

## VIRGIN AUSTRALIA HOLDINGS LIMITED (ASX: VAH) 1H19 RESULTS<sup>1</sup>

### Strong 1H19 Group Outcomes:

- **Group Underlying Profit Before Tax** of \$112.3 million – up 37.1 per cent and strongest half year result since FY08 despite \$88.2 million fuel and foreign exchange headwinds
- **Group Statutory Profit After Tax** of \$73.8 million – improvement of \$69.4 million
- **Group Revenue** of \$3,071.0 million – up 10.0 per cent and a record for the airline
- **Cash Generated from Operating Activities** of \$276.4 million
- **Financial Leverage** of 4.1x – improvement of 8.9 per cent
- **Adjusted Net Debt** reduced by \$287.0 million – a reduction of 6.8 per cent from 1H18

**13 February 2019:** Virgin Australia Holdings Limited (**Virgin Australia Group** or **Group**) today reported its strongest underlying half year earnings since the 2008 financial year, delivering a Group Underlying Profit Before Tax of \$112.3 million which represents a 37.1 per cent increase on the prior corresponding period.

The result was driven by record performance in the Virgin Australia Domestic business, supported by stable market conditions, disciplined capacity management, continued effective cost control under the Better Business Program and stronger passenger Yield.

The performance demonstrates the Group's progress in driving improved earnings and strengthening the financial foundation of its business to achieve sustainable profitability.

### Commentary on 1H19 Group performance

Virgin Australia Group Chief Executive Officer and Managing Director, John Borghetti, said: "This is the Group's strongest half year underlying result since the 2008 financial year and represents our improving profitability after a significant period of investment and repositioning.

"We've made solid progress in strengthening the financial foundations of our business. Today's results continue to demonstrate the on-going success of our cost transformation program which is improving cash flow and reducing Financial Leverage to deliver sustainable profitability.

"We've built a strong, competitive domestic operation under the Virgin Australia Domestic brand, which recorded an all-time high Segment EBIT result and is continuing to attract more customers and deliver two thirds of our revenue. This is an important foundation as we continue to build on our established position in the market and mature into our new long-haul Asian routes.

"The improved results were delivered despite fuel headwinds negatively impacting global aviation. While we are not immune from global economic changes, we have prudent hedging strategies and the right cost and efficiency programs in place to help mitigate against fuel price increases."

### Delivering improved earnings outcomes

The Group demonstrated improvement across all key earnings metrics compared to the previous half year, which included:

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<sup>1</sup> All comparisons in this release relate to the prior corresponding period in FY18, unless otherwise stated. The comparatives for FY18 have been restated to include Time Value Movement on Cash Flow Hedges within underlying earnings and to reflect the revised allocation of Virgin Australia Domestic revenue after excluding the effect of eliminations of inter-segment revenue.

- Revenue of \$3,071.0 million, which was the highest half year revenue in the airline's history and a 10.0 per cent increase on the prior corresponding period, driven by strong Yield and Load Factors predominately in the domestic sector along with the expansion of long-haul Asian routes.
- EBITDA of \$369.9 million, which was also a record for the business and up 10.7 per cent on the prior corresponding period. EBIT increased by 19.4 per cent to \$191.8 million.
- Statutory Profit After Tax of \$73.8 million, which included \$24.6 million in net restructure costs associated with fleet simplification under the Better Business program. Restructuring costs have reduced by \$52.5 million on the prior corresponding period ahead of the upcoming June-2019 Better Business program completion date.

The improved earnings outcomes were delivered despite \$88.2 million in fuel and foreign exchange headwinds. The Group's hedging program provided effective protection against fuel price increases and the weaker AUD. Operating costs are hedged on a two-year forward hedging program to protect against changes in oil prices and exchange rates while retaining participation in favourable price movements through options.

## Strengthening the Group's financial position

The Virgin Australia Group:

- Drove continued improvements through its Better Business program which is delivering annualised net Free Cash-Flow savings of \$355.3 million as at December-2018 and remains on track to deliver more than \$400.0 million in annualised net Free Cash Flow savings by June 2019. Better Business 2 is in planning for FY20 commencement with a three-year annualised target of \$300 million.
- Demonstrated further improvement in balance sheet metrics, reporting its strongest first half Financial Leverage since FY08 of 4.1 times. Adjusted Net Debt continued to improve, reducing by a further 6.8 per cent (or \$287.0 million) to \$3,935.2 million compared to December 2017.
- Improved its cash-flow performance despite the industry-wide fuel headwind, increasing Cash Generated from Operating Activities by 2.1 per cent and improving Free Cash Flow by \$67.8 million on the prior corresponding period. The improvement half-on-half was assisted by improved earnings performance and a favourable exchange rate.

## Providing a world-class experience for customers

Virgin Australia continued to focus on enhancing the guest experience through the delivery of strong On Time Performance, a new onboard retail offering, and a range of other initiatives.

Virgin Australia International announced a new international lounge network, with five new lounges for eligible guests travelling to and from overseas destinations. It also introduced all-inclusive fares for Short-haul International routes including an improved food and beverage offering. The roll-out of inflight Wi-Fi has also progressed to help guests stay connected when they fly, with all Boeing 777 aircraft and one in two of Virgin Australia's Boeing 737 fleet now Wi-Fi enabled.

Virgin Australia was recognised at the Airline Ratings Airline Excellence Awards in November 2018, being awarded World's Best Cabin Crew for 2019 and placing fifth in the Top Ten airline rankings.

Mr Borghetti said: "The Group prides itself on offering guests the best value for money with great customer service every time they fly. Our employees remain at the heart of Virgin Australia and I thank them for going

above and beyond every day for our guests. They are consistently delivering the high-quality experience that is attracting more business and leisure travellers on board.”

## Segment performance

### *Virgin Australia Domestic*

Virgin Australia Domestic delivered a record performance for the period. The segment recorded its highest half year earnings on an underlying basis, reporting a record Underlying EBIT of \$176.7 million – an improvement of 26.8 per cent on the previous half year. Stable market conditions contributed to RASK improvement of 7.1 per cent half-on-half, which was achieved despite \$43.0 million in fuel and foreign exchange headwinds compared to the prior corresponding period. The domestic EBIT margin of 8.5 per cent represented a 1.1 point improvement on the previous half year result.

Virgin Australia Domestic reported 10.3 per cent revenue growth, supported by a 6.3 per cent improvement in domestic Yield and disciplined increase in capacity flown. It also achieved a 4.1 per cent increase in passenger numbers.

Mr Borghetti said: “The results demonstrate the success of our investment in transforming the Virgin Australia Domestic business, which is performing at an all-time high notwithstanding the higher fuel price environment. We continue to consolidate on this transformation, investing in our customer offering and providing strong competition in the Australian market, and the milestones achieved this half reflect this.”

### *Virgin Australia International (VAI)*

Virgin Australia International made solid improvements as the Group continued to position the business for long-term growth, demonstrating RASK improvement, higher Yield and an increase in passenger numbers.

The International business grew its capacity by 14.0 per cent as the business positioned itself to capitalise on opportunities for passenger growth in the Greater China region, with the launch of the Sydney-Hong Kong route in July. VAI announced a codeshare with Virgin Atlantic, providing guests with a seamless travel experience between Australia and London, with connections via Los Angeles and Hong Kong.

VAI also focused on its trans-Tasman offering, launching new flights between Newcastle-Auckland, Melbourne-Queenstown, and Sydney-Wellington, as well as increasing frequency between Auckland and major Australian destinations.

The segment reported a 15.2 per cent increase in revenue to \$666.1 million, driven by the launch of new routes, and higher Yield. The segment recorded an Underlying EBIT loss of \$12.0 million representing a decline of \$9.3 million on the prior corresponding period, inclusive of \$32.2 million in fuel and foreign exchange headwinds.

International EBIT margins reduced to negative 1.8 per cent due to increased fuel costs and the impact of a competitive international environment on industry yields, particularly in the USA market despite strong premium cabin performance.

Mr Borghetti said: “We remain focused on accelerating access to the Greater China market through services to Hong Kong and through our partnerships with key airline partners. This remains the fastest-growing and most valuable international market for the business.

“Despite the impact of fuel prices, we’re encouraged by the strong performance on our international routes in terms of revenue generation, increased passenger numbers and higher Yield as we continue to invest in growth opportunities in the region.”

### ***Tigerair Australia***

Tigerair reported significant improvement in EBITDA of 135.3 per cent despite \$12.7 million in fuel and foreign exchange headwinds. The business achieved a 14.2 per cent improvement in Yield and 13.0 per cent improvement in RASK performance compared to the prior corresponding period.

Segment EBIT of negative \$8.0 million was impacted by the accelerated depreciation costs from Tigerair's fleet transition from A320 aircraft to a Boeing B737 fleet. This program is progressing and will move Tigerair to a single Boeing 737 platform supported by Virgin Australia's maintenance capability to improve future fleet performance. An 11.5 per cent reduction in capacity impacted favourably on EBIT performance.

Mr Borghetti said: "We are restructuring the business, improving fleet utilisation and demonstrating a disciplined approach to capacity management. We are managing the fleet transition program in a prudent manner, weighing up lease end dates and opportunities for early aircraft exits where possible to optimise the transition process. During this transition period, we are very pleased that Tigerair has delivered strong unit revenue growth."

### ***Velocity Frequent Flyer***

Velocity Frequent Flyer continued to demonstrate its position as one of the region's leading loyalty programs, delivering 347,265 new memberships in the six-month period and its highest ever redemption levels for rewards.

The Velocity business drove increases in top-line revenue and key underlying earnings metrics. Total revenue increased by 9.2 per cent to \$208.9 million and EBIT increased by 5.0 per cent to \$59.0 million. The business continued to demonstrate a strong EBIT margin, reporting a margin of 28.2 per cent.

Investment during the six months to 31 December focused on technology-driven benefits for members, with the expansion of Velocity's digital platform through the launch of the new Velocity Frequent Flyer app, and website improvements to streamline processes for members.

Mr Borghetti said: "Velocity has a strong customer proposition demonstrated by an increase in the number of members and higher engagement. With nine and a half million members, we have one of the largest loyalty programs in the region. Notwithstanding the changes to the credit card interchange regime which impacted Velocity's FY18 result, the business is demonstrating it is now well-positioned for renewed growth, driven by a range of initiatives which will continue to strengthen the business."

### **Group Outlook FY19**

Based on current market conditions and forward domestic bookings, Group revenue in 3Q19 is expected to grow by at least 7 per cent on the prior corresponding quarter.

**ENDS**

## VIRGIN AUSTRALIA GROUP PRELIMINARY OPERATING STATISTICS

For the period 1 July to 31 December 2018<sup>2</sup>

		Operating Statistics		
		H1FY19	H1FY18	Change
VIRGIN AUSTRALIA GROUP	Revenue Passengers	12,903,008	12,652,582	2.0%
	Revenue Passenger Kilometres (millions)	20,968	20,209	3.8%
	Available Seat Kilometres (millions)	25,795	24,660	4.6%
	Revenue Load Factor	81.3%	81.9%	(0.6 pts)

		Operating Statistics		
		H1FY19	H1FY18	Change
VIRGIN AUSTRALIA DOMESTIC	Revenue Passengers	9,254,502	8,892,131	4.1%
	Revenue Passenger Kilometres (millions)	11,311	10,882	3.9%
	Available Seat Kilometres (millions)	13,837	13,430	3.0%
	Revenue Load Factor	81.7%	81.0%	0.7 pts

		Operating Statistics		
		H1FY19	H1FY18	Change
VIRGIN AUSTRALIA INTERNATIONAL	Revenue Passengers	1,431,239	1,322,642	8.2%
	Revenue Passenger Kilometres (millions)	7,035	6,353	10.7%
	Available Seat Kilometres (millions)	9,007	7,898	14.0%
	Revenue Load Factor	78.1%	80.4%	(2.3 pts)

		Operating Statistics		
		H1FY19	H1FY18	Change
TIGERAIR AUSTRALIA DOMESTIC	Revenue Passengers	2,217,267	2,437,809	(9.0%)
	Revenue Passenger Kilometres (millions)	2,622	2,974	(11.8%)
	Available Seat Kilometres (millions)	2,950	3,332	(11.5%)
	Revenue Load Factor	88.9%	89.3%	(0.4 pts)

<sup>2</sup> Operating statistics are issued on a preliminary basis and are subject to change. Any adjustments made will flow through to year to date results.

## DISCLAIMER

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

This document has not been audited or reviewed by KPMG; however, IFRS data has been derived from the Virgin Australia Holdings Limited Interim Financial Report for the half-year ended 31 December 2018 that has been reviewed by KPMG.

## DEFINITIONS

**On Time Performance:** Reflects data from Bureau of Infrastructure, Transport and Regional Economics (BITRE) about the percentage of all VA, TT, QF and JQ designated services flown in Australia from July 2018 to December 2018 inclusive that departed within 15 minutes of scheduled departure times.

**Underlying Profit Before Tax or UPBT<sup>3</sup>:** is a non-statutory measure that represents statutory profit before tax excluding the impact of gains on disposal of 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 Interim Financial Report. For the half-year ended 31 December 2018: nil. For the half-year ended 31 December 2017: gain of \$0.1 million.

**Time Value Movement on Cash Flow Hedges:** is a non-statutory measure that includes the following items outlined in Note 2 of the VAH Interim Financial Report. For the half-year ended 31 December 2018: loss of \$27.0 million. For the half-year ended 31 December 2017: loss of \$20.6 million.

**Underlying Earnings Before Interest, Tax, Depreciation, Amortisation and Aircraft Rentals or EBITDAR<sup>3</sup>:** is a non-statutory measure per Note 2 of the VAH Interim Financial Report for the half-year ended 31 December 2018. 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 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<sup>3</sup>:** is a non-statutory measure per Note 2 of the VAH Interim Financial Report for the half-year ended 31 December 2018. 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 Before Tax (as defined above) excluding the impact of depreciation, amortisation and net finance costs.

**Underlying Earnings Before Interest & Tax or EBIT<sup>3</sup>:** is a non-statutory measure per Note 2 of the VAH Interim Financial Report for the half-year ended 31 December 2018. 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 Before Tax (as defined above) excluding the impact of net finance costs.

**Underlying Earnings Before Interest & Tax Margin or EBIT Margin<sup>3,4</sup>:** is a non-statutory measure derived from Underlying Earnings Before Interest & Tax (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.

**RASK<sup>4</sup>:** is a non-statutory measure derived from segment revenue divided by Available Seat Kilometres (defined below) of the regular passenger transport businesses.

**Yield<sup>4</sup>:** 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.

**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.

**Financial Leverage<sup>3</sup>:** is a non-statutory measure and is defined as the ratio of Adjusted Net Debt (as defined below) to EBITDAR (as defined above).

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

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

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

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<sup>3</sup> The comparative has been restated to include Time Value Movement on Cash Flow Hedges within underlying earnings.

<sup>4</sup> The comparative has been restated to reflect the revised allocation of Virgin Australia Domestic revenue after excluding the effect of eliminations of inter-segment revenue.

presentation constitutes investment, legal, tax or other advice. You should make your own assessment and take independent professional advice in relation to the information contained in this document and any action taken on the basis of that information.

**ASIC guidance:** In December 2011, ASIC issued Regulatory Guide 230. In order to comply with this Guide, Virgin Australia Holdings Limited is required to make a clear statement about whether information disclosed in documents other than the Virgin Australia Holdings Limited Interim Financial Report for the half-year ended 31 December 2018 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 Virgin Australia Holdings Limited Interim Financial Report for the half-year ended 31 December 2018 which has been reviewed by KPMG.