ASX RELEASE

VIRGIN AUSTRALIA HOLDINGS LIMITED (ASX: VAH) 1H20 RESULTS[1]

Key points:

- Underlying Profit Before Tax of $14.5 million (pre-AASB 16) taking in higher fuel, enterprise agreements, airport and depreciation costs
- Record 1H revenue of $3,116.3 million (pre-AASB 16) and 2.5 per cent RASK growth
- Cash Balance of $1,107.6 million
- Further fleet reduction of seven aircraft by October 2020, making a total of 12 exits announced
- Group capacity reduction of three per cent for FY20
- Workforce reduction and supplier cost review on track for $125.0 million annualised savings
- Full ownership of profitable Velocity Frequent Flyer business
- Coronavirus response: short-term capacity reductions in significantly affected markets including Trans-Tasman and Cairns, significant reductions in Tigerair fleet and network

Summary of financial performance for the six months to 31 December 2019 (1H20):

	Post-AASB 16	**Pre-AASB 16**
Group Underlying Profit Before Tax	$24.5 million	$14.5 million
Group Statutory Loss After Tax	($88.6) million	($99.9) million
Group Revenue	$3,118.2 million	$3,116.3 million
Financial Leverage	5.2x	6.4x

26 February 2020: The Virgin Australia Group today announced its half year results for FY20 with changes to its fleet, network and capacity designed to accelerate cost reduction and improve financial performance.

For the six months to 31 December 2019, the Group reported an Underlying Profit Before Tax of $14.5 million (pre-AASB16). The result reflected the impact of higher costs for fuel ($40.0 million), enterprise agreement labour ($12.5 million), airports ($22.6 million), and depreciation and rental costs ($32.3 million).

The Group's Statutory Loss After Tax of $88.6 million (post-AASB 16) included one-off costs associated with the Velocity Frequent Flyer (Velocity) acquisition, write-offs of assets no longer in use and workforce reductions.

Despite soft market conditions, revenue grew by $46.8 million (pre-AASB 16) compared to the prior comparative period with 2.5 per cent RASK improvement.

In line with its focus on improving profitability and cashflow, the Group today announced further fleet simplification with the exit of seven aircraft which will cease flying by October 2020. These are in addition to five previously announced in November 2019 making a total of 12 exits. Further route and frequency changes will result in a Group capacity reduction of three per cent by the end of FY20.

A decision in February to withdraw from Sydney-Hong Kong followed ongoing challenges with the route, along with a decline in demand following prolonged civil unrest and uncertainty around the coronavirus outbreak.

These measures follow earlier changes announced in 2019, including a new organisational structure, workforce reduction, supplier review and other network changes.

Strategic investment in the Group's future continued with the acquisition of the remaining ~35 per cent stake in the expanded and profitable Velocity business in November. Velocity grew EBIT to $68.9 million for the six months to 31 December 2019.

[1] Virgin Australia Group has implemented AASB 16 Leases from 1 July 2019 using the modified retrospective approach. Under this approach, prior year comparative information has not been restated. Year on year changes and commentary have been based on pre-AASB 16 information ("pre-AASB 16") to allow for comparison.

Media Line 1800 142 467 or +61 7 3333 9666
Virgin Australia Holdings Limited ABN 54 100 686 226
56 Edmondstone Road, Bowen Hills QLD 4006

The Cash Balance was $1,107.6 million. The Group remains focused on cashflow improvement with no new aircraft deliveries planned until July 2021 due to the recent Boeing 737 MAX deferral and no significant debt maturities prior to October 2021.

Adjusted Net Debt increased to $5,050.4 million primarily due to debt raised for the acquisition of the remaining stake in Velocity. Financial Leverage rose to 6.4 times (pre-AASB 16).

CEO commentary

Virgin Australia Group CEO and Managing Director Paul Scurrah said: “While the half year has seen us grow revenue and passenger numbers along with strong RASK improvement, we are still in the early stages of transitioning our business to a lower cost base. Therefore, the benefits of cost changes and further revenue efficiency have yet to be realised.

“We are progressing well on the review of our suppliers and agreements, right-sizing our workforce and making changes to our fleet and network. Today’s announcements regarding capacity reductions and simplification of our fleet and network are additional steps forward and will all help to mitigate challenging market conditions and improve our financial performance.

“There’s further work to do on costs and we will continue to review the network and our capacity in line with demand.

“Taking back full ownership of our growing loyalty business, Velocity, was an important highlight this financial year. We will now retain 100 per cent of its strong cashflow and capture significant synergies bringing it fully under the Group. Velocity delivered earnings of $68.9 million which was an improvement on the prior half-year.

“We’ve made these changes while continuing to deliver an excellent experience for our customers. Our Net Promoter Score is at its highest levels in four years. We also remained the leader in on time performance, with Virgin Australia achieving the highest on time arrivals and departures, and lowest cancellation rate, of any major Australian airline for the six months to 31 December.”

Coronavirus response and commentary

Consistent with the reported impact on the broader aviation market, the Group is seeing weakened demand across international and domestic markets due to coronavirus. There has been an increase in cancellations and reduction in forward bookings, largely for leisure destinations and Tigerair routes.

The Group’s capacity and cost base reductions announced today form part of its mitigation strategy, which include reduced short-term capacity into significantly affected markets such as Cairns and the Trans-Tasman.

“The coronavirus outbreak is having a significant effect on the travel industry and we are also seeing weaker domestic and international demand,” said Mr Scurrah.

“We are responding to this with immediate steps to minimise impact to the Group’s financial position. Today, we announced a number of network and capacity changes that address markets most affected, particularly Tigerair. Our team is keeping a close eye on intakes and we’ll continue to respond accordingly as conditions evolve.”

Strategic changes and cost measures

The Group announced a number of strategic changes and cost measures during the six months to 31 December 2019 and outlined additional changes today.

Media Line 1800 142 467 or +61 7 3333 9666
Virgin Australia Holdings Limited ABN 54 100 686 226
56 Edmondstone Road, Bowen Hills QLD 4006

Fleet changes

The Group will further reduce its fleet size by accelerating the exit of seven A320 aircraft from the Tigerair fleet, which will cease flying by October 2020. This is in addition to the two A320 exits announced in November 2019. Two Boeing 737 aircraft will be transferred from Virgin Australia International's short-haul network into the Tigerair fleet.

The accelerated exit of A320 aircraft completes Tigerair's fleet simplification program, providing a single fleet type across the Group's full service and low-cost carrier operations to further reduce costs and support Tigerair performance.

These fleet changes are in addition to three Fokker 100 exits announced in November 2019. A total of 12 aircraft exits have been announced since November 2019.

Network changes

Group capacity will be reduced by three per cent in 2H20 in line with the Group's focus on profitable flying and in response to market conditions. The fleet reduction initiative is equivalent to approximately a five per cent Group capacity reduction in FY21.

This involves the withdrawal of five unprofitable Tigerair routes and a consolidation of domestic network frequencies on a number of existing routes where demand has been impacted. Virgin Australia's Melbourne-Hong Kong services ended 11 February 2020 and Sydney-Hong Kong services will cease operating from 2 March 2020.

Progress of workforce reduction and supplier review

The Group's workforce reduction program remains on track to remove 750 roles from the business and annualised savings of $75.0 million by the end of FY20. A full review of suppliers and contracts also remains on track for a target of $50.0 million in annualised cost savings by the end of FY20.

Acquisition of remaining stake in Velocity

The Group acquired the remaining ~35 per cent stake in Velocity in November and will now retain 100 per cent distribution of net income and cashflow from the program. The loyalty program has experienced strong growth in recent years and continued to generate strong cashflow. $20 million in synergies are expected.

Continued delivery of customer experience

Virgin Australia achieved its highest first half Net Promoter Score in four years for 1H20. The airline implemented real time, daily customer satisfaction feedback across its post-flight and post-contact centre calls to further improve customer experience. Further enhancements to the customer experience will continue to be rolled out over the coming six months.

Segment performance[2]

Virgin Australia Domestic and Velocity remain the key source of earnings for the Group at a segment level. Virgin Australia Domestic recorded EBIT of $112.9 million and Velocity grew EBIT to $68.9 million for the period.

Virgin Australia International recorded an EBIT loss of $48.9 million compared to a loss of $15.2 million on the prior corresponding period, down $33.7 million with 1H20 being impacted by higher operating costs. International performance softened in the second quarter, particularly Hong Kong which was affected by continued challenging market conditions.

---

[2] Following modification of accounting presentation for unrealised Foreign Exchange, 1H19 numbers have been restated accordingly.

Tigerair Australia recorded EBIT of $2.0 million compared to a loss of $6.6 million in the prior corresponding period, up $8.6 million. Earnings performance was supported by RASK and Yield improvement compared to the prior corresponding period.

Implementation of AASB 16

As outlined in the FY19 results, the Virgin Australia Group has implemented AASB 16 from 1 July 2019 along with consequential impacts on its maintenance accounting policy. The cumulative impact of initially applying the standard is recognised as an adjustment to retained earnings at 1 July 2019.

Statutory results for 1H20 reflect the adoption of the new standard. In line with a modified retrospective approach, prior year comparatives have not been restated. Year on year changes and commentary are based on pre-AASB 16 information to allow for comparison.

Outlook

The coronavirus situation is currently expected to negatively impact Group earnings by $50-75 million in 2H20.

The Group currently expects revenue to remain flat for FY20 on the prior corresponding period.

ENDS

This announcement was authorised for release by the Virgin Australia Holdings Limited Board.

For further information please contact:

Media
Jace Armstrong
Senior Manager Public Affairs
M: 0481 420 765
E: publicaffairs@virginaustralia.com

Analysts/Investor Relations
Steven Fouracre
Group Treasurer
M: 0417 485 110
E: investor.relations@virginaustralia.com

26 February 2020

ASX RELEASE

VIRGIN AUSTRALIA GROUP PRELIMINARY OPERATING STATISTICS

For the period 1 July 2019 to 31 December 2019

		Operating Statistics		
		H1 FY20	H1 FY19	Change
VIRGIN AUSTRALIA GROUP	Revenue Passengers	13,333,803	13,062,921	2.1%
	Revenue Passenger Kilometres (millions)	21,513	20,968	2.6%
	Available Seat Kilometres (millions)	25,627	25,795	(0.7%)
	Revenue Load Factor	83.9%	81.3%	2.6 pts

		Operating Statistics		
		H1 FY20	H1 FY19	Change
VIRGIN AUSTRALIA DOMESTIC	Revenue Passengers	9,571,854	9,390,791	1.9%
	Revenue Passenger Kilometres (millions)	11,600	11,311	2.6%
	Available Seat Kilometres (millions)	13,762	13,837	(0.5%)
	Revenue Load Factor	84.3%	81.7%	2.6 pts

		Operating Statistics		
		H1 FY20	H1 FY19	Change
VIRGIN AUSTRALIA INTERNATIONAL	Revenue Passengers	1,560,893	1,454,863	7.3%
	Revenue Passenger Kilometres (millions)	7,316	7,035	4.0%
	Available Seat Kilometres (millions)	8,904	9,007	(1.1%)
	Revenue Load Factor	82.2%	78.1%	4.1 pts

		Operating Statistics		
		H1 FY20	H1 FY19	Change
TIGERAIR	Revenue Passengers	2,201,056	2,217,267	(0.7%)
	Revenue Passenger Kilometres (millions)	2,598	2,622	(0.9%)
	Available Seat Kilometres (millions)	2,961	2,950	0.4%
	Revenue Load Factor	87.7%	88.9%	(1.2 pts)

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 2019 that has been reviewed by KPMG.

DEFINITIONS

Underlying Profit/(Loss) Before Tax or UPBT: is a non-statutory measure that represents statutory profit/(loss) before tax excluding the impact of Business and Capital Restructure and Transaction Costs (as defined below); gain on disposal of assets; write off of property, plant and equipment; onerous contract expenses; net foreign exchange gain/(loss); and Unrealised 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.

Underlying Earnings Before Interest & Tax or EBIT: is a non-statutory measure per Note 2 of the VAH Interim Financial Report. 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.

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

Unrealised Ineffectiveness on Cash Flow Hedges: is a statutory measure as reported in Note 2 of the VAH Interim Financial Report.

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

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

Yield: is a non-statutory measure derived from segment revenue divided by Revenue Passenger Kilometres (defined above) 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.

Financial Leverage: is a non-statutory measure and is defined as the ratio of Adjusted Net Debt (as defined below) to EBITDAR. This is calculated excluding the impact of AASB16.

Adjusted Net Debt: is a non-statutory measure derived from Net Debt (as defined below) adding 7 times annual aircraft rentals. This is calculated excluding the impact of AASB16.

Net Debt: is a non-statutory measure derived from interest-bearing liabilities less cash and cash equivalents. This is calculated excluding the impact of AASB16.

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.

No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness, likelihood of achievement or reasonableness of any of the information, forward looking statements, opinions and estimates contained in this document. To the maximum extent permitted by law, none of the Virgin Australia Group, its directors, employees or agents, nor any other person accepts any liability for any loss arising from the use of the information contained in this document. Except as required by law and ASX Listing Rules, the Virgin Australia Group has no obligation to update publicly or otherwise revise any forward looking statement, opinion or estimate as a result of new information, future events or other factors. Nothing contained in this 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 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 Virgin Australia Holdings Limited Interim Financial Report for the half-year ended 31 December 2019 which has been reviewed by KPMG.

Media Line 1800 142 467 or +61 7 3333 9666
Virgin Australia Holdings Limited ABN 54 100 686 226
56 Edmondstone Road, Bowen Hills QLD 4006