



Virgin Australia Airlines half year results

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23 February 2012
John Borghetti, CEO
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Introduction

- Platform for growth now largely in place
- Early benefits from Game Change Program now flowing
- Significant improvement in underlying PBT¹ and NPAT², in high fuel cost environment
- Strengthened liquidity, with significant increase in unrestricted and total cash balance
- New corporate structure to enhance shareholder value and ensure ANA³ compliance

Financial highlights

- Improvement in statutory NPAT¹, +118% to \$51.8m
- Improvement in underlying PBT², +34.4% increase to \$96.1m despite fuel cost increases
- Strong revenue growth +18.4% to \$2,006.4m
- Early upside from product and services, and international alliances driving network yield +11.5%
- Strong domestic yield growth +13.7%
- Costs well managed with underlying CASK³ (excl fuel) +4.7% (incl significant product enhancements)
- 10% improvement in operating margins
- Strengthened cash position with \$506m in unrestricted cash, total cash balance of \$851m

Note: ¹ Net Profit / (Loss) After Tax; ² Underlying Profit Before Tax (PBT) is a non-statutory measure used by Management and VAH's board as a primary measure to assess financial performance of VAH and individual segments, it excludes ineffective cashflow hedges and non-designated derivatives and significant items; ³ Underlying Cost per Available Seat Kilometre (CASK) represents Statutory PBT less revenue, fuel, asset write downs, loss on sale and restructuring costs divided by network Available Seat Kilometres (ASKs)

Group Profit and Loss summary

6 months ended 31 December	2011 \$m	2010 \$m	Variance
Revenue	2,006.4	1,695.0	18.4%
Underlying EBIT ¹	127.5	96.7	31.9%
Asset write downs and loss on sale	(9.3)	-	n/a
Net interest costs	(22.1)	(25.2)	12.3%
Underlying Profit / (Loss) before Tax²	96.1	71.5	34.4%
Significant items ³	(10.5)	(18.2)	42.3%
Ineffective cashflow hedges and non-designated derivatives	(8.3)	(16.5)	49.7%
Statutory Profit / (Loss) before Tax	77.3	36.8	110.1%
Income tax (expense) / benefit	(25.5)	(13.0)	(96.2)%
Statutory Profit / (Loss) after Tax	51.8	23.8	117.6%

Note: ¹ Underlying Earnings Before Interest and Tax (EBIT) is a non-statutory measure used by Management and VAH's board as a primary measure to assess financial performance of VAH and individual segments, it excludes ineffective cashflow hedges and non-designated derivatives, significant items and asset write downs and loss on sale. Underlying EBIT for H1 FY11 includes the add back of \$18.2m in costs relating to the Navitaire outage consistent with the prior half year presentation; ² Underlying Profit Before Tax (PBT) is a non-statutory measure used by Management and VAH's board as a primary measure to assess financial performance of VAH and individual segments, it excludes ineffective cashflow hedges and non-designated derivatives and significant items; ³ Significant items relate to non cash costs (including Navitaire) due to the repositioning of the business

Group results

6 months ended 31 December	2011 \$m	2010 \$m	Variance %
Underlying Domestic EBIT ¹	92.4	71.4	29.4%
Underlying International EBIT ¹	35.1	25.3	38.7%
Underlying Group EBIT¹	127.5	96.7	31.9%
Group ASKs (m)	19,943	18,671	6.8%

Note: ¹ Underlying Earnings Before Interest and Tax (EBIT) is a non-statutory measure used by Management and VAH's board as a primary measure to assess financial performance of VAH and individual segments, it excludes ineffective cashflow hedges and non-designated derivatives, significant items and asset write downs and loss on sale. Underlying domestic EBIT for H1 FY11 includes the add back of \$18.2m in costs relating to the Navitaire outage consistent with the prior half year presentation

Domestic – underlying EBIT summary

6 months ended 31 December	2011 \$m	2010 \$m	Variance %
Revenue	1,483.1	1,252.1	18.4%
Underlying Domestic EBIT ¹	92.4	71.4	29.4%
ASKs (m)	11,983	11,381	5.3%



- Consistent yield improvement across the entire half, significant growth of 13.7%, capacity in-line with expectations

Note: Segment results exclude eliminations and will not calculate to Group balances on a line by line basis except for EBIT; ¹ Underlying Earnings Before Interest and Tax (EBIT) is a non-statutory measure used by Management and VAH's board as a primary measure to assess financial performance of VAH and individual segments, it excludes ineffective cashflow hedges and non-designated derivatives, significant items and asset write downs and loss on sale. Underlying domestic EBIT for H1 FY11 includes the add back of \$18.2m in costs relating to the Navitaire outage consistent with the prior half year presentation

International – underlying EBIT summary

6 months ended 31 December	2011 \$m	2010 \$m	Variance %
Revenue	551.7	487.4	13.2%
Underlying International EBIT ¹	35.1	25.3	38.7%
ASKs (m)	7,960	7,289	9.2%

- International yield growth of 5.5%

Note: Segment results exclude eliminations and will not calculate to Group balances on a line by line basis except for EBIT; ¹ Underlying Earnings Before Interest and Tax (EBIT) is a non-statutory measure used by Management and VAH's board as a primary measure to assess financial performance of VAH and individual segments, it excludes ineffective cashflow hedges and non-designated derivatives, significant items and asset write downs and loss on sale

Cashflow summary

6 months ended 31 December	2011 \$m	2010 \$m	Variance %
Operating	232.3	136.0	70.8%
Investing	(206.9)	(281.3)	26.4%
Financing	101.0	109.2	(7.5)%
Net cash inflow / (outflow)	126.4	(36.1)	n/a
Balance at start of period	731.3	814.7	(10.2)%
Exchange rate changes	(6.3)	(6.3)	-
Balance at end of period	851.4	772.3	10.2%

Balance sheet summary

As at	31 December 2011 \$m	30 June 2011 \$m
Cash and cash equivalents	851.4	731.3
Property, plant and equipment	2,845.9	2,754.9
Other assets	312.5	341.4
Total Assets	4,009.8	3,827.6
Interest bearing liabilities	1,783.9	1,639.9
Unearned revenue	629.3	686.2
Other liabilities	627.2	575.2
Total Liabilities	3,040.4	2,901.3
Net Assets	969.4	926.3
NTA per share ¹ (\$)	0.41	0.39
Unrestricted Cash	506.0	374.7

Note: ¹ Net tangible asset backing per ordinary share

Fleet – average age 4.7 years at 31-Dec-11

	Jun 2010	Jun 2011	Dec 2011	Deliveries	Retirement / lease return	Jun 2013
B737NG	62	63	68	17	14	71
B777-300ER	4	5	5	-	-	5
E-170/190	21	20	19	-	1	18
A330-200	-	2	2	4	-	6
ATR	-	-	4	8	-	12
Total	87	90	98	29	15	112

- Exit of last Embraer E170 in January 2012
- Delivery of 100th aircraft by June 2012

Hedging policy and capital management

- New policy introduced in May 2011 that provides certainty in the short term and medium term risk management
- Direct AUD hedging of fuel exposure with improved certainty and efficiency

Hedging summary	Brent
Remainder FY12¹	
Operating requirements hedged	84%
Participation in favourable price movements	40%
Worse case hedged rate (inclusive of option premium)	A\$111 / bbl

- No interim dividend
- Focus on maintaining strong unrestricted cash balance, whilst improving balance sheet funding efficiency

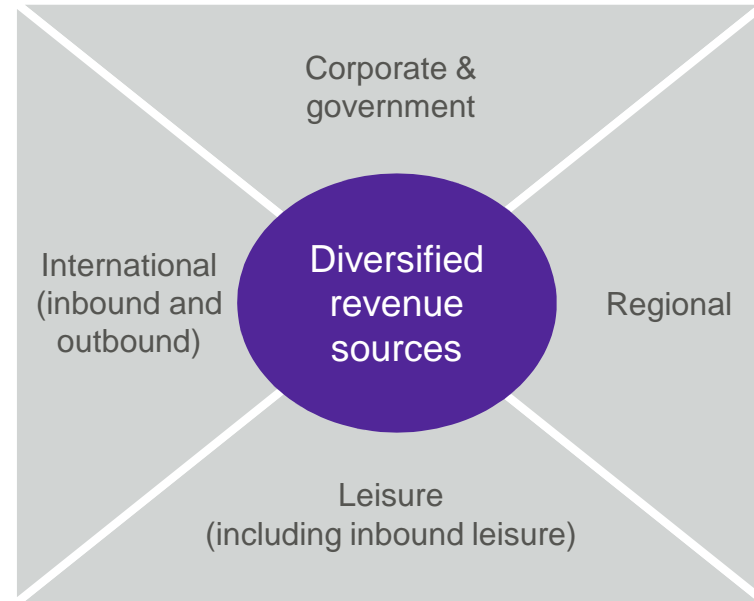
Note: ¹ Figures as at 21 February 2012

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Review of Game Change strategic goals



Be the airline of choice

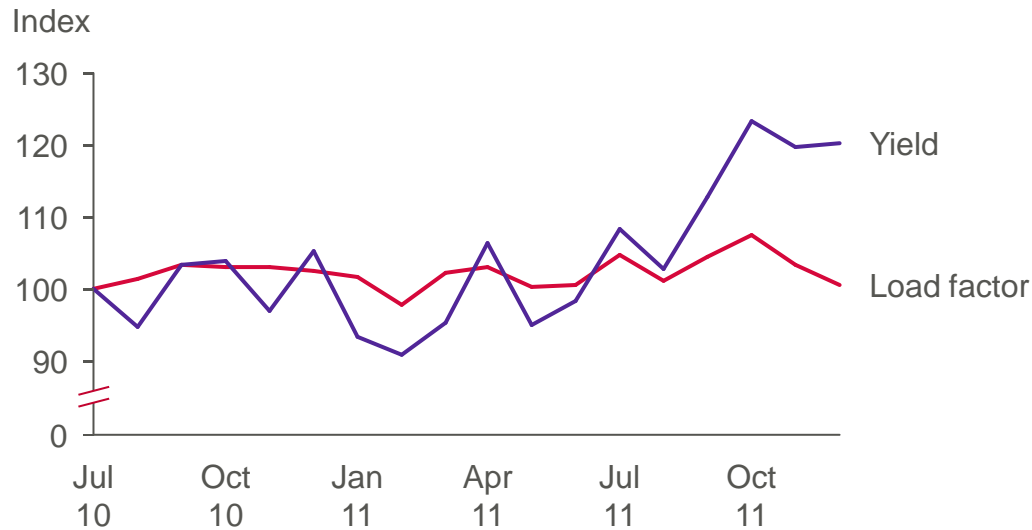


Margin improvement

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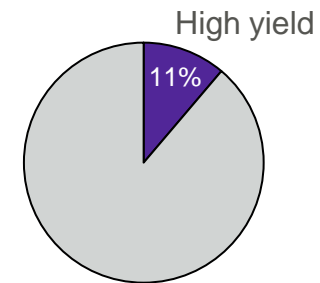
Game Change Program working

Domestic key statistics indices¹
(Jul 10-Dec 11)

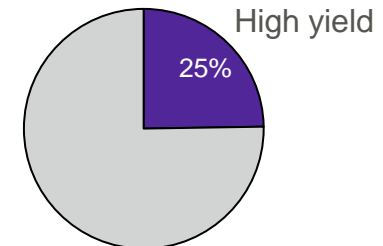


High yield fares² share of revenue

Jul 10



Dec 11



Australian domestic market structure dynamics have changed

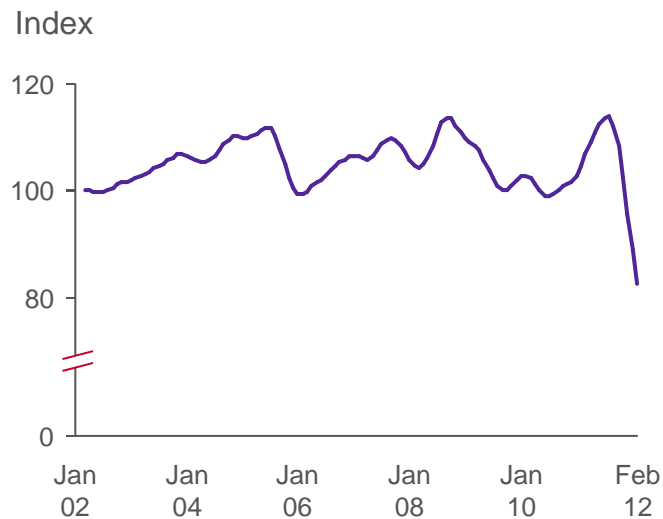
Note: ¹ Indexed to July 2010; ² High yield fares include business class, premium economy and flexi fares

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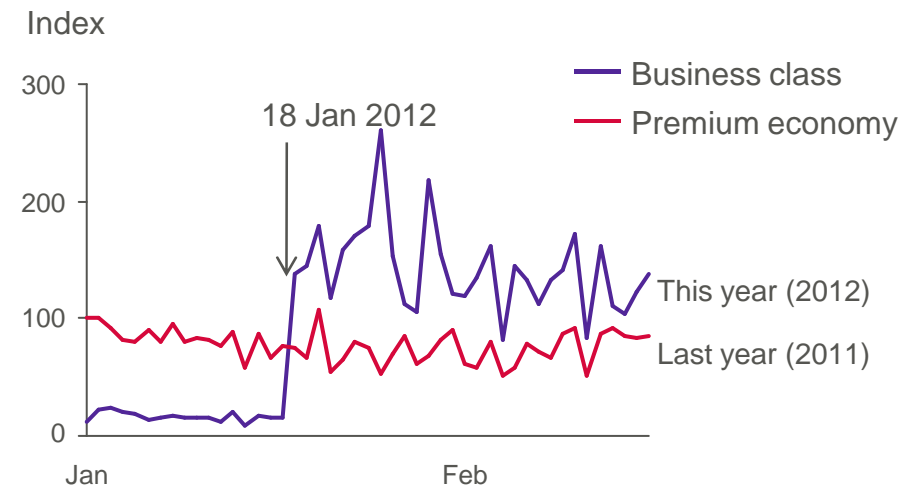
Business class competition – first time in a decade

- Trans-continental Perth: 28 September 2011
- Network wide: 18 January 2012

Domestic business class airfares index¹
(Mar 02-Feb 12)



Business vs premium economy reserved seats index²
(Comparative period: 1 Jan to 16 Feb)

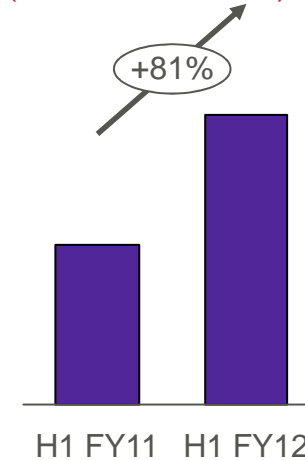


Business class seat factor doubled compared to premium economy – contributing to yield growth

Growth in corporate market account activity

- Corporate and government accounts now close to 17% of total revenue, up from 13% in FY11
- Gained 35 new corporate accounts
- 17 corporate accounts renewed, some at significant market share gains – no accounts lost
- Since January 2012: 29 accounts renewed¹
- Revenue generated via TMCs² up ~42%
- Revenue growth from WOAG³ agencies on competitive routes +22%

Corporate & government revenue growth (H1 FY11-H1 FY12)



Continued momentum in growing corporate and government revenue share

Domestic network focus

Triangle

- Increased frequency on Triangle routes from 58 to 64 per day, including A330 from May 2012
- Terminal expansion and refresh throughout 2012 in Sydney and Melbourne
- New Lounge opening in Sydney in H2 FY12 to complete Triangle network
- Extension of valet to Brisbane and Melbourne
- Strong OTP performance on the Triangle, almost 3ppt ahead of competitor in H1 FY12

Trans-continental Perth

- Increased frequency on trans-continental services from 13 to 15 per day
- Launched A330 services on Sydney-Perth, with Melbourne-Perth launching May 2012
- Expansion of Perth Lounge by mid-2012

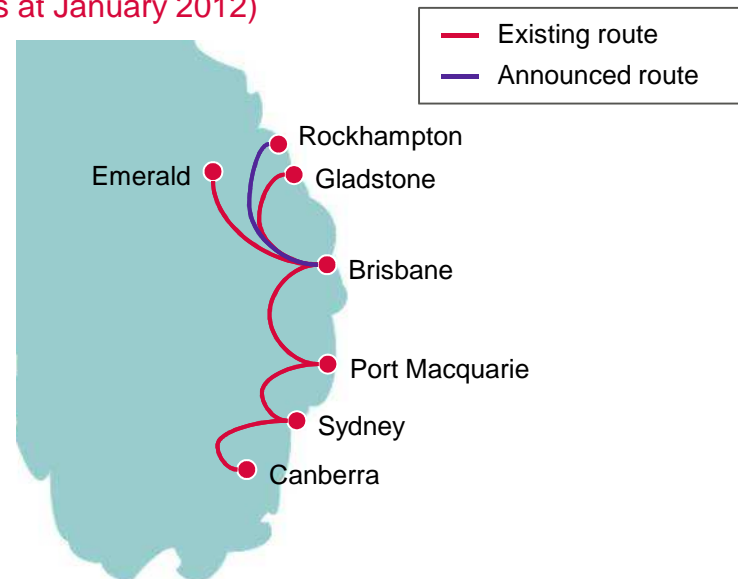
Other

- Announced frequency increases on seven routes, plus four new markets
- Launching daily Sydney-Darwin service in April 2012
- Increasing Gold Coast capacity in H2 FY12
- New Lounges planned for Darwin and Gold Coast

Regional turbo prop network







- 4 ATR in service, additional 2 by end of FY12
- 198 ATR flights to seven ports per week
- Higher than expected seat factors and yields
- Demand has supported Sydney-Canberra frequency growth from 8 to 10 services daily
- New destinations yet to be announced

ATR route network: existing and new announced routes (as at January 2012)



Brought forward deliveries to 12 aircraft by June 2013 due to strong demand

Successful international alliance network

Alliance partner	Approval received	Commenced code share: domestic	Commenced code share: international	Benefits realised in H1 FY12
Etihad	✓	✓	✓	
Air New Zealand	✓	✓	✓	
Delta Air Lines	✓	✓	✓	
Hawaiian Airlines	n/a	n/a	✓	
Singapore Airlines	✓	✓	Mar 12	
Virgin Atlantic	n/a	n/a	Mar 12	

- Alliances cover 19 out of 20 top international routes¹
- New source of inbound international passengers connecting onto domestic services

Over 400 international destinations in alliance network – further benefits to flow

Continued investment in product and service to drive future growth

- New E190 business class cabin due in FY13
- Introducing in-flight entertainment system using Wi-fi technology and Samsung Galaxy Tabs
- New Lounge in Mackay opened
- New Lounges in Gold Coast, Darwin and enhancements to Sydney
- Expanding Lounges' capacity due to strong, consistent demand
- Cabin refresh of Boeing 777 fleet

E190 business class concept



Further product innovation and expansion plans brought forward

Transitioning to Sabre reservations system

- Will deliver a complete end-to-end business solution for guest reservations and an industry standard ticketed operation
- Critical step in realising strategic objectives
 - Consolidation of two reservation systems and designator codes with company-wide consistent processes
 - Elevated level of recognition for our customers with a consistent experience across all channels
 - Expanded distribution capability with a more efficient and industry standard GDS¹ process
 - Support integrated ticketing and a seamless travel experience with global airline alliance partners
- Targeting migration to Sabre by December 2012

Velocity Frequent Flyer Program update

- Membership now close to 3 million members – up over 500k since June 2011
- Over 1,700 new members per day in H1 FY12
- Continuing growth in the program, with increased domestic and international airline usage
 - Significant growth in points earned and redeemed on Virgin Australia services
 - Points activity on international airline partners almost doubled
- Addition of Westfield online, Foxtel and Lumo Energy as partners has almost tripled the points earned in retail and utilities

Velocity is a key growth driver

Key to our progress in the Game Change Program is our people

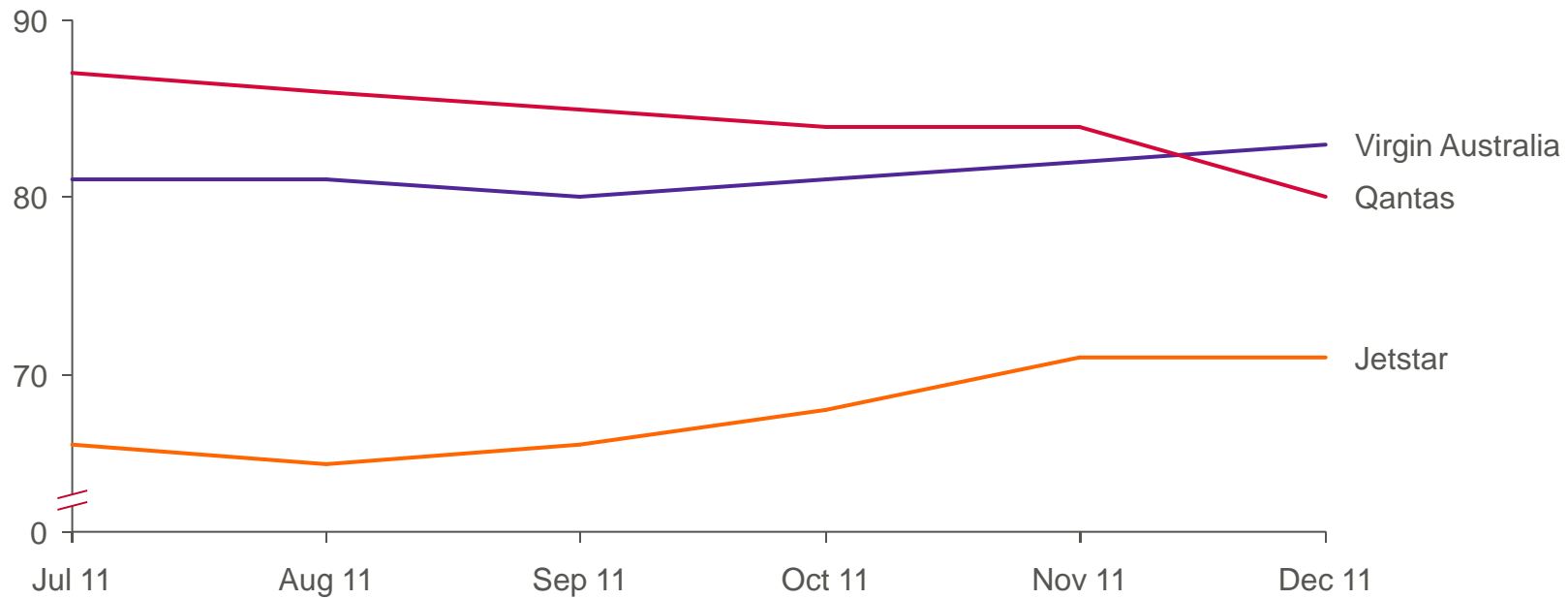
- Employees have been issued share rights
- Continuing collaborative approach to industrial relations
- First intake of cadets in new Pilot Cadet Program will commence by end of FY12
- Development program for cabin crew and front line staff
- Committed to retaining and creating jobs in Australia to cater for growth
 - 500 new roles in Cabin and Technical Crew, Ground Operations and Engineering
 - Growing maintenance work in Australia



Enhanced staff training and development to further improve service excellence

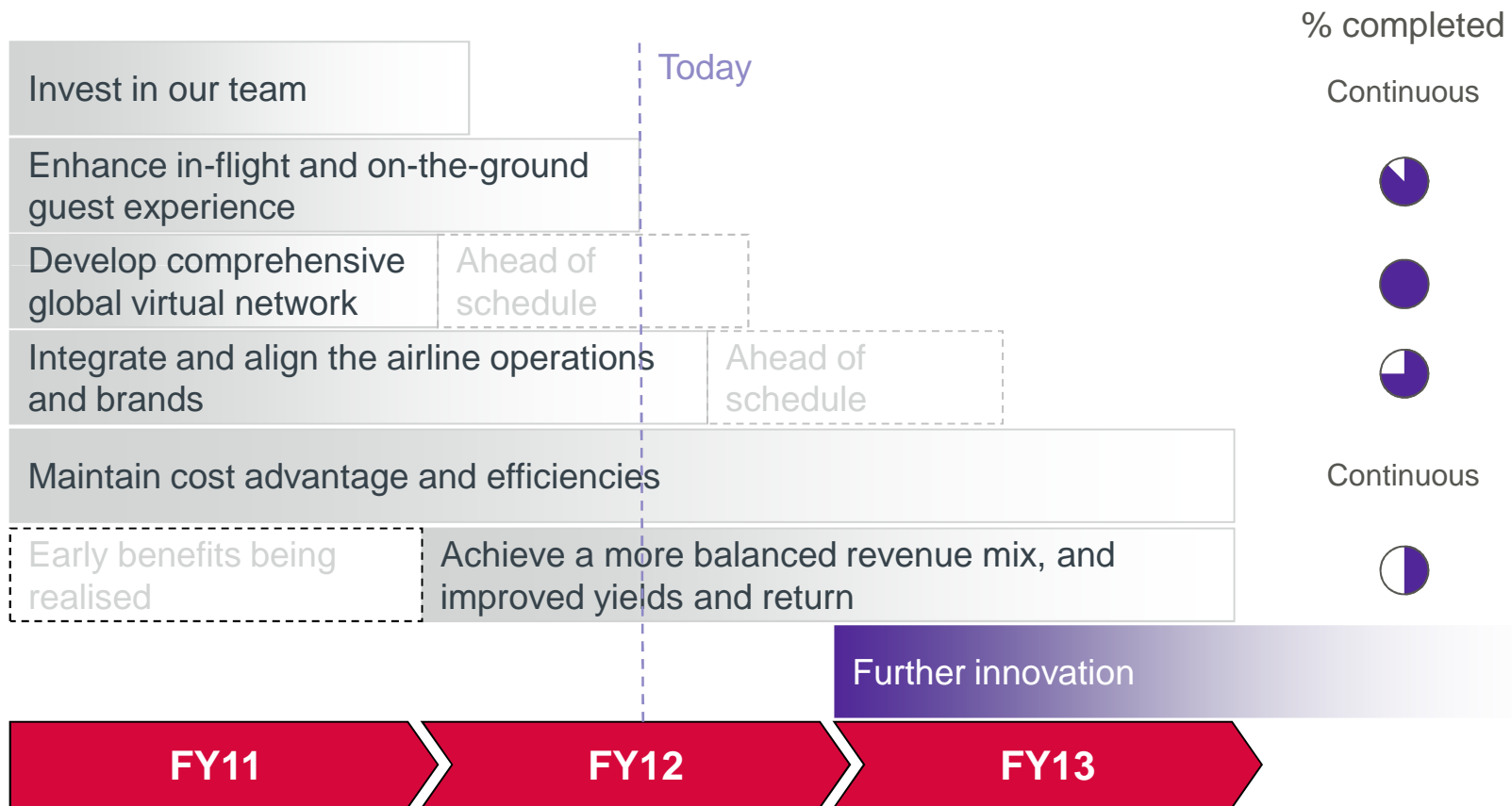
Service excellence driving customer satisfaction

Satisfaction with Domestic Airlines used in last 12 months¹
(Jul 11-Dec 11)



Note: Virgin Australia has taken the lead in domestic customer satisfaction for the December quarter 2011; ¹ Based on Australians 14+ who have used listed airlines for domestic travel in the last 12 months, three monthly moving average
Source: Roy Morgan Research

Game Change Program scorecard



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Proposed New structure: rationale

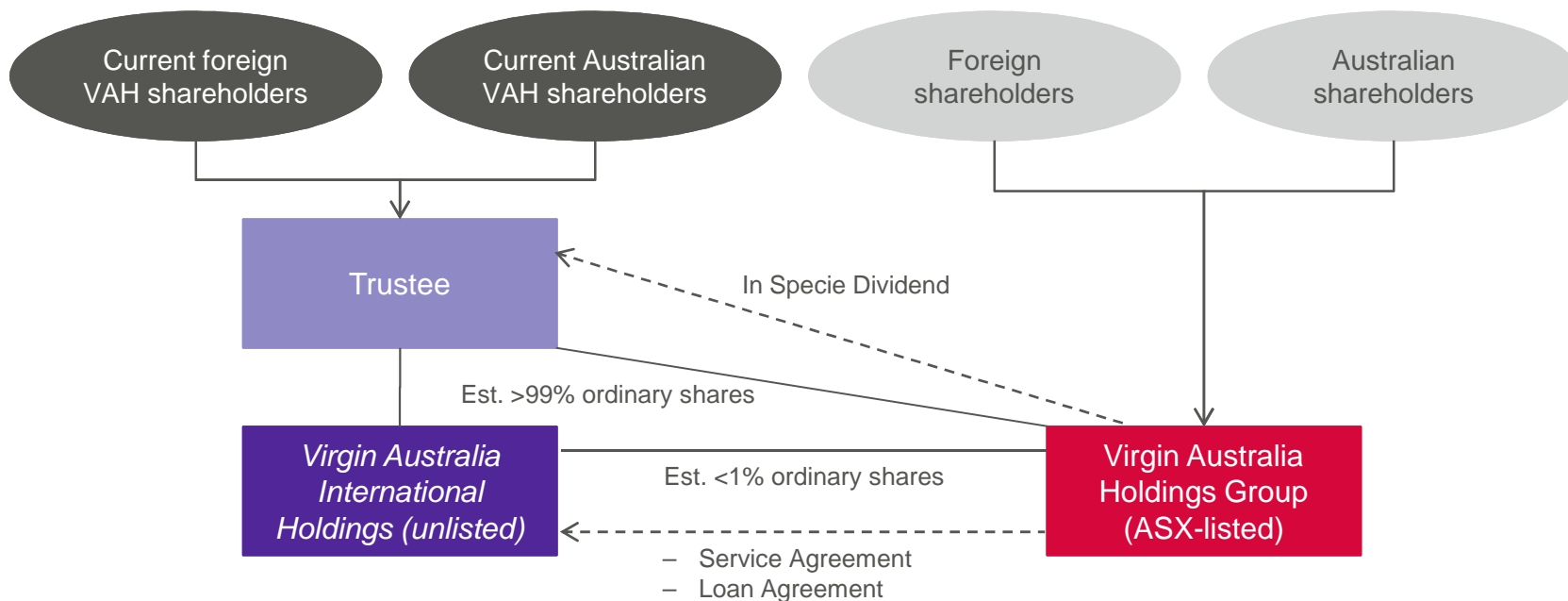
- Ensure ongoing compliance with ANA¹
 - Shareholding: secures majority Australian ownership of international airlines
 - Governance: majority independent Board of Directors
- Create shareholder value through improved liquidity
 - Facilitates overseas institutional investment in VAH
 - Helps fund future growth and development of VAH and VAIH²
- Business as usual operational structure
 - No change from a staff and consumer perspective on the day to day running of the airlines
 - No jobs lost as a result of the proposed new structure

Air Navigation Act requirements

- When Virgin Australia launched its international operations in 2004¹ it became subject to the Air Navigation Act's ('ANA') ownership and control requirements which limit foreign ownership in international airlines to 49%
- Virgin Australia's foreign ownership has been sitting marginally below 49% over the past twelve months
- Virgin Australia has been evaluating options available to ensure ongoing compliance with the ANA

Proposed New Structure

- New unlisted entity Virgin Australia International Holdings (VAIH) to hold the international airline business



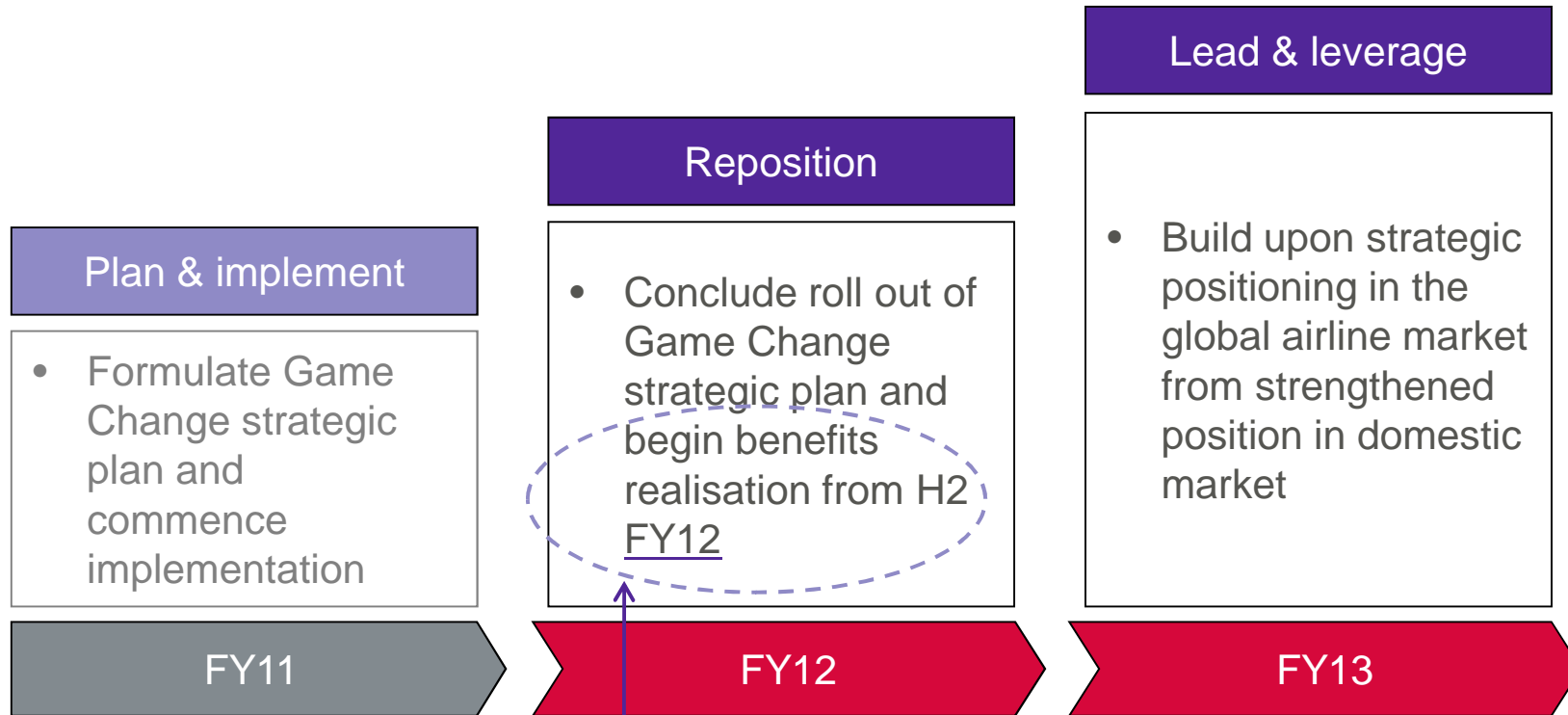
VAIH overview

- Ownership structure:
 - Existing VAH shareholders as at the Record Date via In Specie Dividend
 - Held on Trust
- Governance: majority independent Board of Directors
- Service Agreement: VAIH appoints VAH as provider of operational services for international business
- Loan Agreement: VAH will provide comprehensive funding for VAIH's international business operations
- Financials:
 - VAIH deemed to have nominal value
 - Equity position expected to be approximately zero on Day 1

Proposed indicative timing

- 23rd February: Announcement of intention to determine dividend, subject to satisfaction or waiver by VAH of the following conditions
 - No legal action exists which would prohibit implementation, including anything which would have a material adverse effect on the ability of the international entities to continue to operate their operations; and
 - Where required the consent of key stakeholders are secured
- 16th March: Dividend determined (subject to satisfaction or waiver of conditions)
- 21st March: Ex Date – shareholders who acquire shares in VAH after this date will not be eligible for shares in VAIH
- 27th March: Record Date
- 28th March: Target Distribution and Implementation Date

Game Change Program – a three year journey



Implementation ahead of schedule – driving early benefits

Outlook

“Virgin Australia has delivered a strong underlying result for the first half of the year.

We expect an improvement in underlying performance for the full year in comparison with Financial Year 2011.

The consistent yield improvement that we have seen year-to-date, has continued into January.

However, we are unable to provide specific guidance at this stage, due to the uncertain economic environment.”

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