VIRGIN AUSTRALIA HOLDINGS LIMITED (ASX: VAH) FY19 RESULTS

Summary of Group Outcomes:

- **Group Underlying Loss Before Tax** of $71.2 million, reflecting the impact of adverse H2 FY19 market conditions, new route investments, and $158.8 million in fuel and foreign exchange headwinds
- **Group Statutory Loss After Tax** of $315.4 million, inclusive of non-cash impairment of Tigerair and VA International business units, derecognition of deferred tax assets, and restructure costs
- **Group Total Revenue** of $5.8 billion, up 7.6 per cent despite deterioration in revenue trading conditions in H2 FY19
- **Positive Free Cash Flow** of $53.9 million, down $19.2 million on FY18 and inclusive of $158.8 million in adverse fuel and foreign exchange headwinds
- **Cash Balance** of $1.7 billion, up $324.5 million on FY18 ahead of s144A bond refinancing program
- **Financial Leverage** of 4.7x, 0.6 higher than FY18

Summary of cost base initiatives announced:

- **Simplified organisational structure** to drive accountability and reduce duplication with all brands run at a Group level[1]
- **Organisational rightsizing program** targeting a reduction of 750 corporate and head office roles, representing $75.0 million in cost savings by the end of FY20
- **Capacity, network and fleet review** to deliver improved aircraft utilisation, capacity to match moderated market conditions, and enhance route profitability
- **Supplier review** to renegotiate key contracts including aircraft leases, airports, maintenance and strategic supply agreements, targeting at least $50.0 million in cost savings

28 August 2019: Virgin Australia Holdings Limited (Virgin Australia Group or Group) today reported an Underlying Loss Before Tax of $71.2 million and a statutory loss after tax of $315.4 million for the 12 months ended 30 June 2019. The Underlying Loss Before Tax of $71.2 million, compared to an Underlying Profit Before Tax of $64.4 million for the prior year, was a decline of $135.6 million.

The result was driven by subdued trading conditions in the second half of the financial year, combined with fuel and foreign exchange headwinds and increased operational costs.

The Group reported an increase in total revenue of 7.6 per cent to $5.8 billion for the full year, including a 2.1 per cent improvement in Revenue Per Available Seat Kilometre (RASK). Market demand moderated in the second half of the financial year, impacted by the timing of the Easter holiday period and the Federal Election, which saw both the corporate and leisure travel sectors soften.

A challenging trading environment in H2 FY19 was compounded by increasing costs including fuel and foreign exchange headwinds of $158.8 million and a $15.0 million investment in Trans-Tasman routes following the cessation of the Air New Zealand alliance. Group Cost per Available Seat Kilometre (CASK), excluding fuel and foreign exchange, rose by 4.0 per cent for the 12 months to 30 June 2019.

The result was also adversely affected by a 10.7 per cent increase in depreciation charges resulting from exchange rate changes and ongoing capital investment in aircraft maintenance and IT systems. The decision to accelerate the removal of A320 aircraft from the Tigerair fleet also contributed to the increase in depreciation.

The statutory loss after tax of $315.4 million was impacted by $223.2 million in restructure costs. This result was impacted by major accounting adjustments following a review of the Group's asset values in accordance with

[1] Velocity Frequent Flyer is excluded from this change due to its current ownership structure.

accounting standards. As a result of this review, there has been a $152.6 million non-cash impairment of the assets of the Virgin Australia International and Tigerair businesses. Onerous contract costs on ATR and E190 leased aircraft not in commercial service also contributed $47.4 million.

While these adjustments have impacted the statutory result for the year, they are largely non-cash and have no impact on the fundamentals of the Group's underlying business.

The Group is responding to these challenges with a series of immediate improvement initiatives to streamline operations and reduce costs. These include a simplified organisational structure, organisational rightsizing program, fleet and network capacity review and a Group-wide review of supplier contracts. These initiatives are being implemented whilst the Group's ongoing strategic review is undertaken to improve business performance.

CEO commentary

Virgin Australia Group Chief Executive Officer and Managing Director, Paul Scurrah, said today's results were disappointing and underscored the need for change.

"There is no doubt that we are operating in a tough economic climate with high fuel, a low Australian dollar, and subdued trading conditions. However, today's results show that we must improve our financial performance. While we have continued to grow revenue and have a strong loyal customer base, we need to make changes to our costs to ensure we see financial benefit from the growth in our business.

"Today, we have announced a number of changes to help drive business improvement. This includes a restructure of our leadership team to take in group-wide accountability across all brands, a reduction of 750 roles from our workforce, a review of all supplier contracts and agreements, and a fleet and network review which will see a tight focus on capacity management going forward.

"It's important to note that we have already addressed a number of other business priorities including the restructure of our Boeing 737 MAX order, which deferred a significant amount of capital expenditure.

"Regarding the reduction of our workforce, I am acutely aware of the impact this has on our team members. However, if we are to position the business for the future, create new opportunities, improve competitiveness, and continue to deliver for our customers, we need to make tough but important decisions that are in the long-term interests of the Group.

"These are just some of the strategic decisions that have been made to help in the short-term. However, there's more work we need to do on the long-term focus and positioning of the business. We will be focused on being the best value airline for both the corporate and leisure traveller, offering the strong and unique Virgin experience and proposition that we know will appeal to all market segments.

"As I've said previously, key to our success is ensuring we strike the right balance between the interests of our team members, customers and our shareholders. We'll be focused on delivering for all three groups."

Detailed Group performance

Financial position

The Group continues to focus on strengthening its balance sheet, increasing its cash position to $1.7 billion at 30 June 2019, a $324.5 million improvement on the prior corresponding period largely attributable to the $250.0 million bond refinancing announced in February 2019. The Group intends to maintain its higher cash balance ahead of refinancing the s144A bond maturity in November 2019.

Free Cash Flow was positive at $53.9 million, down $19.2 million on FY18, inclusive of $158.8 million in fuel and foreign exchange headwinds. Net cash used in investing activities decreased 10.0 per cent with no aircraft accepted during FY19 and no further aircraft due until July 2021 following the deferral of the Boeing 737 MAX aircraft, announced in April 2019. Net cash from operating activities was $100.4 million lower than the prior corresponding period of $570.4 million. The reduction of $100.4 million from the FY18 result has been delivered despite $158.8 million in fuel and foreign exchange headwinds.

The falling AUD against the USD has contributed to the decline in all debt metrics. Financial Leverage increased from 4.1 to 4.7, impacted by fuel and foreign exchange headwinds and the softer revenue environment, while Net Debt increased by $136.2 million. The Group continues to increase its proportion of AUD debt to better match the Group's revenue streams to its debt portfolio.

Fuel and foreign exchange hedging

The Group's hedging approach continues to provide protection against higher fuel costs and a lower AUD relative to the USD. Operating costs are hedged on a two-year forward program to protect against rising oil prices and falling exchange rates. The Group has hedged in excess of 90 per cent of its forecast FY20 fuel consumption and has extended hedging into FY21.

Segment performance

Virgin Australia Domestic

Virgin Australia Domestic reported an underlying EBIT of $133.4 million, down from $215.8 million during the prior corresponding period and inclusive of $87.6 million in fuel and foreign exchange headwinds.

Total Domestic revenue increased by 6.3 per cent to $3.9 billion, supported by Yield growth of 4.1 per cent and RASK improvement of 4.0 per cent. Total revenue performance was impacted by adverse market conditions affecting the corporate and leisure sectors during the second half of the financial year.

Earnings performance was also impacted by costs associated with a 2.3 per cent increase in domestic capacity, airport fees, fuel costs, and catering service charges. In light of the adverse market conditions being experienced, the Group is assessing its network and capacity plans along with a targeted supply chain review.

Virgin Australia International

Virgin Australia International reported an underlying EBIT loss of $75.6 million, down from a loss of $21.7 million during the prior corresponding period.

Capacity growth of 13.7 per cent was driven largely by the launch of services between Sydney and Hong Kong and new services on the Trans-Tasman following the cessation of the Air New Zealand alliance in October 2018.

Total revenue increased 16.5 per cent to $1.3 billion. Revenue and RASK improved on all of the Group's international routes, and load performance improved on all routes except for the Trans-Tasman.

Earnings performance was impacted by adverse revenue trading conditions in H2 FY19, fuel and foreign exchange headwinds of $51.9 million and a $15.0 million investment associated with the new Hong Kong and Trans-Tasman routes.

Tigerair

The Group's low-cost carrier, Tigerair, reported an underlying EBIT loss of $45.0 million, down from a loss of $39.5 million during the prior corresponding period. Reduced earnings performance against FY18 was inclusive of $19.3 million in fuel and foreign exchange headwinds, $11.6 million in increased depreciation costs from Tigerair's fleet transition from A320 aircraft to a Boeing 737 fleet, and a $10.7 million impact of protected industrial action.

While revenue was down $7.2 million on the prior corresponding period primarily due to industrial action, this was offset by a reduction in operational costs due to a 1.7 per cent reduction in capacity. The capacity reduction saw a 0.5 per cent RASK improvement and 2.7 per cent improvement in Yield performance.

Velocity

The Group's loyalty program, Velocity Frequent Flyer, reported an underlying EBIT profit of $122.2 million, up from a profit of $110.1 million during the prior corresponding period. EBIT margin also improved 0.1 points to 29.7 per cent, mainly due to points activity.

The program increased revenue by 10.5 per cent to $411.0 million and attracted more than 680,000 new members to join its program. Velocity continued to drive growth opportunities and broaden its customer proposition, with the launch of its home loan product with Westpac.

As announced to the market on 11 July 2019, Connectivity Pte Limited (Affinity) is exploring an exit from its approximate 35 per cent stake in Velocity Frequent Flyer Holdco Pty Limited (Velocity) and has requested that various exit options for the sale of its stake be considered. The Group remains committed to the long-term growth of the Velocity business and intends to remain the majority shareholder in Velocity. There is currently no certainty about the terms or timing that any such exit transaction could take.

Delivering immediate business improvements

The Group today provided an update on a number of initiatives to help strengthen the company's financial performance. The development of the Group's new strategic plan is ongoing and exploring a wide range of long-term initiatives that will build a stronger airline.

Simplified organisational structure and workforce changes

The new organisational structure will integrate the corporate, operational and commercial functions of Virgin Australia Airlines, Virgin Australia Regional Airlines and Tigerair Australia into single functions and points of accountability. Each executive leader will now be accountable for driving business outcomes for the Group, instead of individual brands, leading to a more efficient use of systems and resources.

The corporate and head office workforce will be reduced by a target of 750 roles, with the majority of employees expected to leave the business by the end of the financial year and will result in expected cost savings of $75.0 million per annum. This initiative will be cashflow positive to the Group for FY20.

The Group has announced further detail of these initiatives and employee support programs separately today, with accompanying CEO commentary.

Fleet, network and capacity review

The Group is in the process of a detailed review of its fleet, network and capacity and will initiate changes to manage costs, adapt to market demand, and be more efficient in its use of aircraft assets.

This review is evaluating the performance of all routes and follows a 1.5 per cent capacity reduction in May-June 2019. The Group intends to further reduce flying across elements of its short-haul international and domestic network to meet demand and maximise route profitability, and expects H1 FY20 capacity growth to be negative.

These initiatives follow the Group's restructure of its Boeing 737 MAX order in April 2019, which adapts the fleet plan to better meet the current environment and improve free cash performance. The restructure results in the extended use of existing aircraft and re-phasing of near-term capital expenditure to capitalise on the Group's relatively young B737 fleet average age.

Supplier review

All current supplier agreements will be reviewed with the intention of supporting improved profitability outcomes. These include agreements with aircraft lessors, airports and other suppliers. The review will focus on improving the commercial benefits to the Group across its supply chain, targeting cost savings of at least $50.0 million.

FY20 Outlook

The start of FY20 has seen a continuation of softer conditions experienced in H2 FY19. The benefits of the business improvement initiatives will begin to be realised during FY20. The Group is focused on continued disciplined capacity and network management and expects capacity to be further reduced in H1 FY20. It also anticipates further FY20 fuel and foreign exchange headwinds of approximately $100.0 million when compared to FY19.

ENDS

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VIRGIN AUSTRALIA GROUP PRELIMINARY OPERATING STATISTICS

For the period 1 July 2018 to 30 June 2019

		Operating Statistics		
		FY2019	FY2018	*Change*
VIRGIN AUSTRALIA GROUP	Revenue Passengers	24,786,063	24,520,743	*1.1%*
	Revenue Passenger Kilometres (millions)	41,073	38,858	*5.7%*
	Available Seat Kilometres (millions)	51,203	48,575	*5.4%*
	Revenue Load Factor	80.2%	80.0%	*0.2 pts*

		Operating Statistics		
		FY2019	FY2018	*Change*
VIRGIN AUSTRALIA DOMESTIC	Revenue Passengers	17,679,932	17,317,310	*2.1%*
	Revenue Passenger Kilometres (millions)	21,612	21,129	*2.3%*
	Available Seat Kilometres (millions)	27,194	26,595	*2.3%*
	Revenue Load Factor	79.5%	79.4%	*0.1 pts*

		Operating Statistics		
		FY2019	FY2018	*Change*
VIRGIN AUSTRALIA INTERNATIONAL	Revenue Passengers	2,825,397	2,556,726	*10.5%*
	Revenue Passenger Kilometres (millions)	14,050	12,133	*15.8%*
	Available Seat Kilometres (millions)	17,806	15,667	*13.7%*
	Revenue Load Factor	78.9%	77.4%	*1.5 pts*

		Operating Statistics		
		FY2019	FY2018	*Change*
TIGERAIR	Revenue Passengers	4,280,734	4,646,707	*(7.9%)*
	Revenue Passenger Kilometres (millions)	5,412	5,595	*(3.3%)*
	Available Seat Kilometres (millions)	6,203	6,313	*(1.7%)*
	Revenue Load Factor	87.2%	88.6%	*(1.4 pts)*

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DISCLAIMER

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

This document has not been audited or reviewed by KPMG; however, IFRS data has been derived from the unaudited annual consolidated financial statements that are in the process of being audited by KPMG.

DEFINITIONS

Underlying Profit/(Loss) Before Tax or UPBT[2]: is a non-statutory measure that represents statutory profit/(loss) before tax excluding the impact of gains on disposal of assets, gains on assets classified as held for sale, impairment losses on cash-generating units, impairment losses on other assets, onerous contract expenses, Business and Capital Restructure and Transaction Costs (as defined below), share of net profit of equity-accounted investee and Ineffectiveness on Cash Flow Hedges (as defined below). This is a measure used by Management and Board of Virgin Australia Holdings Limited (VAH) to assess the financial performance of VAH

Business and Capital Restructure and Transaction Costs (or Transformation): is a non-statutory measure that includes business and capital restructure and transaction costs.

Ineffectiveness on Cash Flow Hedges: is a statutory measure that includes the following items outlined in Note 2 of the VAH Preliminary Final Report. For the year ended 30 June 2019: $0.9m loss. For the year ended 30 June 2018: nil.

Underlying Earnings Before Interest, Tax, Depreciation, Amortisation and Aircraft Rentals or EBITDAR[1]: is a non-statutory measure per Note 2 of the VAH Preliminary Final Report for the year ended 30 June 2019. It is used by Management and VAH's Board as a measure to assess the financial performance of VAH and its individual segments. It is defined as Underlying Profit/(Loss) Before Tax (as defined above) excluding the impact of depreciation, amortisation, aircraft rentals and net finance costs.

Underlying Earnings Before Interest, Tax, Depreciation and Amortisation or EBITDA[1]: is a non-statutory measure per Note 2 of the VAH Preliminary Final Report for the year ended 30 June 2019. It is used by Management and VAH's Board as a measure to assess the financial performance of VAH and its individual segments. It is defined as Underlying Profit/(Loss) Before Tax (as defined above) excluding the impact of depreciation, amortisation and net finance costs.

Underlying Earnings Before Interest & Tax or EBIT[1]: is a non-statutory measure per Note 2 of the VAH Preliminary Final Report for the year ended 30 June 2019. It is used by Management and VAH's Board as a measure to assess the financial performance of VAH and its individual segments. It is defined as Underlying Profit/(Loss) Before Tax (as defined above) excluding the impact of net finance costs.

Underlying Earnings Before Interest & Tax Margin or EBIT Margin[1]: is a non-statutory measure derived from Underlying Earnings Before Interest & Tax (as defined above) divided by total segment revenue.

Underlying Earnings Before Interest, Tax, Depreciation and Amortisation Margin or EBITDA Margin[1]: is a non-statutory measure derived from Underlying Earnings Before Interest, Tax, Depreciation and Amortisation (as defined above) divided by total segment revenue.

Free Cash Flow: is a non-statutory measure derived from cash generated from operating activities less cash payments for business restructuring expenses less net cash used in investing activities less equity distributions paid to non-controlling interests.

Revenue per Available Seat Kilometre or RASK[2]: is a non-statutory measure derived from segment revenue divided by Available Seat Kilometres (defined below) of the regular passenger transport businesses.

Yield[2]: is a non-statutory measure derived from segment revenue divided by Revenue Passenger Kilometres (defined below) of the regular passenger transport business.

Load Factor: is a non-statutory measure of the capacity utilisation of the Group's regular passenger transport business derived from number of revenue generating guests carried divided by available seats.

1. The comparative has been restated to include Time Value Movement on Cash Flow Hedges within underlying earnings
2. The comparative has been restated to reflect the revised allocation of Virgin Australia Domestic revenue after excluding the effect of eliminations of intersegment revenue

ASK or Available Seat Kilometre: 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.

RPK or Revenue Passenger Kilometre: is a non-statutory measure derived from number of paying passengers multiplied by the number of kilometres flown on Virgin Australia or Tigerair Australia operated flights.

Group Cost per Available Seat Kilometre or Group CASK: is a non-statutory measure and is defined as regular passenger transport costs associated with the Virgin Australia Domestic, Virgin Australia International and Tigerair Australia segments excluding fuel and foreign exchange divided by ASK (as defined above).

Financial Leverage[1]: is a non-statutory measure and is defined as the ratio of Adjusted Net Debt (as defined below) to EBITDAR (as defined above).

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

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

Interest Cover[1]: is a non-statutory measure derived from EBIT for a 12 month period divided by net finance costs for the same period.

Forward Looking Statements

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

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ASIC guidance

In December 2011, ASIC issued Regulatory Guide 230. In order to comply with this Guide, Virgin Australia Holdings Limited is required to make a clear statement about whether information disclosed in documents other than the Virgin Australia Holdings Limited Preliminary Final Report for the year ended 30 June 2019 has been audited or reviewed in accordance with Australian Auditing Standards.

The non-IFRS information has not been audited or reviewed by KPMG. This presentation has not been audited or reviewed by KPMG; however, IFRS data has been derived from the unaudited annual consolidated financial statements that are in the process of being audited by KPMG.

1. The comparative has been restated to include Time Value Movement on Cash Flow Hedges within underlying earnings
2. The comparative has been restated to reflect the revised allocation of Virgin Australia Domestic revenue after excluding the effect of eliminations of intersegment revenue