Virgin Australia Holdings Limited

ASX Appendix 4E and Preliminary Final Report
For the year ended 30 June 2019

VIRGIN AUSTRALIA HOLDINGS LIMITED
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Contents

ASX Appendix 4E - Results for announcement to the market and other information	3
Consolidated statement of profit or loss	4
Consolidated statement of profit or loss and other comprehensive income	5
Consolidated statement of financial position	6
Consolidated statement of changes in equity	7
Consolidated statement of cash flows	9
Condensed notes to the preliminary final report	
1. Basis of preparation	
a. Statement of compliance	10
b. Significant accounting policies and use of judgements and estimates	10
c. Net current liability position	10
d. Change in significant accounting policy	10
e. Impact of new standards issued by not yet effective	13
2. Results	
a. Operating segments	14
b. Taxation	17
c. Expenses	17
3. Capital structure	
a. Interest-bearing liabilities	18
b. Dividends and equity distributions	18
4. Other items	
a. Investments accounted using the equity method	19
b. Contingent liabilities	19
c. Related parties	19
d. Subsequent events	19

ASX Appendix 4E – Results for announcement to the market and other information

For the year ended 30 June 2019

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 for the period 1 July 2018 to 30 June 2019 and the comparative period 1 July 2017 to 30 June 2018 are detailed below. A commentary on the results is contained in the Australian Stock Exchange (ASX) release.

Results for announcement to the market

	30 June 2019 $m	30 June 2018 $m	Change $m	Change %
Revenue and income	**5,827.1**	5,420.7	**406.4**	**7.5**
Statutory loss after tax	**(315.4)**	(653.3)	**337.9**	**51.7**
Statutory loss after tax attributable to owners of the Company	**(349.1)**	(681.0)	**331.9**	**48.7**

Dividends

No dividends were declared or paid during the year ended 30 June 2019 or during the prior corresponding year.

Equity distributions of $29.1 million (2018: $47.1 million) were paid to non-controlling interests during the year.

Net tangible assets

	30 June 2019	30 June 2018
Net assets attributable to owners of the Company ($m)	**589.7**	1,091.4
Net tangible assets attributable to owners of the Company ($m)	**(32.4)**	489.9
Ordinary shares (m)	**8,441.8**	8,441.8
Net assets attributable to owners of the Company per ordinary share ($)	**0.07**	0.13
Net tangible assets attributable to owners of the Company per ordinary share ($)	**0.00**	0.06

Details of associates and joint venture entities

The Company holds a 49 per cent (2018: 49 per cent) ownership interest in Virgin Samoa Limited and accounts for this investment as an associate.

Consolidated statement of profit or loss

For the year ended 30 June 2019

	Note	2019 $m	Restated[1] 2018 $m
Revenue and income			
Airline passenger revenue	2(a)	**5,317.7**	4,981.7
Freight revenue		**125.6**	105.2
Loyalty program revenue		**383.8**	330.3
Other income		**-**	3.5
Revenue and income		**5,827.1**	5,420.7
Operating expenditure			
Aircraft operating lease expenses		**(383.1)**	(389.0)
Airport charges, navigation and station operations		**(1,107.5)**	(1,060.7)
Contract and other maintenance expenses		**(246.0)**	(246.4)
Commissions and other marketing and reservations expenses		**(533.4)**	(467.4)
Fuel and oil		**(1,178.5)**	(985.5)
Labour and staff related expenses		**(1,346.0)**	(1,246.7)
Impairment losses on cash-generating units	2(c)	**(152.6)**	(120.8)
Impairment losses on other assets		**-**	(47.8)
Onerous contract expenses	2(c)	**(47.4)**	(58.5)
Other expenses from ordinary activities		**(592.9)**	(512.9)
Depreciation and amortisationU		**(373.4)**	(337.3)
Ineffectiveness on cash flow hedges		**(0.9)**	-
Net operating expenditure		**(5,961.7)**	(5,473.0)
Share of net profit of equity-accounted investee		**-**	3.5
Loss before net finance costs and tax		**(134.6)**	(48.8)
Finance income		**28.5**	19.2
Finance costs		**(189.2)**	(171.8)
Net finance costs		**(160.7)**	(152.6)
Loss before tax		**(295.3)**	(201.4)
Income tax expense	2(b)	**(20.1)**	(451.9)
Loss		**(315.4)**	(653.3)
Attributable to:			
Owners of the Company		**(349.1)**	(681.0)
Non-controlling interests		**33.7**	27.7
		(315.4)	(653.3)

Earnings per share	Cents	Cents
Basic earnings per share	**(4.1)**	(8.1)
Diluted earnings per share	**(4.1)**	(8.1)

(1) The comparative has 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 year ended 30 June 2019

	2019 $m	2018 $m
Loss	**(315.4)**	(653.3)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations (nil related tax)	**45.2**	(0.3)
Effective portion of changes in fair value of cash flow hedges	**(37.4)**	362.6
Net change in fair value of cash flow hedges transferred to profit or loss	**(184.1)**	(96.3)
Effective portion of changes in fair value of cash flow hedges (time value of options)	**(71.9)**	(6.7)
Net change in fair value of cash flow hedges transferred to profit or loss (time value of options)	**45.0**	45.1
Net change in fair value of cash flow hedges transferred to initial carrying value of hedged item	**-**	19.3
Income tax (expense)/benefit on other comprehensive income	**74.5**	(97.2)
Other comprehensive profit/(loss), net of tax	**(128.7)**	226.5
Total comprehensive loss	**(444.1)**	(426.8)
Attributable to:		
Owners of the Company	**(477.8)**	(454.5)
Non-controlling interests	**33.7**	27.7
	(444.1)	(426.8)

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 30 June 2019

	Note	2019 $m	2018 $m
Current assets			
Cash and cash equivalents		**1,740.0**	1,415.5
Receivables		**268.7**	281.6
Inventories		**51.3**	47.6
Derivative financial instruments		**71.5**	220.0
Other financial assets		**31.2**	12.1
Other		**2.6**	2.7
Total current assets		**2,165.3**	1,979.5
Non-current assets			
Receivables		**182.6**	191.6
Derivative financial instruments		**13.6**	64.0
Other financial assets		**255.7**	284.2
Investment accounted for using the equity method		**-**	8.2
Deferred tax assets		**57.8**	-
Property, plant and equipment		**3,202.1**	3,031.0
Intangible assets		**580.7**	617.0
Other		**10.4**	12.9
Total non-current assets		**4,302.9**	4,208.9
Total assets		**6,468.2**	6,188.4
Current liabilities			
Payables		**929.1**	807.5
Interest-bearing liabilities	3(a)	**771.9**	295.1
Derivative financial instruments		**14.8**	6.6
Provisions		**255.5**	269.0
Unearned revenue		**1,262.7**	1,142.1
Other		**2.9**	3.6
Total current liabilities		**3,236.9**	2,523.9
Non-current liabilities			
Payables		**2.7**	5.6
Interest-bearing liabilities	3(a)	**2,256.9**	2,273.0
Derivative financial instruments		**2.8**	0.2
Provisions		**339.8**	277.6
Other		**10.2**	13.1
Total non-current liabilities		**2,612.4**	2,569.5
Total liabilities		**5,849.3**	5,093.4
Net assets		**618.9**	1,095.0
Equity			
Share capital		**2,238.5**	2,238.9
Reserves		**117.6**	268.3
Retained earnings		**(1,766.4)**	(1,415.8)
Equity attributable to the owners of the Company		**589.7**	1,091.4
Non-controlling interests		**29.2**	3.6
Total equity		**618.9**	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 year ended 30 June 2019

	Note	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(d)	-	-	-	-	-	-	(1.2)	(1.2)	-	(1.2)
Adjustment on initial application of AASB 15 (net of tax)	1(d)	-	-	-	-	-	-	(0.3)	(0.3)	(1.0)	(1.3)
Adjusted balance at 1 July 2018		2,238.9	(138.0)	169.9	(4.9)	16.1	225.2	(1,417.3)	1,089.9	2.6	1,092.5
(Loss)/profit		-	-	-	-	-	-	(349.1)	(349.1)	33.7	(315.4)
Other comprehensive income, net of tax											
Foreign currency translation		-	45.2	-		-	-	-	45.2	-	45.2
Effective portion of changes in fair value of cash flow hedges		-	-	(26.2)	(50.3)	-	-	-	(76.5)	-	(76.5)
Net change in fair value of cash flow hedges transferred to profit or loss		-	-	(128.9)	31.5	-	-	-	(97.4)	-	(97.4)
Net change in the fair value of cash flow hedges transferred to initial carrying value of hedged item		-	-	-	-	-	-	-	-	-	-
Total other comprehensive (loss)/income, net of tax		-	45.2	(155.1)	(18.8)	-	-	-	(128.7)	-	(128.7)
Total comprehensive (loss)/income		-	45.2	(155.1)	(18.8)	-	-	(349.1)	(477.8)	33.7	(444.1)
Transactions with owners, recorded directly in equity, net of tax											
Share buy-back		(0.4)	-	-	-	-	-	-	(0.4)	-	(0.4)
Income tax reserve[2]		-	-	-	-	-	(22.0)	-	(22.0)	22.0	-
Equity distributions		-	-	-	-	-	-	-	-	(29.1)	(29.1)
Total transactions with owners, net of tax		(0.4)	-	-	-	-	(22.0)	-	(22.4)	(7.1)	(29.5)
Balance at 30 June 2019		2,238.5	(92.8)	14.8	(23.7)	16.1	203.2	(1,766.4)	589.7	29.2	618.9

(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 year ended 30 June 2019

	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
(Loss)/profit	-	-	-	-	-	-	(681.0)	(681.0)	27.7	(653.3)
Other comprehensive income, net of tax										
Foreign currency translation	-	(0.3)	-	-	-	-	-	(0.3)	-	(0.3)
Effective portion of changes in fair value of cash flow hedges	-	-	253.8	(4.7)	-	-	-	249.1	-	249.1
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	(67.4)	31.6	-	-	-	(35.8)	-	(35.8)
Net change in the fair value of cash flow hedges transferred to initial carrying value of hedged item	-	-	13.5	-	-	-	-	13.5	-	13.5
Total other comprehensive (loss)/income, net of tax	-	(0.3)	199.9	26.9	-	-	-	226.5	-	226.5
Total comprehensive (loss)/income	-	(0.3)	199.9	26.9	-	-	(681.0)	(454.5)	27.7	(426.8)
Transactions with owners, recorded directly in equity, net of tax										
Share buy-back	(4.9)	-	-	-	-	-	-	(4.9)	-	(4.9)
Income tax reserve[2]	-	-	-	-	-	(16.9)	-	(16.9)	16.9	-
Equity distributions	-	-	-	-	-	-	-	-	(47.1)	(47.1)
Share-based payment transactions	0.1	-	-	-	(0.1)	-	-	-	-	-
Total transactions with owners, net of tax	(4.8)	-	-	-	(0.1)	(16.9)	-	(21.8)	(30.2)	(52.0)
Balance at 30 June 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

(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 year ended 30 June 2019

	2019 $m	2018 $m
Cash flows from operating activities		
Cash receipts from customers	**6,530.1**	6,099.7
Cash payments to suppliers and employees	**(5,888.8)**	(5,366.0)
Cash generated from operating activities	**641.3**	733.7
Cash payments for business restructuring expenses	**(46.5)**	(44.8)
Finance income received	**28.5**	19.2
Finance costs paid	**(153.3)**	(137.7)
Net cash from operating activities	**470.0**	570.4
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(486.3)**	(546.5)
Proceeds on disposal of property, plant and equipment	**2.7**	7.7
Acquisition of intangible assets	**(61.0)**	(44.4)
Payments for other deposits	**(40.7)**	(56.8)
Proceeds from other deposits	**65.3**	77.0
Dividends from equity-accounted investee	**8.2**	-
Net cash used in investing activities (excluding aircraft operating lease refinancing)	**(511.8)**	(563.0)
Aircraft operating lease refinancing	**-**	(5.7)
Net cash used in investing activities	**(511.8)**	(568.7)
Cash flows from financing activities		
Proceeds from borrowings	**798.5**	356.9
Repayment of borrowings	**(429.4)**	(307.1)
Payments of transaction costs related to borrowings	**(9.2)**	(6.0)
Net payment for share buy-back	**(0.7)**	(5.3)
Equity distributions paid to non-controlling interests	**(29.1)**	(47.1)
Net cash from/(used in) financing activities	**330.1**	(8.6)
Net increase/(decrease) in cash and cash equivalents	**288.3**	(6.9)
Cash and cash equivalents at 1 July	**1,415.5**	1,396.1
Effect of exchange rate fluctuations on cash and cash equivalents	**36.2**	26.3
Cash and cash equivalents at 30 June	**1,740.0**	1,415.5

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

Condensed notes to the preliminary final report

For the year ended 30 June 2019

1. Basis of preparation

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 preliminary final report of the Company as at and for the year ended 30 June 2019 comprises the Company and its subsidiaries (the Group), and the Group's interests in associates.

The preliminary final report was approved by the Board of Directors on 27 August 2019.

(a) Statement of compliance

The preliminary final report has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*. It is based on accounts which are in the process of being audited.

The preliminary final report does not include all of the information required for full annual consolidated financial statements, and 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 financial statements as at and for the year ended 30 June 2019 will be available on 18 September 2019.

The preliminary final report is presented in Australian dollars, which is the functional currency of the Company. It has 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 preliminary final report have been rounded to the nearest one hundred thousand dollars, unless otherwise stated.

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

The preparation of the preliminary final report 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 reassessment of the unused points liability in regard to the Velocity Frequent Flyer program resulted in an increase in program revenue of $3.6 million (2018: increase of $1.4 million).

Notes 2(b) and 2(c) describe the key accounting judgements, estimates and assumptions in relation to the recoverability of deferred tax, the impairment of cash-generating units and onerous operating lease agreements.

The remaining significant accounting policies, judgments and estimates are the same as those applied by the Group in the consolidated financial statements as at and for the year ended 30 June 2018, except for the changes described in note 1(d) below.

(c) Net current liability position

The Group's current liabilities exceeded its current assets as at 30 June 2019 by $1,071.6 million (2018: $544.4 million) including a current liability for unearned revenue of $1,262.7 million (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 preliminary final report has been prepared on a going concern basis, based on the Group's cash flows for the current year and estimated profits and cash flows for future years. The Group has built its cash and cash equivalents balance at 30 June 2019 to $1,740.0 million (2018: $1,415.5 million) ahead of a major bond maturity in November 2019 totalling US$400.0m (A$569.8m) and has an unrestricted cash balance at 30 June 2019 of $1,330.3 million (2018: $1,000.8 million). The Group also has $466.2 million of undrawn financing facilities in place as at 30 June 2019, including $86.4 million of standby multi-option facilities, $344.2 million of committed undrawn secured funding facilities (which will raise $174.6 million of additional cash after repayment of outstanding debt on the relevant assets) and US$25.0 million (A$35.6 million) of uncommitted facilities as at 30 June 2019. The Group is planning to undertake an additional fund raising prior to the debt maturity in November 2019 to provide additional liquidity and extend the debt maturity profile.

As set out in note 1(e), the adoption of AASB 16 *Leases* will result in a reduction in net assets, including a reduction in net current assets, as the lease liability will exceed the right of use asset due to the different measurement methods applied to each. The accretion of each of these balances will also change the timing of future expense recognition. However, the standard will not affect future cash flows and therefore does not affect the conclusion to use the going concern basis of preparation.

(d) 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.

(d) Change in significant accounting policy (continued)

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

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 or, in the case of flexible fares, until the likelihood of the customer exercising their rights becomes remote.

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 the relative stand-alone selling prices of each.

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 position. 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 marketing service is provided.

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	20.6
Retained earnings total	(0.3)
Non-controlling interests	(1.0)

(d) 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 as at 30 June 2019.

	As reported $m	Adjustments $m	Excluding AASB 15 $m
Non-current assets			
Deferred tax assets[1]	57.8	(5.6)	52.2
Current liabilities			
Unearned revenue	1,262.7	(17.3)	1,245.4
Equity			
Retained earnings	(1,766.4)	10.0	(1,756.4)
Non-controlling interests	29.2	1.7	30.9

(1) Tax entries reflect the tax effect of the adjustments on a stand-alone basis and do not consider the recoverability of tax losses.

The following table summarises the impacts of adopting AASB 15 on the Group's consolidated statement of profit or loss for the year ended 30 June 2019.

	As reported $m	Adjustments $m	Excluding AASB 15 $m
Airline passenger revenue	5,317.7	1.1	5,318.8
Loyalty program revenue	383.8	13.6	397.4
Income tax expense[1]	(20.1)	(4.3)	(24.4)
Loss	(315.4)	10.4	(305.0)
Attributable to:			
Owners of the Company	(349.1)	9.7	(339.4)
Non-controlling interests	33.7	0.7	34.4

(1) Tax entries reflect the tax effect of the adjustments on a stand-alone basis and do not consider the recoverability of tax losses.

There was no impact on the Group's consolidated statement of cash flows for the year ended 30 June 2019.

There was no material impact on the Group's earnings per share for the year ended 30 June 2019.

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 application of AASB 9 (2014) at 1 July 2018 resulted in an additional allowance for impairment of $1.2 million, net of tax. This was recognised as a reduction in retained earnings at 1 July 2018.

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

AASB 16 *Leases* (AASB 16)

AASB 16 replaces AASB 117 *Leases* (AASB 117) and Interpretation 4 *Determining whether an Arrangement contains a Lease* (Interpretation 4). AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group will adopt AASB 16 in the financial year beginning on 1 July 2019 using the modified retrospective approach, with the cumulative effect of initially applying the standard recognised as an adjustment to retained earnings at 1 July 2019. Accordingly, the information for the comparative period will not be restated. The comparative information will be presented, as previously reported, under AASB 117 and Interpretation 4.

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model, similar to the accounting for finance leases under AASB 117. The adoption of this standard will result in the Group recognising a right-of-use (ROU) asset and corresponding lease liability for all leases with a term of more than 12 months, excluding low-value assets. Operating lease expense will be replaced by depreciation expense on the ROU assets and interest expense as the lease liabilities unwind.

The lease liability will initially be measured at the present value of the remaining lease payments at the transition date, discounted using the Group's incremental borrowing rate at the date of initial application.

The Group has elected to measure all its ROU assets as if AASB 16 had been applied since the lease commencement date, discounted using the Group's incremental borrowing rate at the date of initial application.

The adoption of AASB 16 will also result in a change to the way the Group accounts for maintenance on leased aircraft to better align with the accounting treatment of owned aircraft. The ROU asset created under AASB 16 will be componentised and depreciated over the lesser of the lease term or the component's useful life. Any qualifying maintenance events relating to the ROU asset components will be capitalised and depreciated over the lesser of the remaining lease term or the component's useful life. The Group's lease agreements require the aircraft to be returned in a specified condition. Maintenance provisions will be recorded on aircraft leases as a maintenance expense over the lease term, based on the utilisation of individual components, to account for these return conditions. The result will be an increase in the maintenance provisions recognised by the Group on transition to AASB 16.

On transition to AASB 16, the impact on the Group's consolidated statement of financial position is estimated to be:

	Estimated impact of adopting AASB 16 at 1 July 2019 $m
Right-of-use assets	1,100 - 1,300
Lease liabilities	(1,850) - (2,050)
Maintenance provisions	(350) - (450)
Other	(100)

The range will be refined following the conclusion of certain areas, including finalisation of calculations for recently executed lease contracts.

The Group will adopt the following practical expedients available under the transition provisions of the new standard:

- Rely on its historic assessment as to whether leases were onerous immediately before the date of initial application and, where an onerous lease provision is in existence at the date of initial application, utilise this provision to reduce the ROU asset value rather than undertaking an impairment review;
- For leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, apply the recognition exemptions to not recognise ROU assets and lease liabilities on the consolidated statement of financial position but to account for the lease expense through the consolidated statement of profit of loss;
- Exclude initial direct costs from the measurement of the ROU asset;
- Apply a portfolio approach in determining discount rates where a group of leases has similar characteristics; and
- Use hindsight for determining the lease term when considering options to extend and terminate leases

2. Results

(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; gains on assets classified as held for sale; impairment losses on cash-generating units; impairment losses on other assets; onerous contract expenses; business and capital restructure and transaction costs; 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 Chief Executive Officer.

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)

2019	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	3,669.2	1,250.2	344.3	563.4	-	5,827.1
Inter-segment revenue	245.7	54.6	66.7	-	(367.0)	-
Segment revenue and income	3,914.9	1,304.8	411.0	563.4	(367.0)	5,827.1
Segment EBITDAR	558.7	138.1	132.4	60.2	(45.5)	843.9
Aircraft rentals	(121.7)	(196.4)	-	(65.0)	-	(383.1)
Segment EBITDA	437.0	(58.3)	132.4	(4.8)	(45.5)	460.8
Depreciation and amortisation[1]	(303.6)	(17.3)	(10.2)	(40.2)	-	(371.3)
Segment EBIT	133.4	(75.6)	122.2	(45.0)	(45.5)	89.5
Gains on disposal of assets						1.1
Impairment losses on cash-generating units						(152.6)
Onerous contract expenses						(47.4)
Business and capital restructure and transaction costs[1]						(24.3)
Ineffectiveness on cash flow hedges						(0.9)
						(134.6)
Net finance costs						(160.7)
Loss before tax						(295.3)
Income tax expense						(20.1)
Loss						(315.4)

(1) The Group has accelerated depreciation of $2.1 million in relation to an aircraft that will be decommissioned in the next financial year, prior to its original termination date. This has been recognised as part of business and capital restructure and transaction costs in the current financial year.

2. Results (continued)

(a) Operating segments (continued)

2018 (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	3,456.5	1,073.5	316.7	570.6	-	5,417.3
Inter-segment revenue	225.5	46.8	55.3	-	(327.6)	-
Segment revenue and income	3,682.0	1,120.3	372.0	570.6	(327.6)	5,417.3
Segment EBITDAR	628.6	182.8	117.1	62.5	(47.7)	943.3
Aircraft rentals	(142.9)	(172.7)	-	(73.4)	-	(389.0)
Segment EBITDA	485.7	10.1	117.1	(10.9)	(47.7)	554.3
Depreciation and amortisation	(269.9)	(31.8)	(7.0)	(28.6)	-	(337.3)
Segment EBIT	215.8	(21.7)	110.1	(39.5)	(47.7)	217.0
Gains on assets classified as held for sale						3.4
Impairment losses on cash-generating units						(120.8)
Impairment losses on other assets						(47.8)
Onerous contract expenses						(58.5)
Business and capital restructure and transaction costs						(45.6)
Share of net profit of equity-accounted investee						3.5
						(48.8)
Net finance costs						(152.6)
Loss before tax						(201.4)
Income tax expense						(451.9)
Loss						(653.3)

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

2. Results (continued)

(b) Taxation

	2019 $m	2018 $m
Loss before tax	**(295.3)**	(201.4)
Tax benefit at the Australian tax rate of 30% (2018: 30%)	**88.6**	60.4
Tax effect of amounts which are not included in taxable income:		
- Derecognition of deferred tax asset	**(115.7)**	(511.4)
- Goodwill impairment	**(15.9)**	-
- Foreign currency movements on debt and securitised assets	**22.3**	24.5
- Other non-deductible or non-assessable amounts	**0.6**	(25.4)
Income tax expense	**(20.1)**	(451.9)

Deferred tax assets may be carried forward to the extent it is probable that future taxable profit will be available against which the assets can be utilised. Australian Accounting Standards require a more stringent "convincing evidence" test be applied in determining the probability of recovery of a deferred tax asset arising from tax losses.

Australian tax losses can be carried forward indefinitely subject to the satisfaction of continuity of ownership or same business tests under the Australian tax law. Unrecognised losses can be recognised and used in the future once taxable profits are generated.

Tiger Airways Australia Pty Ltd (Tigerair) has joined the Virgin Australia Holdings Limited tax consolidated group retrospectively from the date the Group acquired 100 per cent ownership of Tigerair. The losses incurred by Tigerair prior to the joining time have been cancelled and are no longer be available for offset against future taxable income. The Group had not previously recognised these losses on the consolidated statement of financial position.

The Group's net deferred tax asset increased during the current financial year as a result of the reversal of a deferred tax liability recognised at 30 June 2018 in relation to unrealised hedge gains within equity and the tax effect of the Group's accounting loss. The Group applied a prudent approach in the current financial year in assessing the recoverability of the deferred tax asset and, accordingly, has derecognised a deferred tax asset of $115.7 million. The Group considers it probable that future taxable profit will be available against which the remaining deferred tax asset of $57.8 million can be utilised.

(c) Expenses

The Group has completed an assessment of the recoverable amount of its cash-generating units (CGUs) at 30 June 2019. CGUs are defined on a consistent basis with operating segments. The recoverable amount of the Group's CGUs is calculated as the higher of the fair value less costs of disposal and value-in-use. When the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired. In allocating an impairment loss to assets within the CGU, the carrying amount of an individual asset is not reduced to less than its recoverable amount.

During the current financial year, an impairment loss of $105.0 million was recognised in relation to the Tigerair Australia CGU as a result of changes in estimates and assumptions which reduce the recoverable amount. These include increased fuel prices, weaker revenue growth rates due to softening consumer sentiment, and a fixed cost base in the near term. An impairment loss of $47.6 million was also recognised in relation to the Virgin Australia International CGU as a result of changes in asset carrying amounts due to aircraft maintenance events and changes in aircraft market values.

Onerous contract expenses of $47.4 million (2018: $58.5 million) were recognised for maintenance, operating lease costs and the re-measurement of the onerous contract provision for onerous aircraft operating lease terms in relation to Embraer E190 and ATR aircraft that have been removed from operational service. Judgement is applied in measuring the onerous contract provision.

3. Capital structure

(a) Interest-bearing liabilities

	2019 $m	2018 $m
Current		
Aeronautic finance facilities – secured[1]	**195.5**	290.3
Bonds - unsecured[1]	**568.9**	-
Finance lease liabilities	**7.5**	4.8
	771.9	295.1
Non-current		
Aeronautic finance facilities – secured[1]	**1,121.1**	870.5
Bank loans – secured[1]	**222.9**	220.6
Bonds – unsecured[1]	**889.7**	1,151.6
Finance lease liabilities	**23.2**	30.3
	2,256.9	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 changes outlined below:

Aeronautic finance facilities - secured

During the year ended 30 June 2019, the Group obtained $446.5 million of financing under new facilities secured against aeronautical assets.

Bonds - unsecured

During the year ended 30 June 2019, the Group issued $250.0 million in Australian dollar unsecured fixed rate bonds. The bonds mature in May 2024. The bond issue has provided the Group with additional liquidity coverage and extended the debt maturity profile.

(b) Dividends and equity distributions

No dividends were declared or paid during the year ended 30 June 2019 or during the prior corresponding year.

Equity distributions of $29.1 million (2018: $47.1 million) were paid to non-controlling interests during the year.

4. Other items

(a) Investments accounted using the equity method

The Group holds a 49% (2018: 49%) interest in Virgin Samoa Limited (Virgin Samoa), a company incorporated in Samoa and accounted for as an associate. The arrangement commenced in September 2005 between the Group, the Government of Samoa (49%) and Aggie Grey's Hotel Limited (2%). In November 2017, the Group advised the other shareholders in Virgin Samoa that it intended to transfer its shares to the Government of Samoa in accordance with the terms of the Shareholders Agreement and operations ceased at that time. The net assets of Virgin Samoa were distributed to the shareholders as a dividend in the current financial year. As at the date of this report the share transfer had not settled.

(b) 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 30 June 2019, there were $204.0 million (2018: $182.7 million) of bank guarantees and letters of credit outstanding.

As at 30 June 2019, the Group has provided other guarantees of $17.4 million (2018: $17.5 million), mainly in relation to a workers' compensation self-insurance licence.

(c) 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.

(d) Subsequent events

In the opinion of the 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.