Virgin Australia Holdings Limited

Appendix 4D and Interim Financial Report

For the half-year ended 31 December 2015

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

Contents

ASX Appendix 4D

For the half-year ended 31 December 2015

The results for announcement to the market for Virgin Australia Holdings Limited (VAH) (the Company) and its subsidiaries (the Group) and the Group's interest in associates and joint ventures for the period 1 July 2015 to 31 December 2015 and the comparative period 1 July 2014 to 31 December 2014 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 2015	31 December 2014	Change $m	Change %
Revenue and income	**2,658.2**	2,377.5	**280.7**	**11.8**
Statutory profit/(loss) after tax	**62.5**	(47.8)	**110.3**	**230.8**
Statutory profit/(loss) after tax attributable to owners of the Company	**45.7**	(53.1)	**98.8**	**186.1**

Dividends

No dividends were declared or paid in relation to the half-year ended 31 December 2015 or the prior corresponding period.

Equity distributions of $16.0 million (2014: $11.8 million) were paid to non-controlling interests during the period.

Net tangible assets

	31 December 2015 $	30 June 2015 $
Net assets attributable to owners of the Company	**982.0**	1,076.6
Net tangible assets attributable to owners of the Company	**430.0**	519.7
Ordinary shares	**3,522.5**	3,517.7
Net assets attributable to owners of the Company per ordinary share	**0.28**	0.31
Net tangible assets attributable to owners of the Company per ordinary share	**0.12**	0.15

Details of associates and joint venture entities

	Percentage of ownership interest held		Share of net profit/(loss)	
Entity	**31 December 2015 %**	**31 December 2014 %**	**31 December 2015 $m**	**31 December 2014 $m**
Virgin Samoa Limited	**49**	49	**0.3**	-
Tiger Airways Australia Pty Limited[(1)]	**-**	-	**-**	(15.8)

(1) On 16 October 2014 the Group acquired the remaining 40% of Tiger Airways Australia Pty Limited. The contribution to net loss for the comparative period is the equity-accounted result from 1 July 2014 to 16 October 2014.

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 and joint ventures, for the half-year ended 31 December 2015 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	Independent Non-Executive Chairman	Current, appointed as a Director 20 May 2015 Current, appointed as Chairman 20 May 2015
Mr John Borghetti	Managing Director and Chief Executive Officer	Current, appointed 8 May 2010
Mr David Baxby	Independent Non-Executive Director	Current, appointed 30 September 2004
Mr Joshua Bayliss	Non-Executive Director	Ceased 22 September 2015
Mr Christopher Luxon	Non-Executive Director	Current, appointed 4 July 2014
Mr Bruno Matheu	Non-Executive Director	Current, appointed 18 February 2015
Mr John Patrick (JP) Moorhead	Non-Executive Director	Current, appointed 22 September 2015
Ms Samantha Mostyn	Independent Non-Executive Director	Current, appointed 1 September 2010
Mr Goh Choon Phong	Non-Executive Director	Ceased 1 January 2016
Mr Marvin Tan	Non-Executive Director	Current, appointed 1 January 2016
Mr Robert Thomas	Independent Non-Executive Director	Current, appointed 8 September 2006
The Hon. Mark Vaile AO	Independent Non-Executive Director	Current, appointed 22 September 2008
Mr Ulf Huttmeyer	Alternate Director	Current, appointed 18 February 2015 for Mr Bruno Matheu
Mr Robert McDonald	Alternate Director	Current, appointed 1 September 2014 for Mr Christopher Luxon
Mr John Patrick (JP) Moorhead	Alternate Director	Ceased 22 September 2015 for Mr Joshua Bayliss
Mr Marvin Tan	Alternate Director	Ceased 1 January 2016 for Mr Goh Choon Phong
Mr Tan Pee Teck	Alternate Director	Current, appointed 1 January 2016 for Mr Marvin Tan

2. Review of operations

Net profit after income tax attributable to the owners of $45.7 million for the half-year ended 31 December 2015 represents an improvement from a $53.1 million net loss after income tax attributable to owners in the prior corresponding half-year ended 31 December 2014.

Revenue and income increased 11.8 per cent from $2,377.5 million in the prior corresponding half-year ended 31 December 2014 to $2,658.2 million for the half-year ended 31 December 2015.

Net operating expenditure increased 7.8 per cent from $2,379.1 million in the prior corresponding half-year ended 31 December 2014 to $2,565.4 million for the half-year ended 31 December 2015.

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 for the half-year ended 31 December 2015.

4. Rounding off

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the consolidated interim financial statements and Directors' report have been rounded off to the nearest one hundred thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors:

Elizabeth Bryan
Director
Sydney
10 February 2016

John Borghetti
Director
Sydney
10 February 2016

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 for the half-year ended 31 December 2015 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

KPMG

John Wigglesworth
Partner
Sydney
10 February 2016

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated statement of profit or loss

For the half-year ended 31 December 2015

	Note	Half-year to 31 December 2015 $m	Half-year to 31 December 2014 $m
Revenue and income			
Airline passenger revenue		**2,232.9**	2,025.4
Other ancillary revenue		**399.2**	334.5
Other income		**11.4**	8.5
Net foreign exchange gains		**14.7**	9.1
Revenue and income		**2,658.2**	2,377.5
Operating expenditure			
Aircraft operating lease expenses		**(183.0)**	(150.2)
Airport charges, navigation and station operations		**(495.6)**	(441.1)
Contract and other maintenance expenses		**(89.8)**	(84.8)
Commissions and other marketing and reservations expenses		**(201.9)**	(148.0)
Fuel and oil		**(561.1)**	(614.2)
Labour and staff related expenses		**(597.2)**	(546.2)
Impairment losses on assets classified as held for sale	3(a)	**(37.5)**	-
Other expenses from ordinary activities		**(252.2)**	(235.3)
Depreciation and amortisation		**(137.9)**	(146.3)
Ineffective cash flow hedges and non-designated derivatives losses		**(9.2)**	(13.0)
Net operating expenditure		**(2,565.4)**	(2,379.1)
Share of net profits/(losses) of equity-accounted investees		**0.3**	(15.8)
Profit/(loss) before related income tax benefit and net finance costs		**93.1**	(17.4)
Finance income		**5.8**	14.5
Finance costs		**(85.7)**	(58.6)
Net finance costs		**(79.9)**	(44.1)
Profit/(loss) before income tax benefit		**13.2**	(61.5)
Income tax benefit	2(b)	**49.3**	13.7
Net profit/(loss) for the period		**62.5**	(47.8)
Attributable to:			
Owners of the Company		**45.7**	(53.1)
Non-controlling interests		**16.8**	5.3
		62.5	(47.8)

	Cents	Cents
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:		
Basic earnings per share	**1.3**	(1.5)
Diluted earnings per share	**1.3**	(1.5)

The above consolidated statement of profit or loss is to be read in conjunction with the accompanying condensed notes to the consolidated interim financial statements.

Consolidated statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2015

	Half-year to 31 December 2015 $m	Half-year to 31 December 2014 $m
Profit/(loss) for the period	**62.5**	(47.8)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**(50.7)**	(119.6)
Effective portion of changes in fair value of cash flow hedges	**(129.7)**	(108.8)
Net change in fair value of cash flow hedges transferred to profit or loss	**43.6**	13.7
Effective portion of changes in fair value of cash flow hedges (time value of options)	**(44.8)**	(25.6)
Net change in fair value of cash flow hedges transferred to profit or loss (time value of options)	**10.9**	3.0
Income tax benefit on other comprehensive income	**36.0**	35.3
Other comprehensive loss for the period, net of income tax	**(134.7)**	(202.0)
Total comprehensive loss	**(72.2)**	(249.8)
Attributable to:		
Owners of the Company	**(89.0)**	(255.1)
Non-controlling interests	**16.8**	5.3
Total comprehensive loss	**(72.2)**	(249.8)

The above consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying condensed notes to the consolidated interim financial statements.

Consolidated statement of financial position

As at 31 December 2015

	Note	As at 31 December 2015 $m	As at 30 June 2015 $m
Current assets			
Cash and cash equivalents		**906.7**	1,028.5
Trade and other receivables		**333.7**	304.8
Inventories		**39.3**	41.1
Derivative financial instruments		**31.9**	43.6
Other financial assets		**44.1**	67.7
Other current assets		**4.7**	4.7
Current tax assets		**1.0**	0.2
Assets classified as held for sale	3(a)	**195.0**	95.4
Total current assets		**1,556.4**	1,586.0
Non-current assets			
Derivative financial instruments		**0.9**	6.9
Other financial assets		**366.3**	291.3
Investments accounted for using the equity method		**3.7**	6.6
Deferred tax assets		**295.4**	216.6
Property, plant and equipment	3(a)	**3,028.4**	3,081.9
Intangible assets	3(b)	**574.0**	564.3
Other non-current assets		**23.6**	26.0
Total non-current assets		**4,292.3**	4,193.6
Total assets		**5,848.7**	5,779.6
Current liabilities			
Trade and other payables		**611.1**	701.5
Interest-bearing liabilities	4(a)	**626.2**	440.3
Derivative financial instruments		**114.3**	45.6
Provisions		**148.4**	172.8
Unearned revenue		**860.1**	939.3
Other current liabilities		**0.4**	0.3
Total current liabilities		**2,360.5**	2,299.8
Non-current liabilities			
Trade and other payables		**8.1**	6.3
Interest-bearing liabilities	4(a)	**2,386.6**	2,321.9
Derivative financial instruments		**10.5**	-
Provisions		**142.8**	122.4
Unearned revenue		-	2.0
Other non-current liabilities		**6.2**	6.4
Total non-current liabilities		**2,554.2**	2,459.0
Total liabilities		**4,914.7**	4,758.8
Net assets		**934.0**	1,020.8
Equity			
Share capital	4(b)	**1,155.0**	1,152.9
Reserves		**34.9**	177.3
Retained losses		**(207.9)**	(253.6)
Equity attributable to the owners of the Company		**982.0**	1,076.6
Non-controlling interests		**(48.0)**	(55.8)
Total equity		**934.0**	1,020.8

The above consolidated statement of financial position is to be read in conjunction with the accompanying condensed notes to the consolidated interim financial statements.

Consolidated statement of changes in equity

For the half-year ended 31 December 2015

	Share capital $m	Foreign currency translation reserve $m	Hedging reserve $m	Option time value reserve $m	Share-based payments reserve $m	Non-controlling interests contribution reserve[2] $m	Retained profits/ (losses) $m	Attributable to owners of the Company $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2015	1,152.9	(133.0)	(4.7)	(10.4)	17.9	307.5	(253.6)	1,076.6	(55.8)	1,020.8
Profit for the period	-	-	-	-	-	-	45.7	45.7	16.8	62.5
Other comprehensive income[1]										
Foreign currency translation differences	-	(50.7)	-	-	-	-	-	(50.7)	-	(50.7)
Effective portion of changes in fair value of cash flow hedges	-	-	(90.8)	(31.3)	-	-	-	(122.1)	-	(122.1)
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	30.5	7.6	-	-	-	38.1	-	38.1
Total other comprehensive income/(loss)	-	(50.7)	(60.3)	(23.7)	-	-	-	(134.7)	-	(134.7)
Total comprehensive income/(loss) for the period	-	(50.7)	(60.3)	(23.7)	-	-	45.7	(89.0)	16.8	(72.2)
Transactions with owners, recorded directly in equity[1]										
Dilution of ownership interests[3]	-	-	-	-	-	-	-	-	(0.3)	(0.3)
Income tax reserve	-	-	-	-	-	(7.3)	-	(7.3)	7.3	-
Equity distributions	-	-	-	-	-	-	-	-	(16.0)	(16.0)
Share-based payment transactions	2.1	-	-	-	(0.4)	-	-	1.7	-	1.7
Total transactions with owners	2.1	-	-	-	(0.4)	(7.3)	-	(5.6)	(9.0)	(14.6)
Balance at 31 December 2015	1,155.0	(183.7)	(65.0)	(34.1)	17.5	300.2	(207.9)	982.0	(48.0)	934.0

(1) Amounts recognised are disclosed net of income tax (where applicable).

(2) 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.

(3) Velocity Frequent Flyer Holdco Pty Ltd issued convertible notes during the period as partial consideration for the acquisition of Torque Solutions (Australia) Pty Ltd. This reduced the ownership interest of the Group in Velocity Frequent Flyer Holdco Pty Ltd from 65.00% to 64.81%. Refer to note 5(b).

The above consolidated statement of changes in equity is to be read in conjunction with the accompanying condensed notes to the consolidated interim financial statements.

Consolidated statement of changes in equity (continued)

For the half-year ended 31 December 2015

	Share capital $m	Foreign currency translation reserve $m	Hedging reserve $m	Option time value reserve $m	Share-based payments reserve $m	Non-controlling interests contribution reserve[2] $m	Retained profits/ (losses) $m	Attributable to owners of the Company $m	Non-controlling interests $m	Total equity $m
Balance at 1 July 2014	1,147.3	36.6	(11.8)	-	19.5	-	(143.5)	1,048.1	-	1,048.1
Impact of early adopted accounting policy	-	-	-	(0.7)	-	-	0.7	-	-	-
Restated balance at 1 July 2014	1,147.3	36.6	(11.8)	(0.7)	19.5	-	(142.8)	1,048.1	-	1,048.1
(Loss)/profit for the period	-	-	-	-	-	-	(53.1)	(53.1)	5.3	(47.8)
Other comprehensive income[1]										-
Foreign currency translation differences	-	(119.6)	-	-	-	-	-	(119.6)	-	(119.6)
Effective portion of changes in fair value of cash flow hedges	-	-	(76.2)	(17.9)	-	-	-	(94.1)	-	(94.1)
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	9.6	2.1	-	-	-	11.7	-	11.7
Total other comprehensive income/(loss)	-	(119.6)	(66.6)	(15.8)	-	-	-	(202.0)	-	(202.0)
Total comprehensive income/(loss) for the period	-	(119.6)	(66.6)	(15.8)	-	-	(53.1)	(255.1)	5.3	(249.8)
Transactions with owners, recorded directly in equity[1]										
Sale of interest in Velocity Group	-	-	-	-	-	317.1	-	317.1	13.3	330.4
Equity distributions	-	-	-	-	-	-	-	-	(11.8)	(11.8)
Share-based payment transactions	5.5	-	-	-	(3.3)	-	-	2.2	-	2.2
Total transactions with owners	5.5	-	-	-	(3.3)	317.1	-	319.3	1.5	320.8
Balance at 31 December 2014	1,152.8	(83.0)	(78.4)	(16.5)	16.2	317.1	(195.9)	1,112.3	6.8	1,119.1

(1) Amounts recognised are disclosed net of income tax (where applicable).

(2) 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.

The above consolidated statement of changes in equity is to be read in conjunction with the accompanying condensed notes to the consolidated interim financial statements.

Consolidated statement of cash flows

For the half-year ended 31 December 2015

	Note	Half-year to 31 December 2015 $m	Half-year to 31 December 2014 $m
Cash flows from operating activities			
Cash receipts from customers		**2,848.8**	2,567.5
Cash payments to suppliers and employees		**(2,750.6)**	(2,434.0)
Cash generated from operating activities		**98.2**	133.5
Cash payments for business transformation expenses		**(23.5)**	(35.2)
Finance costs paid		**(69.8)**	(46.1)
Finance income received		**5.3**	12.6
Net cash from operating activities		**10.2**	64.8
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(527.4)**	(267.5)
Proceeds on disposal of property, plant and equipment		**305.1**	0.2
Acquisition of intangible assets		**(9.5)**	(34.5)
Acquisition of subsidiary, net of cash acquired	5(b)	**(2.3)**	3.1
Advances of loans to joint venture		**-**	(23.8)
Proceeds from loans to joint venture		**-**	8.2
Payments for other deposits		**(30.1)**	(25.5)
Proceeds from other deposits		**1.4**	0.1
Net cash used in investing activities		**(262.8)**	(339.7)
Cash flows from financing activities			
Proceeds from borrowings		**448.3**	593.2
Repayment of borrowings		**(306.3)**	(326.3)
Payments of transaction costs related to borrowings		**(6.4)**	(16.9)
Equity distributions paid to non-controlling interests		**(16.0)**	(11.8)
Repayments of loans from associate		**-**	(4.2)
Proceeds from non-controlling interests		**-**	336.0
Payment of transaction costs relating to non-controlling interests		**-**	(8.2)
Net cash from financing activities		**119.6**	561.8
Net increase/(decrease) in cash and cash equivalents		**(133.0)**	286.9
Cash and cash equivalents at 1 July		**1,028.5**	783.8
Effect of exchange rate fluctuations on cash held		**11.2**	29.0
Cash and cash equivalents at 31 December		**906.7**	1,099.7

The above consolidated statement of cash flows is to be read in conjunction with the accompanying condensed notes to the consolidated interim financial statements

Condensed notes to the consolidated interim financial statements

For the half-year ended 31 December 2015

1. Basis of preparation

Virgin Australia Holdings Limited (VAH) (the Company) is a for-profit company domiciled in Australia. It is primarily involved in the airline industry, both domestic and international. The consolidated interim financial statements for the half-year ended 31 December 2015 comprise the Company and its subsidiaries (the Group) and the Group's interest in associates and joint ventures.

The consolidated interim financial statements were approved by the Board of Directors on 10 February 2016.

(a) 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 of the information required for full annual financial statements, and should be read in conjunction with the consolidated annual financial statements of the Group as at and for the year ended 30 June 2015. The consolidated annual financial statements of the Group as at and for the year ended 30 June 2015 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 Group. They 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 Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the consolidated interim financial statements have been rounded off to the nearest one hundred thousand dollars, unless otherwise stated.

(b) Significant accounting policies and use of judgements and estimates

The accounting policies applied by the Group in the consolidated interim financial statements are the same as those applied to the consolidated annual financial statements as at and for the year ended 30 June 2015.

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. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those applied to the consolidated annual financial statements as at and for the year ended 30 June 2015.

(c) Net current liability position

The Group's current liabilities exceed its current assets for the half-year ended 31 December 2015 by $804.1 million (30 June 2015: $713.8 million) including a current liability for unearned revenue of $860.1 million (30 June 2015: $939.3 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 profitable trading and positive operating cash flows in the current period and forecast profits and positive operating cash flows in future periods. The Group has a balance of cash and cash equivalents of $906.7 million (30 June 2015: $1,028.5 million) and has an unrestricted cash balance of $543.7 million (30 June 2015: $718.9 million).

2. Results for the half-year

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 with the Group.

The following summary describes the operations in each of the Group's reportable segments:

- Virgin Australia Domestic: operations using the fleet of Boeing B737 aircraft, Airbus A320 and A330 aircraft, ATR aircraft, Embraer E190 aircraft, and Fokker F50 and F100 aircraft. This comprises Australian domestic flying, including regional network operations.
- Virgin Australia International: operations using a mix of Boeing B777 aircraft and B737 aircraft. This comprises Trans-Pacific, Abu Dhabi, Trans-Tasman, Pacific Island and South East Asia flying.
- Velocity: operations of the airline's loyalty program.
- Tigerair Australia: operations using a narrow body fleet of A320 aircraft. This comprises Australian domestic flying targeting the budget leisure market.

Information regarding the results of each operating segment is detailed in the tables which follow. Performance is measured based on Segment EBIT (earnings before net gain/(loss) on disposal of assets; impairment losses on assets classified as held for sale; business and capital restructure and transaction costs; share of net profits/(losses) of equity-accounted investees; unrealised ineffectiveness on cash flow hedges and non-designated derivatives; time value movement on cash flow hedges; net finance costs and income tax benefit) as included in the internal management reports that are reviewed by the chief operating decision maker.

Segment EBITDAR is defined as Segment EBIT excluding costs associated with aircraft rentals and depreciation and amortisation costs allocated to the Group's reportable segments.

Inter-segment pricing is determined on an arms-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.

As noted in the consolidated annual financial statements, management re-assessed the Group's operating segments subsequent to the 31 December 2014 half-year period. As a result, the comparative figures for 31 December 2014 have been restated in the tables which follow.

2. Results for the half-year (continued)

(a) Operating segments (continued)

2015	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	1,695.1	567.0	154.8	243.8	(2.5)	2,658.2
Inter-segment revenue	123.7	-	-	-	(123.7)	-
Segment revenue and income	1,818.8	567.0	154.8	243.8	(126.2)	2,658.2
Segment EBITDAR	310.3	85.8	71.6	37.1	(22.5)	482.3
Aircraft rentals	(58.6)	(103.0)	-	(21.4)	-	(183.0)
Segment EBITDA	251.7	(17.2)	71.6	15.7	(22.5)	299.3
Depreciation and amortisation	(121.7)	(13.6)	(0.8)	(1.8)	-	(137.9)
Segment EBIT	130.0	(30.8)	70.8	13.9	(22.5)	161.4
Impairment losses on assets classified as held for sale						(37.5)
Net loss on disposal of assets						(1.2)
Business and capital restructure and transaction costs						(20.7)
Share of net profits/(losses) of equity-accounted investees:						
– Virgin Samoa						0.3
Time value movement on cash flow hedges[1][2]						(11.0)
Unrealised ineffectiveness on cash flow hedges and non-designated derivatives[1]						1.8
						93.1
Net finance costs						(79.9)
Profit before related income tax benefit						13.2
Income tax benefit						49.3
Profit for the period						62.5

(1) The addition of these two items reconcile to total ineffective cash flow hedges and non-designated derivatives losses included within operating expenditure as disclosed in the consolidated statement of profit or loss.

(2) Time value represents the risk premium payable on a purchased option over and above its current exercise value (intrinsic value) based on the probability it will increase in value before expiry.

2. Results for the half-year (continued)

(a) Operating segments (continued)

2014 (restated)	Virgin Australia Domestic $m	Virgin Australia International $m	Velocity $m	Tigerair Australia[1] $m	Corporate and eliminations $m	Consolidated $m
Revenue and income						
External revenue and income	1,610.6	568.8	122.6	75.5	-	2,377.5
Inter-segment revenue	103.7	-	-	-	(103.7)	-
Segment revenue and income	1,714.3	568.8	122.6	75.5	(103.7)	2,377.5
Segment EBITDAR	251.4	66.1	46.1	9.9	(22.7)	350.8
Aircraft rentals	(58.6)	(83.6)	-	(8.0)	-	(150.2)
Segment EBITDA	192.8	(17.5)	46.1	1.9	(22.7)	200.6
Depreciation and amortisation	(123.1)	(22.0)	(0.9)	(0.3)	-	(146.3)
Segment EBIT	69.7	(39.5)	45.2	1.6	(22.7)	54.3
Net loss on disposal of assets						(7.3)
Business and capital restructure and transaction costs						(35.6)
Share of net profits/(losses) of equity-accounted investees:						
– Tigerair Australia						(15.8)
– Virgin Samoa						-
Time value movement on cash flow hedges[2][3]						(3.2)
Unrealised ineffectiveness on cash flow hedges and non-designated derivatives[2]						(9.8)
						(17.4)
Net finance costs						(44.1)
Loss before related income tax benefit						(61.5)
Income tax benefit						13.7
Loss for the period						(47.8)

(1) The Tigerair Australia segment information relates to the period from which Tigerair Australia was consolidated being from 17 October 2014.

(2) The addition of these two items reconcile to total ineffective cash flow hedges and non-designated derivatives losses included within operating expenditure as disclosed in the consolidated statement of profit or loss.

(3) Time value represents the risk premium payable on a purchased option over and above its current exercise value (intrinsic value) based on the probability it will increase in value before expiry.

2. Results for the half-year (continued)

(b) Income tax

A reconciliation of the tax benefit follows:

	Half-year to 31 December 2015 $m	Half-year to 31 December 2014 $m
Profit/(loss) before income tax benefit	**13.2**	(61.5)
Tax (expense)/benefit at the Australian tax rate of 30% (2014: 30%)	**(4.0)**	18.5
Tax effect of amounts which are not included in taxable income:		
- Tax losses not recognised[1]	**-**	(3.3)
- Amended tax assessment[2]	**38.5**	-
- Foreign currency losses	**12.7**	-
- Other non-deductible or non-assessable amounts	**2.1**	(1.5)
Income tax benefit	**49.3**	13.7

(1) VAH and its wholly-owned Australian controlled entities have formed a tax consolidated group. Tax losses relating to entities outside this group have not been recognised.

(2) The Australian Taxation Office (ATO) issued a private ruling that altered when participation fees received for the Group's loyalty program are recognised for tax purposes. The amended assessment will result in an income tax benefit of $38.5 million relating to taxable income attributable to periods preceding the statutory limit on tax return amendments.

3. Assets

(a) Property, plant and equipment

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

	31 December 2015 $m	31 December 2014 $m
Opening balance at 1 July 2015 (comparative: 1 July 2014)	**3,081.9**	2,702.4
Acquisition of Torque Solutions (Australia) Pty Ltd (refer note 5(b))	**0.1**	-
Acquisition of Tiger Airways Australia Pty Limited (refer note 5(a))	**-**	58.8
Other additions	**444.2**	243.4
Disposals	**(306.3)**	(7.5)
Depreciation	**(128.4)**	(130.9)
Impairment	**(37.5)**	-
Transfers[1]	**(99.6)**	4.8
Foreign exchange movements	**74.0**	90.6
Closing balance at 31 December 2015 (comparative: 31 December 2014)	**3,028.4**	2,961.6

(1) In accordance with the Group's fleet optimisation strategy, five Embraer 190 and eight Fokker 50 aircraft were transferred to assets classified as held for sale during the period. The assets are expected to be sold within 12 months. An impairment loss of $37.5 million was recognised to write the assets down to fair value less costs to sell. In the comparative period, assets were transferred from intangible assets to property, plant and equipment.

(b) Intangible assets

A reconciliation of the carrying value of intangible assets follows.

	31 December 2015 $m	31 December 2014 $m
Opening balance at 1 July 2015 (comparative: 1 July 2014)	**564.3**	362.3
Acquisition of Torque Solutions (Australia) Pty Ltd (refer note 5(b))	**4.9**	-
Acquisition of Tiger Airways Australia Pty Limited (refer note 5(a))	**(8.5)**	111.9
Other additions	**22.8**	34.9
Disposals	**-**	-
Amortisation	**(9.5)**	(15.4)
Transfers	**-**	(4.8)
Closing balance at 31 December 2015 (comparative: 31 December 2014)	**574.0**	488.9

4. Capital structure

(a) Interest-bearing liabilities

	31 December 2015 $m	30 June 2015 $m
Current		
Loans (aeronautic finance facilities) – secured[1]	**363.9**	384.5
Loans (bank) – secured[1]	**228.1**	21.7
Loans (bank) – unsecured[1]	**32.1**	32.4
Finance lease liabilities	**2.1**	1.7
Total current interest-bearing liabilities	**626.2**	440.3
Non-current		
Loans (aeronautic finance facilities) – secured[1]	**1,600.7**	1,692.6
Loans (bank) – secured[1]	**217.1**	216.1
Loans (bank) – unsecured[1]	**542.8**	386.6
Finance lease liabilities	**26.0**	26.6
Total non-current interest-bearing liabilities	**2,386.6**	2,321.9

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

The nature of interest-bearing liabilities are consistent with those disclosed at 30 June 2015 apart from the changes outlined below:

(i) Loans (bank) - secured

During the half-year ended 31 December 2015, the Group entered into a facility for US$125.0 million. The facility is secured against the Group's assets not otherwise pledged as security.

(ii) Loans (bank) - unsecured

During the half-year ended 31 December 2015, the Group issued US$100.0 million of bonds to investors in the US Bond Market. The bonds have a four year term, maturing on 15 November 2019. The interest rate is fixed at 8.5% per annum with interest payments due semi-annually. The bond issue has provided the Group with additional US dollar liquidity coverage and has diversified the Group's funding mix.

(b) Share capital

	Number of shares (m)	
	31 December 2015	31 December 2014
Opening balance at 1 July 2015 (comparative: 1 July 2014)	**3,517.7**	3,503.3
Issue of shares by Key Employee Performance Plan (KEPP)	**1.8**	4.3
Issue of shares for executive remuneration	**3.0**	10.1
Closing balance at 31 December 2015 (comparative: 31 December 2014)	**3,522.5**	3,517.7

(c) Equity distributions

No dividends were declared or paid in relation to the half-year ended 31 December 2015 or the prior corresponding period. Equity distributions of $16.0 million (31 December 2014: $11.8 million) were paid to non-controlling interests during the period.

5. Group structure

(a) Acquisition of Tiger Airways Australia Pty Limited

The acquisition of Tiger Airways Australia Pty Limited (Tigerair) was reported in the 30 June 2015 consolidated annual financial statements on a provisional basis. Since 30 June 2015, the Group has finalised its assessment of the fair value of the assets acquired and liabilities assumed. The following table summarises the changes to the net liabilities assumed since those reported in the 30 June 2015 consolidated annual financial statements.

	$m
Provisional net liabilities assumed recognised as at 30 June 2015	(100.4)
Adjustment to financial assets recognised	28.7
Adjustment to provisions recognised	(20.2)
Net liabilities assumed	(91.9)

As a result of these changes, the goodwill arising from the acquisition has been revised to $152.8 million (30 June 2015: $161.3 million).

(b) Acquisition of Torque Solutions (Australia) Pty Ltd

On 1 July 2015, the Group acquired 100% of the shares and voting interests in Torque Solutions (Australia) Pty Ltd (Torque) for $4.8 million, comprising cash and convertible notes. The net cash outflow was $2.3 million. The acquisition was aimed at supporting and diversifying the Velocity business portfolio.

Torque was established in 2001 and provides data, predictive analytics and marketing automation services. It has clients across a number of different industries, including banking, retail, telecommunications, travel and leisure. Torque has developed a bespoke predictive modelling capability to help clients optimise their media expenditure and improve the effectiveness of their sales channels.

From the date of acquisition on 1 July 2015, Torque has contributed revenue of $1.4 million and a net loss after tax of $0.2 million to the Group's results for the half-year ended 31 December 2015.

The Group is still finalising its assessment of the fair value of the assets acquired and liabilities assumed at acquisition date. The Group has provisionally recognised net assets acquired of $0.5 million and goodwill of $4.3 million. The final fair values will be reported in the 30 June 2016 consolidated annual financial statements.

6. Other items

(a) Financial instruments

The fair value of financial assets and liabilities is included at the amount which the Group would expect to receive upon selling an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. There have been no changes in the nature of financial assets and liabilities or changes to the way the Group measures fair value since 30 June 2015. Refer to the 30 June 2015 consolidated annual financial statements for further information. Except as detailed in the following table, the carrying amounts of financial assets and liabilities recognised in the consolidated interim financial statements approximate their fair values.

	31 December 2015		30 June 2015	
	Carrying value $m	Fair value $m	Carrying value $m	Fair value $m
Financial assets carried at fair value				
Derivative financial instruments	**32.8**	**32.8**	50.5	50.5
Financial liabilities carried at fair value				
Derivative financial instruments	**124.8**	**124.8**	45.6	45.6
Financial liabilities carried at amortised cost				
Loans (aeronautic finance facilities)	**1,964.6**	**2,260.4**	2,077.1	2,166.6
Secured syndicate facility	**384.2**	**396.6**	213.7	225.0
Unsecured bonds	**540.9**	**549.3**	385.0	407.1
Finance lease liabilities	**28.1**	**28.1**	28.3	28.3
Other financial liabilities	**95.0**	**95.0**	58.1	58.1

Financial instruments carried at fair value can be classified according to their valuation method. The different methods are defined as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The financial instruments disclosed in the table above are all measured based on level 2 valuation methods with the exception of certain loans in relation to aeronautic finance facilities which are measured based on level 1 valuation methods. The fair value of these loans is $775.3 million (2015: $850.8 million).

(b) Contingent liabilities and contingent assets

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. There were no aircraft facility guarantees at 31 December 2015 (30 June 2015: $272.9 million) as the guarantees issued in relation to Tigerair were extinguished during the period.

As at 31 December 2015, there were $120.9 million (30 June 2015: $127.3 million) of bank guarantees and letters of credit outstanding.

(c) Capital commitments

Commitments payable for the acquisition of property, plant and equipment, including aircraft and aeronautic-related assets, contracted for at the reporting date but not recognised as liabilities, total $4,454.3 million at 31 December 2015 (30 June 2015: $4,333.4 million).

(d) Related parties

There have been no significant changes to related party arrangements since 30 June 2015. Refer to the 30 June 2015 consolidated annual financial statements for further information.

(e) Subsequent events

There have been no significant events after the end of the reporting period.

Directors' declaration

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

(a) the consolidated interim financial statements and notes, set out on pages 7 to 21 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 2015 and of its performance, as represented by the results of its operations and its cash flows, 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
Sydney
10 February 2016

John Borghetti
Director
Sydney
10 February 2016

Independent auditor's review report to the members of Virgin Australia Holdings Limited

We have reviewed the accompanying interim financial report of Virgin Australia Holdings Limited, which comprises the consolidated statement of financial position as at 31 December 2015, 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 interim period ended on that date, notes 1 to 6 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the company 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* and 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

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 2015 and its performance for the interim period 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 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.

Independence

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

Conclusion

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:

(a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the interim period ended on that date; and

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

KPMG

KPMG

John Wigglesworth
Partner
Sydney
10 February 2016