arrangements with some of its related party shareholders. The Group also purchases airline goods and services and leases aircraft from its related party shareholders and sells airline goods and services to its related party shareholders. In addition, some of these shareholders participate in the Group's Velocity Frequent Flyer program and pay a participation fee in relation to this.

During March 2016, Air New Zealand, Etihad and Singapore provided funding to the Group in proportion to their ownership interests. The funding was provided by way of twelve month variable rate unsecured loans totalling $374.5 million. The loans were repaid during the current financial year, prior to their contractual maturity date. The weighted average interest rate applicable at 30 June 2016 was 10.02%. As noted above, Air New Zealand ceased to be a related party on 30 March 2016.

On 4 August 2016, the Company issued shares under its one for one non-renounceable pro-rata entitlement offer. Singapore and Etihad took up their full entitlements of $184.0 million and $186.0 million respectively. No other shareholder was a related party at that date.

Related party transactions are made on terms equivalent to those that prevail in arm's length transactions.

G4. Related parties (continued)

(b) Other related party transactions and balances (continued)

Transactions with related parties

	2017 $'000	2016 $'000
Sale of goods and services		
Revenue for wet lease to associate	**23,541**	22,472
Revenue for airline services to associate	**11,179**	12,326
Revenue for ticket sales collected by related party shareholders	**65,608**	188,536
Participation fee revenue for Velocity Frequent Flyer program from related party shareholders	**29,673**	30,732
Purchase of goods and services		
"Tigerair" brand name royalty paid to Tiger Holdings	**2,265**	1,790
Purchase of goods and services from Tiger Holdings	**11,053**	15,019
Purchase of goods and services from related party shareholders	**97,372**	54,820
Finance income/(costs)		
Finance costs for loans from related party shareholders	**3,554**	9,128
Dividends received		
Dividends from associate	**1,470**	–

Outstanding balances at reporting date with related parties

	2017 $'000	2016 $'000
Current receivables		
Related party shareholders (sales of goods and services)	**129**	1
Virgin Samoa (sales of goods and services)	**5,291**	5,392
Current payables		
Related party shareholders (purchases of goods and services)	**16,206**	5,193
Tiger Holdings (purchases of goods and services)	**753**	882
Virgin Samoa (purchases of goods and services)	**14,343**	12,225
Current interest-bearing liabilities		
Loans from related party shareholders	**–**	244,208

No provision for doubtful receivables has been raised in relation to any outstanding balances and no expense has been recognised in respect of bad or doubtful debts due from related parties.

The Group is committed to aircraft and engine operating lease payments to Tiger Holdings totalling $5,364 thousand (2016: $51,617 thousand). As at 30 June 2017, the remaining lease commitment period is 17 months (2016: 21 to 63 months).

The Group is committed to aircraft operating lease payments to related party shareholders totalling $83,321 thousand. As at 30 June 2017, the remaining lease commitment periods ranged from 30 to 52 months.

G5. Auditor's remuneration

Details of amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services are set out below:

	2017 $'000	Restated[1] 2016 $'000
Audit and review services		
Audit and review of financial statements	**1,635**	1,835
Other services		
Other assurance services[2]	**418**	392
Taxation services	**235**	21
Other[3]	**462**	427
	1,115	840

(1) 2016 comparatives have been restated to reflect the final total 2016 remuneration for audit related services agreed after the year ended 30 June 2016.
(2) Comprises assurance services rendered in relation to debt raising transactions, compliance with service level agreements and other non-financial statement assurance procedures.
(3) Mainly comprises due diligence and other services in connection with the capital restructure, divestments, advice on accounting matters and other agreed upon procedures.

G6. Events subsequent to reporting date

In the opinion of the directors, no matters or circumstances have arisen since the reporting date which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Directors' declaration

In accordance with a resolution of the directors of Virgin Australia Holdings Limited (the Company), the directors declare that:

(1) in their opinion:

   (a) the consolidated financial statements of the Group for the financial year ended 30 June 2017, and the notes to those financial statements, are in accordance with the *Corporations Act 2001* (Cth), including:

      (i) section 296 (compliance with accounting standards); and

      (ii) section 297 (true and fair view); 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; and

(2) there are reasonable grounds to believe that the Company and the wholly-owned subsidiaries identified and marked (1) in note F3 to the consolidated financial statements will be able to meet any obligations or liabilities to which they are, or may become, subject because of the Deed of Cross Guarantee between the Company and those wholly-owned subsidiaries as referred to in note F6 to the consolidated financial statements; and

(3) the directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2017; and

(4) the notes to the consolidated financial statements include an explicit and unreserved statement of compliance with International Financial Reporting Standards (see note A(b)).

Signed on behalf of the directors:

Elizabeth Bryan
Director

John Borghetti
Director

Sydney

This declaration is made on 20 September 2017.

KPMG

Independent Auditor's Report

To the shareholders of Virgin Australia Holdings Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Virgin Australia Holdings Limited (the Company).

In our opinion, the accompanying Financial Report of the ***Group*** is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2017
- 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 year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Value of non-financial assets of the Virgin Australia International CGU and Virgin Australia Domestic CGU
- Recognition of deferred tax assets relating to historical tax losses
- Recognition of passenger revenue
- Fair value of Velocity reward points and expectations of lapse rates

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Value of non-financial assets of the Virgin Australia International CGU and Virgin Australia Domestic CGU

Refer to Note D4 to the Financial Report

The key audit matter	How the matter was addressed in our audit
Assessing the value of the non-financial assets of the Virgin Australia International cash generating unit (CGU) and Virgin Australia Domestic CGU is a key audit matter due to the high level of judgement applied by us when auditing the forward-looking assumptions applied in each CGU's value in use model. This was more challenging given the high level of competition in the International and Domestic airline markets, fluctuations in consumer sentiment and the announcement of the Group's introduction of flight routes to Hong Kong and other destinations within Asia. These factors increase the risk of inaccurate forecasting. The significant assumptions incorporated into the value in use models, include: • Forecast key performance metrics including capacity, passenger numbers, and revenue yields; • Forecast cash flows for new flight routes; • Operating costs including intergroup cost recharges and fuel prices; and	In addressing this key audit matter, we involved senior team members including valuation specialists. Our procedures included: We considered the accuracy of previous forecasts of the Virgin Australia International and Virgin Australia Domestic CGU's and applied increased scepticism in areas where previous forecasts were not achieved. We challenged significant assumptions used in each CGU's value in use model as follows: • We assessed key performance metrics through comparison to historical performance and industry trends. We assessed the implications of the current market forces against published views of industry commentators. • We compared the network plans for new flight routes against media releases and agreements with new airports. • We assessed fuel prices against published pricing sources. • We assessed the intergroup cost recharges against the requirements of the accounting

KPMG

• Forecast capital expenditure and maintenance expenditure. We focused on these inputs to each CGU's value in use model, along with long term growth rates and discount rates applied.	standards by understanding the nature of intergroup operating agreements, particularly over the use of aircraft and other operational functions. • We assessed forecast capital expenditure by comparing to contracted aircraft acquisitions and fleet planning initiatives. We also analysed each CGU's forecast maintenance expenditure against the Group's maintenance plan and our knowledge of the fleet and the aviation industry. • We assessed the long term growth rate and discount rate applied in the value in use models through comparison with publicly available data of a group of comparable entities.

Recognition of deferred tax assets relating to historical tax losses (amount: $703.9 million)

Refer to Note B5 to the Financial Report

The key audit matter	How the matter was addressed in our audit
The recoverability of Deferred Tax Assets (DTA) relating to historical tax losses is dependent on the ability of the Group to generate sufficient taxable income in the future, to which the historical tax losses can be applied. This is a key audit matter due to: • The high level of judgement required by us in evaluating the Group's assessment of whether it is probable that sufficient taxable income will be generated in the future; • The size of the balance (being 11% of total assets); and • The Group's history of tax losses as a result of competitive forces in the Australian aviation market and the cost of transforming the airline into a full service provider. These factors increased the risk associated with accurately forecasting future taxable income and created complexity in our judgement of the recoverability of the DTA. The Group's assessment of the recoverability of the DTA through their forecast of future taxable	Our procedures included: • Through our knowledge of the Group and the airline industry we compared key factors contributing to the historical tax losses to assumptions in the Group's forecast taxable income. We assessed the likelihood that these may recur, and the financial impact they may have. • We assessed the forecast profitability used in the DTA recoverability assessment. These forecasts were based on the same financial models used in the Group's assessment of the carrying value of their non-financial assets. Our approach to auditing these forecasts was consistent with that detailed above in relation to the Value of non-financial assets of the Virgin Australia International CGU and Virgin Australia Domestic CGU. This included consideration of the level of competitiveness and stability in demand impacting the Australian airline industry using our knowledge of the industry and published industry trends. We also assessed the Group's estimate of the timing of the reversal of temporary differences against our understanding of the related

KPMG

income, applied significant judgements relating to: • The factors which have contributed to the recent history of tax losses generated by the Group and the assessment of likelihood of recurrence; • The various conditions impacting the Australian airline industry including the level of competitiveness and stability in demand; • The Group's ability to deliver on their business strategy through their Better Business Program; and • The period over which the historical tax losses will be used. Our audit focused on these factors, their impact on the Group's forecast of future taxable income, and the resultant assessment of recoverability of DTA under the criteria of the accounting standards.	balances and the relevant requirements of the tax legislation and accounting standards. We applied increased scepticism to forecasts of taxable income in the later years of the forecast period to challenge the period over which the Group expects to use the historical tax losses. • We evaluated the Group's ability to deliver on their Better Business Program through analysis of the Group's planned cost savings and savings achieved to date.

Recognition of passenger revenue (amount: $4,275.3 million)	
Refer to Note B3 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
Passenger revenue recognition is a key audit matter given the significance of revenue to the financial statements, and the audit effort involved to address the complexity and reliance on underlying IT systems. The features of the Group's ticket sales systems driving our audit effort include: • Multiple processes and transfer points of large amounts of data, between internal systems, industry bodies and other partner airlines; • The extent of reliance on the IT control environment; and • The variety of fare rules offered by the Group and the impact these can have on the timing of recognition of passenger revenue, in particular those associated with unused tickets. In addressing the key audit matter we involved	Our procedures included: • We tested the key controls in the Group and at the outsourced revenue processing service provider in India, relevant to the integrity of data and maintaining the operational capabilities of key ticket reservation and revenue accounting systems, including user access and program change controls. We tested the effectiveness of application controls of revenue systems and processes to record passenger revenue, taking into account fare structures and the timing of the passenger's carriage. • We tested key controls related to the transfer of data between systems, related to ticket validation to identify processing errors, and related to the assignment of ticket prices. We tested manual controls for processing exceptions and existence of reconciliations checking the accuracy of the output from

KPMG

IT specialists with the knowledge and understanding of the Group's IT systems and processes.	shared industry systems and partner airlines. • We analysed passenger revenue and deferred revenue and created expectations of revenue based on our knowledge of the Group, the industry, and key performance measures such as passengers carried and industry fare data. We compared this to the revenue recognised by the Group. • We analysed the terms related to passenger tickets and applied our understanding of these contracts in evaluating the judgements used in determining the timing of the recognition of revenue for unused tickets. We evaluated the systems, processes and key controls for passenger deferred revenue and tested the calculation and reconciliation of the deferred revenue balance against system outputs.

Fair value of Velocity reward points and expectations of lapse rates

Refer to Note B3 and Note C7 to the Financial Report

The key audit matter	How the matter was addressed in our audit
The Group issues Velocity reward points to members when flights are flown or when points are purchased by Velocity partners to issue to their own customers. The fair value of points issued for flights flown or issued to members by partners is recognised on the balance sheet as deferred revenue. Revenue is recorded when members fly, when reward points are redeemed from partners or when it is assessed that points will expire without use in accordance with Program Rules (lapse rates). This is a key audit matter due to the high level of audit effort and judgement required by us in assessing the Group's assumptions underlying their estimate of the fair value of reward points and lapse rates. We focus on the following key elements: • The application of the Group's policy of using historical redemption trends, in the calculation of fair value, as an indication of expected future trends in redemption activity; • The historical patterns of expiry and how	Our procedures included: • We independently evaluated the assumptions applied by the Group in estimating the fair value of Velocity points through a comparison with historical redemption trends. • We involved KPMG actuarial specialists in our assessment of methodology against industry practice, and assumptions applied by the Group's expert to estimate lapse rates. This included the comparison of key assumptions to historical trends in member behaviour. • We assessed the impact of changes made to the Program Rules in previous periods on the member behaviour, and compared them to the behaviours in the Group's forecast lapse rates for consistency of application and our industry understanding.

this applies to future expectations of lapse rates; and • Adjustments to lapse rates associated with the expected future behaviour exhibited by members as a result of changes to the Program Rules. Given the unique features of the airline industry, we used team members with industry experience and our actuarial specialists in addressing this key audit matter.	

Other Information

Other Information is financial and non-financial information in Virgin Australia Holdings Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and

- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Virgin Australia Holdings Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 22 to 39 of the Directors' report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

John Wigglesworth

Partner

Sydney, 20 September 2017

Shareholder information

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information is current at 8 September 2017, except where otherwise indicated.

Substantial holders

The names of substantial holders in the Company, and the number of ordinary shares which each substantial holder and the substantial holder's associates have a relevant interest in, as disclosed in substantial holding notices received by the Company, are set out below. For details of the related bodies corporate of the substantial holders who also hold relevant interests in the ordinary shares of the Company, refer to the substantial holding notices lodged under the Company's code (VAH) with the ASX.

Shareholder	Number of ordinary shares	Voting power %
Etihad Airways P.J.S.C.(1)	885,670,717	21.83
Singapore Airlines Limited(2)	815,221,791	20.09
Nanshan Capital Holdings Limited(3)	1,689,932,240	19.98
HNA Innovation Ventures (Hong Kong) Co., Limited(4)	1,621,536,791	19.17
Corvina Holdings Limited(5)	845,811,931	10.42

(1) Substantial holding notice lodged with ASX on 28 June 2016.
(2) Substantial holding notice lodged with ASX on 27 June 2016.
(3) Substantial holding notice lodged with ASX on 13 October 2016.
(4) Substantial holding notice lodged with ASX on 20 September 2016.
(5) Substantial holding notice lodged with ASX on 8 August 2016.

As required by ASX Listing Rule 4.10.4, the substantial holding information set out above is based on the information provided by the relevant substantial holder in the most recent substantial holding notice given by them to the Company and lodged with ASX (on the dates specified above). There are certain differences between this information and the details of the 20 largest shareholders provided on page 110 because the latter details reflect the position as shown on the Company's register of shareholders as at 8 September 2017. In accordance with the *Corporations Act 2001* (Cth), substantial holders are only required to lodge an updated substantial holding notice where there is a movement of at least 1% in their voting power.

Refer to note E4 to the consolidated financial statements for voting rights attached to ordinary shares and note G3 to the consolidated financial statements for voting rights attached to options and rights.

Distribution of equity security holders

Category	Number of holders of ordinary shares
1 – 1,000	17,634
1,001 – 5,000	12,778
5,001 – 10,000	3,393
10,001 – 100,000	4,581
100,001 and over	644
	39,030

25,934 shareholders hold less than a marketable parcel of ordinary shares as at 8 September 2017.

On-market share buy-back

There is no current on-market buy-back.

No securities were purchased on-market during the financial year for the purpose of employee share schemes.

Shareholder information (continued)

20 largest shareholders as at 8 September 2017

Name	Number of ordinary shares held	Capital held %
Etihad Airways P.J.S.C.	1,771,023,928	20.94
Singapore Airlines Limited	1,691,623,863	20.00
Nanshan Capital Holdings Limited	1,689,932,240	19.98
HNA Innovation Ventures (Hong Kong) Co., Limited	1,676,736,791	19.82
Corvina Holdings Limited	845,811,931	10.00
Merrill Lynch (Australia) Nominees Pty Limited	140,202,807	1.66
Citicorp Nominees Pty Limited	60,108,056	0.71
HSBC Custody Nominees (Australia) Limited	56,450,075	0.67
Chesters Nominees Pty Limited	25,000,000	0.30
BNP Paribas Noms Pty Ltd	15,412,627	0.18
Kilby Pty Ltd, D & A Lazzaro Family A/C	13,653,838	0.16
Massimo John Borghetti	9,367,924	0.11
Henleaze Investments Pty Limited	7,000,000	0.08
J P Morgan Nominees Australia Limited	5,105,231	0.06
Mr Don Lazzaro + Mrs Ann Lazarro, Super Fund A/C	5,000,000	0.06
Just Super Co Pty Limited, Super Fund A/C	4,930,580	0.06
Archerfield Airport Corporation	4,750,000	0.06
Mr Simon Gautier Hannes + Mrs Mignon Booth, SGH Super Fund A/C	4,750,000	0.06
Mr Albert Morris	4,484,371	0.05
RBC Investor Services Australia Nominees Pty Ltd, VFA A/C	4,233,108	0.05

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Corporate directory

Company secretary

Sharyn Page

Principal administrative and registered office

Virgin Australia Holdings Limited
56 Edmondstone Road
Bowen Hills
QLD 4006
Australia
Telephone: (07) 3295 3000 (within Australia) or +61 7 3295 3000 (outside Australia)

Share registry

Computershare Investor Services Pty Limited
117 Victoria Street
West End
QLD 4101
Australia
Telephone: 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia)

Securities exchange

The Company is listed on the Australian Securities Exchange. The Home Exchange is Brisbane.

Other information

Virgin Australia Holdings Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Virgin australia group