Virgin Australia Holdings Limited

Appendix 4D and Interim Financial Report

For the half-year ended 31 December 2018

VIRGIN AUSTRALIA HOLDINGS LIMITED
ACN: 100 686 226
ASX CODE: VAH

Contents

ASX Appendix 4D

For the half-year ended 31 December 2018

The results for announcement to the market for Virgin Australia Holdings Limited (VAH) (the Company) and its subsidiaries (the Group) and the Group's interests in associates for the period 1 July 2018 to 31 December 2018 and the comparative period 1 July 2017 to 31 December 2017 are detailed below. A commentary on the results is contained in the Australian Stock Exchange (ASX) release.

Results for announcement to the market

	31 December 2018	31 December 2017	Change $m	Change %
Revenue and income	**3,071.0**	2,791.0	**280.0**	**10.0**
Statutory profit after tax	**73.8**	4.4	**69.4**	**1,577.3**
Statutory profit/(loss) after tax attributable to owners of the Company	**54.8**	(10.3)	**65.1**	**632.0**

Dividends

No dividends were declared or paid during the half-year ended 31 December 2018 or during the prior corresponding period.

Equity distributions of $29.1 million were paid to non-controlling interests during the half-year ended 31 December 2018 (31 December 2017: $25.7 million).

Net tangible assets

	31 December 2018	30 June 2018
Net assets attributable to owners of the Company ($m)	**988.0**	1,091.4
Net tangible assets attributable to owners of the Company ($m)	**383.0**	489.9
Ordinary shares (m)	**8,441.8**	8,441.8
Net assets attributable to owners of the Company per ordinary share ($)	**0.12**	0.13
Net tangible assets attributable to owners of the Company per ordinary share ($)	**0.05**	0.06

Details of associates

The Company holds a 49 per cent (31 December 2017: 49 per cent) ownership interest in Virgin Samoa Limited and accounts for this investment as an associate.

Directors' report

The directors present their report together with the consolidated interim financial statements of the Group comprising Virgin Australia Holdings Limited (VAH) (the Company) and its subsidiaries (the Group) and the Group's interests in associates for the half-year ended 31 December 2018 and the auditor's review report thereon.

1. Directors

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

Name	Position	Period of directorship
Ms Elizabeth Bryan AM	Chairman and Independent Non-Executive Director	Current, appointed as Chairman and Director 20 May 2015
Mr John Borghetti AO	Managing Director and Chief Executive Officer	Current, appointed 8 May 2010
Mr Trevor Bourne	Independent Non-Executive Director	Current, appointed 1 January 2018
Mr Mark Chellew	Independent Non-Executive Director	Current, appointed 1 January 2018
Mr Ken Dean	Independent Non-Executive Director	Current, appointed 1 December 2016
Mr Ray Gammell	Non-Executive Director	Current, appointed Alternate Director 17 July 2018, appointed Director 20 December 2018
Sir Angus Houston	Independent Non-Executive Director	Current, appointed 12 December 2018
Mr Robin Kamark	Non-Executive Director	Ceased, resigned 20 December 2018
Mr Lan Xiang	Non-Executive Director	Current, appointed 24 July 2017
Ms Samantha Mostyn	Independent Non-Executive Director	Current, appointed 1 September 2010
Mr Warwick Negus	Non-Executive Director	Current, appointed 3 January 2017
Mr Marvin Tan	Non-Executive Director	Current, appointed 1 January 2016
The Hon. Mark Vaile AO	Independent Non-Executive Director	Ceased, resigned 12 December 2018
Mr Zhang Kui	Non-Executive Director	Current, appointed 31 January 2018
Mr Lu Jiaqi	Alternate Director Mr Zhang Kui	Current, appointed 17 July 2018
Mr Pee Teck Tan	Alternate Director for Mr Marvin Tan	Current, appointed 1 January 2016
Mr Wu An	Alternate Director for Mr Lan Xiang	Current, appointed 24 July 2017

2. Review of operations

Net profit after income tax attributable to owners of the Company for the half-year ended 31 December 2018 was $54.8 million, an improvement of $65.1 million from a loss of $10.3 million in the prior corresponding half-year ended 31 December 2017.

Revenue and income increased 10 per cent from $2,791.0 million in the prior corresponding half-year ended 31 December 2017 to $3,071.0 million for the half-year ended 31 December 2018.

Net operating expenditure increased 7.3 per cent from $2,707.3 million in the prior corresponding half-year ended 31 December 2017 to $2,903.8 million for the half-year ended 31 December 2018.

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

The lead auditor's independence declaration is set out on page 6 and forms part of the directors' report.

4. Rounding

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

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

Elizabeth Bryan
Director

John Borghetti
Director

Dated at Sydney, 12 February 2019

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

To the Directors of Virgin Australia Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Virgin Australia Holdings Limited for the half-year ended 31 December 2018 there have been:

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

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

John Wigglesworth
Partner

Sydney, 12 February 2019

Consolidated statement of profit or loss

For the half-year ended 31 December 2018

	Note	31 December 2018 $m	Restated(1) 31 December 2017 $m
Revenue and income			
Airline passenger revenue		**2,805.6**	2,561.7
Freight revenue		**66.6**	51.3
Loyalty program revenue		**197.3**	175.5
Other income		**1.5**	0.1
Net foreign exchange gains		**-**	2.4
Revenue and income		**3,071.0**	2,791.0
Operating expenditure			
Aircraft operating lease expenses		**(190.7)**	(200.8)
Airport charges, navigation and station operations		**(569.3)**	(544.7)
Contract and other maintenance expenses		**(123.6)**	(122.5)
Commissions and other marketing and reservations expenses		**(254.9)**	(226.1)
Fuel and oil		**(605.4)**	(489.8)
Labour and staff related expenses		**(668.3)**	(629.3)
Onerous contract expenses	2(c)	**(15.5)**	(60.4)
Other expenses from ordinary activities		**(298.0)**	(260.4)
Depreciation and amortisation		**(178.1)**	(173.4)
Ineffectiveness on cash flow hedges		**-**	0.1
Net operating expenditure		**(2,903.8)**	(2,707.3)
Share of net profit of equity-accounted investee		**-**	3.5
Profit before net finance costs and tax		**167.2**	87.2
Finance income		**11.8**	9.4
Finance costs		**(91.3)**	(88.2)
Net finance costs		**(79.5)**	(78.8)
Profit before tax		**87.7**	8.4
Income tax expense	2(b)	**(13.9)**	(4.0)
Profit		**73.8**	4.4
Attributable to:			
Owners of the Company		**54.8**	(10.3)
Non-controlling interests		**19.0**	14.7
		73.8	4.4

Earnings per share:	Cents	Cents
Basic earnings per share	**0.6**	(0.1)
Diluted earnings per share	**0.6**	(0.1)

(1) The comparative has been restated to allocate time value movements on cash flow hedges to the operating expenditure item to which the hedge relates, primarily to fuel and oil expense. The comparative has also been restated to be consistent with the current financial period revenue presentation which has been amended in accordance with the disclosure requirements of AASB 15 *Revenue from Contracts with Customers*.

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

Consolidated statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2018

	31 December 2018 $m	31 December 2017 $m
Profit	**73.8**	4.4
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations (nil related tax)	**28.8**	4.8
Effective portion of changes in fair value of cash flow hedges	**(80.1)**	121.4
Net change in fair value of cash flow hedges transferred to profit or loss	**(128.3)**	(10.1)
Effective portion of changes in fair value of cash flow hedges (time value of options)	**(61.4)**	(0.3)
Net change in fair value of cash flow hedges transferred to profit or loss (time value of options)	**27.0**	20.7
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item	**(0.3)**	13.6
Income tax benefit/(expense) on other comprehensive income	**72.9**	(43.6)
Other comprehensive income/(loss), net of tax	**(141.4)**	106.5
Total comprehensive profit/(loss)	**(67.6)**	110.9
Attributable to:		
Owners of the Company	**(86.6)**	96.2
Non-controlling interests	**19.0**	14.7
	(67.6)	110.9

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

Consolidated statement of financial position

As at 31 December 2018

	Note	31 December 2018 $m	30 June 2018 $m
Current assets			
Cash and cash equivalents		**1,251.5**	1,415.5
Receivables		**270.2**	281.6
Inventories		**50.0**	47.6
Derivative financial instruments		**97.3**	220.0
Other financial assets		**20.5**	12.1
Other		**2.6**	2.7
Total current assets		**1,692.1**	1,979.5
Non-current assets			
Receivables		**177.7**	191.6
Derivative financial instruments		**21.6**	64.0
Other financial assets		**283.9**	284.2
Investment accounted for using the equity method	5(a)	**8.2**	8.2
Deferred tax assets	2(b)	**54.9**	-
Property, plant and equipment	3(a)	**3,179.5**	3,031.0
Intangible assets	3(b)	**621.3**	617.0
Other		**11.6**	12.9
Total non-current assets		**4,358.7**	4,208.9
Total assets		**6,050.8**	6,188.4
Current liabilities			
Payables		**792.3**	807.5
Interest-bearing liabilities	4(a)	**768.7**	295.1
Derivative financial instruments		**29.0**	6.6
Provisions		**253.4**	269.0
Unearned revenue		**1,100.0**	1,142.1
Other		**2.9**	3.6
Total current liabilities		**2,946.3**	2,523.9
Non-current liabilities			
Payables		**5.0**	5.6
Interest-bearing liabilities	4(a)	**1,792.3**	2,273.0
Derivative financial instruments		**12.9**	0.2
Provisions		**289.2**	277.6
Other		**11.6**	13.1
Total non-current liabilities		**2,111.0**	2,569.5
Total liabilities		**5,057.3**	5,093.4
Net assets		**993.5**	1,095.0
Equity			
Share capital		**2,238.3**	2,238.9
Reserves		**121.2**	268.3
Retained earnings		**(1,371.5)**	(1,415.8)
Equity attributable to the owners of the Company		**988.0**	1,091.4
Non-controlling interests		**5.5**	3.6
Total equity		**993.5**	1,095.0

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

Consolidated statement of changes in equity

For the half-year ended 31 December 2018

	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 2018	2,238.9	(138.0)	169.9	(4.9)	16.1	225.2	(1,415.8)	1,091.4	3.6	1,095.0
Adjustment on initial application of AASB 9 (net of tax)	-	-	-	-	-	-	(1.2)	(1.2)	-	(1.2)
Adjustment on initial application of AASB 15 (net of tax)	-	-	-	-	-	-	(9.3)	(9.3)	6.3	(3.0)
Adjusted balance at 1 July 2018	2,238.9	(138.0)	169.9	(4.9)	16.1	225.2	(1,426.3)	1,080.9	9.9	1,090.8
Profit	-	-	-	-	-	-	54.8	54.8	19.0	73.8
Other comprehensive income, net of tax										
Foreign currency translation	-	28.8	-	-	-	-	-	28.8	-	28.8
Effective portion of changes in fair value of cash flow hedges	-	-	(56.1)	(43.0)	-	-	-	(99.1)	-	(99.1)
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	(89.8)	18.9	-	-	-	(70.9)	-	(70.9)
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item	-	-	(0.2)	-	-	-	-	(0.2)	-	(0.2)
Total other comprehensive income, net of tax	-	28.8	(146.1)	(24.1)	-	-	-	(141.4)	-	(141.4)
Total comprehensive income/(loss)	-	28.8	(146.1)	(24.1)	-	-	54.8	(86.6)	19.0	(67.6)
Transactions with owners, recorded directly in equity, net of tax										
Income tax reserve[2]	-	-	-	-	-	(5.7)	-	(5.7)	5.7	-
Equity distributions	-	-	-	-	-	-	-	-	(29.1)	(29.1)
Share-based payment transactions	(0.6)	-	-	-	-	-	-	(0.6)	-	(0.6)
Total transactions with owners, net of tax	(0.6)	-	-	-	-	(5.7)	-	(6.3)	(23.4)	(29.7)
Balance at 31 December 2018	2,238.3	(109.2)	23.8	(29.0)	16.1	219.5	(1,371.5)	988.0	5.5	993.5

(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 half-year ended 31 December 2018

	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 2017	2,243.7	(137.7)	(30.0)	(31.8)	16.2	242.1	(734.8)	1,567.7	6.1	1,573.8
Profit/(loss)	-	-	-	-	-	-	(10.3)	(10.3)	14.7	4.4
Other comprehensive income, net of tax										
Foreign currency translation	-	4.8	-	-	-	-	-	4.8	-	4.8
Effective portion of changes in fair value of cash flow hedges	-	-	85.0	(0.2)	-	-	-	84.8	-	84.8
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	(7.1)	14.5	-	-	-	7.4	-	7.4
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item	-	-	9.5	-	-	-	-	9.5	-	9.5
Total other comprehensive income, net of tax	-	4.8	87.4	14.3	-	-	-	106.5	-	106.5
Total comprehensive income/(loss)	-	4.8	87.4	14.3	-	-	(10.3)	96.2	14.7	110.9
Transactions with owners, recorded directly in equity, net of tax										
Income tax reserve[2]	-	-	-	-	-	(6.3)	-	(6.3)	6.3	-
Equity distributions	-	-	-	-	-	-	-	-	(25.7)	(25.7)
Share-based payment transactions	0.1	-	-	-	(0.1)	-	-	-	-	-
Total transactions with owners, net of tax	0.1	-	-	-	(0.1)	(6.3)	-	(6.3)	(19.4)	(25.7)
Balance at 31 December 2017	2,243.8	(132.9)	57.4	(17.5)	16.1	235.8	(745.1)	1,657.6	1.4	1,659.0

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

(2) 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 half-year ended 31 December 2018

	31 December 2018 $m	31 December 2017 $m
Cash flows from operating activities		
Cash receipts from customers	**3,337.0**	3,009.3
Cash payments to suppliers and employees	**(3,060.6)**	(2,738.7)
Cash generated from operating activities	**276.4**	270.6
Cash payments for business restructuring expenses	**(13.4)**	(17.3)
Finance income received	**11.8**	9.4
Finance costs paid	**(81.1)**	(71.3)
Net cash from operating activities	**193.7**	191.4
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(242.2)**	(291.0)
Proceeds on disposal of property, plant and equipment	**2.6**	8.0
Acquisition of intangible assets	**(29.1)**	(21.7)
Payments for other deposits	**(16.8)**	(20.4)
Proceeds from other deposits	**21.9**	5.7
Net cash used in investing activities (excluding aircraft operating lease refinancing)	**(263.6)**	(319.4)
Aircraft operating lease refinancing	**-**	(5.7)
Net cash used in investing activities	**(263.6)**	(325.1)
Cash flows from financing activities		
Proceeds from borrowings	**169.8**	165.1
Repayment of borrowings	**(265.5)**	(173.6)
Payments of transaction costs related to borrowings	**(3.9)**	(3.2)
Net costs of share buy-back	**(0.7)**	-
Equity distributions paid to non-controlling interests	**(29.1)**	(25.7)
Net cash used in financing activities	**(129.4)**	(37.4)
Net decrease in cash and cash equivalents	**(199.3)**	(171.1)
Cash and cash equivalents at 1 July	**1,415.5**	1,396.1
Effect of exchange rate fluctuations on cash and cash equivalents	**35.3**	(8.7)
Cash and cash equivalents at 31 December	**1,251.5**	1,216.3

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

Condensed notes to the consolidated interim financial statements

For the half-year ended 31 December 2018

1. Basis of preparation

The consolidated interim financial statements were authorised for issue by the Board of Directors (Board) on 12 February 2019.

(a) Reporting entity

Virgin Australia Holdings Limited (VAH) (the Company) is a for-profit company incorporated and domiciled in Australia. It is primarily involved in the airline industry, both domestic and international. The consolidated interim financial statements of the Company as at and for the half-year ended 31 December 2018 comprise the Company and its subsidiaries (the Group), and the Group's interests in associates.

(b) Basis of accounting and statement of compliance

The consolidated interim financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated interim financial statements do not include all the information required for a complete set of annual financial statements. The consolidated interim financial statements should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 June 2018 which are available upon request from the Company's registered office at 56 Edmondstone Road, Bowen Hills, Queensland, or at www.virginaustralia.com.

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

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

(c) Net current liability position

The Group's current liabilities exceed its current assets as at 31 December 2018 by $1,254.2 million (30 June 2018: $544.4 million) including a current liability for unearned revenue of $1,100.0 million (30 June 2018: $1,142.1 million). Unearned revenue includes revenue received in advance which has been deferred in the statement of financial position until carriage is performed. The consolidated interim financial statements have been prepared on a going concern basis, based on the Group's cash flows for the current period and estimated profits and cash flows for future periods. The Group also has $579.0 million of undrawn financing facilities in place, including committed undrawn funding facilities of $244.0 million at 31 December 2018 and another US$25.0 million (A$35.5 million) of uncommitted facilities, as well as a committed lease in place for four B737 MAX deliveries commencing from November 2019 of over US$210.0 million (A$298.0 million). The Group is planning to undertake an additional bond raising prior to 30 June 2019 to extend the debt maturity profile, well in advance of November 2019, when the majority of current interest-bearing liabilities mature. The Group has a cash and cash equivalents balance at 31 December 2018 of $1,251.5 million (30 June 2018: $1,415.5 million) and has an unrestricted cash balance at 31 December 2018 of $989.8 million (30 June 2018: $1,000.8 million).

(d) Critical accounting estimates and judgements

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

Key judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are consistent with those applied to the consolidated financial statements as at and for the year ended 30 June 2018.

Except as described in the section below, the accounting policies applied by the Group in the consolidated interim financial statements are consistent with those applied in the consolidated financial statements as at and for the year ended 30 June 2018.

(e) Change in significant accounting policy

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

AASB 15 replaces existing revenue recognition guidance, including AASB 118 *Revenue* (AASB 118), AASB 111 *Construction Contracts* (AASB 111) and Interpretation 13 *Customer Loyalty Programmes* (Interpretation 13). 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.

The Group has initially adopted AASB 15 from 1 July 2018 with the cumulative effect of initially applying the standard recognised as an adjustment to retained earnings at 1 July 2018. Accordingly, the information for the comparative period has not been restated. The comparative information is presented, as previously reported, under AASB 118, AASB 111 and Interpretation 13.

A description of the key accounting policies applied prior to and after adoption of AASB 15 follows.

1. Basis of preparation (continued)

(e) Change in significant accounting policy (continued)

Airline passenger revenue

Airline passenger revenue comprises revenue from passenger ticket sales including the provision of additional ancillary flight benefits.

In the comparative period, the Group recognised some ancillary flight benefits, including administrative costs of managing a passenger's booking and credit card fees, at the time the administrative event occurred or on booking date. Under AASB 15, these ancillary services do not meet the definition of a separate performance obligation and, accordingly, are recognised when carriage is performed.

In the comparative period, the Group calculated the probability that a passenger's contractual rights would not be exercised based on historical passenger non-attendance rates and recognised an allowance for this amount (breakage) at the booking date. 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.

These changes result in the deferral of airline passenger revenue until carriage is performed.

Loyalty program revenue - qualifying airline services

Members of the Velocity Frequent Flyer program accumulate loyalty points by travelling on qualifying airline services.

In the comparative period, the Group recognised its obligation to provide awards to members by deferring a portion of the ticket sales revenue, equivalent to the fair value of the points awarded. The residual amount was then allocated to the ticket and ancillary revenue. AASB 15 allows the stand-alone selling price of performance obligations to be determined using the residual method only if specific criteria have been satisfied. These criteria are not applicable to the Group's obligations in relation to qualifying airline services. As such, the transaction price related to ticket sales is proportionately allocated to the obligation to provide awards to members and to the ticket sales, based on their relative stand-alone selling prices.

This change results in more of the ticket revenue being allocated to the provision of a flight and will therefore bring forward the recognition of revenue.

Loyalty program revenue - marketing 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.

In the comparative period, the Group recognised its obligation to provide awards to members by deferring a portion of the revenue, equivalent to the fair value of the points awarded. The residual amount was then recognised immediately in profit or loss. Under AASB 15, there are two performance obligations. The stand-alone selling price of the obligation to provide awards to members is deferred to the consolidated statement of financial performance. As the criteria for the application of the residual value method are satisfied, the Group recognises the residual amount, which represents marketing services, as revenue when the performance obligation is satisfied.

These changes do not result in material changes to the timing of revenue recognition.

Transitional impacts

The following table summarises the impact of transition to AASB 15 on retained earnings and non-controlling interests, net of tax.

	Impact of adopting AASB 15 at 1 July 2018 $m
Retained earnings	
Airline passenger revenue - breakage	(16.3)
Airline passenger revenue - ancillary revenue	(4.6)
Loyalty program revenue - qualifying services and marketing revenue	11.6
Retained earnings total	(9.3)
Non-controlling interests	6.3

1. Basis of preparation (continued)

(e) Change in significant accounting policy (continued)

Current year impacts

The following table summarises the impacts of adopting AASB 15 on the Group's consolidated statement of financial position at 31 December 2018.

	As reported $m	Adjustments $m	Excluding AASB 15 $m
Non-current assets			
Deferred tax assets	54.9	(1.4)	53.5
Current liabilities			
Unearned revenue	1,100.0	(4.7)	1,095.3
Equity			
Retained earnings	(1,371.5)	9.2	(1,362.3)
Non-controlling interests	5.5	(5.9)	(0.4)

The following table summarises the impacts of adopting AASB 15 on the Group's consolidated statement of profit or loss for the half-year ended 31 December 2018.

	As reported $m	Adjustments $m	Excluding AASB 15 $m
Airline passenger revenue	2,805.6	(1.1)	2,804.5
Loyalty program revenue	197.3	1.5	198.8
Income tax expense	(13.9)	(0.1)	(14.0)
Profit	73.8	0.3	74.1
Attributable to:			
Owners of the Company	54.8	(0.1)	54.7
Non-controlling interests	19.0	0.4	19.4

There was no impact on the Group's consolidated statement of cash flows for the half-year ended 31 December 2018.

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

The Group adopted AASB 9 *Financial Instruments (2013, 2010 and 2009)* (AASB 9 (2013)) from 1 July 2014. AASB 9 (2014) amends AASB 9 (2013) to replace the 'incurred credit loss' model with an 'expected credit loss' model, which results in the earlier recognition of credit losses for the Group. The Group has determined that the application of AASB 9 (2014) at 1 July 2018 will result in an additional allowance for impairment of $1.2 million, net of tax. This has been recognised as a reduction in retained earnings at 1 July 2018.

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

AASB 16 *Leases* (AASB 16)

AASB 16 replaces AASB 117 *Leases* and IFRIC 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 the consolidated statement of profit or loss.

Under AASB 16, 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 will apply AASB 16 in the financial year beginning on 1 July 2019. The Group will complete its assessment of the quantitative impact of the standard prior to 30 June 2019 and will provide more detail in the consolidated financial statements of the Group as at and for the year ended 30 June 2019.

2. Results

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

(a) Operating segments

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

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

- Virgin Australia Domestic: operations using a mix of Boeing B737 aircraft, Airbus A320 and A330 aircraft, ATR aircraft, Embraer E190 aircraft, and Fokker F100 aircraft. This comprises Australian domestic flying, including regional network, charter and cargo operations.
- Virgin Australia International: operations using a mix of Airbus A330, Boeing B777 and B737 aircraft. This comprises Trans-Pacific, 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, 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 gains on disposal of assets; onerous contract expenses; business and capital restructure and transaction costs; share of net profit of equity-accounted investee; ineffectiveness on cash flow hedges; net finance costs and income tax expense) 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.

2. Results (continued)

(a) Operating segments (continued)

31 December 2018	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	1,954.4	637.4	175.1	302.6	-	3,069.5
Inter-segment revenue	127.9	28.7	33.8	-	(190.4)	-
Segment revenue and income	2,082.3	666.1	208.9	302.6	(190.4)	3,069.5
Segment EBITDAR	380.0	95.7	63.8	45.0	(23.9)	560.6
Aircraft rentals	(62.9)	(94.8)	-	(33.0)	-	(190.7)
Segment EBITDA	317.1	0.9	63.8	12.0	(23.9)	369.9
Depreciation and amortisation	(140.4)	(12.9)	(4.8)	(20.0)	-	(178.1)
Segment EBIT	176.7	(12.0)	59.0	(8.0)	(23.9)	191.8
Gains on disposal of assets						1.5
Onerous contract expenses						(15.5)
Business and capital restructure and transaction costs						(10.6)
						167.2
Net finance costs						(79.5)
Profit before tax						87.7
Income tax expense						(13.9)
Profit						73.8

2. Results (continued)

(a) Operating segments (continued)

31 December 2017 (restated)[1]	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	1,771.1	554.2	163.4	302.3	-	2,791.0
Inter-segment revenue	116.4	23.8	27.9	-	(168.1)	-
Segment revenue and income	1,887.5	578.0	191.3	302.3	(168.1)	2,791.0
Segment EBITDAR	339.6	115.3	59.2	44.7	(23.9)	534.9
Aircraft rentals	(64.3)	(96.9)	-	(39.6)	-	(200.8)
Segment EBITDA	275.3	18.4	59.2	5.1	(23.9)	334.1
Depreciation and amortisation	(135.9)	(21.1)	(3.0)	(13.4)	-	(173.4)
Segment EBIT	139.4	(2.7)	56.2	(8.3)	(23.9)	160.7
Onerous contract expenses						(60.4)
Business and capital restructure and transaction costs						(16.7)
Share of net profit of equity-accounted investee						3.5
Ineffectiveness on cash flow hedges						0.1
						87.2
Net finance costs						(78.8)
Profit before tax						8.4
Income tax expense						(4.0)
Profit						4.4

(1) The comparative has been restated to reflect inter-segment transactions between Virgin Australia Domestic, Virgin Australia International and Velocity and to reflect the revised allocation of inter-segment revenue. The comparative has also been restated to recognise time value movement on cash flow hedges within segment EBIT.

2. Results (continued)

(b) Taxation

A reconciliation of the income tax expense follows:

	31 December 2018 $m	31 December 2017 $m
Profit before tax	**87.7**	8.4
Tax expense at the Australian tax rate of 30% (2017: 30%)	**(26.3)**	(2.5)
Tax effect of amounts which are not included in taxable income:		
Foreign currency movements on debt and securitised assets	**12.9**	2.2
Other non-deductible or non-assessable amounts	**(0.5)**	(3.7)
Income tax expense	**(13.9)**	(4.0)

The Group is engaging with the Australian Taxation Office (ATO) in respect of the Tiger Airways Australia Pty Ltd tax consolidated group (Tigerair) joining the Virgin Australia Holdings Limited tax consolidated group retrospectively from the date the Group acquired 100 per cent ownership of Tigerair. It is anticipated that the tax losses incurred by Tigerair prior to the joining time will be cancelled and will no longer be available for offset against future taxable income. The Group had not recognised these losses on the consolidated statement of financial position.

The Group has recognised a net deferred tax asset of $54.9 million at 31 December 2018 as a result of the reversal of a deferred tax liability recognised at 30 June 2018 in relation to unrealised hedge gains within equity. The Group considers it probable that future taxable profit will be available against which this deferred tax asset can be utilised.

(c) Onerous contract expenses

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

3. Tangible and intangible assets

(a) Property, plant and equipment

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

	31 December 2018 $m	31 December 2017 $m
Opening balance at 1 July	**3,031.0**	2,916.6
Additions	**237.5**	277.1
Disposals	**(1.1)**	(4.3)
Depreciation	**(153.5)**	(152.2)
Foreign exchange movements	**65.6**	(20.7)
Closing balance at 31 December	**3,179.5**	3,016.5

(b) Intangible assets

A reconciliation of the carrying value of intangible assets follows.

	31 December 2018 $m	31 December 2017 $m
Opening balance at 1 July	**617.0**	617.2
Additions	**28.9**	21.7
Amortisation	**(24.6)**	(21.2)
Closing balance at 31 December	**621.3**	617.7

4. Capital structure

(a) Interest-bearing liabilities

	31 December 2018 $m	30 June 2018 $m
Current		
Aeronautic finance facilities – secured[1]	**196.5**	290.3
Bonds – unsecured[1]	**565.2**	-
Finance lease liabilities	**7.0**	4.8
	768.7	295.1
Non-current		
Aeronautic finance facilities – secured[1]	**905.0**	870.5
Bank loans – secured[1]	**221.7**	220.6
Bonds – unsecured[1]	**639.5**	1,151.6
Finance lease liabilities	**26.1**	30.3
	1,792.3	2,273.0

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

The nature of interest-bearing liabilities is consistent with those disclosed at 30 June 2018 apart from the change outlined below:

Aeronautic finance facilities - secured

During the half-year ended 31 December 2018 the Group obtained $164.0 million of financing under a new facility secured against aeronautical assets.

(b) Dividends and equity distributions

No dividends were declared or paid during the half-year ended 31 December 2018 or during the prior corresponding period.

Equity distributions of $29.1 million were paid to non-controlling interests during the half-year ended 31 December 2018 (31 December 2017: $25.7 million).

4. Capital structure (continued)

(c) 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

At 30 June 2018, the Group measured certain loan instruments in relation to aeronautic finance facilities based on level 1 valuation methods. As a result of a reduction in traded volumes of these instruments, the Group has now measured these instruments on level 2 valuation methods. There have been no other changes in the nature of financial assets and liabilities or changes to the way the Group measures fair value since 30 June 2018. Refer to the 30 June 2018 consolidated financial statements for further information.

The financial instruments disclosed in the table below are all measured based on level 2 valuation methods. The carrying amounts of financial assets and liabilities not detailed in the following table approximate their fair values.

	31 December 2018		30 June 2018	
	Carrying value $m	Fair value $m	Carrying value $m	Fair value $m
Financial assets carried at fair value				
Derivative financial instruments	**118.9**	**118.9**	284.0	284.0
Financial liabilities carried at fair value				
Derivative financial instruments	**41.9**	**41.9**	6.8	6.8
Financial liabilities carried at amortised cost				
Aeronautic finance facilities - secured	**1,101.5**	**1,139.9**	1,160.8	1,197.4
Bonds - unsecured	**1,204.7**	**1,219.7**	1,151.6	1,177.6
Bank loans - secured	**221.7**	**225.0**	220.6	225.0
Finance lease liabilities	**33.1**	**33.1**	35.1	35.1

5. Other items

(a) Investment accounted for using the equity method

The Group has advised the other shareholders in Virgin Samoa Limited that it will transfer its shares to the majority shareholder (Government of Samoa), in accordance with the terms of the Shareholders Agreement. Virgin Samoa Limited ceased operating in November 2017. As at the date of this report the share transfer had not settled.

(b) Commitments

The Group has capital expenditure commitments to purchase property, plant and equipment and intangibles contracted at the reporting date but not recognised as liabilities. These commitments are predominantly in US dollars. US dollar amounts are translated to Australian dollars at the 31 December 2018 closing exchange rate of 0.7050 (30 June 2018: 0.7404). The Group's capital expenditure commitments as at 31 December 2018 are $4,046.2 million (30 June 2018: $3,814.2 million).

(c) Contingent liabilities

The Group has provided bank guarantees and standby letters of credit to third parties as guarantees of payment for fuel, aircraft lease security deposits and maintenance reserve deposits, non-aircraft operating lease commitments and other arrangements entered into with third parties. As at 31 December 2018, there were $200.0 million (30 June 2018: $182.7 million) of bank guarantees and letters of credit outstanding.

As at 31 December 2018, the Group has provided other guarantees of $17.6 million (30 June 2018: $17.5 million), mainly in relation to a workers' compensation self-insurance licence.

(d) Related parties

There have been no significant changes to related party arrangements since 30 June 2018. Refer to the 30 June 2018 consolidated financial statements for further information.

(e) Events subsequent to reporting date

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

(a) the consolidated interim financial statements and notes that are set out on pages 7 to 23 are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

  (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Elizabeth Bryan
Director

John Borghetti
Director

Dated at Sydney, 12 February 2019

Independent Auditor's Review Report

To the shareholders of Virgin Australia Holdings Limited

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Virgin Australia Holdings Limited.

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

- giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2018
- 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 Half-year ended on that date
- Notes 1 to 5 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration,

The ***Group*** comprises Virgin Australia Holdings Limited (the Company) and the entities it controlled at the Half-year's end or from time to time during the Half-year.

Responsibilities of the Directors for the Interim Financial Report

The Directors are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*.
- For such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the Half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Virgin Australia Holdings Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

KPMG

John Wigglesworth
Partner

Trent Duvall
Partner

Sydney, 12 February 2019